

GEE Group Inc.  
Form 10-Q  
August 14, 2017

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, DC 20549**

**FORM 10-Q**

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

For the quarterly period ended **June 30, 2017**

OR

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

Commission File Number **1-05707**

**GEE GROUP INC.**

(Exact name of registrant as specified in its charter)

**Illinois**  
(State or other jurisdiction of incorporation  
or organization)

**36-6097429**  
(I.R.S. Employer Identification Number)

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

(Address of principal executive offices)

**(630) 954-0400**

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging Growth Company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 outstanding of the registrant's common stock as of August 11, 2017 was 9,878,892.

**GEE GROUP INC.**

Form 10-Q

For the Quarter Ended June 30, 2017

INDEX

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS** 3

**PART I. FINANCIAL INFORMATION**

<b><u>Item 1. Financial Statements (unaudited)</u></b>	4
<u>Condensed Consolidated Balance Sheets at June 30, 2017 and September 30, 2016</u>	4
<u>Condensed Consolidated Statements of Operations for the three and nine months ended June 30, 2017 and June 30, 2016</u>	5
<u>Condensed Consolidated Statements of Shareholders' Equity for the nine months ended June 30, 2017 and year ended September 30, 2016</u>	6
<u>Condensed Consolidated Statements of Cash Flows for the nine months ended June 30, 2017 and June 30, 2016</u>	7
<u>Notes to Condensed Consolidated Financial Statements</u>	8
<b><u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	26
<b><u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>	33
<b><u>Item 4. Controls and Procedures</u></b>	33

**PART II. OTHER INFORMATION**

<b><u>Item 1. Legal Proceedings</u></b>	34
<b><u>Item 1A. Risk Factors</u></b>	34
<b><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	34
<b><u>Item 3. Defaults Upon Senior Securities</u></b>	34
<b><u>Item 4. Mine Safety Disclosures</u></b>	34
<b><u>Item 5. Other Information</u></b>	34
<b><u>Item 6. Exhibits</u></b>	35
<u>Signatures</u>	36

Table of Contents

**CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS**

As a matter of policy, the Company does not provide forecasts of future financial performance. The statements made in this quarterly report on Form 10-Q which are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements often contain or are prefaced by words such as "believe", "will" and "expect." These statements are based on current expectations, estimates and projections about our business based, in part, on assumptions made by management. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. As a result of a number of factors, our actual results could differ materially from those set forth in the forward-looking statements. Certain factors that might cause the Company's actual results to differ materially from those in the forward-looking statements include, without limitation, general business conditions, the demand for the Company's services, competitive market pressures, the ability of the Company to attract and retain qualified personnel for regular full-time placement and contract assignments, the possibility of incurring liability for the Company's business activities, including the activities of its contract employees and events affecting its contract employees on client premises, and the ability to attract and retain qualified corporate and branch management, as well as those risks discussed in the Company's annual report on Form 10-K for the year ended September 30, 2016, and in other documents which we file with the Securities and Exchange Commission. Any forward-looking statements speak only as of the date on which they are made, and the Company is under no obligation to (and expressly disclaims any such obligation to) and does not intend to update or alter its forward-looking statements whether as a result of new information, future events or otherwise.

Table of Contents**PART I – FINANCIAL INFORMATION****Item 1. Financial Statements.**

**GEE GROUP INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)**  
(In Thousands)

	<b>June 30, 2017</b>	<b>September 30, 2016</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash	\$ 2,854	\$ 2,528
Accounts receivable, less allowances (June - \$1,915 and September - \$191)	24,040	11,569
Other current assets	2,539	1,500
Total current assets	29,433	15,597
Property and equipment, net	872	611
Other long-term assets	320	34
Goodwill	73,051	18,590
Intangible assets, net	37,286	11,094
<b>TOTAL ASSETS</b>	<b>\$ 140,962</b>	<b>\$ 45,926</b>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

<b>CURRENT LIABILITIES:</b>		
Revolving credit facility	\$ 8,142	\$ 7,073
Acquisition deposit for working capital guarantee	1,500	-
Accrued interest	1,700	54
Accounts payable	1,408	2,224
Accrued compensation	8,074	3,116
Other current liabilities	1,199	692
Short-term portion of subordinated debt	1,291	1,285
Short-term portion of term-loan, net of discount	4,554	-
Contingent consideration	-	1,750
Total current liabilities	27,868	16,194
Deferred rent	331	162
Deferred taxes	4,316	-
Term-loan, net of debt discounts	41,314	-
Subordinated debt	1,000	4,981
Subordinated convertible debt	16,685	-
Other long-term liabilities	40	56
Total long-term liabilities	63,686	5,199

## Commitments and contingencies

## Mezzanine Equity

Preferred stock; no par value; authorized - 20,000 shares; issued and outstanding - 5,926

Preferred series A stock, 160 authorized; issued and outstanding - none - -

Preferred series B stock; 5,950 authorized; issued and outstanding - 5,926

Liquidation value of the preferred series B stock is approximately \$28,800 29,333 -

**SHAREHOLDERS' EQUITY**

Common stock, no-par value; authorized - 200,000 shares; issued and outstanding - 9,879

shares at June 30, 2017 and 9,379 shares at September 30, 2016, respectively - -

Additional paid in capital 39,255 37,615

Accumulated deficit (19,180) (13,082)

Total shareholders' equity 20,075 24,533

**TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** \$ 140,962 \$ 45,926

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

Table of Contents
**GEE GROUP INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)**

(In Thousands, Except Per Share Data)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
<b>NET REVENUES:</b>				
Contract staffing services	\$ 40,100	\$ 20,311	\$ 80,046	\$ 55,917
Direct hire placement services	5,969	1,671	8,578	5,356
<b>NET REVENUES</b>	<b>46,069</b>	<b>21,982</b>	<b>88,624</b>	<b>61,273</b>
Cost of contract services	29,015	15,708	60,472	43,675
<b>GROSS PROFIT</b>	<b>17,054</b>	<b>6,274</b>	<b>28,152</b>	<b>17,598</b>
Selling, general and administrative expenses	15,546	5,205	24,852	14,856
Acquisition, integration and restructuring expenses	2,206	29	2,306	597
Depreciation expense	178	103	328	245
Amortization of intangible assets	1,570	415	2,308	1,187
<b>INCOME (LOSS) FROM OPERATIONS</b>	<b>(2,446)</b>	<b>522</b>	<b>(1,642)</b>	<b>713</b>
Change in contingent consideration	-	425	-	581
Loss on extinguishment of debt	(994)	-	(994)	-
Interest expense	(2,378)	(418)	(3,130)	(1,152)
<b>INCOME (LOSS) BEFORE INCOME TAX PROVISION</b>	<b>(5,818)</b>	<b>529</b>	<b>(5,766)</b>	<b>142</b>
Provision for income tax	(202)	(1)	(332)	(1)
<b>NET INCOME (LOSS)</b>	<b>\$ (6,020)</b>	<b>\$ 528</b>	<b>\$ (6,098)</b>	<b>\$ 141</b>
<b>NET INCOME (LOSS) ATTRIBUTABLE TO COMMON STOCKHOLDERS</b>	<b>\$ (6,020)</b>	<b>\$ 528</b>	<b>\$ (6,098)</b>	<b>\$ 141</b>
<b>BASIC INCOME (LOSS) PER SHARE</b>	<b>\$ (0.61)</b>	<b>\$ 0.06</b>	<b>\$ (0.64)</b>	<b>\$ 0.02</b>
<b>WEIGHTED AVERAGE NUMBER OF SHARES - BASIC</b>	<b>9,879</b>	<b>9,373</b>	<b>9,546</b>	<b>9,292</b>
<b>DILUTED INCOME (LOSS) PER SHARE</b>	<b>\$ (0.61)</b>	<b>\$ 0.05</b>	<b>\$ (0.64)</b>	<b>\$ 0.01</b>
<b>WEIGHTED AVERAGE NUMBER OF SHARES - DILUTED</b>	<b>9,879</b>	<b>9,857</b>	<b>9,546</b>	<b>9,866</b>

