

Corporate Resource Services, Inc.
Form 10-Q
November 14, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

**..QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934**

For the quarterly period ended October 3, 2014

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

For the transition period from _____ to _____

Commission file number: 1-36060

(Exact name of Registrant as specified in its charter)

Delaware

80-0551965

(State or other jurisdiction of incorporation or (I.R.S. Employer Identification No.)
organization)

160 Broadway, 13th Floor

New York, New York 10038

(Address of principal executive offices)

(646) 443-2380

(Registrant's telephone number, including area code)

None

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition 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 ☒

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

The number of shares of Common Stock, \$.0001 par value, outstanding as of October 3, 2014 was 158,015,000.

Safe Harbor Statement

Certain statements in this Quarterly Report, excluding those statements that relate purely to historical information, may constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 (the “Securities Act”), as amended, and Section 21E of the Securities Exchange Act of 1934 (the “Exchange Act”), as amended. Forward-looking statements include, without limitation, statements relating to plans, objectives, goals, strategies and future events or performance, as well as the assumptions upon which such statements are based. The words “expect”, “estimate”, “anticipate”, “believe”, “intend”, “project”, “strategy”, “future”, “opportunity”, “plan”, “may”, “should”, “will”, “would”, “will be”, “will continue”, “will likely result” and similar expressions are generally intended to identify forward-looking statements. Such statements are based on current expectations and assumptions that are subject to risks and uncertainties, which may cause actual results to differ materially from the forward-looking statements.

Our business involves a number of risks, many of which are beyond our control. The risks and uncertainties set forth in “Part II. Item 1A. Risk Factors” of our Form 10-K filed on July 1, 2014 and those described below, if any, could individually or collectively have a material adverse effect on our business, assets, profitability or prospects. While these are not the only risks and uncertainties we face, our management believes that those set forth are the more significant risks and uncertainties.

Access to Company Information

We file reports with the Securities and Exchange Commission (the “SEC”). The public may read and copy any materials filed by us with the SEC at the SEC’s Public Reference Room at 100 F. Street, N.E., Washington, D.C. 20549. The public may obtain information about the operation of the SEC’s Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a website at www.sec.gov that contains reports, proxy and information statements and other information about issuers such as us that file electronically with the SEC.

In addition, we make available, on our website at <http://www.crsco.com> our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) under the Exchange Act as soon as reasonably practical after we electronically file such material with, or furnish it to, the SEC.

Table of Contents

Corporate Resource Services, Inc.

INDEX

<u>Safe Harbor Statement</u>	1
<u>PART I. FINANCIAL INFORMATION</u>	3
<u>Item 1. Financial Statements (unaudited)</u>	3
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	36
<u>Item 4. Controls and Procedures</u>	36
<u>Part II. OTHER INFORMATION</u>	39
<u>Item 1. Legal Proceedings</u>	39
<u>Item 1A. Risk Factors</u>	39
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	39
<u>Item 3. Defaults Upon Senior Securities</u>	39
<u>Item 4. Mine Safety Disclosures</u>	39
<u>Item 5. Other Information</u>	39
<u>Item 6. Exhibits</u>	40
<u>SIGNATURES</u>	41

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

CORPORATE RESOURCE SERVICES, INC. AND SUBSIDIARIES**CONDENSED CONSOLIDATED BALANCE SHEETS****(amounts in thousands except per share data)**

	As of October 3, 2014 (unaudited)	As of January 3, 2014
ASSETS		
Current assets		
Cash	\$ 156	\$32
Accounts receivable, net of allowance for doubtful accounts of \$3,928 and \$2,291 as of October 3, 2014 and January 3, 2014, respectively	113,217	96,739
Unbilled receivables	19,351	10,815
Related party receivable	1,536	2,335
Other current assets	1,398	1,220
Total current assets	135,658	111,141
Equity investment	6,389	1,952
Property and equipment, net	1,282	1,285
Intangible assets, net	15,402	8,546
Goodwill	24,710	19,682
Other assets	442	520
Total assets	\$ 183,883	\$ 143,126
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 8,987	\$7,578
Accrued wages and related obligations - due to related party	18,919	9,449
Borrowings under receivables-based credit facility	74,342	73,460
Long-term debt - related party	21,888	748
Loan payable	-	1,600
Deferred income tax liability	310	-
Contingent consideration	615	658
Long-term debt	4,718	2,159
Total current liabilities	129,779	95,652
Long-term debt, net of current portion	2,320	1,069
Long-term debt - related party, net of current portion	15,000	15,000
Contingent consideration, net of current portion	4,397	2,615
Deferred income tax liabilities	2,085	1,880
Other liabilities	64	36

Edgar Filing: Corporate Resource Services, Inc. - Form 10-Q

Total liabilities	153,645	116,252
Commitments and contingencies	-	-
Stockholders' equity		
Preferred stock, \$0.0001 par value, 5,000 shares authorized; zero shares issued and outstanding	-	-
Common stock, \$0.0001 par value, 225,000 shares authorized and 158,015 shares issued and outstanding as of October 3, 2014 and January 3, 2014	16	16
Additional paid-in capital	35,379	31,760
Retained earnings (accumulated deficit)	(5,261)	(4,976)
Accumulated other comprehensive income	104	74
Total stockholders' equity	30,238	26,874
Total liabilities and stockholders' equity	\$ 183,883	\$ 143,126

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

Table of Contents**CORPORATE RESOURCE SERVICES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(amounts in thousands, except per share data)

	For the three months ended		For the nine months ended	
	October 3, 2014	October 4, 2013	October 3, 2014	October 4, 2013
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenues	\$ 260,265	\$ 208,617	\$ 724,743	\$ 601,921
Revenues from related parties	20	20	60	60
Total revenue	260,285	208,637	724,803	601,981
Direct cost of producing revenues purchased from related parties	226,806	182,256	638,222	529,095
Direct cost of producing revenues	781	424	906	2,259
Total direct cost of producing revenues	227,587	182,680	639,128	531,354
Gross profit	32,698	25,957	85,675	70,627
Selling, general and administrative expenses purchased from related parties	13,489	10,833	39,958	37,286
Selling, general and administrative expenses	8,995	9,142	26,530	20,603
Non-cash equity compensation	1,192	1,936	3,619	2,864
Depreciation and amortization	896	460	2,919	1,211
Income (loss) from operations	8,126	3,586	12,649	8,663
Interest expense	(3,091)	(954)	(5,387)	(3,559)
Interest expense – related party	(1,241)	(465)	(2,874)	(1,245)
Gain (loss) from equity investments	(360)	(198)	(1,421)	(504)
Change in contingent consideration	(21)	(39)	(782)	(120)
Other expense (income)	(680)	(149)	(2,055)	(468)
Income (loss) before benefit from (provision for) income taxes	2,733	1,781	130	2,767
Benefit from (provision for) income taxes	(301)	(77)	(415)	(187)
Net income (loss)	\$ 2,432	\$ 1,704	\$ (285)	\$ 2,580
Total net income (loss) per share:				
Basic	\$ 0.02	\$ 0.01	\$ 0.00	\$ 0.02
Diluted	\$ 0.01	\$ 0.01	\$ 0.00	\$ 0.02
Weighted average shares outstanding:				
Basic	158,015	159,841	158,015	159,668
Diluted	162,159	166,275	158,015	166,102

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(amounts in thousands)

	For the three months ended		For the nine months ended	
	October 3, 2014	October 4, 2013	October 3, 2014	October 4, 2013
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net income (loss)	2,432	1,704	(285)	2,580
Foreign currency translation adjustment	(4)	-	30	-
Comprehensive income (loss)	\$ 2,428	\$ 1,704	\$ (255)	\$ 2,580

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

Table of Contents**CORPORATE RESOURCE SERVICES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(amounts in thousands)**

	Nine Months Ended	
	October 3, 2014	October 4, 2013
	(unaudited)	(unaudited)
Cash flows from operating activities:		
Net income (loss)	\$ (285)	\$ 2,580
Adjustments to reconcile net (loss) income to net cash from operating activities:		
Depreciation and amortization	2,919	1,211
Bad debt expense	1,722	394
Non-cash stock-based compensation	3,619	2,864
Accrued interest on outstanding loans	291	-
Change in fair value of contingent consideration	782	120
Loss on equity investment	1,421	504
Deferred tax liabilities	296	(1,044)
Deferred rent	28	(137)
Changes in operating assets and liabilities, net of effect of acquisitions:		
Trade accounts receivable including unbilled receivables	(26,737)	(8,102)
Prepaid expenses	(178)	(1,273)
Other assets	78	79
Accrued wages and related obligations - due related party	9,470	5,508
Accounts payable and accrued liabilities	1,410	1,237
Net cash provided by (used in) operating activities	(5,164)	3,941
Cash flows from investing activities:		
Purchase of property and equipment	(841)	(665)
Equity investment	(5,856)	(1,280)
Cash paid for business combinations	(6,000)	(828)
Net cash provided by (used in) investing activities	(12,697)	(2,773)
Cash flows from financing activities:		
Principal payments on long-term debt	(2,993)	(1,582)
Short term borrowings	(1,600)	650
Loan payable - related party, net	21,939	2,772
Proceeds from (payments on) asset-based facility, net	882	(2,333)
Payments on contingent consideration	(152)	(251)
Net cash provided by (used in) financing activities	18,076	(744)
Foreign currency exchange rate effect on cash flows	(91)	-
Net change in cash	124	424

Edgar Filing: Corporate Resource Services, Inc. - Form 10-Q

Cash at beginning of period	32	154
Cash at end of period	\$ 156	\$ 578
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	4,011	3,529
Cash paid for taxes	84	24
Non-cash investing and financing activities:		
Financing on acquisitions	6,519	-
Assets acquired for issuance of debt	-	72

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

Table of Contents

CORPORATE RESOURCE SERVICES, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1— Description of the Company and its Business

Corporate Resource Services, Inc. (together with its consolidated subsidiaries, “Corporate Resource Services”, “CRS”, the “Company”, “we”, “us”, and “our”, unless the context indicates otherwise) is a diversified technology, staffing, recruiting and consulting services firm. We provide cloud-based enterprise applications and hosting services to professional employer organizations (“PEO”) and staffing companies, as well as diversified staffing, recruiting and consulting services. The Company offers trained employees in the areas of Insurance, Information Technology, Accounting, Legal, Engineering, Science, Healthcare, Life Sciences, Creative Services, Hospitality, Retail, General Business and Light Industrial Work. Our blended staffing solutions are tailored to our customers’ needs and can include customized employee pre-training and testing, on-site facilities management, vendor management, risk assessment and management, market analysis and productivity/occupational engineering studies.

Our ability to deliver broad-based solutions provides our customers a “one stop shop” to fulfill their staffing needs from professional services and consulting to clerical and light industrial positions. Depending on the size and complexity of an assignment, we can create an on-site facility for recruiting, training and administration at the customer location. Our recruiters, who generally focus within their area of expertise, have the resources available to help our customers secure the best candidates available in today’s ever changing marketplace.

We offer our services through our wholly-owned specialty recruiting and staffing subsidiaries, which include the following companies:

Accountabilities, Inc. (“Accountabilities”) provides administrative and light industrial staffing solutions, primarily to our customers in the Western United States;

Corporate Resource Development, Inc. (“CRD”) provides permanent and temporary professional, administrative and clerical solutions to financial services, entertainment, media, advertising, fashion and other companies through locations primarily in the Northeastern United States;

The CRS Group, Inc. (“CRS Group”) provides software and related hosting and technology services through its Summit Software division;

Edgar Filing: Corporate Resource Services, Inc. - Form 10-Q

Diamond Staffing Services Inc. (“Diamond Staffing”) provides administrative, light industrial and professional staffing solutions throughout the United States most heavily concentrated in New Jersey, California and New England;

Flex Recruitment Plus Limited (“FlexPlus”) is a staffing and technology business specializing in the placement of temporary, contract and permanent personnel in the United Kingdom. FlexPlus’ innovative on-line recruitment platform, i-Integra, enables it to provide complete end-to-end recruitment solutions to its clients;

Insurance Overload Services, Inc. (“Insurance Overload”) provides professional insurance industry staffing solutions for personnel in claims processing, customer services and related fields throughout the United States;

Integrated Consulting Group, Inc. (“ICG”) provides light industrial staffing solutions to our customers in the Northeastern United States; and

TS Staffing Services, Inc. (“TS Staffing”) provides temporary placement solutions across a range of administrative and professional fields throughout the United States, most heavily concentrated in California, the Midwestern United States and Florida.

The type and number of services we offer have grown largely through the acquisition of established offices from general staffing companies.

We operate approximately 250 staffing and on-site facilities throughout the United States and in the United Kingdom and we offer our services to a wide variety of clients in many industries, ranging from sole proprietorships to Fortune 1000 companies.

Table of Contents

Note 2— Summary of Significant Accounting Policies

Fiscal Year

The 2014 fiscal year (“Fiscal Year”) is a 52 week fiscal year (“Fiscal Year 2014”) with four fiscal quarters of thirteen weeks each ending on April 4, 2014, July 4, 2014, October 3, 2014, and January 2, 2015. The 2013 fiscal year was a 53 week fiscal year (“Fiscal Year 2013”) with the first fiscal quarter of fourteen weeks ended on April 5, 2013 and three fiscal quarters of thirteen weeks each ended on July 5, 2013, October 4, 2013, and January 3, 2014 (each a “Fiscal Quarter”). For ease of presentation a Fiscal Quarter may be referred to as “three months”, and three Fiscal Quarters as “nine months”.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation (consisting of normal recurring accruals) have been included. Operating results for interim periods are not necessarily indicative of the results that may be expected for the year ending January 2, 2015. For further information, refer to the consolidated financial statements and footnotes thereto included in our annual report on Form 10-K for the year ended January 3, 2014 and our quarterly reports on Form 10-Q for the periods ended April 4, 2014 and July 4, 2014.

We have revised certain prior period presentations to reflect the correction of certain errors. In particular:

During the fiscal year ended January 3, 2014, we identified an error in our historical accounting for the factoring of our receivables to Wells Fargo, resulting in an understatement of our assets and liabilities included in our Condensed -Consolidated Balance Sheet as of October 4, 2013 and December 28, 2012 by \$74.8 million and \$68.8 million, respectively. The error had no impact on revenues, operating income, taxable income, net income or net changes in cash for the three and nine months ended October 4, 2013.

-During the fiscal year ended January 3, 2014, we also identified an error in our accounting for stock-based compensation expense relating to awards of shares, warrants to acquire common stock, and employee stock options as previously reported. The error resulted in an understatement of our selling, general and administrative expenses included in our Condensed Consolidated Statements of Operations for the three and nine months ended October 4,

2013 by approximately \$2.5 million and \$3.3 million, respectively. The Condensed Consolidated Statements of Operations for the three and nine months ended October 4, 2013 included herein has been revised to correct this error. The correction had no impact on revenues or net change in cash for the three and nine months ended October 4, 2013.