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





Table of Contents

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

	<b>Common</b>		<b>Additional</b>		<b>Total</b>
	<b>Stock</b>		<b>Paid</b>	<b>Accumulated</b>	<b>Shareholders'</b>
	<b>Shares</b>		<b>In Capital</b>	<b>Deficit</b>	<b>Equity</b>
Balance, September 30, 2015	8,833	\$	33,492	\$ (14,255)	\$ 19,237
Shares issued for JAX Legacy debt	95		589	-	589
Issuance of common stock for contingent consideration related to the acquisition of Access Data Consulting Corporation	123		544	-	544
Amortization of stock option expense	-		793	-	793
Issuance of common stock for acquisition of Access Data Consulting Corporation	328		2,197	-	2,197
Net income	-		-	1,173	1,173
Balance, September 30, 2016	9,379	\$	37,615	\$ (13,082)	\$ 24,533
Amortization of stock option expense	-		640	-	640
Exercise of stock warrants	500		1,000	-	1,000
Net loss	-		-	(6,098)	(6,098)
Balance, June 30, 2017	9,879	\$	39,255	\$ (19,180)	\$ 20,075

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

Table of Contents

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

	<b>Nine Months Ended June 30,</b>	
	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss income (loss)	\$ (6,098)	\$ 141
Adjustments to reconcile net loss to cash (used in) provided by operating activities:		
Depreciation and amortization	2,636	1,432
Stock option expense	640	594
Provision for doubtful accounts	1,724	(44)
Amortization of debt discount and non cash extinguishment of debt	1,006	161
Change in contingent consideration	-	(581)
Changes in operating assets and liabilities -		
Accounts receivable	(3,458)	111
Acquisition deposit for working capital guarantee	1,500	-
Accrued interest	1,700	-
Accounts payable	(1,006)	274
Accrued compensation	251	(301)
Other current items, net	278	(1,243)
Long-term liabilities	(16)	123
Net cash (used in) provided by operating activities	(843)	667
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of property and equipment	(79)	(60)
Acquisition payments, net of cash acquired	(25,256)	(9,395)
Net cash used in investing activities	(25,335)	(9,455)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from subordinated debt	-	4,107
Payment on SNI debt	(19,951)	-
Payments on the debt related to acquisitions	(1,219)	(356)
Proceeds from exercise of stock warrants	1,000	-
Payments on capital lease	(17)	(61)
Net proceeds from term note	45,676	-
Net proceeds from revolving credit facility	1,015	2,724
Net cash provided by financing activities	26,504	6,414
Net change in cash	326	(2,374)
<b>Cash at beginning of period</b>	<b>2,528</b>	<b>5,932</b>
<b>Cash at end of period</b>	<b>\$ 2,854</b>	<b>\$ 3,558</b>

**SUPPLEMENTAL CASH FLOW INFORMATION:**

Cash paid for interest	\$	1,122	\$	684
Cash paid for taxes	\$	-	\$	-
Non-cash financing activities				
Stock paid for prepaid interest on subordinated note	\$	-	\$	566
Stock paid for fees in connection with subordinated note	\$	-	\$	23
Issuance of common stock for acquisition	\$	-	\$	2,197
Note issued in connection with acquisition	\$	-	\$	3,000
Earn-out liability, contingent consideration, and other liabilities incurred in connection with acquisition	\$	-	\$	4,246
Payment of contingent consideration with common shares	\$	-	\$	544
Issuance of preferred stock for acquisition	\$	29,333	\$	-
Issuance of note payable for acquisition	\$	12,500	\$	-
Issuance of stock for extinguishment of debt	\$	385	\$	-

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

Table of Contents

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. Description of Business**

GEE Group Inc. (the "Company", "us", "our" or "we") was incorporated in the State of Illinois in 1962 and is the successor to employment offices doing business since 1893. We are a provider of permanent and temporary professional, industrial and physician assistant staffing and placement services in and near several major U.S. cities. We specialize in the placement of information technology, engineering, medical and accounting professionals for direct hire and contract staffing for our clients, and provide temporary staffing services for our commercial clients.

**2. Significant Accounting Policies and Estimates**

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the three and nine-month periods ended June 30, 2017 are not necessarily indicative of the results that may be expected for the year ending September 30, 2017. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 2016 as filed on December 22, 2016.

*Liquidity*

The Company has experienced significant losses and negative cash flows from operations in the past. Management has implemented a strategy which included cost reduction efforts, consolidation of certain back office activities to gain efficiencies as well as identifying strategic acquisitions, financed primarily through the issuance of preferred and common stock and convertible debt, to improve the overall profitability and cash flows of the Company.

After the close of business on March 31, 2017, the Company and its subsidiaries, as borrowers, entered into a Revolving Credit, Term Loan and Security Agreement (the "Credit Agreement") with PNC Bank, National Association

(“PNC”), and certain investment funds managed by MGG Investment Group LP (“MGG”). All funds were distributed on April 3, 2017 (the “Closing Date”).

Under the terms of the Credit Agreement, the Company may borrow up to \$73,750,000 consisting of a four-year term loan in the principal amount of \$48,750,000 and revolving loans in a maximum amount up to the lesser of (i) \$25,000,000 or (ii) an amount determined pursuant to a borrowing base that is calculated based on the outstanding amount of the Company’s eligible accounts receivable, as described in the Credit Agreement. The loans under the Credit Agreement mature on March 31, 2021.

The loans under the Credit Agreement will bear interest at rates at the Company’s option of LIBOR rate plus 10% or PNC’s floating base rate plus 9%. At June 30, 2017, the interest rate of the Revolving Credit Facility was 13.25% and there was approximately \$9,900,000 available. At June 30, 2017, approximately \$6,000,000 of the Revolving Credit facility was fixed for a three-month period at an interest of approximately 11.3%. Although the Company was not in compliance with the financial covenants of this loan, management was able to obtain a waiver for this period and expect to regain compliance before the end of the next quarter. Management believes that the future cash flow from operations, cash on hand and the availability under the Revolving Credit Facility will provide sufficient liquidity for the next 12 months.