During the fiscal year ended January 3, 2014, we also identified an error in our accounting for deferred tax liabilities relating to the amortization of indefinite-life intangibles that originated during 2005, resulting in an understatement in liabilities in our Condensed Consolidated Balance Sheet as of October 4, 2013 and December 28, 2012 of \$1.1 million and \$0.9 million, respectively. The error also understated our deferred income tax provision included in our Condensed Consolidated Statements of Operations for the three and nine months ended October 4, 2013 by approximately \$1.1 million and \$0.2 million, respectively. The Condensed Consolidated Statements of Operations for the three and nine months ended October 4, 2013 included herein has been revised to correct this error. The correction had no impact on revenues, operating income, taxable income, or net change in cash for the three and nine months ended October 4, 2013.

During the fiscal year ended January 3, 2014, we also identified a number of miscellaneous errors relating to our accounting for cash, accounts receivable, prepaid expenses, accounts payable and accrued liabilities, other liabilities and business combinations that resulted in an overstatement of assets included in our Condensed Consolidated Balance Sheet as of October 4, 2013 and December 28, 2012 of \$0.7 million and \$0.4 million, respectively. These errors also affected our operating income, taxable income and net income included in our Condensed Consolidated Statements of Operations for the three and nine months ended October 4, 2013 by \$0.1 million, \$0.0 million, \$0.0 million, -\$0.1 million, -\$0.2 million and -\$0.2 million, respectively. The Condensed Consolidated Statements of Operations for the three and nine months ended October 4, 2013 included herein have been revised to correct these errors.

Table of Contents

During the fiscal year ended January 3, 2014, we also evaluated our consolidation of Abest Power & Gas, LLC, our joint venture in retail energy, and determined that Abest is an entity that should not be consolidated. We had presented the results of Abest as a consolidated entity in our financial statements as of and for the three months ended April 5, 2013. While the Condensed Consolidated Balance Sheets as of January 3, 2014 and October 3, 2014 and the Condensed Consolidated Statements of Operations for the three and nine months ended October 3, 2014 and October 4, 2013, included herein, do not include the assets, liabilities or equity of Abest, we do include our investment in Abest under the equity method of investment and currently report 100% of Abest's losses as a loss on equity investment.

Consolidation

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Intercompany transactions have been eliminated in consolidation.

We have ownership and other interests in various entities, including corporations, partnerships and limited liability companies. For each such entity, we evaluate our ownership and other interests to determine whether we should consolidate the entity or account for our ownership interest as an investment. As part of our evaluation, we initially determine whether the entity is a variable interest entity ("VIE") and, if so, whether we are the primary beneficiary of the VIE. An entity is generally a VIE if it meets any of the following criteria: (i) the entity has insufficient equity to finance its activities without additional subordinated financial support from other parties, (ii) the equity investors cannot make significant decisions about the entity's operations, or (iii) the voting rights of some investors are not proportional to their obligations to absorb the expected losses of the entity or receive the expected returns of the entity and substantially all of the entity's activities involve or are conducted on behalf of the investor with disproportionately fewer voting rights. We consolidate VIEs for which we are the primary beneficiary, regardless of our ownership or voting interests. The primary beneficiary is the party involved with the VIE that (i) has the power to direct the activities of the VIE that most significantly impact the VIE's economic performance, and (ii) has the obligation to absorb gains or losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. We periodically make judgments in determining whether entities in which we invest are VIEs. If so, we then make judgments to determine whether we are the primary beneficiary and are thus required to consolidate the entity.

If it is concluded that an entity is not a VIE, then we consider our proportional voting interests in the entity. We consolidate majority-owned subsidiaries in which a controlling interest is maintained. Controlling interest is determined by majority ownership and the absence of significant third-party participating rights.

Ownership interests in entities for which we have significant influence and are not consolidated under our consolidation policy are accounted for as equity method investments. Related party transactions between the Company and its equity method investees, if any, have not been eliminated. Please see *Acquisitions and Joint Ventures*.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. Significant estimates and assumptions are used for, but are not limited to: (1) revenue recognition; (2) asset impairments; (3) depreciable and amortizable lives of assets; (4) fair value of stock-based compensation; (5) allocation of direct and indirect cost of sales; (6) fair value of identifiable purchased tangible and intangible assets in a business combination; (7) fair value of reporting units for goodwill impairment test; and (8) the estimate of income taxes. Actual results could significantly differ from those estimates.

Per Share Information

We present both basic and diluted earnings per share amounts ("EPS"). Basic EPS is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted EPS reflects any potential dilution that could occur if securities or other contracts to issue common stock, such as options and convertible preferred stock, were exercised or converted into common stock or could otherwise cause the issuance of common stock that then would have shared in earnings. During any period in which we report a loss, we do not adjust the number of shares outstanding for potentially dilutive securities for dividing into the net loss, since such adjustment would be anti-dilutive. Basic income (loss) per common share is computed using the basic weighted average number of common shares outstanding during the period. Diluted income (loss) per common share is computed using the diluted weighted average number of common shares which include any common equivalent shares calculated to be outstanding during the period.

Table of Contents

The following table sets forth the reconciliation of basic and diluted shares (*amounts in thousands*):

	For the three months ended		For the nine months ended	
	October 3, 2014	October 4, 2013	October 3, 2014	October 4, 2013
Basic weighted average shares of common stock outstanding	158,015	159,841	158,015	159,668
Dilutive effect of stock options and warrants	4,144	6,434	-	6,434
Diluted weighted average shares of common stock outstanding	162,159	166,275	158,015	166,102

Revenue Recognition

Revenue is generally recognized when persuasive evidence of an arrangement exists, products have been delivered or services have been rendered, the fee is fixed or determinable, and collection is reasonably assured. The vast majority of our arrangements do not fall within the scope of the multiple-deliverable guidance. For those arrangements within the scope of the multiple-deliverable guidance, a deliverable constitutes a separate unit of accounting when it has stand-alone value and there are no customer-negotiated refunds or return rights for the delivered elements. For multiple-element arrangements, composed only of software products and related services or only services, we allocate revenue to each element in an arrangement based on a selling price hierarchy. The selling price for a deliverable is based on its vendor-specific objective evidence (“VSOE”) if applicable, third-party evidence (“TPE”) if VSOE is not available, or estimated selling price (“ESP”), if neither VSOE nor TPE is available. Total transaction revenue is allocated to the multiple elements based on each element’s relative selling price compared to the total selling price. All our elements allocations are based on ESP.

The following revenue recognition policies define the manner in which we account for specific transaction types:

Staffing Services

Revenue is primarily derived from supplying contingent staff to our customers or providing other services on a time and material basis. Contingent staff primarily consists of contingent employees working under contract for a fixed period of time or on a specific customer project. Revenue is also derived from permanent placement services, which are generally recognized after placements are made and when the fees are not contingent upon any future event.

Reimbursable costs, including those related to travel and out-of-pocket expenses, are also included in net revenue and equivalent amounts of reimbursable costs are included in direct cost of staffing services revenue.

Under certain of our service arrangements, contingent staff is provided to customers through contracts involving other vendors or contractors. When we are the principal in the transaction and therefore the primary obligor for the contingent staff, we record the gross amount of the revenue and expense from the service arrangement. When we act only as an agent for the customer and are not the primary obligor for the contingent staff, we record revenue net of vendor or contractor costs.

We are generally the primary obligor when we are responsible for the fulfillment of the services under the contract, even if the contingent workers are neither our employees nor directly contracted by us. Usually in these situations the contractual relationship with the vendors and contractors is exclusively with us and we bear customer credit risk and generally have latitude in establishing vendor pricing and have discretion in vendor or contractor selection.

Software Systems

Revenue primarily relates to sales of staffing support software systems and enhancements to existing systems. These arrangements generally contain multiple elements including software development and customization, sale of software licenses, installation, implementation and integration services, as well as post-contract customer support (“PCS”). Revenue is recognized under these arrangements following the revenue recognition accounting guidance primarily related to software transactions and multiple element arrangements. To date, the revenue recorded for software or related services under this accounting treatment have been minimal.

Subscription Revenues

Subscription and other recurring revenues include fees for access rights to software solutions that are offered under a subscription-based delivery model where the users do not take possession of the software. Under this model, the software applications are hosted by us and the customer accesses and uses the software on an as-needed basis over the Internet. To date, the revenue recorded under this accounting treatment has been minimal.

Cash

We consider cash on hand and deposits in banks as cash. At times, cash balances on deposit exceed federally insured limits; however, to date, we have not experienced any losses in such accounts and management believes that the risk of loss is negligible.

Table of Contents

Accounts Receivable and Related Allowance

We maintain an allowance for doubtful accounts for estimated losses resulting from our clients failing to make required payments for services rendered. Management estimates this allowance based upon knowledge of the financial condition of our clients, review of historical receivables, reserve trends and other pertinent information. If the financial condition of our clients deteriorates or there is an unfavorable trend in aggregate receivable collections, additional allowances may be required. We review the adequacy of the allowance for uncollectible accounts receivable on a quarterly basis and, if necessary, increase or decrease the balance by recording a charge or credit to selling, general and administrative ("SG&A") expenses for the portion of the adjustment relating to uncollectible accounts receivable and a charge or credit to revenue from services for the portion of the adjustment relating to sales allowances.

We fund our accounts receivable via a receivables-backed credit facility (the "Facility") with a financial institution. We receive 90% of the face value of qualified receivables as defined in the Facility. Since we retain risk of loss on the receivables, the agreement provides that receivables that are older than 90 days (120 days in certain categories of receivables) cease to be qualified at the discretion of the financial institution. In most cases, our customer pays the financial institution directly for the receivables under the Facility. The Facility calls for net settlement twice weekly. Additionally, the Facility is guaranteed by our majority shareholder. We record each cash amount advanced and repaid as an increase or decrease to the Facility respectively. We record customer payments made directly to the lender as a reduction in accounts receivable and the Facility.

Our concentration of credit risk is limited due to the large number of customers comprising our customer base and their dispersion across different business and geographic areas. We monitor our exposure to credit losses and maintain an allowance for anticipated losses. To reduce credit risk, we perform credit checks on all our customers.

Related Party

We have significant transactions with our majority shareholder who was the beneficial owner of approximately 80% and 90% of our outstanding shares of common stock as of October 3, 2014 and January 3, 2014, respectively, and has the ability to exercise control over us.

We classify assets and liabilities to related parties on our Condensed Consolidated Balance Sheet as follows:

- ***Related party receivable*** represents amounts due from a related party.

Accrued wages and related obligations – due to related party represents accrued wages, taxes and other related items that have not yet been invoiced.

Long-term debt - related party represents the amount due for long-term borrowings from a related party that is considered a current liability.

Long-term debt - related party, net of current portion represents the total amount due for long-term borrowings from a related party less the current portion of the debt.

We classify revenue and expenses from related parties in our Condensed Consolidated Statements of Operations as follows:

- ***Revenues from related parties*** are revenues for sales of services and software to related parties.

Direct cost of producing revenues purchased from related parties are PEO fees and reimbursements for our staffing services provided by related parties.

Selling, general and administrative expenses - related parties represents PEO fees for selling, general and administrative expenses incurred on our behalf.

- ***Interest expense - related party*** is interest expense incurred for related party loans and advances.

In addition, we had related party transactions involving acquisitions and debt extinguishment in exchange for our common stock. Please see *Related Party Transactions*.

Equity-Based Compensation

We grant equity-based awards, such as stock options and restricted stock or restricted stock units, to certain key employees and consultants to create a clear and meaningful alignment between compensation and shareholder return and to enable the employees and consultants to develop and maintain a stock ownership position. While the majority of our equity awards feature time-based vesting, performance-based equity awards, which are awarded from time to time to certain key Company executives, vest as a function of performance and may also be subject to the recipient's continued employment which also acts as a significant retention incentive.

Equity-based compensation cost is measured at the grant date, based on the fair value of the award and is recognized as expense over the employee requisite service period. In order to determine the fair value of stock options on the date of grant we apply the Black-Scholes option-pricing model. Inherent in the model are assumptions related to risk-free interest rate, dividend yield, expected stock-price volatility and option life.

Table of Contents

The risk-free rate assumed in valuing the options is based on the U.S. Treasury yield curve in effect at the time of grant for the expected term of the option. We have not historically paid dividends and do not currently expect to in the future. While the risk-free interest rate and dividend yield are less subjective assumptions, typically based on objective data derived from public sources, the expected stock-price volatility and option life assumptions require a level of judgment which make them critical accounting estimates.

We use an expected stock-price volatility based on the average expected volatilities of a sampling of companies with similar attributes to us, including industry, stage of life cycle, size and financial leverage.

The expected option term, representing the period of time that options granted are expected to be outstanding, is estimated using our limited historical post vesting exercise and employee termination behavior.

We estimate forfeitures using our historical experience, which is adjusted over the requisite service period based on the extent to which actual forfeitures differ or are expected to differ from such estimates. Because of the significant amount of judgment used in these calculations, it is reasonably likely that circumstances may cause the estimate to change.

With regard to the weighted-average option life assumption, we consider the exercise behavior of past grants and model the pattern of aggregate exercises.

We settle the exercise of stock options with newly issued shares.

With respect to grants of performance based awards, we assess the probability that such performance criteria will be met in order to determine the compensation expense. Consequently, the compensation expense is recognized straight-line over the vesting period. If that assessment of the probability of the performance condition being met changes, we would recognize the impact of the change in estimate in the period of the change. As with the use of any estimate, and due to the significant judgment used to derive those estimates, actual results may vary.

We have elected to treat future awards with only service conditions and with graded vesting as one award. Consequently, the total compensation expense would be recognized straight-line over the entire vesting period, so long as the compensation cost recognized at any given vest date at least equals the portion of the grant date fair value of the award that has vested.

Property and Equipment

Property and equipment is stated at cost, less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the following estimated useful lives:

Furniture and fixtures	5 years
Office equipment	3 years
Computer equipment	3 years
Software	3 years
Leasehold improvements	Shorter of life or term of lease

Long-lived tangible assets are tested for impairment when there are indicators of impairment. Indicators of impairment include: changes in the value of property and equipment; changes in expected future operating income; changes in business trends and prospects; and changes in demand, competition and other economic factors.

Intangible Assets

Goodwill represents the excess cost of an acquisition over the fair value of the net assets acquired. We account for goodwill and intangible assets with indefinite useful lives in accordance with relevant accounting guidance related to goodwill and other intangible assets, which states that goodwill and intangible assets with indefinite useful lives should not be amortized, but instead tested for impairment at least annually at the reporting unit level. Our policy is to perform this annual impairment test in the fourth quarter, using a measurement date around the 20th day of the second month of our fiscal fourth quarter or more frequently if impairment indicators arise. Impairment indicators include, among other conditions, cash flow deficits, a historical or anticipated decline in revenue or operating profit, adverse legal or regulatory developments and a material decrease in the fair value of some or all of the assets.

The guidance in the accounting standards codification (“ASC”) in section 350 provides an option for an entity 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 is, a likelihood of more than 50%) that the fair value of a reporting unit is greater than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, performing the two-step (quantitative) impairment test is unnecessary.

Table of Contents

In order to perform the qualitative or quantitative testing, we determine if it is appropriate to use the operating segment, as defined under guidance for segment reporting, as the reporting unit, or one level below the operating segment, depending on whether certain criteria are met. In identifying the reporting units, management considers the economic characteristics of the reporting units including the products and services provided, production processes, types or classes of customer and product distribution.

If we determine that for a particular reporting unit that it is more likely than not (that is, a likelihood of more than 50%) that the fair value of a reporting unit is less than its carrying amount, we perform the first step of the two-step impairment test.

We perform this impairment test by first comparing the fair value of our reporting units to their respective carrying amount. Since reported quoted market prices exactly comparable to our reporting units are not available, when determining the estimated fair value of a reporting unit, we utilize a blend of discounted future cash flows, market multiples of similar companies that have quoted prices and market capitalization reconciliation. Developing the estimate of the discounted future cash flows require significant judgment and projections of future financial performance. The key assumptions used in developing the discounted future cash flows are the projection of future revenues and expenses, working capital requirements, residual growth rates and the weighted average cost of capital. In developing our financial projections, we consider historical data, current internal estimates and market growth trends. Changes to any of these assumptions could materially change the fair value of the reporting unit. We reconcile the aggregate fair value of our reporting units to our adjusted market capitalization as a supporting calculation. The adjusted market capitalization is calculated by multiplying the average share price of our common stock for the last ten trading days prior to the measurement date by the number of outstanding common shares and adding a control premium.

If the carrying value of the reporting units exceeds the fair value we would then compare the implied fair value of our goodwill to the carrying amount in order to determine the amount of the impairment, if any.

Income Taxes

We account for income taxes using the asset and liability method. Under this method, deferred income taxes are recognized for estimated tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end, based on enacted tax laws and statutory rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established to reduce deferred tax assets to the amount expected to be realized when, in Management's opinion, it is more likely than not that the future tax benefits from some portion of the deferred tax assets will not be realized.

U.S. GAAP requires that, in applying the liability method, the financial statement effects of an uncertain tax position be recognized based on the outcome that is more likely than not to occur. Under this criterion the most likely resolution of an uncertain tax position should be analyzed based on technical merits and on the outcome that will likely be sustained under examination.

Business Combinations

We have made strategic acquisitions to expand our footprint, establish strategic partnerships and/or to obtain technology that is complementary to our product offerings and strategy. We evaluate each investment in a business to determine if we should account for the investment as a cost-basis investment, an equity investment, a business combination or a common control transaction. An investment in which we do not have a controlling interest and which we are not the primary beneficiary but where we have the ability to exert significant influence is accounted for under the equity method of accounting. For those investments that we account for in accordance ASC 805, *Business Combinations*, we record the assets acquired and liabilities assumed at our estimate of their fair values on the date of the business combination. Our assessment of the estimated fair value of each of these can have a material effect on our reported results as intangible assets are amortized over various lives. Furthermore, a change in the estimated fair value of an asset or liability often has a direct impact on the amount to recognize as goodwill, which is not amortized. Often determining the fair value of these assets and liabilities assumed requires an assessment of the expected use of the asset, the expected cost to extinguish a liability or our expectations related to the timing and the successful completion of the integration of the business. Such estimates are inherently difficult and subjective and can have a material impact on our financial statements. We account for business combinations under a method similar to the pooling-of-interest method ("Pooling-of-Interest") when the combination is with a business under common control with us by our majority shareholder.

Fair Value of Financial Instruments

We believe that of our financial instruments, including: cash; accounts receivable; accounts payable and accrued liabilities; and long-term debt - related party, which are reflected at their carrying value in the consolidated financial statements, approximate fair value due to their short-term maturities. The fair value of contingent considerations, including current maturities, is estimated based on analysis of outcome probabilities and applying a discounted cash flow analysis, based on the estimated current incremental borrowing rates for similar types of securities.

Translation of Foreign Currencies

Our international subsidiaries operate using local functional currencies. Foreign currency denominated assets and liabilities are translated into U.S. dollars at exchange rates in effect at the balance sheet date, and income and expense accounts and cash flow items are translated at average monthly exchange rates during the respective periods. Net exchange gains or losses resulting from the translation of foreign financial statements and the effect of exchange rates on intercompany transactions of a long-term investment nature are recorded as a separate component of equity in

accumulated other comprehensive income. Any foreign currency gains or losses related to transactions are included in operating results.

Table of Contents

Segment Reporting

Operating segments are components of an enterprise for which separate financial information is available and is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and assess performance. Two or more operating segments may be aggregated into a single reportable segment if they have similar economic characteristics and are similar in the following areas: the nature of products and services; nature of production processes; type or class of customer; methods used to distribute products or provide services; and the nature of the regulatory environment, if applicable. We have three operating segments: Staffing, Software; and Screening Services. Our Staffing segment has similar types of products, contracts, customers and employees with all services being available for sale through the same network of our offices. Our Software segment sells licensed software and software as a service to the PEO market place. While our Screening Services segment primarily is utilized to leverage cost savings in our Staffing segment, it also sells screening services to customers in various market places. Since neither the Software segment nor the Screening Services segment meet the size criteria to be their own reporting segment, we have aggregated them into our Staffing reporting segment. Our chief operating decision maker is our CEO, who reviews financial information presented on a Company-wide basis for purposes of allocating resources and evaluating financial performance.

In fiscal 2013, with the acquisition of FlexPlus we acquired and operate facilities in the United Kingdom. As of October 3, 2014 and January 3, 2014, 95% and 97%, of our assets are located in the United States, respectively.

Recently Issued Accounting Standards to be Adopted

In August 2014, the FASB issued Accounting Standards Update ("ASU") 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. This amendment states that in connection with preparing financial statements for each annual and interim reporting period, an entity's management should evaluate whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable). The amendments in this update are effective for the annual reporting period beginning after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The adoption of ASU 2014-15 is not expected to have a material impact on our Consolidated Financial Statements. We are currently evaluating the effect the adoption of this standard will have, if any, on our consolidated financial statements.

In May 2014, FASB issued ASU No. 2014-09, *Revenue from Contracts and Customers (Topic 606)*, to clarify the principles for recognizing revenue to develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards ("IFRS") that would (1) provide a more robust framework for addressing revenue recognition; (2) improve comparability of revenue recognition practice across entities, industries, jurisdictions and capital market; and (3) provide more useful information to users of financial statements through improved disclosure requirements. This

standard is effective for annual reporting periods beginning after December 15, 2016. We are currently evaluating the effect the adoption of this standard will have, if any, on our consolidated financial statements.

In April 2014, FASB issued ASU No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*, changes the criteria for reporting discontinued operations while enhancing disclosure requirements. This ASU addresses sources of confusion and inconsistent application related to financial reporting of discontinued operations in U.S. GAAP. Under this guidance, a discontinued operation is defined as a disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has a major effect on an entity's operations and financial results. This ASU is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2014. This ASU is effective for us prospectively on January 03, 2015. We do not anticipate that the adoption of this standard will have a material impact on our consolidated financial statements.

Note 3 – Acquisitions and Joint Ventures

Staff Management Group, LLC

On January 31, 2014 we closed an asset purchase agreement to acquire Staff Management Group, LLC of New Jersey ("SMG"), a staffing company engaged in the business of providing temporary employment services and related support services in New Jersey and Pennsylvania.

We paid the following consideration (*in thousands*)(unaudited):

	January 31, 2014
Cash*	\$ 5,000
Fair value of promissory note (par value of \$5,000)	4,751
Total purchase price	\$ 9,751

* Paid with proceeds from borrowings from related parties.

Table of Contents

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date. We utilized third-party valuations of the intangible assets acquired. The amounts below are preliminary and are subject to change (*in thousands*)(unaudited):

	January 31, 2014
Property, plant, and equipment	\$ 16
Customer relationships	5,609
Non-competition agreement	1,107
Goodwill	3,019
Total purchase price	\$ 9,751

In accordance with the accounting guidance, we are required to provide estimated pro-forma revenue and income (loss) from continuing operations before income taxes as if SMG had been included in our consolidated results as of December 29, 2012 and after applying our accounting policies to material amounts and also adjusting the results of SMG to reflect the additional amortization that would have been expensed assuming the fair value adjustments to intangible assets had been applied on December 29, 2012. As of the date of this report, we did not have sufficient information to be able to present the required pro-forma disclosure or historical financial information.

Alar Staffing Corp.

On February 10, 2014 we closed an asset purchase agreement to acquire Alar Staffing Corp. of Southern California ("Alar"), a staffing company engaged in the business of providing temporary employment services and related support services.

We paid the following consideration (*in thousands*)(unaudited):

	February 10, 2014
Cash*	\$ 1,000
Fair value of subsequent payments	1,768
Total purchase price	\$ 2,768
* Paid with proceeds from borrowings from related parties.	

Edgar Filing: Corporate Resource Services, Inc. - Form 10-Q

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date. We utilized third-party valuations of the intangible assets acquired. The amounts below are preliminary and are subject to change (*in thousands*)(unaudited):

	January 31, 2014
Property, plant , and equipment	\$ 70
Customer relationships	1,565
Goodwill	1,133
Total purchase price	\$ 2,768

In accordance with the accounting guidance, we are required to provide estimated pro-forma revenue and income (loss) from continuing operations before income taxes as if Alar had been included in our consolidated results as of December 29, 2012 and after applying our accounting policies to material amounts and also adjusting the results of Alar to reflect the additional amortization that would have been expensed assuming the fair value adjustments to intangible assets had been applied on December 29, 2012. As of the date of this report, we did not have sufficient information to be able to present the required pro-forma disclosure or historical financial information.

Table of Contents

Abest Power & Gas, LLC Joint Venture

In January 2013, we entered into the retail energy services industry through the formation of Abest, a joint venture with Rosa Power, LLC. Based on the level of equity investment at risk, Abest is a VIE. While we and Rosa Power, LLC are partners who share equally in voting control, power is not shared because Rosa Power, LLC, through its owner, the President of Abest, directs the significant activities of Abest that most significantly impact its economic performance, including selection of vendors, systems, marketing, pricing, balancing energy purchase commitments against energy sales commitments, as well as selection and retention of key management personnel. Accordingly, we have determined that we are not the primary beneficiary of Abest and account for our investment in Abest using the equity method. We have contributed \$1.3 million and \$5.9 million to Abest during the three and nine months ended October 3, 2014, respectively. The contributions did not impact our ownership interest, voting control or governance rights related to Abest.

While we have no further funding commitments pursuant to the operating agreement, we may provide additional funding to Abest, if necessary. On August 25, 2014, the Abest venture was restructured wherein; a holding company ("Abest Power Holdings LLC") was formed and became the 100% holder of the all interest in Abest. As part of the restructuring, Abest admitted BP Energy Company ("BP") as special member who does not participate in the profits or losses of Abest but has the sole right to determine when, and if, distribution to the other members takes place. In addition to the foregoing, we entered into an agreement with BP where we guarantee the payment of any unpaid liability of Abest to BP up to an aggregate of \$4.0 million. Pursuance to the guidance, we have determined the fair value of the guarantee as \$0.1 million and have included it as part of our investment in Abest, as required. We will reassess the fair value of the guarantee each quarter in accordance with the guidance and include such changes, if any, other comprehensive income. Due to the short period of time from the initial measurement date to the end of this fiscal quarter, we have elected not to re-measure the guarantee at the end of this fiscal quarter.

As result of the restructuring and guarantee, we determined that it was appropriate reevaluate Abest as a VIE. Based on our assessment, we determined that Abest is still a VIE and that Abest remains an entity controlled by Rosa Power, LLC. We also performed a step one impairment test on our investment in Abest and determined that the investment is not impaired as of October 3, 2014.

The partnership agreement calls for preferential distributions until our funding has been recouped. Abest's subsequent cash distributions will be shared equally between us and Rosa Power, LLC. In accordance with the venture agreement, losses generated by Abest are generally allocated to both investors based on their proportionate ownership interests. However, we have recorded our portion of Abest's losses based upon accounting policies for equity method investments. The accumulated operating losses at Abest exceeded the equity contributed to Abest. In accordance with the accounting guidance, we have recorded 100% of Abest's net losses against the carrying value of the investment. We will continue to record 100% of Abest's operating losses as long as we provide all the funding to Abest and Abest's accumulated losses continues to exceed the equity contributed. All of Abest's future net income will initially be recorded by us until we recover losses absorbed in excess of our equity ownership interest.

The carrying value of the Company's investment in Abest was \$6.4 million as of October 3, 2014 net of \$2.2 million in accumulated investment losses and \$1.9 million as of January 3, 2014, net of \$0.8 million in accumulated investment loss.

Acquisition of Summit

Our CRS Group subsidiary completed the Summit Acquisition on May 7, 2013. Pursuant to the terms of the agreement, the CRS Group acquired certain assets and assumed certain liabilities of Summit in exchange for 21,000,000 shares of our common stock, valued at \$0.65 per share or \$13.75 million, the agreed upon value of Summit's business operations. The Summit Acquisition provides the Company with the ability to further diversify our service offerings to the marketplace.

As described above, our controlling shareholder is the sole owner of Tri-State and its affiliates and was the beneficial owner of approximately 90% of our outstanding shares of common stock on May 7, 2013. Because the Company and Tri-Tel were both controlled by our controlling shareholder, the acquisition was recorded using the "as if pooling-of-interests" method required under U.S. GAAP for business combinations of entities under common control and the financial information for all periods presented reflects the financial results of the combined companies as if the acquisition had been in effect for all of the reported periods. For financial statement purposes, we have recorded the operations under a method similar to pooling-of-interests of Summit and the Company as if the Company owned Summit since its purchase by Tri-Tel on January 4, 2008. The financial statements presented in this report reflect the combined financial position and operations.

Table of Contents*Strategic Minor Transactions*

During the nine months ended October 3, 2014, the Company entered into additional strategic transactions to increase market share in certain markets that did not require more than nominal cash consideration. The transactions are not individually or in the aggregate material to our financial position or results of operations. We are evaluating these transaction to determine the appropriate accounting treatment and what the amounts to record to fixed assets, intangibles, goodwill and liabilities, if any.