#### *Principles of Consolidation*

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

*Table of Contents*

*Estimates and Assumptions*

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

*Revenue Recognition*

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

Falloffs and refunds during the period are reflected in the unaudited condensed consolidated statements of operations as a reduction of placement service revenues and were approximately \$1,515,000 and \$374,000 for the nine-month period ended June 30, 2017 and 2016 respectively. Expected future falloffs and refunds are reflected in the consolidated balance sheet as a reduction of accounts receivable and were approximately \$1,454,000 and \$60,000 as of June 30, 2017 and September 30, 2016, respectively.

*Cost of Contract Staffing Services*

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

*Cash and Cash Equivalents*

Highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents. At June 30, 2017 and September 30, 2016, there were no cash equivalents. The Company maintains deposits in financial institutions in excess of amounts guaranteed by the Federal Deposit Insurance Corporation. Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. We have never experienced any losses related to these balances.

*Accounts Receivable*

The Company extends credit to its various customers based on evaluation of the customer's financial condition and ability to pay the Company in accordance with the payment terms. An allowance for placement fall-offs is recorded, as a reduction of revenues, for estimated losses due to applicants not remaining employed for the Company's guarantee period. An allowance for doubtful accounts is recorded, as a charge to bad debt expense, where collection is considered to be doubtful due to credit issues. These allowances together reflect management's estimate of the potential losses inherent in the accounts receivable balances, based on historical loss statistics and known factors impacting its customers. The nature of the contract service business, where companies are dependent on employees for the production cycle allows for a small accounts receivable allowance. Based on management's review of accounts receivable, an allowance for doubtful accounts of approximately \$1,915,000 is considered necessary as of June 30, 2017 and \$191,000 at September 30, 2016, respectively. The Company charges uncollectible accounts against the allowance once the invoices are deemed unlikely to be collectible. The reserve includes the \$1,454,000 and \$60,000 reserve for permanent placement falloffs considered necessary as of June 30, 2017 and September 30, 2016, respectively.

Table of Contents

*Property and Equipment*

Property and equipment are recorded at cost. Depreciation expense is calculated on a straight-line basis over estimated useful lives of five years for computer equipment and two to ten years for office equipment, furniture and fixtures. The Company capitalizes computer software purchased or developed for internal use and amortizes it over an estimated useful life of five years. The carrying value of property and equipment is reviewed for impairment whenever events or changes in circumstances indicate that it may not be recoverable. If the carrying amount of an asset group is greater than its estimated future undiscounted cash flows, the carrying value is written down to the estimated fair value. There was no impairment of property and equipment for the nine-months ended June 30, 2017 and 2016.

*Goodwill*

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

*Fair Value Measurement*

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

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



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

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

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

The fair value of the Company's current assets and current liabilities approximate their carrying values due to their short term nature. The carrying value of the Company's long-term liabilities represents their fair value based on level 3 inputs, as further discussed in notes 7 and 9. The Company's goodwill and other intangible assets are measured at fair value on a non-recurring basis using level 3 inputs.

#### *Earnings and Loss per Share*

Basic loss per share is computed by dividing net loss attributable to common stockholders by the weighted average common shares outstanding for the period. Diluted loss per share is computed giving effect to all potentially dilutive common shares. Potentially dilutive common shares may consist of incremental shares issuable upon the exercise of stock options and warrants and the conversion of notes payable to common stock. In periods in which a net loss has been incurred, all potentially dilutive common shares are considered anti-dilutive and thus are excluded from the calculation. There were approximately 10,111,000 and 3,743,000 of common stock equivalents excluded for the three and nine months ended June 30, 2017 (which include common share equivalents of preferred stock, convertible debt, warrants and options) because their effect is anti-dilutive, respectively. Common share equivalents of approximately 575,000 and 484,000 were included in the computation of diluted earnings per share for the nine months and three months ended June 30, 2016, respectively. There were approximately 392,000 and 428,000 of common stock equivalents excluded for the three and nine months ended June 30, 2016, respectively because their effect is anti-dilutive.

## Table of Contents

### *Advertising Expenses*

Most of the Company's advertising expense budget is used to support the Company's business. Most of the advertisements are in print or internet media, with expenses recorded as they are incurred. For the three and nine months ended June 30, 2017 and 2016, included in selling, general and administrative expenses was advertising expense totaling approximately \$588,000 and \$1,092,000, and approximately \$233,000 and \$781,000, respectively.

### *Intangible Assets*

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

### *Impairment of Long-lived Assets*

The Company records an impairment of long-lived assets used in operations, other than goodwill, when events or circumstances indicate that the asset might be impaired and the estimated undiscounted cash flows to be generated by those assets over their remaining lives are less than the carrying amount of those items. The net carrying value of assets not recoverable is reduced to fair value, which is typically calculated using the discounted cash flow method. The Company did not record any impairment during the nine months ended June 30, 2017 and 2016.

### *Stock-Based Compensation*

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

Options awarded to purchase shares of common stock issued to non-employees in exchange for services are accounted for as variable awards in accordance with applicable accounting principles. Such options are valued using the Black-Scholes option pricing model.

Upon the exercise of options, it is the Company's policy to issue new shares rather than utilizing treasury shares.

#### *Income Taxes*

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

Table of Contents

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

Due to the issuance of convertible preferred shares related to the Scribe and SNI acquisitions, the Company may be limited by Section 382 of the Internal Revenue Code as to the amount of net operating losses that may be used in future years.

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

*Reclassification*

Certain reclassifications have been made to the financial statements as of and for the three and nine months ended June 30, 2016 to conform to the current year presentation. There is no effect on assets, liabilities, equity or net income.

*Segment Data*

The Company provides the following distinctive services: (a) direct hire placement services, (b) temporary professional services staffing in the fields of information technology, engineering, medical, and accounting, and (c) temporary light industrial staffing. These distinct services can be divided into two reportable segments, Industrial Staffing Services and Professional Staffing Services. Selling, general and administrative expenses are not completely separately allocated among light industrial services and professional staffing services. Operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance. Other factors, including type of business, type of employee, length of employment and revenue recognition are considered in determining these operating segments.

### 3. Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued authoritative guidance that provides companies with a single model for use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance, including industry-specific revenue guidance. The new guidance requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. It also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The guidance permits companies to either apply the requirements retrospectively to all prior periods presented, or apply the requirements in the year of adoption, through a cumulative adjustment. The amended guidance also requires additional quantitative and qualitative disclosures. In March 2016, amended guidance was issued to clarify implementation guidance on principal versus agent consideration. In April 2016, an amendment provided clarifications on determining whether a promised license provides a customer with a right to use or a right to access an entity’s intellectual property. In May 2016, an amendment provided narrow scope improvements and practical expedients to reduce the potential diversity, cost and complexity of applying new revenue standard. These amendments, as well as the original guidance, are all effective for annual and interim periods beginning after December 15, 2017. The new standard will be effective for the Company beginning January 1, 2018 and the Company intends to implement the standard with the modified retrospective approach, which recognizes the cumulative effect of application recognized on that date. The Company is in the process of evaluating the impact of adoption of this guidance on its financial statements.