The Company's strategic minor acquisitions during the nine months ended October 3, 2014 had an aggregate purchase price totaling \$2.3 million and included: Personally Yours, Inc., based in Florida; Tempoly, Inc., whose business is concentrated in Southern California; Personnel Solutions, Inc., which is based in Iowa; and Nationwide Security Screening, which is based in Melville, NY.

The foregoing acquisitions were not material to our financial condition or results of operations. Additionally, the pro-forma consolidated statements of income, as if the results of these acquisitions had been included in our consolidated results for fiscal quarters ended October 3, 2014 and October 4, 2013, would not have been materially different from our reported consolidated statements of income for these periods.

Note 4— Intangible Assets and Goodwill

The following table presents details of the Company's intangible assets, estimated lives, related accumulated amortization and goodwill as of October 3, 2014 and January 3, 2014 (*in thousands*):

As of October 3, 2014 (unaudited)

	Gross	Accumulated Impairment	Accumulated Amortization	Adjustments	Net	Useful Lives
Customer lists and relationships	\$25,058	\$ -	\$ (11,560)	\$ 197	\$ 13,695	3 to 10 years
Backlog	\$338	\$ -	\$ (338)	\$ -	-	6 to 10 years
Non-competition agreements	\$3,226	\$ (112)	\$ (2,156)	\$ 1	959	2 to 5 years
Trade name	\$1,044	\$ (197)	\$ (144)	\$ 45	748	20 years
Intellectual property	\$466	\$ -	\$ (466)	\$ -	-	5 years
Lease agreements	\$250	\$ -	\$ (250)	\$ -	-	5 years
Total	\$30,382	\$ (309)	\$ (14,914)	\$ 243	\$15,402	
Goodwill	\$24,647	\$ -	\$ -	\$ 63	\$24,710	Indefinite Life

Edgar Filing: Corporate Resource Services, Inc. - Form 10-Q

As of January 3, 2014

	Gross	Accumulated Impairment	Accumulated Amortization	Adjustments	Net	Useful Lives
Customer lists and relationships	\$ 17,474	\$ -	\$ (10,056)	\$ 92	\$ 7,510	3 to 10 years
Backlog	338	-	(338)	-	-	6 to 10 years
Non-competition agreements	2,119	(112)	(1,722)	-	285	2 to 5 years
Trade name	1,040	(197)	(112)	20	751	20 years
Intellectual property	466	-	(466)	-	-	5 years
Lease agreements	250	-	(250)	-	-	5 years
Total	\$ 21,687	\$ (309)	\$ (12,944)	\$ 112	\$ 8,546	
Goodwill	\$ 19,622	\$ -		\$ 60	\$ 19,682	Indefinite Life

We performed our annual qualitative assessment for indicators of goodwill impairment as of October 5, 2013 and determined that no events existed or circumstances lead to a determination that it is more likely than not (that is, a likelihood of more than 50%) that the fair value of a reporting unit is less than its carrying amount. Based on this assessment we determined that we were not required to perform a step one analysis. We continue to monitor for indicators of impairment and will evaluate our goodwill, indefinite lived intangibles and long lived assets as conditions warrant. For the nine months ended October 3, 2014, we noted no indicators of impairment.

Table of Contents

The following table summarizes our changes in intangible assets (*in thousands*)(unaudited):

	As of January 3, 2014	Additions	Amortization	Adjustments	As of October 3, 2014
Customer lists and relationships	\$ 7,510	\$ 7,583	\$ (1,486)	\$ 88	\$ 13,695
Non-competition agreements	285	1,107	(453)	20	959
Trade name	751	5	(31)	23	748
Total	\$ 8,546	\$ 8,695	\$ (1,970)	\$ 131	\$ 15,402
Goodwill (indefinite life)	\$ 19,682	\$ 4,965		\$ 63	\$ 24,710

The Company recorded amortization expense of \$0.7 million and \$2.0 million for the three and nine months ended October 3, 2014 and \$0.3 million and \$0.4 million for the three and nine months ended October 4, 2013, respectively. Estimated intangible asset amortization expense (based on existing intangible assets) for the Fiscal Year ending is as follows (*in thousands*)(unaudited):

	Intangible Amortization
January 2, 2015	\$ 674
January 1, 2016	2,658
December 30, 2016	2,005
December 29, 2017	1,902
December 28, 2018	1,891
Thereafter	\$ 6,272

Note 5— Accounts Receivable

Wells Fargo Bank, National Association Agreement

On June 20, 2014 Corporate Resource Services, Inc. and its associated entities (Accountabilities, Inc.; Diamond Staffing Services, Inc.; Insurance Overload Services, Inc.; TS Staffing Services, Inc.; Corporate Resource Development Inc.; and Integrated Consulting Group, Inc.) each executed an amendment to their account purchase agreement with Wells Fargo (the "Agreements") that effectively extends the term of the existing Agreements through June 30, 2015, provides for an aggregate of \$80 million in financing of receivables at an annual rate equal to London Interbank Offered Rate ("LIBOR") plus 4.25% to 6.17%, establishes financial covenants and milestones for the Company to maintain, and provides for other material fees over the course of the term.

On June 20, 2014, as required by the Wells Fargo amendment, Tri-State agreed that they would not demand payment of the outstanding balance on the related party loans payable of at least \$15 million for a period of at least one year. Other than the \$15 million amount, for a period of at least one year, the related party loans are due on demand.

Our subsidiaries Accountabilities, CRD, Insurance Overload, ICG, Diamond Staffing, and TS Staffing are parties to account purchase agreements with Wells Fargo Capital Finance, an operating division of Wells Fargo, N.A., or Wells Fargo, pursuant to which, a maximum amount of \$80.0 million of accounts receivable can be financed through Wells Fargo, or the Facility. The aggregate amount of trade receivables from the permanent placement business that CRD may fund through the Facility at any one time is \$1.3 million. The Facility is personally guaranteed by our majority shareholder. The Facility allows for 90% of qualifying receivables be funded with certain exceptions related to permanent placement related receivables. The Facility allows for funding of 65% of qualifying receivable related to permanent placement. The Facility requires that our customers pay those receivables assigned to Wells Fargo directly to Wells Fargo. The risk of bad debt losses on assigned accounts receivables is retained by us and receivables funded which become greater than 90 days old (120 days for certain health-care related receivables), at Wells Fargo's option, can be required to be removed as eligible receivables from our outstanding balance. We pay Wells Fargo a fee for the funded balance outstanding daily at rate equal to an annual rate of the 90-day London Interbank Offered Rate plus 4.25% to 6.17% per annum which is included in interest expense. The Facility calls for twice weekly net settlement of the additions, required reductions and customer repayments. In the event that our majority shareholder ceases to guarantee the Facility, the Facility may be closed.

During the Fiscal Year ended January 3, 2014, we re-evaluated the accounts receivable purchase agreement in accordance with the accounting guidance and have concluded that the agreement should be treated as a financing arrangement for U.S. GAAP. Accordingly we record each cash amount advanced and repaid as an increase or decrease to Loan Payable respectively. We record customer payments made directly to the lender as a reduction in Accounts Receivable and Loan Payable. Previously we recorded the agreement as sale of receivables.

Table of Contents

Fees charged under the Facility are included in interest expense in the accompanying Condensed Consolidated Statements of Operations and amounted to \$2.2 million and \$2.7 million for the three and nine months ended October 3, 2014, respectively. The terms of our agreements with Wells Fargo, that we entered into on June 20, 2014, provide for significantly higher financing charges beginning in September 2014. This increase is the result of additional fees, included in interest expense, charged and to be charged by Wells Fargo under our revised agreements. The agreement contemplates these additional fees of approximately: \$0.5 million, \$2.1 million, \$3.0 million, and \$3.9 million for the calendar quarters ended September 30, 2014, December 31, 2014, March 31, 2015 and June 30, 2015, respectively. In accordance with the accounting guidance we are recognizing the monitoring fees as interest expense using the effective interest rate method. We are seeking to replace our financing facility as soon as possible but cannot assure you that we will be able to secure a replacement.

In connection with the Company's factoring of its trade receivables it is contingently liable to repurchase, at the sole discretion of Wells Fargo, any receivables that are 90 days past due, with the exception of accounts related to the healthcare industry, because they are slow payers due to reimbursement cycles. Accordingly, the Company repurchases any healthcare industry related receivables that are 120 days past due. The Company provides an estimated allowance for doubtful accounts to address this contingency.

Note 6— Related Parties

Tri-State, a related party, provides professional employer services to us as part of a co-employment arrangement where Tri-State is the employer of record and we are the worksite employer. Professional employer services provided by Tri-State include payroll services, administration of employee benefits, workers' compensation insurance coverage, customer invoicing and accounts receivable collection services. These arrangements allow us to reduce certain insurance risks and costs. Due to the timing and payment of invoices received, the aggregate amount payable for accrued wages and related obligations provided by Tri-State was \$18.9 million and \$9.4 million as of October 3, 2014 and January 3, 2014, respectively. Tri-State has agreed that they will modify the terms of their invoices to us, when and if necessary, for us to meet our cash flow and debt covenant obligations.

We are charged the wages and associated payroll taxes for the employee plus an agreed upon rate for workers' compensation and health insurance as well as an administrative fee. The total amounts charged by Tri-State for the three and nine months ended October 3, 2014 were \$232.1 million and \$652.9 million, respectively, and for the three and nine months ended October 4, 2013 were \$190.9 million and \$561.4 million, respectively. The amounts owed to Tri-State are classified as related party loans payable.

The principal amount increases or decreases based on periodic borrowings or repayments and each subsidiary of the Company is charged interest at the rate of 12% per annum of their net loan payable. The related party loans payable are due on demand, subject to the restrictions described below. On June 20, 2014, in conjunction with our amendments to the Wells Fargo Accounts Purchase Agreements, Tri-State agreed that we would not be required to

reduce the outstanding balance on the related party loans payable below \$15 million for a period of at least one year. On June 20, 2014, in conjunction with our amendments to the Wells Fargo Accounts Purchase Agreements, Tri-State agreed, as amended, that we would not be required to reduce the outstanding balance on the related party loans payable below \$15 million any earlier than October 15, 2015. During the three and nine months ended October 3, 2014, we recognized \$1.2 million and \$2.9 million of related party interest expense, respectively. During the three and nine months ended October 4, 2013, we recognized \$0.5 million and \$1.2 million of related party interest expense, respectively.

We have historically relied on funding from related parties in order to meet our liquidity needs. Tri-State grants us substantial liquidity by allowing extended payment terms with respect to its invoices. We rely on, and have relied on, these payment terms for much of our working capital. Should Tri-State require us to make payment on shorter terms, we would be required to find additional sources of working capital.

Note 7— Liabilities

Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities consist of the following (*in thousands*)

	October 3, 2014 (unaudited)	January 3, 2014
Accounts payable	\$ 2,478	\$ 2,128
Accrued expenses	719	440
Sales, use and other taxes	2,592	1,612
Customer deposits	372	205
Deferred revenue	404	348
Other	2,422	2,845
Total accounts payable and accrued liabilities	\$ 8,987	\$ 7,578

Borrowings Under Receivables-Based Credit Facility

We have account purchase agreements that are treated for accounting purposes as receivables-backed financing. Please see *Accounts Receivable* for details concerning the Facility.

Table of Contents*Long-Term Debt*

In the course of various acquisitions, we issue debt to the sellers as part of the compensation. These obligations often do not have stated rates of interest and are payable in uneven payments or repayments dependent on sales. We have imputed an interest rate for these instruments based on discounted cash flow analysis. These obligations do not include obligations that are contingent on the acquisition reaching certain milestones. Please see *Contingent Consideration* for a review of those instruments.

Long-term debt at October 3, 2014 and January 3, 2014 consists of the following (*in thousands, except payment amounts*):

Instrument	Matures	Interest Rate	Payments required	Balance as of October 3, 2014 (unaudited)	Short term portion of balance as of October 3, 2014 (unaudited)	Balance as of January 3, 2014 (unaudited)	Short term portion of balance as of January 3, 2014 (unaudited)
Instrument A	3/7/2015	4.8	% Lump sum payable March 7, 2015	\$ 440	\$ 440	\$ 869	\$ 385
Instrument B	11/12/2014	5.1	% Lump sum payable November 12, 2014	838	838	793	786
Instrument C	5/24/2015	3.5	% Lump sum \$225,000 due on February 21, 2014 and on May 24, 2015	220	220	438	216
Instrument D	10/17/2015	10.8	% \$100,000 semi-annual through October 17, 2015	179	80	353	166
Instrument E	1/1/2015	4.6	% \$27,885 per month for 26 months commencing on December 1, 2012 to January 1, 2015	53	53	298	129
Instrument F	11/12/2014	10.0	% Due on demand any time through Nov 12, 2014	214	214	264	264
Instrument I	2/28/2016	4.6	% \$208,333 per month for 24 months commencing on March 3, 2014 to Feb 28, 2016	3,215	2,393	-	-
Instrument J	2/10/2018	4.8	% \$500,000 annual payment through February 10, 2018	1,822	423	-	-
Other Instruments	Various	Various	Various	57	57	213	213
				\$ 7,038	\$ 4,718	\$ 3,228	\$ 2,159

The aggregate amounts of debt maturing after October 3, 2014 are as follows (*in thousands*)(unaudited):

Fiscal Year ended:
January 2, 2015 \$1,378

January 1, 2016	3,917
December 30, 2016	958
December 29, 2017	542
December 28, 2018	528
Total	\$7,323

Table of Contents*Contingent Consideration*

In the course of various acquisitions, we assume certain obligation to the sellers as part of the purchase consideration. These obligations are not fixed in amount but rather are subject to acquisitions achieving certain results or reaching certain milestones. At the date of acquisition and at the end of each quarter, we estimated the fair value of the contingent consideration by applying various probabilities and discount factors to each of the various performance milestones as further discussed in note *Summary of Significant Accounting Policies - Business Combinations* and in note *Fair Value Measurements*. We evaluated our outstanding contingent consideration at October 3, 2014 and January 3, 2014 and it consists of the following at fair value (*in thousands*):

Contingent Consideration	Matures	Payments required	Balance as of October 3, 2014 (unaudited)	Short-term portion (unaudited)	Balance as of January 3, 2014	Short-term portion
A	9/7/2019	1.5% of sales of acquired business through September 7, 2013 and 1% of sales thereafter until September 07, 2019	\$ 835	\$ 213	\$ 789	\$ 179
B	9/26/2015	0.5% of revenues of acquired business through September 26, 2015	133	126	125	125
C	Perpetual	5.00% of revenue generated from a certain client in perpetuity	2,910	113	2,359	354
D	Perpetual	1.25% of gross payroll	511	115	-	-
E	Perpetual	40% of Net Income Quarterly	623	48	-	-
Total			\$ 5,012	\$ 615	\$ 3,273	\$ 658

Long-term debt - related party

Please see Note *Related parties*.

Note 8— Equity-Based Compensation

The Company recorded \$1.2 million and \$3.6 million of stock compensation expense for the three and nine months ended October 3, 2014, respectively, compared to \$1.9 million and \$2.9 million for the three and nine months ended October 4, 2013, respectively. As of October 3, 2014, there is \$8.5 million of unrecognized compensation expense related to share-based compensation arrangements and warrants to purchase 750,000 shares of common stock outstanding. No options have been granted to date under the Company's equity incentive plan, nor have any shares been issued pursuant to the Company's employee stock purchase plan.

Note 9— Fair Value Measurements

We categorize our liabilities recorded at fair value based upon the fair value hierarchy. The levels of fair value hierarchy are as follows:

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access.

Level 2 inputs utilize other-than-quoted prices that are observable, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable and are typically based on our own assumptions, including situations where there is little, if any, market activity.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, we categorize such liabilities based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset.

Both observable and unobservable inputs may be used to determine the fair value of positions that are classified within the Level 3 category. As a result, the unrealized gains and losses for assets within the Level 3 category presented below may include changes in fair value that were attributable to both observable (e.g. changes in market interest rates) and unobservable (e.g. changes in historical company data) inputs.

Table of Contents

The major category of liabilities measured on a recurring basis, at fair value, as of October 3, 2014 and January 3, 2014 are as follows (*in thousands*):

	As of October 3, 2014 (unaudited)			
	Level 1	Level 2	Level 3	Total
Contingent consideration	\$ -	\$ -	\$ 5,012	\$ 5,012

	As of January 3, 2014			
	Level 1	Level 2	Level 3	Total
Contingent consideration	\$ -	\$ -	\$ 3,273	\$ 3,273

A reconciliation of the amount in Level 3 is as follows (*in thousands*)(unaudited):

	Level 3
Balance at January 3, 2014	\$3,273
Addition of contingent consideration	1,021
Payment on contingent consideration	(152)
Fair value adjustment of contingent consideration	782
Effect of foreign currency exchange	88
Balance at October 3, 2014	\$5,012

We estimate the fair value of the contingent consideration by applying various probabilities and discount factors to each of the various performance milestones as further discussed in note *Summary of Significant Accounting Policies - Business Combinations*. These fair value measurements are based on significant inputs not observable in the market and thus represent a Level 3 measurement as defined in the guidance. We utilized discount rates for the time value of the contingent payments and estimated probabilities related to the anticipated revenue or gross margin-related contingent payments. These rates were determined based on the nature of the milestone, the risks and uncertainties involved and the time period until the milestone was measured. The estimating of probabilities and discounts requires significant judgment and the results may vary materially from the estimates.

We evaluate certain assets for fair value on a non-recurring basis when there are indications of impairment. For the nine months ended October 3, 2014, we did not note any indicators of impairment. In the periods ending October 3, 2014 and October 4, 2013 we measured certain assets consistent with Level 3 measurement principles using an income approach based on a discounted cash flow model in order to determine the amount of impairment, if any.

Note 10 – Accumulated Other Comprehensive Income

Beginning with our acquisition of FlexPlus in the United Kingdom in Fiscal Year 2013, we became subject to the guidance ASC 830 - Foreign Currency Matters. This requires us to translate our assets and liabilities from the functional currency, British Pounds, to reporting currency, which is United States Dollars. These translation adjustments are recorded as other comprehensive income and aggregated in accumulated other comprehensive income.

The components of accumulated other comprehensive income are (*in thousands*):

October 3, 2014 (unaudited)	Gross	Taxes	Net
Translation adjustments	104	-	104
Accumulated other comprehensive income	104	-	104

January 3, 2014	Gross	Taxes	Net
Translation adjustments	74	-	74
Accumulated other comprehensive income	74	-	74

Table of Contents

Note 11— Commitments, Contingencies and Other Matters

Lease Commitments

As of October 3, 2014, the Company had operating leases, primarily for office premises, expiring at various dates through 2018. Future minimum rental commitments under operating leases are as follows (*in thousands*)(unaudited):

Fiscal Year ended:	
January 2, 2015	\$615
January 1, 2016	1,492
December 30, 2016	376
December 29, 2017	101
December 28, 2018	53
Thereafter	-
Total	\$2,637

Employment Agreements

We have employment agreements with certain key members of management, requiring mutual termination notice periods. These agreements provide those employees with a specified severance amount in the event the employee is terminated without good cause as defined in the applicable agreement.

Legal Proceedings

From time to time, we become involved in various investigations, claims and legal proceedings that arise in the ordinary course of our business. Management believes that the outcome of these matters will not have a material adverse effect upon the Company's results of operations, financial condition or cash flows. However, management's assessment of the Company's current litigation and other proceedings could change in light of the discovery of facts with respect to legal actions or other proceedings pending against the Company, not presently known to the Company or determinations by judges, juries or other finders of fact which are not in accord with management's evaluation of the possible liability or outcome of such litigation or proceedings. Additionally, although we intend to defend ourselves vigorously against all matters, we cannot assure that we will be able to do so successfully. Except, as disclosed below, reasonably possible losses are not material to the Company's consolidated financial statements.

We and several employees that we have indemnified, pursuant to California labor law, have been sued by their former employer, a competitor of ours, alleging, among other things, breach of contract, violation of a non-competition agreement and the taking of trade secrets. The competitor has filed a complaint in Alameda County Superior Court in California claiming damages in excess of \$3.5 million. We have assessed the status of this matter and have concluded that although an adverse result is reasonably possible, it is not probable. As a result, no provision has been made in the consolidated financial statements.

A customer filed a lawsuit in New York Supreme Court in New York against us alleging the breach of a contract by us, claiming damages of \$10.3 million. We have filed counter claims alleging breach of contract among other matters. We have assessed the status of this matter and have concluded that although an adverse result is reasonably possible, it is not probable. As a result, no provision has been made in the consolidated financial statements.

In addition to the foregoing, we are joined defendants in a variety of issues that mostly relate to workers compensation and liability issues that are covered by our insurance policy. We believe there are satisfactory defenses to each worker's compensation and liability claim. We have assessed the status of this matter and have concluded that although an adverse result is reasonably possible, it is not probable. As a result, no provision has been made in the consolidated financial statements.

Table of Contents

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

You should read the following discussion in conjunction with our financial statements and related notes. In addition to historical financial information, the following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially. Factors that could cause or contribute to these differences include those discussed below and elsewhere and in "Part II. Item 1A. Risk Factors" of our Annual Report on Form 10-K filed on July 1, 2014.

Overview

Corporate Resource Services, Inc. (together with its consolidated subsidiaries, "Corporate Resource Services", "CRS", the "Company", "we", "us", and "our", unless the context indicates otherwise) is a diversified technology staffing, recruiting and consulting services firm. We provide cloud-based enterprise applications and hosting services to professional employer organizations ("PEOs") and staffing companies, as well as diversified staffing, recruiting and consulting services. The Company offers trained employees in the areas of Insurance, Information Technology, Accounting, Legal, Engineering, Science, Healthcare, Life Sciences, Creative Services, Hospitality, Retail, General Business and Light Industrial Work. Our blended staffing solutions are tailored to our customers' needs and can include customized employee pre-training and testing, on-site facilities management, vendor management, risk assessment and management, market analyses and productivity/occupational engineering studies.

Our ability to deliver broad-based solutions provides our customers a "one stop shop" to fulfill their staffing needs from professional services and consulting to clerical and light industrial positions. Depending on the size and complexity of an assignment, we can create an on-site facility for recruiting, training and administration at the customer location. Our recruiters, who generally focus within their area of expertise, have the latest state-of-the-art recruiting resources available to help our customers secure the best candidates available in today's ever changing marketplace.

We offer our services through our wholly-owned specialty recruiting and staffing subsidiaries, which include the following companies:

- Accountabilities, Inc. ("Accountabilities") provides administrative and light industrial staffing solutions, primarily to our customers in the Western United States;
- Corporate Resource Development, Inc. ("CRD") provides permanent and temporary professional, administrative and clerical solutions to financial services, entertainment, media, advertising, fashion and other companies through locations primarily in the Northeastern United States;
- The CRS Group, Inc. ("CRS Group") provides software and related hosting and technology services through its Summit Software division;

Diamond Staffing Services Inc. (“Diamond Staffing”) provides administrative, light industrial and professional staffing solutions throughout the United States most heavily concentrated in New Jersey, California and New England; Flex Recruitment Plus Limited (“FlexPlus”) is a staffing and technology business specializing in the placement of temporary, contract and permanent personnel in the United Kingdom. FlexPlus’ innovative on-line recruitment platform, i-Integra, enables it to provide complete end-to-end recruitment solutions to its clients; Insurance Overload Services, Inc. (“Insurance Overload”) provides professional insurance industry staffing solutions for personnel in claims processing, customer services and related fields throughout the United States; Integrated Consulting Group, Inc. (“ICG”) provides light industrial staffing solutions to our customers in the Northeastern United States; TS Staffing Services, Inc. (“TS Staffing”) provides temporary placement solutions across a range of administrative and professional fields throughout the United States, most heavily concentrated in California, the Midwestern United States and Florida.

The type and number of services we offer have grown largely through the acquisition of established offices from general staffing companies.

As of October 3, 2014, we operated approximately 250 staffing and on-site facilities throughout the United States and in the United Kingdom and we offer our services to a wide variety of clients in many industries, ranging from sole proprietorships to Fortune 1000 companies.

As of October 3, 2014, we employed approximately 800 full time and part time employees in our operations.

Table of Contents

Results of Operations:

The 2014 fiscal year is a 52 week fiscal year (“Fiscal Year 2014”) with four fiscal quarters of thirteen weeks each ended on April 4, July 4, October 3 and January 2, 2015. The 2013 fiscal year was a 53 week Fiscal Year (“Fiscal Year 2013”) with the first fiscal quarter of fourteen weeks ended on April 5 and three fiscal quarters of thirteen weeks ended on July 5, October 4 and January 3, 2014 (each a “Fiscal Quarter”).

Three Months Ended October 3, 2014 and October 4, 2013

Revenues

	For the three months ended		Dollar Change Period to Period	Percentage Change Period to Period	
dollars in thousands	October 3, 2014	October 4, 2013			
Total revenue	\$ 260,285	\$ 208,637	\$ 51,648	25	%

The increase in revenues is primarily attributable to acquisitions that we made late in 2013 and in the first quarter of 2014 that added \$32.1 million in revenues. Excluding the impact of acquisitions, we generated organic revenue growth of approximately \$19.5 million or 38% of the growth in the three months ended October 3, 2014. We were able to generate this growth despite our continued strategy to eliminate a select number of unprofitable accounts. We expect that our sales force, especially those whose previous staffing firms may have exited the industry, will continue to aggressively grow revenues from existing and new customers for the foreseeable future. We expect to be able to supplement this organic growth with strategic acquisition opportunities as they arise and by increasing the number of value-added services we offer to the marketplace.

Direct Cost of Producing Revenues

	For the three months ended		Dollar Change Period to Period	Percentage Change Period to Period	
dollars in thousands	October 3, 2014	October 4, 2013			
Total direct cost of producing revenues	\$ 227,587	\$ 182,680	\$ 44,907	25	%

As a percentage of revenues, our cost of producing revenues decreased slightly from 87.6% during the three months ended October 4, 2013, to 87.4% during the three months ended October 3, 2014. Wages represented a smaller percentage of revenues for the three months ended October 3, 2014, reflecting improved pricing to our customers as compared to the year-ago period. In addition, payroll tax expense as a percentage of revenues decreased, as did the administrative fee charged to us by Tri-State for the payroll services, workers' compensation coverage and related risk management programs, and payroll tax and employee benefit plan administration it provides to us. These increases were offset by an increase in workers' compensation insurance expense compared to the prior year period.

Gross profit

	For the three months ended		Dollar	Percentage
	October 3, 2014	October 4, 2013	Change Period	Change Period
dollars in thousands			to Period	to Period
Gross profit	\$ 32,698	\$ 25,957	\$ 6,741	26 %
Gross margin %	12.6 %	12.4 %		

As a percentage of revenues, gross margin percentage increased slightly for the three months ended October 3, 2014 compared to the prior year period. We continue to implement initiatives intended to increase our gross profit, including (i) the diversification of our service offerings, such as Summit's technology and related services; (ii) the continued review of pricing charged to all customers; and (iii) more effective management of unemployment claims to reduce the related state unemployment taxes. We expect to continue to see improvements in gross margin percentage as these initiatives yield results. However, competitive pricing pressures, increased payroll tax costs at the state level and higher workers' compensation insurance costs may act as a drag on our future gross margins.

Table of Contents*Selling, General and Administrative Expenses*

	For the three months ended		Dollar	Percentage
			Change Period	Change Period
dollars in thousands	October 3, 2014	October 4, 2013	to Period	to Period
Total selling, general and administrative expenses	\$ 22,484	\$ 19,975	\$ 2,509	13 %
% of Revenues	8.6 %	9.6 %		

Total selling, general and administrative expenses as a percentage of revenues decreased from 9.6% for the three months ended October 4, 2013, to 8.6% of revenues for the three months ended October 3, 2014, despite an overall increase of \$2.5 million. The increase was primarily due to fees incurred with the change in auditors and the review of our previously reported financial statements, which accounted for approximately \$1.1 million of the increase. Additional increases were due to costs relating to supporting our revenue growth, including expenses related to acquired operations, which amounted to \$3.1 million. These increases were offset by our ability to curb and reduce non-personnel costs including our ongoing consolidation of offices and functions in connection with our announced rebranding and consolidation. These efforts yielded a reduction in costs of \$1.7 million compared to the prior year period.

Our revenue growth has allowed us to better leverage our fixed costs. In addition, we have completed and continue to undertake initiatives to reduce selling, general and administrative expenses through consolidation of select offices and administrative functions. We expect that the integration of recently acquired operations as well as the growth of revenues will reduce selling, general and administrative expenses as a percentage of revenues in 2014 and beyond.

Depreciation and Amortization

	For the three months ended		Dollar	Percentage
			Change Period	Change Period
dollars in thousands	October 3, 2014	October 4, 2013	to Period	to Period
Depreciation and amortization	\$ 896	\$ 460	\$ 436	95 %
% of Revenues	0.3 %	0.2 %		

For the three months ended October 3, 2014, the change is primarily due to acquisitions.

Income (Loss) from Operations

	For the three months ended		Dollar Change Period to Period	Percentage Change Period to Period	
dollars in thousands	October 3, 2014	October 4, 2013			
Income (loss) from operations	\$ 8,126	\$ 3,586	\$ 4,540	127	%
% of Revenues	3.1	% 1.7	%		

The factors described above, primarily the increase in gross profit, resulted in a 127% increase in income from operations for the three months ended October 3, 2014 compared to the prior year period.