Table of Contents

In November 2015, the FASB issued authoritative guidance which changes how deferred taxes are classified on a company's balance sheet. The new guidance eliminates the current requirement for companies to present deferred tax liabilities and assets as current and noncurrent in a classified balance sheet. Instead, companies will be required to classify all deferred tax assets and liabilities as noncurrent. The new guidance is effective for annual reporting periods beginning after December 15, 2016. Early adoption is permitted for all entities as of the beginning of an interim or annual reporting period. The guidance may be applied either prospectively, for all deferred tax assets and liabilities, or retrospectively (i.e., by reclassifying the comparative balance sheet). If applied prospectively, entities are required to include a statement that prior periods were not retrospectively adjusted. If applied retrospectively, entities are also required to include quantitative information about the effects of the change on prior periods. Except for balance sheet classification requirements related to deferred tax assets and liabilities, the Company does not expect this guidance to have an effect on its financial statements. The Company is in the process of evaluating the impact of adoption of this guidance on its financial statements.

In March 2016, the FASB issued Accounting Standards Update ("ASU") 2016-09, Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. And the ability to elect to recognize forfeitures as they occur rather than estimating them at the time of grant. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is permitted. The Company is currently assessing the potential impact of adopting ASU 2016-09 on its financial statements and related disclosures.

In February 2016, the FASB issued authoritative guidance which changes financial reporting as it relates to leasing transactions. Under the new guidance, lessees will be required to recognize a lease liability, measured on a discounted basis; and a right-of-use asset, for the lease term. The new guidance is effective for annual and interim periods beginning after December 15, 2018. Early application is permitted for all entities upon issuance. Lessees and lessors must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company is in the process of evaluating the impact of adoption of this guidance on its financial statements.

In August 2016, the FASB issued authoritative guidance designed to address diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows, including: i) contingent consideration payments made after a business combination; ii) proceeds from the settlement of insurance claims; and iii) proceeds from the settlement of corporate-owned life insurance policies. The new guidance is effective for the Company for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted in any interim or annual period. The Company believes the adoption of this guidance will not have a material impact on its financial statements.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business, which clarifies the definition of a business to assist entities with evaluating whether transactions should be

accounted for as acquisitions (or disposals) of assets or businesses. The standard will be effective for the Company in the first quarter of 2019. Early adoption is permitted. The Company is currently evaluating the impact of adopting this ASU on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment". The update simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount. The new rules will be effective for the Company in the first quarter of 2021. Early adoption is permitted. The Company is currently evaluating the impact of adopting this ASU on its consolidated financial statements.

No other recent accounting pronouncements were issued by FASB and the SEC that are believed by management to have a material impact on the Company's present or future financial statements.

Table of Contents**4. Property and Equipment**

Property and equipment, net consisted of the following:

(In thousands)	Useful Lives	June 30, 2017	September 30, 2016
Computer software	5 years	\$ 1,447	\$ 1,447
Office equipment, furniture and fixtures and leasehold improvements	2 to 10 years	3,103	2,514
<b>Total property and equipment, at cost</b>		<b>4,550</b>	<b>3,961</b>
Accumulated depreciation and amortization		(3,678)	(3,350)
<b>Property and equipment, net</b>		<b>\$ 872</b>	<b>\$ 611</b>

Leasehold improvements are amortized over the term of the lease.

Depreciation expense for the three and nine month periods ended June 30, 2017 and 2016 was approximately \$178,000 and \$328,000, and approximately \$103,000 and \$245,000, respectively.

**5. Goodwill and Intangible Assets**Goodwill

The following table sets forth activity in goodwill from September 2015 through June 30, 2017. See Note 11 for details of acquisitions that occurred during the years ended September 30, 2016 and the nine months ended June 30, 2017. (in thousands)

Goodwill as of September 30, 2015	\$ 8,220
Acquisition of Access	8,316



Edgar Filing: GEE Group Inc. - Form 10-Q

Acquisition of Paladin		2,054
Goodwill as of September 30, 2016	\$	18,590
Acquisition of SNI Companies		54,461
Goodwill as of June 30, 2017	\$	73,051

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

Intangible Assets

*As of June 30, 2017*

(In Thousands)	Cost	Accumulated		Net
		Amortization	Book Value	
Customer Relationships	\$ 28,438	\$ 4,088	\$ 24,350	
Trade Name	8,329	760	7,569	
Non-Compete Agreements	5,981	614	5,367	
	\$ 42,748	\$ 5,462	\$ 37,286	

*As of September 30, 2016*

(In Thousands)	Cost	Accumulated		Net
		Amortization	Book Value	
Customer Relationships	\$ 10,758	\$ 2,662	\$ 8,096	
Trade Name	2,429	285	2,144	
Non-Compete Agreements	1,061	207	854	
	\$ 14,248	\$ 3,154	\$ 11,094	

Table of Contents

The amortization expense attributable to the amortization of identifiable intangible assets was approximately \$1,568,000 and \$2,308,000 and \$399,000 and \$1,150,000 for the three and nine months ended June 30, 2017 and 2016, respectively.

The trade names are amortized on a straight – line basis over the estimated useful life of ten years. Customer relationships are amortized based on the future undiscounted cash flows or straight – line basis over estimated remaining useful lives of five to ten years. Non-compete agreements are amortized based on a straight-line basis over the term of the non-compete agreement, typically five years. Over the next five years and thereafter, annual amortization expense for these finite life intangible assets will total approximately \$37,286,000, as follows: remainder of fiscal 2017 - \$1,570,000, fiscal 2018 - \$6,281,000, fiscal 2019 - \$6,285,000, fiscal 2020 - \$6,282,000, fiscal 2021 - \$5,877,000 and thereafter - \$10,991,000.