Interest Expense

	For the three months ended		Dollar Change Period to Period	Percentage Change Period to Period	
dollars in thousands	October 3, 2014	October 4, 2013			
Total interest expense	\$ (4,332)	\$ (1,419)	\$ (2,913)	205	%
% of Revenues	1.7	% 0.7	%		

Interest expense includes the net discounts associated with the factoring of accounts receivable, as well as interest on debt associated with our acquisitions and financing our operations. Interest expense increased to \$4.3 million compared to \$1.4 million in the prior year period. This increase was primarily due to higher overall borrowing costs on our receivables-based credit facility. We recorded \$1.2 million and \$0.5 million of interest on related party balances for the three months ended October 3, 2014 and October 4, 2013, respectively. Of the increase, \$0.7 million was due to a higher average loan balance for the three months ended October 3, 2014 compared to the prior year period. Additionally, for the three months ended October 3, 2014, we incurred \$1.7 million in interest expense related to monitoring fees, of which, \$0.6 million was paid in the current period.

Table of Contents*Gain (Loss) on Equity Investment*

	For the three months ended				Dollar Change Period to Period	Percentage Change Period to Period	
dollars in thousands	October 3, 2014		October 4, 2013				
Gain (loss) from equity investments	\$ (360	)	\$ (198	)	\$ (162	)	82 %
% of Revenues	0.1	%	0.1	%			

We recorded losses on our investment in Abest Power and Gas, LLC ("Abest") using the equity method of accounting. Abest is a joint venture formed in January 2013 with Rosa Power, LLC.

Loss on Contingent Consideration

	For the three months ended				Dollar Change Period to Period	Percentage Change Period to Period	
dollars in thousands	October 3, 2014		October 4, 2013				
Change in contingent consideration	\$ (21	)	\$ (39	)	\$ 18	-46	%
% of Revenues	0.0	%	0.0	%			

The fair value of contingent considerations is re-measured each quarter and the change is reported as a current period gain or loss. Fair value of contingent consideration requires us to make subjective judgments with regards to future events including discount rates.

Income Tax Benefit (Provision)

	For the three months ended				Dollar Change Period to Period	Percentage Change Period to Period	
dollars in thousands	October 3, 2014		October 4, 2013				
Benefit from (provision for) income taxes	\$ (301	)	\$ (77	)	\$ (224	)	291 %
Effective tax rate	11.0	%	4.3	%			

Edgar Filing: Corporate Resource Services, Inc. - Form 10-Q

For the three months ended October 3, 2014, our effective tax rate differed from the federal statutory rate of 34% due to tax expense associated with indefinite lived intangibles and state and local income taxes. For the three months ended October 4, 2013, our effective tax rate differed from the federal statutory rate of 34% due to tax expense associated with indefinite lived intangibles, valuation allowance release and state and local income taxes.

We do not record U.S. income tax expense for foreign earnings which we intend to reinvest indefinitely to expand our international operations. If in the future we decide to repatriate such foreign earnings, U.S. income tax expense and our effective tax rate could increase or decrease in that period.

Net Income (Loss)

	For the three months ended		Dollar	Percentage	
	October 3, 2014	October 4, 2013	Change Period	Change Period	
dollars in thousands			to Period	to Period	
Net income (loss)	\$ 2,432	\$ 1,704	\$ 728	43	%
% of Revenues	0.9	% 0.8	%		

For the three months ended October 3, 2014, the increase in net income to \$2.4 million compared to the prior year period net income of \$1.7 million was due to the factors described above.

Table of Contents

Nine Months Ended October 3, 2014 and October 4, 2013

Revenues

	For the nine months ended		Dollar Change Period to Period	Percentage Change Period to Period	
dollars in thousands	October 3, 2014	October 4, 2013			
Total revenue	\$ 724,803	\$ 601,981	\$ 122,822	20	%

The increase in revenues is primarily attributable to acquisitions that we made late in 2013 and in the first quarter of 2014 that added \$88.6 million in revenues. In addition, the prior year period included twenty-seven weeks of operations as compared to twenty-six weeks in the first six months of 2014. Excluding the impact of the additional week, we generated organic revenue growth of approximately \$48.2 million, or 35% of the growth in the nine months ended October 3, 2014. We were able to generate this growth despite the severe winter weather in the U.S., which caused an overall reduction in economic activity during the first quarter. In addition, we continued to execute on our strategy to eliminate a select number of unprofitable accounts. We expect that our sales force, especially those whose previous staffing firms may have exited the industry, will continue to aggressively grow revenues from existing and new customers for the foreseeable future. We expect to be able to supplement this organic growth with strategic acquisition opportunities as they arise and by increasing the number of value-added services we offer to the marketplace.

Direct cost of producing revenues

	For the nine months ended		Dollar Change Period to Period	Percentage Change Period to Period	
dollars in thousands	October 3, 2014	October 4, 2013			
Total direct cost of producing revenues	\$ 639,128	\$ 531,354	\$ 107,774	20	%

As a percentage of revenues, our cost of producing revenues decreased to 88.2% during the nine months ended October 3, 2014 as compared to 88.3% for the prior year period. Payroll tax expense as a percentage of revenues declined, as did the administrative fee charged to us by Tri-State for the payroll services, workers' compensation coverage and related risk management programs, and payroll tax and employee benefit plan administration it provides to us. These decreases were offset by a larger percentage of revenues being comprised of wages for the nine months ended October 3, 2014 as the percentage of light industrial labor revenue increased slightly. In addition, workers' compensation insurance expense increased slightly compared to the prior year period.

Gross profit

	For the nine months ended		Dollar	Percentage
	October 3, 2014	October 4, 2013	Change Period	Change Period
dollars in thousands			to Period	to Period
Gross profit	\$ 85,675	\$ 70,627	\$ 15,048	21 %
Gross margin %	11.8 %	11.7 %		

As a percentage of revenues, gross margin percentage increased to 11.8% for the nine months ended October 3, 2014 compared to 11.7% in the prior year period. We continue to implement initiatives intended to increase our gross profit, including (i) the diversification of our service offerings, such as Summit's technology and related services; (ii) the continued review of pricing charged to all customers; and (iii) more effective management of unemployment claims to reduce the related state unemployment taxes. We expect to continue to see improvements in gross margin percentage as these initiatives yield results. However, we still see the potential for competitive pricing pressures, increased payroll tax costs at the state level and higher workers' compensation insurance costs to act as a drag on our future gross margins.

Table of Contents*Selling, General and Administrative Expenses*

	For the nine months ended		Dollar	Percentage
			Change Period	Change Period
	October 3, 2014	October 4, 2013	to Period	to Period
dollars in thousands				
Total selling, general and administrative expenses	\$ 66,488	\$ 57,889	\$ 8,599	15 %
% of Revenues	9.2 %	9.6 %		

As a percentage of revenues, total selling, general and administrative expenses decreased to 9.2%, despite an increase of \$8.6 million, due primarily to \$4.1 million of fees incurred with the change in auditors and the review of our previously reported financial statements, as well as additional costs relating to supporting our revenue growth, including the expenses of acquired operations which totaled \$7.5 million. These increases were offset by our ability to curb and reduce non-personnel costs including our ongoing consolidation of offices and functions in connection with our announced rebranding and consolidation. These efforts yielded a reduction in costs of \$3.0 million compared to the prior year period.

Our revenue growth has allowed us to better leverage our fixed costs. In addition, we have completed and continue to undertake initiatives to reduce selling, general and administrative expenses through consolidation of select offices and administrative functions. We expect that the integration of recently acquired operations, as well as the growth of revenues, will reduce selling, general and administrative expenses as a percentage of revenues in 2014 and beyond.

Depreciation and Amortization

	For the nine months ended		Dollar	Percentage
			Change Period	Change Period
	October 3, 2014	October 4, 2013	to Period	to Period
dollars in thousands				
Depreciation and amortization	\$ 2,919	\$ 1,211	\$ 1,708	141 %
% of Revenues	0.4 %	0.2 %		

For the nine months ended October 3, 2014, the change is primarily due to acquisitions.

Income (Loss) from Operations

	For the nine months ended			Dollar Change Period to Period	Percentage Change Period to Period	
dollars in thousands	October 3, 2014	October 4, 2013				
Income (loss) from operations	\$ 12,649	\$ 8,663		\$ 3,986	46	%
% of Revenues	1.7	% 1.4	%			

The factors described above, primarily the increase in gross profit, resulted in an increase in income from operations for the nine months ended October 3, 2014 compared to the prior year period.

Interest Expense

	For the nine months ended			Dollar Change Period to Period	Percentage Change Period to Period	
dollars in thousands	October 3, 2014	October 4, 2013				
Total interest expense	\$ (8,261)	\$ (4,804)		\$ (3,457)	72	%
% of Revenues	1.1	% 0.8	%			

Interest expense includes the net discounts associated with the factoring of accounts receivable, as well as interest on debt associated with our acquisitions and financing our operations. Interest expense relating to the factoring arrangement increased 75% to \$4.9 million compared to \$2.8 million in the prior year period. This increase was due to higher overall borrowing costs under the facility, offset by the transfer of our borrowings on Accountabilities and ICG receivables from Amerisource to Wells Fargo in the second and fourth quarters of 2013. Additionally, in the nine months ended October 3, 2014 we incurred \$1.7 million in interest expense related to monitoring fees, of which, \$0.6 million was paid in the current period.

Table of Contents

In addition, we recorded \$2.9 million and \$1.2 million of interest on related party balances for the nine months ended October 3, 2014 and October 4, 2013, respectively. The increase of \$1.7 million was due to a higher average loan balance for the nine months compared to the prior year period.

Gain (Loss) on Equity Investment

	For the nine months ended				Dollar Change Period to Period	Percentage Change Period to Period	
dollars in thousands	October 3, 2014		October 4, 2013				
Gain (loss) from equity investments	\$ (1,421	)	\$ (504	)	\$ (917	)	182 %
% of Revenues	0.2	%	0.1	%			

We recorded losses on our investment in Abest Power and Gas, LLC ("Abest") using the equity method of accounting. Abest is a joint venture formed in January 2013 with Rosa Power, LLC.

Loss on Contingent Consideration

	For the nine months ended				Dollar Change Period to Period	Percentage Change Period to Period	
dollars in thousands	October 3, 2014		October 4, 2013				
Change in contingent consideration	\$ (782	)	\$ (120	)	\$ (662)	*
% of Revenues	0.1	%	0.0	%			

* Not meaningful

The fair value of contingent considerations is re-measured each quarter and the change is reported as a current period gain or loss. Fair value of contingent consideration requires us to make subjective judgments with regards to future events including discount rates.

Income Tax Benefit (Provision)

For the nine months ended

Edgar Filing: Corporate Resource Services, Inc. - Form 10-Q

				Dollar Change Period to Period	Percentage Change Period to Period
dollars in thousands	October 3, 2014	October 4, 2013			
Benefit from (provision for) income taxes	\$ (415)	\$ (187)	\$ (228)	122	%
Effective tax rate	-319.2 %	6.8 %			

For the nine months ended October 3, 2014, our effective tax rate differed from the federal statutory rate of 34% due tax expense associated with indefinite lived intangibles and state and local income taxes. For the nine months ended October 4, 2013, our effective tax rate differed from the federal statutory rate of 34% due to tax expense associated with indefinite lived intangibles, valuation allowance release and state and local income taxes.

We do not record U.S. income tax expense for foreign earnings which we intend to reinvest indefinitely to expand our international operations. If in the future we decide to repatriate such foreign earnings, U.S. income tax expense and our effective tax rate could increase or decrease in that period.

Table of Contents*Net Income (Loss)*

	For the nine months ended			Dollar Change Period to Period		Percentage Change Period to Period
dollars in thousands	October 3, 2014	October 4, 2013				
Net income (loss)	\$ (285)	\$ 2,580		\$ (2,865)	-111	%
% of Revenues	0.0 %	0.4 %				

For the nine months ended October 3, 2014, we incurred a net loss of \$0.3 million compared to net income of \$2.6 million in the prior year period due to the factors described above.

Liquidity and Capital Resources

We have relied on factoring our trade receivables prior to collection, funding from related parties and, periodically, proceeds from short term borrowings and issuance of our common stock to satisfy our working capital requirements and to fund acquisitions. Management believes that the funding from related parties has advantages to us, including a quick response to funding requirements and a lack of restrictive covenants. Management anticipates that we will continue to rely, in part, on related parties for our short-term financing needs, as well as other sources of funding. In the future, we may need to raise additional funds through debt or equity financings to satisfy our working capital needs and to take advantage of business opportunities, including growth of our existing business and acquisitions. To the extent that funds are not available to meet our operating needs, we may have to seek additional reductions in operating expenditures.

Cash Flows

For the nine months ended October 3, 2014, net cash provided by financing activities of \$18.1 million was offset by cash used in operating activities of \$5.2 million and cash used in investing activities of \$12.7 million. For the nine months ended October 4, 2013, cash provided by operating activities of \$3.9 million was offset by cash used in investing activities of \$2.8 million and cash used in financing activities of \$0.7 million.

Our cash used in operating activities decreased by \$9.1 million due primarily to an increase in trade receivables and unbilled receivables of \$18.6 million for the nine months ended October 3, 2014 compared to the prior year period. Cash was provided by a \$4.0 million increase in accrued wages and related obligations – due to a related party. Changes in non-cash items included in operating activities included the following:

- \$1.7 million increase in depreciation and amortization expense included in net loss
- \$1.3 million increase in bad debt expense included in net loss
- \$0.8 million increase in non-cash stock-based compensation expense included in net loss
- \$0.7 million increase in the change in fair value of contingent consideration included in net loss
- \$0.9 million increase in loss on equity investments included in net loss

Cash used in investing activities increased by \$9.9 million for the nine months ended October 3, 2014 compared to the prior year period. Cash used in business combinations increased by \$5.2 million, cash used in equity investments increased by \$4.6 million and cash used in the purchase of property and equipment increased by \$0.2 million. Cash provided from financing activities increased by \$17.3 million primarily as a result of increased loans payable to related party of \$19.2 million and decreased payments on asset-based facility of \$3.2 million, offset by additional principal payments on long-term debt of \$1.4 million and additional payments on short-term borrowings of \$2.3 million.

We believe that improving cash flows from operating activities through improved operating profitability, the refinancing of our asset-based credit facility and other working capital management will enable us to finance our growth through acquisitions or other initiatives. We also believe these sources of cash will be sufficient to fund the monitoring fees contemplated by the extension of our Facility with Wells Fargo, should we be unable to replace the Facility.

Table of Contents

Working Capital

As of October 3, 2014, we had working capital of \$5.9 million as compared \$15.5 million as of January 3, 2014. The decrease of \$9.6 million was primarily due to our increased borrowings from related parties. We are engaged in several activities to further increase current assets and/or decrease current liabilities, including seeking additional reductions in operating expenditures and increases in operating efficiencies. In order to service our debt, maintain our current level of operations, as well as fund the increasing costs of being a public reporting company and our growth initiatives, we must be able to generate or obtain sufficient amounts of cash flow and working capital. Our management has engaged, and continues to engage, in activities to accomplish these objectives, including focusing on increased profitability and raising new outside capital. Our existing asset-based factoring facility with Wells Fargo is scheduled to expire on June 30, 2015. Management has been negotiating with a number of potential lenders to refinance the borrowings under the Wells Fargo credit facility. Based on the above activities, we believe that we should have adequate resources to meet our operating needs for the next twelve months. In the event that we are unable to replace the Wells Fargo credit facility by June 30th or to secure an extension of the facility it would adversely affect our current level of operations and financial condition.

Our subsidiaries are currently participating in account purchase agreements with Wells Fargo, under which the maximum amount of trade receivables that can be sold by our subsidiaries in the aggregate is \$80 million. As collections reduce previously sold receivables, the subsidiaries may replenish these with new receivables. As of October 3, 2014 and October 4, 2013 trade receivables of \$89.7 million and \$72.2 million, had been factored and remained outstanding, and amounts due from Wells Fargo for collected reserves totaled \$ 17.0 million and \$7.5 million, respectively. Interest charged on the amount of receivables sold prior to collection is charged at an annual rate equal to the 90-day London Interbank Offered Rate plus 4.25% to 6.17% per annum. Receivables sold may not include amounts that are over 90 days past due.

Under the terms of the Wells Fargo agreements, with the exception of CRD permanent placement receivables, Wells Fargo advances 90% of the assigned receivables' value upon sale and the remaining 10% upon final collection. Under the terms of CRD's agreement, the financial institution advances 65% of value of the assigned CRD permanent placement receivables' value upon sale and the remaining 35% upon final collection. The aggregate amount of trade receivables from the permanent placement business that CRD may sell to Wells Fargo at any one time is \$1.3 million.

Accountabilities participated in the Wells Fargo facility until June 13, 2011, when they entered into a similar two year receivable-backed credit facility with Amerisource Funding, Inc. ("Amerisource") and ICG entered into a similar agreement on October 18, 2011. Accountabilities and ICG returned to participating in the Facility on June 13, 2013 and November 1, 2013, respectively.

Interest expense charged under the Wells Fargo trade accounts receivable factoring agreement is included in interest expense in the accompanying Condensed Consolidated Statements of Operations and amounted to \$4.9 million and

\$2.8 million for the nine month periods ended October 3, 2014 and October 4, 2013, respectively. Interest expense charged under the Amerisource facility was included in the accompanying Condensed Consolidated Statements of Operations and amounted to \$0.8 million for the nine month period ended October 4, 2013. Tri-State and Robert Cassera, who together with affiliated persons owned approximately 80% of our outstanding shares of common stock as of the date hereof, have guaranteed our obligations to Wells Fargo.

Fees charged under the Facility are included in interest expense in the accompanying Condensed Consolidated Statements of Operations and amounted to \$2.2 million and \$2.7 million for the three and nine months ended October 3, 2014, respectively, of which \$1.7 million are related to monitoring fees. The terms of our agreements with Wells Fargo, that we entered into on June 20, 2014, provide for significantly higher financing charges beginning in September 2014. This increase is the result of additional fees, included in interest expense, charged and to be charged by Wells Fargo under our revised agreements. The agreement contemplates these additional fees of approximately: \$0.5 million, \$2.1 million, \$3.0 million, and \$3.9 million for the calendar quarters ended September 30, 2014, December 31, 2014, March 31, 2015 and June 30, 2015, respectively. We are seeking to replace our financing facility as soon as possible but cannot assure you that we will be able to secure a replacement.

Off-Balance Sheet Arrangements and Contractual Obligations

The Company entered into a transaction with BP Energy ("BP") wherein we agreed to provide a standby guarantee of \$4 million in the event that Abest, our unconsolidated equity investment, defaults on their obligations to BP by Abest pursuant to their preferred supplier agreement. Please see *Note 3 – Acquisitions and Joint Ventures* in our *Notes to Unaudited Condensed Consolidated Financial Statements* in *Item 1*.

The Company has not entered into any other transactions with unconsolidated entities whereby the Company has financial guarantees, subordinated retained interests, derivative instruments or other contingent arrangements that expose the Company to material continuing risks, contingent liabilities or any other obligation under a variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the Company other than those previously disclosed in either this Current Report on Form 10-Q or our Annual Report on Form 10-K filed July 1, 2014.

Table of Contents

Lease Commitments

We typically lease office space on leases that are typically for terms not exceeding three years and generally provide renewal options for terms not exceeding an additional three years or convert to month to month rental agreements. As of October 3, 2014, the Company's total future minimum lease payments under non-cancelable operating leases were \$2.6 million related to leases for office space.

Application of Critical Accounting Policies

Consolidation

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Intercompany transactions have been eliminated in consolidation.

We have ownership and other interests in various entities, including corporations, partnerships and limited liability companies. For each such entity, we evaluate our ownership and other interests to determine whether we should consolidate the entity or account for our ownership interest as an investment. As part of our evaluation, we initially determine whether the entity is a variable interest entity ("VIE") and, if so, whether we are the primary beneficiary of the VIE. An entity is generally a VIE if it meets any of the following criteria: (i) the entity has insufficient equity to finance its activities without additional subordinated financial support from other parties, (ii) the equity investors cannot make significant decisions about the entity's operations, or (iii) the voting rights of some investors are not proportional to their obligations to absorb the expected losses of the entity or receive the expected returns of the entity and substantially all of the entity's activities involve or are conducted on behalf of the investor with disproportionately fewer voting rights. We consolidate VIEs for which we are the primary beneficiary, regardless of our ownership or voting interests. The primary beneficiary is the party involved with the VIE that (i) has the power to direct the activities of the VIE that most significantly impact the VIE's economic performance, and (ii) has the obligation to absorb gains or losses of the VIE that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. We periodically make judgments in determining whether entities in which we invest are VIEs. If so, we then make judgments to determine whether we are the primary beneficiary and are thus required to consolidate the entity.

If it is concluded that an entity is not a VIE, then we consider our proportional voting interests in the entity. We consolidate majority-owned subsidiaries in which a controlling interest is maintained. Controlling interest is determined by majority ownership and the absence of significant third-party participating rights.

Ownership interests in entities for which we have significant influence and are not consolidated under our consolidation policy are accounted for as equity method investments. Related party transactions between the Company and its equity method investees, if any, have not been eliminated. Please see *Acquisitions and Joint Ventures*.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting periods. Significant estimates and assumptions are used for, but are not limited to: (1) revenue recognition; (2) asset impairments; (3) depreciable and amortizable lives of assets; (4) fair value of stock-based compensation; (5) allocation of direct and indirect cost of sales; (6) fair value of identifiable purchased tangible and intangible assets in a business combination; (7) fair value of reporting units for goodwill impairment test; and (8) the estimate of income taxes. Actual results could significantly differ from those estimates.

Revenue Recognition

Revenue is generally recognized when persuasive evidence of an arrangement exists, products have been delivered or services have been rendered, the fee is fixed or determinable, and collection is reasonably assured. The vast majority of our arrangements do not fall within the scope of the multiple-deliverable guidance. For those arrangements within the scope of the multiple-deliverable guidance, a deliverable constitutes a separate unit of accounting when it has stand-alone value and there are no customer-negotiated refunds or return rights for the delivered elements. For multiple-element arrangements, composed only of software products and related services or only services, we allocate revenue to each element in an arrangement based on a selling price hierarchy. The selling price for a deliverable is based on its vendor-specific objective evidence (“VSOE”) if applicable, third-party evidence (“TPE”) if VSOE is not available, or estimated selling price (“ESP”), if neither VSOE nor TPE is available. Total transaction revenue is allocated to the multiple elements based on each element’s relative selling price compared to the total selling price. All our elements allocations are based on ESP.

Table of Contents

The following revenue recognition policies define the manner in which we account for specific transaction types:

Staffing Services

Revenue is primarily derived from supplying contingent staff to our customers or providing other services on a time and material basis. Contingent staff primarily consists of contingent employees working under contract for a fixed period of time or on a specific customer project. Revenue is also derived from permanent placement services, which are generally recognized after placements are made and when the fees are not contingent upon any future event.

Reimbursable costs, including those related to travel and out-of-pocket expenses, are also included in net revenue and equivalent amounts of reimbursable costs are included in direct cost of staffing services revenue.

Under certain of our service arrangements, contingent staff is provided to customers through contracts involving other vendors or contractors. When we are the principal in the transaction and therefore the primary obligor for the contingent staff, we record the gross amount of the revenue and expense from the service arrangement. When we act only as an agent for the customer and are not the primary obligor for the contingent staff, we record revenue net of vendor or contractor costs.

We are generally the primary obligor when we are responsible for the fulfillment of the services under the contract, even if the contingent workers are neither our employees nor directly contracted by us. Usually in these situations the contractual relationship with the vendors and contractors is exclusively with us and we bear customer credit risk and generally have latitude in establishing vendor pricing and have discretion in vendor or contractor selection.

Software Systems

Revenue primarily relates to sales of staffing support software systems and enhancements to existing systems. These arrangements generally contain multiple elements including software development and customization, sale of software licenses, installation, implementation and integration services, as well as post-contract customer support ("PCS"). Revenue is recognized under these arrangements following revenue recognition accounting guidance primarily relating to software transactions and multiple element arrangements. To date, the revenue recorded for software or related services under this accounting treatment have been minimal.

Subscription Revenues

Subscription and other recurring revenues include fees for access rights to software solutions that are offered under a subscription-based delivery model where the users do not take possession of the software. Under this model, the

software applications are hosted by us and the customer accesses and uses the software on an as-needed basis over the Internet. To date, the revenue recorded under this accounting treatment has been minimal.

Cash

We consider cash on hand and deposits in banks as cash. At times, cash balances on deposit exceed federally insured limits; however, to date, we have not experienced any losses in such accounts and management believes that the risk of loss is negligible.

Accounts Receivable and Related Allowance

We maintain an allowance for doubtful accounts for estimated losses resulting from our clients failing to make required payments for services rendered. Management estimates this allowance based upon knowledge of the financial condition of our clients, review of historical receivables, reserve trends and other pertinent information. If the financial condition of our clients deteriorates or there is an unfavorable trend in aggregate receivable collections, additional allowances may be required. We review the adequacy of the allowance for uncollectible accounts receivable on a quarterly basis and, if necessary, increase or decrease the balance by recording a charge or credit to SG&A expenses for the portion of the adjustment relating to uncollectible accounts receivable and a charge or credit to revenue from services for the portion of the adjustment relating to sales allowances.

We fund our accounts receivable via a receivables-backed credit facility (the "Facility") with a financial institution. We receive 90% of the face value of qualified receivables as defined in the Facility. Since we retain risk of loss on the receivables, the agreement provides that receivables that are older than 90 days (120 days in certain categories of receivables) cease to be qualified at the discretion of the financial institution. In most cases, our customer pays the financial institution directly for the receivables under the Facility. The Facility calls for net settlement twice weekly. Additionally, the Facility is guaranteed by our majority shareholder. We record each cash amount advanced and repaid as an increase or decrease to the Facility respectively. We record customer payments made directly to the lender as a reduction in Accounts receivable and the Facility.

Our concentration of credit risk is limited due to the large number of customers comprising our customer base and their dispersion across different business and geographic areas. We monitor our exposure to credit losses and maintain an allowance for anticipated losses. To reduce credit risk, we perform credit checks on all our customers.

Table of Contents

Related Party

We have significant transactions with our majority shareholder who is the beneficial owner of approximately 80% and 90% of our outstanding shares of common stock as of October 3, 2014 and January 3, 2014, respectively, and has the ability to exercise control over us.

We classify assets and liabilities to related parties on our Condensed Consolidated Balance Sheet as follows:

- ***Related party receivable*** represents amounts due from a related party.
- ***Accrued wages and related obligations – due to related party*** represents accrued wages, taxes and other related items that have not yet been invoiced.
- ***Long-term debt - related party*** represents the amount due for long-term borrowings from a related party that is considered a current liability.
- ***Long-term debt - related party, net of current portion*** represents the total amount due for long-term borrowings from a related party less the current portion of the debt.

We classify revenue and expenses from related parties in our Condensed Consolidated Statements of Operations as follows:

- ***Revenues from related parties*** are revenues for sales of services and software to related parties.
- ***Direct cost of producing revenues purchased from related parties*** are PEO fees and reimbursements for our staffing services provided by related parties.
- ***Selling, general and administrative expenses - related parties*** represents PEO fees for selling, general and administrative expenses incurred on our behalf.
- ***Interest expense - related party*** is interest expense incurred for related party loans and advances.

In addition, we had related party transactions involving acquisitions and debt extinguishment in exchange for our common stock. Please see *Related Party Transactions*.

Equity-Based Compensation

We grant equity-based awards, such as stock options and restricted stock or restricted stock units, to certain key employees and consultants to create a clear and meaningful alignment between compensation and shareholder return and to enable the employees and consultants to develop and maintain a stock ownership position. While the majority

of our equity awards feature time-based vesting, performance-based equity awards, which are awarded from time to time to certain key Company executives, vest as a function of performance and may also be subject to the recipient's continued employment which also acts as a significant retention incentive.

Equity-based compensation cost is measured at the grant date, based on the fair value of the award and is recognized as expense over the employee requisite service period. In order to determine the fair value of stock options on the date of grant we apply the Black-Scholes option-pricing model. Inherent in the model are assumptions related to risk-free interest rate, dividend yield, expected stock-price volatility and option life.

The risk-free rate assumed in valuing the options is based on the U.S. Treasury yield curve in effect at the time of grant for the expected term of the option. We have not historically paid dividends and do not currently expect to in the future. While the risk-free interest rate and dividend yield are less subjective assumptions, typically based on objective data derived from public sources, the expected stock-price volatility and option life assumptions require a level of judgment which make them critical accounting estimates.

We use an expected stock-price volatility based on the average expected volatilities of a sampling of companies with similar attributes to us, including industry, stage of life cycle, size and financial leverage.

The expected option term, representing the period of time that options granted are expected to be outstanding, is estimated using our limited historical post vesting exercise and employee termination behavior.

We estimate forfeitures using our historical experience, which is adjusted over the requisite service period based on the extent to which actual forfeitures differ or are expected to differ from such estimates. Because of the significant amount of judgment used in these calculations, it is reasonably likely that circumstances may cause the estimate to change.