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

## **6. Revolving Credit Facility**

On September 27, 2013, the Company ("Borrower") entered into agreements with ACF FINCO I LP (successor-in-interest to Keltic Financial Partners II, LP) ("ACF") ("Lender"), that provided the Company with long term financing through a six million dollar (\$6,000,000) secured revolving note (the "Note"). The Note originally had a term of three years and has no amortization prior to maturity. The interest rate for the Note was a fluctuating rate that, when annualized, is equal to the greatest of (A) the Prime Rate plus three and one quarter percent (3.25%), (B) the LIBOR Rate plus six and one quarter percent (6.25%), and (C) six and one half percent (6.50%), with the interest paid on a monthly basis. Loan advances pursuant to the Note are based on the accounts receivable balance and other assets. The Note was secured by all of the Company's property and assets, whether real or personal, tangible or intangible, and whether now owned or hereafter acquired, or in which it now has or at any time in the future may acquire any right, title or interests. On January 1, 2016, the Company entered into an eighth Amendment and Waiver to the Loan and Security Agreement with ACF to increase the maximum amount of revolving credit under the Amended Loan Agreement from \$6,000,000 to \$10,000,000. On September 27, 2016, the Company entered into a ninth Amendment and Waiver to the Loan and Security Agreement with ACF. Pursuant to the Amendment, the Lender agreed (i) to decrease the annual Facility Fee (as defined in the Credit Agreement) payable by Borrower on the total Revolving Credit Limit (as defined in the Loan Agreement) to 0.75% , (ii) to allow the Borrower to make certain prepayments of amounts owed under the Amended Loan Agreement and the other loan documents on or prior to September 27, 2018, (iii) to amend the provision regarding liquidated damages payable by Borrower in the event of any early termination of the revolving credit line under the Amended Credit Agreement such that Borrower shall pay

liquidated damages to Lender in an amount equal to the Revolving Credit Limit multiplied by (X) two percent (2.00%) if such prepayment, repayment, demand or acceleration occurs prior to September 28, 2017, and (Y) one percent (1.00%) if such prepayment, repayment, demand or acceleration occurs on or after September 28, 2017, (iv) to change the minimum EBITDA (as defined in the Amended Credit Agreement) thresholds required to be maintained by the Company as outlined below (v) to extend the Revolving Credit Termination Date to the earliest to occur of (a) September 27, 2018, (b) the date Lender terminates the Revolving Credit pursuant to the terms of the Amended Credit Agreement, and (c) the date on which repayment of the Revolving Credit, or any portion thereof, becomes immediately due and payable pursuant to the terms of the Amended Loan Agreement, (vi) to amend the definition of EBITDA and (vii) to change the Revolving Credit Rate to a fluctuating rate that, when annualized, is equal to the greatest of (A) the Prime Rate plus one and one half percent (1.50%), (B) the LIBOR Rate plus four and one half percent (4.50%), and (C) four and three quarters percent (4.75%). There were several subsequent amendments to the loan.

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

Table of Contents

After the close of business on March 31, 2017, the Company and its subsidiaries, as borrowers, entered into a Revolving Credit, Term Loan and Security Agreement (the "Credit Agreement") with PNC Bank, National Association ("PNC"), and certain investment funds managed by MGG Investment Group LP ("MGG"). All funds were distributed on April 3, 2017 (the "Closing Date").

Under the terms of the Credit Agreement, the Company may borrow up to \$73,750,000 consisting of a four-year term loan in the principal amount of \$48,750,000 and revolving loans in a maximum amount up to the lesser of (i) \$25,000,000 or (ii) an amount determined pursuant to a borrowing base that is calculated based on the outstanding amount of the Company's eligible accounts receivable, as described in the Credit Agreement. The loans under the Credit Agreement mature on March 31, 2021.

The loans under the Credit Agreement will bear interest at rates at the Company's option of LIBOR rate plus 10% or PNC's floating base rate plus 9%. At June 30, 2017, the interest rate of the Revolving Credit Facility was 13.25% and there was approximately \$9,900,000 available. At June 30, 2017, approximately \$6,000,000 of the Revolving Credit facility was fixed for a three month period at an interest of approximately 11.3%.

The Revolving Credit Facility is secured by all of the Company's property and assets, whether real or personal, tangible or intangible, and whether now owned or hereafter acquired, or in which it now has or at any time in the future may acquire any right, title or interests.

The Revolving Credit Facility has the same covenants as the Term-loan (See note 7).

**7. Term-loan**

After the close of business on March 31, 2017, the Company and its subsidiaries, as borrowers, entered into a Revolving Credit, Term Loan and Security Agreement (the "Credit Agreement") with PNC Bank, National Association ("PNC"), and certain investment funds managed by MGG Investment Group LP ("MGG"). All funds were distributed on April 3, 2017 (the "Closing Date").

Under the terms of the Credit Agreement, the Company may borrow up to \$73,750,000 consisting of a four-year term loan in the principal amount of \$48,750,000 and revolving loans in a maximum amount up to the lesser of (i) \$25,000,000 or (ii) an amount determined pursuant to a borrowing base that is calculated based on the outstanding amount of the Company's eligible accounts receivable, as described in the Credit Agreement. The loans under the

Credit Agreement mature on March 31, 2021.

Amounts borrowed under the Credit Agreement may be used by the Company to repay existing indebtedness, to partially fund capital expenditures, to fund a portion of the purchase price for the acquisition of all of the issued and outstanding stock of SNI Holdco Inc. pursuant to that certain Agreement and Plan of Merger dated March 31, 2017 (the "Merger Agreement") (see note 11), to provide for on-going working capital needs and general corporate needs, and to fund future acquisitions subject to certain customary conditions of the lenders. On the closing date of the Credit Agreement, the Company borrowed \$48,750,000 from term-loans and borrowed approximately \$7,476,316 from the Revolving Credit Facility for a total of \$56,226,316 which was used by the Company to repay existing indebtedness, to pay fees and expenses relating to the Credit Agreement, and to pay a portion of the purchase price for the acquisition of all of the outstanding stock of SNI Holdco Inc. pursuant to the Merger Agreement.

The loans under the Credit Agreement will bear interest at rates at the Company's option of LIBOR rate plus 10% or PNC's floating base rate plus 9%. The Term Loans may consist of Domestic Rate Loans or LIBOR Rate Loans, or a combination thereof. At June 30, 2017, the interest rate was 11.3%.

The Credit Agreement is secured by all of the Company's property and assets, whether real or personal, tangible or intangible, and whether now owned or hereafter acquired, or in which it now has or at any time in the future may acquire any right, title or interests.

Table of Contents

The Term Loans were advanced on the Closing Date and are, with respect to principal, payable as follows, subject to acceleration upon the occurrence of an Event of Default under the Credit Agreement or termination of the Credit Agreement and provided that all unpaid principal, accrued and unpaid interest and all unpaid fees and expenses shall be due and payable in full on March 31, 2021. Principal payments are required as follows: Fiscal year 2017 - \$609,000, Fiscal year 2018 – \$5,789,000, Fiscal year 2019 – \$6,094,000, Fiscal year 2020 – \$6,398,000 and Fiscal year 2021 - \$29,860,000.