With regard to the weighted-average option life assumption, we consider the exercise behavior of past grants and model the pattern of aggregate exercises.

We settle the exercise of stock options with newly issued shares.

Table of Contents

With respect to grants of performance based awards, we assess the probability that such performance criteria will be met in order to determine the compensation expense. Consequently, the compensation expense is recognized straight-line over the vesting period. If that assessment of the probability of the performance condition being met changes, we would recognize the impact of the change in estimate in the period of the change. As with the use of any estimate, and due to the significant judgment used to derive those estimates, actual results may vary.

We have elected to treat future awards with only service conditions and with graded vesting as one award. Consequently, the total compensation expense would be recognized straight-line over the entire vesting period, so long as the compensation cost recognized at any given vest date at least equals the portion of the grant date fair value of the award that has vested.

Intangible Assets

Goodwill represents the excess cost of an acquisition over the fair value of the net assets acquired. We account for goodwill and intangible assets with indefinite useful lives in accordance with relevant accounting guidance related to goodwill and other intangible assets, which states that goodwill and intangible assets with indefinite useful lives should not be amortized, but instead tested for impairment at least annually at the reporting unit level. Our policy is to perform this annual impairment test in the fourth quarter, using a measurement date around the 20th day of the second month of our fiscal fourth quarter or more frequently if impairment indicators arise. Impairment indicators include, among other conditions, cash flow deficits, a historical or anticipated decline in revenue or operating profit, adverse legal or regulatory developments and a material decrease in the fair value of some or all of the assets.

The guidance in the accounting standards codification (“ASC”) in section 350 provides an option for an entity 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 is, a likelihood of more than 50%) that the fair value of a reporting unit is greater than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, performing the two-step (quantitative) impairment test is unnecessary.

In order to perform the qualitative or quantitative testing, we determine if it is appropriate to use the operating segment, as defined under guidance for segment reporting, as the reporting unit, or one level below the operating segment, depending on whether certain criteria are met. In identifying the reporting units, management considers the economic characteristics of the reporting units including the products and services provided, production processes, types or classes of customer and product distribution.

If we determine that for a particular reporting unit that it is more likely than not (that is, a likelihood of more than 50%) that the fair value of a reporting unit is less than its carrying amount, we perform the first step of the two-step impairment test.

We perform this impairment test by first comparing the fair value of our reporting units to their respective carrying amount. Since reported quoted market prices exactly comparable to our reporting units are not available, when determining the estimated fair value of a reporting unit, we utilize a blend of discounted future cash flows, market multiples of similar companies that have quoted prices and market capitalization reconciliation. Developing the estimate of the discounted future cash flows require significant judgment and projections of future financial performance. The key assumptions used in developing the discounted future cash flows are the projection of future revenues and expenses, working capital requirements, residual growth rates and the weighted average cost of capital. In developing our financial projections, we consider historical data, current internal estimates and market growth trends. Changes to any of these assumptions could materially change the fair value of the reporting unit. We reconcile the aggregate fair value of our reporting units to our adjusted market capitalization as a supporting calculation. The adjusted market capitalization is calculated by multiplying the average share price of our common stock for the last ten trading days prior to the measurement date by the number of outstanding common shares and adding a control premium.

If the carrying value of the reporting units exceeds the fair value we would then compare the implied fair value of our goodwill to the carrying amount in order to determine the amount of the impairment, if any.

Income Taxes

We account for income taxes using the asset and liability method. Under this method, deferred income taxes are recognized for estimated tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end, based on enacted tax laws and statutory rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established to reduce deferred tax assets to the amount expected to be realized when, in Management's opinion, it is more likely than not that the future tax benefits from some portion of the deferred tax assets will not be realized.

U.S. GAAP requires that, in applying the liability method, the financial statement effects of an uncertain tax position be recognized based on the outcome that is more likely than not to occur. Under this criterion the most likely resolution of an uncertain tax position should be analyzed based on technical merits and on the outcome that will likely be sustained under examination.

Table of Contents

Business Combinations

We have made strategic acquisitions to expand our footprint, establish strategic partnerships and/or to obtain technology that is complementary to our product offerings and strategy. We evaluate each investment in a business to determine if we should account for the investment as a cost-basis investment, an equity investment, a business combination or a common control transaction. An investment in which we do not have a controlling interest and which we are not the primary beneficiary but where we have the ability to exert significant influence is accounted for under the equity method of accounting. For those investments that we account for in accordance ASC 805, Business Combinations, we record the assets acquired and liabilities assumed at our estimate of their fair values on the date of the business combination. Our assessment of the estimated fair value of each of these can have a material effect on our reported results as intangible assets are amortized over various lives. Furthermore, a change in the estimated fair value of an asset or liability often has a direct impact on the amount to recognize as goodwill, which is not amortized. Often determining the fair value of these assets and liabilities assumed requires an assessment of the expected use of the asset, the expected cost to extinguish a liability or our expectations related to the timing and the successful completion of the integration of the business. Such estimates are inherently difficult and subjective and can have a material impact on our financial statements. We account for business combinations under a method similar to the pooling-of-interest method ("Pooling-of-Interest") when the combination is with a business under common control with us by our majority shareholder.

Recently Issued Accounting Standards to be Adopted

In August 2014, the FASB issued Accounting Standards Update ("ASU") 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. This amendment states that in connection with preparing financial statements for each annual and interim reporting period, an entity's management should evaluate whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued, when applicable). The amendments in this update are effective for the annual reporting period beginning after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The adoption of ASU 2014-15 is not expected to have a material impact on our Consolidated Financial Statements. We are currently evaluating the effect the adoption of this standard will have, if any, on our consolidated financial statements.

In May 2014, FASB issued ASU No. 2014-09, Revenue from Contracts and Customers (Topic 606), to clarify the principles for recognizing revenue to develop a common revenue standard for U.S. GAAP and International Financial Reporting Standards ("IFRS") that would (1) provide a more robust framework for addressing revenue recognition; (2) improve comparability of revenue recognition practice across entities, industries, jurisdictions, and capital market; and (3) provide more useful information to users of financial statements through improved disclosure requirements. This standard is effective for annual reporting periods beginning after December 15, 2016. We are currently evaluating the effect the adoption of this standard will have, if any, on our consolidated financial statements.

In April 2014, FASB issued ASU No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of Entity, changes the criteria for reporting discontinued operations while enhancing disclosure requirements. This ASU addresses sources of confusion and inconsistent application related to financial reporting of discontinued operations guidance in U.S. GAAP. Under this guidance, a discontinued operation is defined as a disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has a major effect on an entity's operations and financial results. This ASU is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2014. This ASU is effective for us prospectively on January 03, 2015. We do not anticipate that the adoption of this standard will have a material impact on our consolidated financial statements.

Effects of Inflation

Inflation and changing prices have not had a material effect on the Company's net revenues and results of operations, as the Company has been able to modify its prices and cost structure to respond to inflation and changing prices.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

Item 4. Controls and Procedures

The information contained in this section covers management's evaluation of our disclosure controls and procedures and our assessment of our internal control over financial reporting as of January 3, 2014.

Table of Contents

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, are controls and other procedures that are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified by the rules and forms promulgated by the SEC. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. As a result of this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of October 3, 2014 because of the material weaknesses set forth below.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate "internal control over financial reporting", as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act. Our system of internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external reporting purposes in accordance with U.S. GAAP.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect every misstatement. An evaluation of effectiveness is subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may decrease over time.

Our internal control over financial reporting includes those policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with U.S. GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized use, acquisition, or disposition of our assets that could have a material effect on the consolidated financial statements.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our internal control over financial reporting as of October 3, 2014. In making this assessment, we utilized the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control - Integrated Framework (1992).

A material weakness is a deficiency or a combination of deficiencies in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. As a result of this evaluation, we concluded that our internal control over financial reporting was not effective as of October 3, 2014 because of the material weaknesses set forth below.

The following is a summary of our material weaknesses as of October 3, 2014:

Financial Accounting and Reporting

Management identified that we had: inadequate controls over journal entries and approvals; inadequate account reconciliation controls; lacked sufficient personnel with knowledge, experience, and training in U.S. GAAP; lacked a formalized process for determining, documenting, communicating, implementing, monitoring or updating accounting policies and procedures; and lacked effective controls over the period-end financial close and reporting processes. The foregoing weaknesses resulted in actual or potential misstatements in many accounts including: accounts receivable; equity based compensation; equity method intangible assets including goodwill; debt and provision for income taxes. Based on the nature of noted deficiencies, management concluded that each of these deficiencies resulted in a reasonable possibility that a material misstatement in our interim or annual financial statements would not be prevented or detected on a timely basis, and as such, each of these constitutes a material weakness.

Information Technology General Controls

Management identified a number of deficiencies related to the design, implementation and effectiveness of certain information technology general controls, including segregation of duties, user access, change management, data back-ups, and hardware security, some of which have a direct impact on our financial reporting. Based on the nature and interrelationship of the noted deficiencies, management concluded that these deficiencies, in the aggregate, resulted in a reasonable possibility that a material misstatement in our interim or annual financial statements would not be prevented or detected on a timely basis, and as such, constitutes a material weakness.

Table of Contents

This Quarterly Report on Form 10-Q does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. We are not required to provide an attestation by our independent registered public accounting firm pursuant to rules of the SEC for smaller reporting companies.

Changes in Internal Control Over Financial Reporting

Our management performed extensive procedures designed to ensure the reliability of our financial reporting. In addition to other internal processes undertaken, procedures performed included, but were not limited to the following actions: (a) dedicating significant resources, including the engagement of subject matter specialists to support management in its efforts to complete our financial filings and (b) performing extensive, substantive reviews of our accounting for revenue recognition, cost of revenue, income and expense classification, stock compensation, and tax provisions.

Specifically, we made the following material change to our internal control over financial reporting from July 4, 2014 through October 3, 2014: hired an SVP-Finance who is a CPA with extensive U.S. GAAP technical accounting knowledge, SEC reporting experience and accounting process implementation and remediation experience; implemented controls over journal entries and approvals; implemented processes to reconcile material account balances; implemented a process for documenting, approving, communicating and updating accounting policies and procedures; implemented controls over period-end financial controls and reporting process; engaged third party specialists in income tax preparation; and implemented certain compensating controls over some of our financial IT processes.

In addition, we expect to continue to: adopt additional accounting policies and procedures; hire additional personnel to enhance our level of knowledge and experience; implement training procedures on U.S. GAAP and the revised policies and procedures; and strengthen general controls around our information technology systems.

Table of Contents

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we become involved in various investigations, claims and legal proceedings that arise in the ordinary course of our business. Management believes that the outcome of these matters will not have a material adverse effect upon the Company's results of operations, financial condition or cash flows. However, management's assessment of the Company's current litigation and other proceedings could change in light of the discovery of facts with respect to legal actions or other proceedings pending against the Company, not presently known to the Company or determinations by judges, juries or other finders of fact which are not in accord with management's evaluation of the possible liability or outcome of such litigation or proceedings. Additionally, although we intend to defend ourselves vigorously against all matters, we cannot assure that we will be able to do so successfully. Except, as disclosed below, reasonably possible losses are not material to the Company's consolidated financial statements.

We and several employees that we have indemnified, pursuant to California labor law, have been sued by their former employer, a competitor of ours, alleging, among other things, breach of contract, violation of a non-competition agreement and the taking of trade secrets. The competitor has filed a complaint in Alameda County Superior Court in California claiming damages in excess of \$3.5 million. We have assessed the status of this matter and have concluded that although an adverse result is reasonably possible, it is not probable. As a result, no provision has been made in the consolidated financial statements.

A customer filed a lawsuit in New York Supreme Court in New York against us alleging the breach of a contract by us, claiming damages of \$10.3 million. We have filed counter claims alleging breach of contract among other matters. We have assessed the status of this matter and have concluded that although an adverse result is reasonably possible, it is not probable. As a result, no provision has been made in the consolidated financial statements.

In addition to the foregoing, we are joined defendants in a variety of issues that mostly relate to workers compensation and liability issues that are covered by our insurance policy. We believe there are satisfactory defenses to each worker's compensation and liability claim. We have assessed the status of this matter and have concluded that although an adverse result is reasonably possible, it is not probable. As a result, no provision has been made in the consolidated financial statements.

Item 1A. Risk Factors

Information regarding risk factors appears in Part I – Item 1A of our annual report on Form 10-K for the year ended January 3, 2014. There have been no material changes from the risk factors previously disclosed in our annual report on Form 10-K for the year ended January 3, 2014.

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

Issuances of Unregistered Securities

None

Issuer Purchases of Equity Securities

Not applicable.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

None

Table of Contents**Item 6. Exhibits**

Unless otherwise indicated, each of the following exhibits has been previously filed with the SEC by the Company.

Number	Description	Incorporated by Reference to the Following Document:
31.1	Certification of Principal Executive Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002.	*
31.2	Certification of Principal Financial Officer pursuant to Section 302 of Sarbanes-Oxley Act of 2002.	*
32.1	Certification of Principal Executive Officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002.	*
32.2	Certification of Principal Financial Officer pursuant to Section 906 of Sarbanes-Oxley Act of 2002.	*
101.INS	XBRL Instance	**
101.SCH	XBRL Schema	**
101.PRE	XBRL Presentation	**
101.CAL	XBRL Calculation	**
101.DEF	XBRL Definition	**
101.LAB	XBRL Label	**

* Filed herewith

** Filed herewith electronically

Table of Contents

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.

CORPORATE RESOURCE SERVICES, INC.

Date: November 14, 2014 By: /s/ John P. Messina
John P. Messina
Chief Executive Officer
(Principal Executive Officer)

Date: November 14, 2014 By: /s/ Michael J. Golde
Michael J. Golde
Chief Financial Officer
(Principal Financial Officer and Chief Accounting Officer)

Table of Contents

INDEX TO EXHIBITS

Unless otherwise indicated, each of the following exhibits has been previously filed with the Securities and Exchange Commission by the Company under File No. 0-16244.

Number	Description	Incorporated by Reference to the Following Document:
31.1	Certification of Chief Executive Officer pursuant to Rule 13a—14(a) or Rule 15d—14(a) of the Securities and Exchange Act of 1934.	*
31.2	Certification of Chief Financial Officer pursuant to Rule 13a—14(a) or Rule 15d—14(a) of the Securities and Exchange Act of 1934.	*
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes- Oxley Act of 2002.	*
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes- Oxley Act of 2002.	*
101.INS	XBRL Instance	**
101.SCH	XBRL Schema	**
101.PRE	XBRL Presentation	**
101.CAL	XBRL Calculation	**
101.DEF	XBRL Definition	**
101.LAB	XBRL Label	**

* Filed herewith

** Filed herewith electronically