The Company shall prepay the outstanding amount of the Term-loans in an amount equal to the Specified Excess Cash Flow Amount for the immediately preceding fiscal year, commencing with the fiscal year ending September 30, 2018, payable following the delivery to the Agents of the financial statements referred to in the Agreement for such fiscal year but in any event not later than one hundred five (105) days after the end of each such fiscal year (the “Excess Cash Flow Prepayment Date”); provided that (i) if the Specified Term-loan Prepayment Conditions shall not be satisfied on any Excess Cash Flow Prepayment Date, Borrowers shall (A) on the Excess Cash Flow Prepayment Date, pay such portion of the Specified Excess Cash Flow Amount then due for such period that does not cause Borrowers to breach the Specified Term Loan Prepayment Conditions, (B) on the date on which the next Borrowing Base Certificate is due to be delivered to Agents pursuant to the Agreement (the “Borrowing Base Reference Date”), pay the remaining portion of such Specified Excess Cash Flow Amount (or such portion thereof that does not cause Borrowers to breach the Specified Term Loan Prepayment Conditions) and (C) if any Specified Excess Cash Flow Amount for such period remains due and owing after payment of the amount described in preceding clause (ii), on the next Borrowing Base Reference Date and each Borrowing Base Reference Date thereafter, pay such portion of the unpaid Specified Excess Cash Flow Amount that does not cause Borrowers to breach the Specified Term Loan Prepayment Conditions until such Specified Excess Flow Amount then due for such period is paid in full, and (ii) the failure of the Borrowers to make a prepayment of all or any portion of the Specified Excess Cash Flow Amount pursuant the Agreement solely as a result of Borrowers’ failure to satisfy the Specified Term Loan Prepayment Conditions shall not constitute an Event of Default.

The Credit Agreement contains certain covenants including the following:

Fixed Charge Coverage Ratio. The Company shall cause to be maintained as of the last day of each fiscal quarter, a Fixed Charge Coverage Ratio for itself and its subsidiaries on a Consolidated Basis of not less the amount set forth in the Credit Agreement, which ranges from 1.10 to 1.0 to 1.40 to 1.0.

Minimum EBITDA. The Company shall cause to be maintained as of the last day of each fiscal quarter, EBITDA for itself and its subsidiaries on a Consolidated Basis of not less than the amount set forth in the Credit Agreement for each fiscal quarter specified therein, in each case, measured on a trailing four (4) quarter basis as set in the Credit Agreement, which ranges from \$13,000,000 to \$24,000,000 over the term of the Credit Agreement.

**Senior Leverage Ratio.** The Company shall cause to be maintained as of the last day of each fiscal quarter, a Senior Leverage Ratio for itself and its subsidiaries on a Consolidated Basis of not greater than the amount set forth in the Credit Agreement for each fiscal quarter, in each case, measured on a trailing four (4) quarter basis as set in the agreement, which ranges from 4.50 to 1.0 to 1.5 to 1.0 over the term of the Credit Agreement.

In addition to these financial covenants, the Credit Agreement includes other restrictive covenants. The Credit Agreement permits capital expenditures up to a certain level, and contains customary default and acceleration provisions. The Credit Agreement also restricts, above certain levels, acquisitions, incurrence of additional indebtedness, and payment of dividends.

At June 30, 2017, the Company was not in compliance with the EBITDA covenant, in addition to other covenants. The Company has received a waiver related to these covenants.

<b>Balance of:</b>	<b>June 30, 2017</b>
Term loan	\$ 48,750
Unamortized debt discount	(2,882)
	45,868
Short term portion of term loan	(4,554)
Term loan	41,314

In connection with this both the Credit Agreement (the Revolving Credit Facility and the Term-loan), the Company agreed to pay an original discount fee of approximately \$901,300, a closing fee for the term loan of approximately \$75,000, a finder's fee of approximately \$1,597,000 and a closing fee for the revolving credit facility of approximately \$500,000. The total of the loan fees paid was \$3,073,300. The Company has recorded this as a reduction of the term-loan and amortized as interest expense over the term of the loans. During the period ended, June 30, 2017, the Company amortized approximately \$192,000 of the debt discount.

Table of Contents

**8. Accrued Compensation**

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

**9. Subordinated Debt – Convertible and Non - Convertible**

On October 2, 2015, the Company issued and sold the Subordinated Note to JAX Legacy – Investment 1, LLC (the "Investor") pursuant to a Subscription Agreement dated October 2, 2015 between the Company and the Investor (the "Subscription Agreement") in the amount of \$4,185,000. The Subordinated Note was due on October 2, 2018. The Company paid fees of approximately \$25,000 and 3,000 shares of common stock to the Investor, valued at approximately \$23,000. In addition, the Company had approximately \$33,000 of legal fees related to the transaction. Total discount recorded at issuance was approximately \$647,000. Total amortization of debt discount for the nine months ended June 30, 2017 was approximately \$107,000, and the remaining \$322,000 was written off to loss on extinguishment of debt.

On April 3, 2017, the Company and Jax amended and restated the Subordinated Note in its entirety in the form of a 10% Convertible Subordinated Note (the "10% Note") in the aggregate principal amount of \$4,185,000. The 10% Note matures on October 3, 2021 (the "Maturity Date"). The 10% Note is convertible into shares of the Company's Common Stock at a conversion price equal to \$5.83 per share. All or any portion of the 10% Note may be redeemed by the Company for cash at any time on or after April 3, 2018 that the average daily VWAP of the Company's Common Stock reported on the principal trading market for the Common Stock exceeds the then applicable Conversion Price for a period of 20 trading days. The redemption price shall be an amount equal to 100% of the then outstanding principal amount of the 10% Note being redeemed, plus accrued and unpaid interest thereon. The Company agreed to issue the investors in Jax approximately 77,775 shares of common stock, at a value of approximately \$385,000 which was expensed as loss on the extinguishment of debt during the period ended June 30, 2017. These shares have not been issued yet.

On October 4, 2015, the Company issued to the sellers of Access Data Consulting Corporation (see note 11) a Promissory Note. Interest on the outstanding principal balance of the Promissory Note is payable at the rate of 5.5% per annum. The principal and interest amount of the Promissory Note is payable as follows: (i) for the first twelve months commencing on November 4, 2015 and ending on October 4, 2016, a monthly payment of approximately \$57,000 in principal and interest, (ii) on October 4, 2016 a balloon payment of principal of \$1,000,000, (iii) for the next twelve months commencing on November 4, 2016 and ending on October 4, 2017, a monthly payment of approximately \$28,000 in principal and interest, (iv) on October 4, 2017 a balloon payment of principal of \$1,202,000 and (v) on October 4, 2017 any and all amounts of previously unpaid principal and accrued interest. The Credit



Agreement requires this loan to be subordinated to PNC and MGG, however the sellers of Access Data Consulting Corporation have not agreed to the subordination. The Company has received a waiver related to this requirement of the Credit Agreement until August 31, 2017.

On January 20, 2017, the Company entered into Addendum No. 1 (the "Addendum") to the Stock Purchase Agreement dated as of January 1, 2016 (the "Paladin Agreement") by and among the Company and Enoch S. Timothy and Dorothy Timothy (collectively, the "Sellers"). Pursuant to the terms of the Addendum, the Company and the Sellers agreed (a) that the conditions to the "Earnouts" (as defined in the Paladin Agreement) had been satisfied or waived and (b) that the amounts payable to the Sellers in connection with the Earnouts shall be amended and restructured as follows: (i) the Company paid \$250,000 in cash to the Sellers prior to January 31, 2017 (the "Earnout Cash Payment") and (ii) the Company shall issue to the Sellers a subordinated promissory note in the principal amount of \$1,000,000 (the "Subordinated Note"). The Subordinated Note shall bear interest at the rate of 5.5% per annum. Interest on the Subordinated Note shall be payable monthly, principle can only be paid in stock until the term-loan and Revolving Credit Facility are repaid. The Subordinated Note shall have a term of three years and may be prepaid without penalty. The principal of and interest on the Subordinated Note may be paid, at the option of the Company, either in cash or in shares of common stock of the Company or in any combination of cash and common stock. The Sellers have agreed that all payments and obligations under the Subordinated Note shall be subordinate and junior in right of payment to any "Senior Indebtedness" now or hereafter existing to "Senior Lenders" (current or future).

Table of Contents

On April 3, 2017, the Company issued and paid to certain SNIH Stockholders as part of the Merger Consideration (see note 11) an aggregate of \$12.5 million in aggregate principal amount of its 9.5% Notes. The 9.5% Notes mature on October 3, 2021 (the “Maturity Date”). The 9.5% Notes are convertible into shares of the Company’s Common Stock at a conversion price equal to \$5.83 per share; provided, however, that unless and until such time as the Company has received Requisite Stockholder Approval the Company shall not be permitted to make any interest payment in shares of Common Stock to the extent that such issuance would cause the Company to exceed the Conversion Limit. Interest on the 9.5% Notes accrues at the rate of 9.5% per annum and shall be paid quarterly in arrears on June 30, September 30, December 31 and March 31, beginning on June 30, 2017, on each conversion date with respect to the 9.5% Notes (as to that principal amount then being converted), and on the Maturity Date (each such date, an “Interest Payment Date”). At the option of the Company, interest may be paid on an Interest Payment Date either in cash or in shares of Common Stock of the Company, which Common Stock shall be valued based on the terms of the agreement, subject to certain limitations defined in the loan agreement. Each of the 9.5% Notes is subordinated in payment to the obligations of the Company to the lenders parties to that certain Revolving Credit, Term Loan and Security Agreement, dated as of March 31, 2017 by and among the Company, the Company’s subsidiaries named as borrowers therein (collectively with the Company, the “Borrowers”), the senior lenders named therein and PNC Bank, National Association, as administrative agent and collateral agent (the “Agent”) for the senior lenders (the “Senior Credit Agreement”), pursuant to those certain Subordination and Intercreditor Agreements, each dated as of March 31, 2017 by and among the Company, the Borrowers, the Agent and each of the holders of the 9.5% Notes.

None of the 9.5% Notes issued to the SNIH Stockholders are registered under the Securities Act of 1933, as amended (the “Securities Act”). Each of the SNIH Stockholders who received 9.5% Notes is an accredited investor. The issuance of the 9.5% Notes to such SNIH Stockholders is exempt from the registration requirements of the Act in reliance on an exemption from registration provided by Section 4(2) of the Act.

	June 30,	September
<b>Balance as of:</b>	<b>2017</b>	<b>30, 2016</b>
JAX Legacy debt - convertible	\$ 4,185	\$ 4,185
Access Data debt - non-convertible	1,291	2,510
Paladin debt - non-convertible	1,000	-
9.5% convertible debt	12,500	-
JAX Legacy debt discount	-	(429)
<b>Total subordinated debt</b>	<b>18,976</b>	<b>6,266</b>
<b>Short-term portion of subordinated debt - convertible and non-convertible</b>	<b>(1,291)</b>	<b>(1,285)</b>
<b>Long-term portion of subordinated debt - convertible and non-convertible</b>	<b>\$ 17,685</b>	<b>\$ 4,981</b>

Edgar Filing: GEE Group Inc. - Form 10-Q

Future minimum payments of subordinated debt will total approximately \$18,976,000 as follows: fiscal 2017 - \$66,000, fiscal 2018 - \$1,224,000, fiscal 2019 - \$0, fiscal 2020 - \$1,000,000, fiscal 2021- \$0 and fiscal 2022 - \$16,686,000.

Table of Contents

**10. Equity**

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

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

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

On March 31, 2017, the Company issued approximately 500,000 shares of common stock upon exercise by two officers and received cash of \$1,000,000.

Table of Contents

*Stock Options*

The Company has recognized compensation expense in the amount of approximately \$640,000 and \$594,000 during the nine months ended June 30, 2017 and 2016, respectively, related to the issuance of stock options. The Company has recognized compensation expense in the amount of approximately \$255,000 and \$202,000 during the three months ended June 30, 2017 and 2016, respectively, related to the issuance of stock options.

During the nine-month period ended June 30, 2017, there were options granted to purchase 300,500 shares of common stock with a weighted average price of between \$4.72 and \$5.94 per common share. This estimated value was made using the Black-Scholes option pricing model and approximated \$1040,000. The stock options vest over a three to five year period. The average expected life (years) of the options were 10, the estimated stock price volatility was 104% and the risk-free interest rate was 2.2%. At June 30, 2017, there was approximately \$2,157,000 of unamortized compensation.

At June 30, 2017, there were exercisable options granted to purchase approximately 333,000 shares of common stock and exercisable warrants to purchase approximately 497,000 shares of common stock.

**11. Acquisitions**

Access

On October 4, 2015, the Company entered into a Stock Purchase Agreement (the "Access Data Agreement") with William Daniel Dampier and Carol Lee Dampier (collectively, the "Sellers"). Pursuant to the terms of the Access Data Agreement the Company acquired on October 4, 2015, 100% of the outstanding stock of Access Data Consulting Corporation., a Colorado corporation ("Access Data"), for a purchase price (the "Purchase Price") equal to approximately \$16,168,000, which includes \$600,000 related to a mutual tax election of which \$350,000 was paid during the nine months ended June 30, 2017 and the remaining \$250,000 is included in current liabilities.

Paladin

The Company entered into a Stock Purchase Agreement dated as of January 1, 2016 (the "Paladin Agreement") with Enoch S. Timothy and Dorothy Timothy (collectively, the "Sellers"). Pursuant to the terms of the Paladin Agreement the Company acquired on January 1, 2016, 100% of the outstanding stock of Paladin Consulting Inc., a Texas corporation ("Paladin"), for a purchase price (the "Purchase Price") equal to approximately \$2,625,000.

SNI

The Company entered into an Agreement and Plan of Merger dated as of March 31, 2017 (the "Merger Agreement") by and among the Company, GEE Group Portfolio, Inc., a Delaware corporation and a wholly owned subsidiary of the Company, ("GEE Portfolio"), SNI Holdco Inc., a Delaware corporation ("SNIH"), Smith Holdings, LLC a Delaware limited liability company, Thrivent Financial for Lutherans, a Wisconsin corporation, organized as a fraternal benefits society ("Thrivent"), Madison Capital Funding, LLC, a Delaware limited liability company ("Madison") and Ronald R. Smith, in his capacity as a stockholder ("Mr. Smith" and collectively with Smith Holdings, LLC, Thrivent and Madison, the "Principal Stockholders") and Ronald R. Smith in his capacity as the representative of the SNIH Stockholders ("Stockholders' Representative"). The Merger Agreement provided for the merger subject to the terms and conditions set forth in the Merger Agreement of SNI Holdco with and into GEE Portfolio pursuant to which GEE Portfolio would be the surviving corporation (the "Merger"). The Merger was consummated on April 3, 2017 (the "Closing") and did not require stockholder approval in order to be completed. As a result of the merger, GEE Portfolio became the owner of 100% of the outstanding capital stock of SNI Companies, Inc., a Delaware corporation and a wholly-owned subsidiary of SNI Holdco ("SNI Companies" and collectively with SNI Holdco, the "Acquired Companies").

SNI Companies, led by co-founder and current Chairman and CEO Ron Smith, is a premier provider of recruitment and staffing services specializing in administrative, finance, accounting, banking, technology, and legal professions. Through its Staffing Now ®, Accounting Now ®, SNI Technology ®, SNI Financial ®, Legal Now ®, SNI Energy ® and SNI Certes ® divisions, SNI Companies delivers staffing solutions on a temporary/contract, temp/contract-to hire, full time and direct hire basis, across a wide range of disciplines and industries including finance, accounting, banking, technical, software, tax, human resources, legal, engineering, construction, manufacturing, natural resources, energy and administrative professional. SNI Companies has offices in Colorado, Connecticut, Washington DC, Georgia, Illinois, Iowa, Louisiana, Maryland, Massachusetts, Minnesota, New Jersey, Pennsylvania, Texas and Virginia.

Table of Contents

Merger Consideration and Closing Payments

The aggregate consideration paid for the shares of SNI Holdco (the “Merger Consideration”) was approximately \$66,300,000, plus or minus the “NWC Adjustment Amount” or the difference in the book value of the Closing Net Working Capital (as defined in Merger Agreement) of the Acquired Companies as compared to the Benchmark Net Working Capital (as defined in the Merger Agreement) of the Acquired Companies of \$9.2 million.

On the date of the Closing the Company made the following payments:

- *Cash Payment to Stockholders of SNIH (the “SNIH Stockholders”) or as directed by SNIH Stockholders.* At the Closing, the Company paid approximately an aggregate of \$23,000,000 in cash to the SNIH Stockholders.
- *Issuance of 9.5% Convertible Subordinated Notes.* At the Closing, the Company issued and paid to certain SNIH Stockholders an aggregate of \$12,500,000 in aggregate principal amount of its 9.5% Notes.
- *Issuance of Series B Convertible Preferred Stock.* At the Closing, the Company agreed to issue to certain SNIH Stockholders upon receipt of duly executed letters of transmittal an aggregate of approximately 5,926,000 shares of its Series B Convertible Preferred Stock (with an approximate value of \$29,300,000 based on the closing stock price of GEE Group, Inc. common stock of \$4.95 on March 31, 2017).
- *Working Capital Reserve Fund.* At the Closing, \$1.5 million of the cash of the Merger Consideration was retained by the Company (the “Working Capital Reserve Fund”) and is subject to payment and adjustment as follows. The Merger Consideration will be adjusted (positively or negatively) based upon the difference in the book value of the Closing Net Working Capital (as defined in the Merger Agreement) as compared to the Benchmark Net Working Capital (as defined in the Merger Agreement) of \$9.2 million (such difference to be called the “NWC Adjustment Amount”). If the NWC Adjustment Amount is positive, the Merger Consideration will be increased by the NWC Adjustment Amount. If the NWC Adjustment Amount is negative, the Merger Consideration will be decreased by the NWC Adjustment Amount. If the Merger Consideration increases, then the Company will pay the Stockholders’ Representative account for payment to SNIH Stockholders the amount of the increase plus the Working Capital Reserve Fund in immediately available funds within three (3) business days of a final determination thereof. If the Merger Consideration decreases, then SNIH Stockholders will pay the amount of the decrease to the Company within three (3) business days of a final determination thereof, which first shall be funded from the Working Capital Reserve Fund (which shall be credited to the SNIH Stockholders). If the amount of the Merger Consideration decrease exceeds the Working Capital Reserve Fund, then the SNIH Stockholders, will pay the difference to the Company, severally, not jointly, in accordance with their SNIH Ownership Proportion (as defined in the Merger Agreement), in immediately available funds within twenty (20) days of a final determination. If the Working Capital Reserve Fund exceeds the payment due from SNIH Stockholders then the remaining balance of those funds after the payment to the Company shall be paid to the Stockholders’ Representative’s account for payment to the SNIH Stockholders in immediately available funds.





Table of Contents

The intangibles were recorded, based on the Company's estimate of fair value, which consist primarily of customer lists with an estimated life of five to ten years and goodwill. The Company has not finalized the purchase price allocation at June 30, 2017 and subject to change based on the working capital contingency.

(in Thousands)

\$ 12,989	Assets Purchased
29,650	Liabilities Assumed
16,661	Net Liabilities Assumed
66,300	Purchase Price
\$ 82,961	Intangible Asset from Purchase

Intangible asset detail

\$ 17,680	Intangible asset customer list
5,900	Intangible asset trade name
4,920	Intangible asset non-compete agreement
54,461	Goodwill
\$ 82,961	Intangible Asset from Purchase

All goodwill and intangibles related to the acquisition of SNI companies will not be deductible for tax purposes. The Company estimated an additional deferred tax liability of approximately \$11,000,000 was created with the merger.

Consolidated pro-forma unaudited financial statements

The following unaudited pro forma combined financial information is based on the historical financial statements of the Company, SNI Companies, Inc. and Paladin Consulting, Inc., after giving effect to the Company's acquisition as if the acquisitions occurred on October 1, 2015.

The following unaudited pro forma information does not purport to present what the Company's actual results would have been had the acquisitions occurred on October 1, 2015, nor is the financial information indicative of the results of future operations. The following table represents the unaudited consolidated pro forma results of operations for the nine months ended June 30, 2017 and June 30, 2016 as if the acquisition occurred on October 1, 2015. The pro forma

results of operations for the nine months ended June 30, 2016 only include three months of Paladin and nine months of SNI Companies, as all other acquisitions either occurred prior to October 1, 2015 or had an immaterial effect on pro forma balances. Operating expenses have been increased for the amortization expense associated with the estimated fair value adjustment as of each acquisition during the respective period for the expected definite lived intangible assets. Operating expenses have been increased for the amortization expense associated with the fair value adjustment of definite lived intangible assets of approximately \$1,200,000 and \$3,707,000 for the three months and nine months ended June 30, 2016 for the Paladin and SNI acquisitions, respectively. Operating expenses have been increased for the amortization expense associated with the fair value adjustment of definite lived intangible assets of approximately \$2,009,000 for the nine months ended June 30, 2017 for the SNI acquisition.

(in Thousands, except per share data)

	<b>Three</b>	<b>Nine</b>	<b>Nine</b>
	<b>Months</b>	<b>Months</b>	<b>Months</b>
	<b>Ended</b>	<b>Ended</b>	<b>Ended</b>
	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>
<b>Pro Forma, unaudited</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Net sales	\$ 51,105	\$ 142,795	\$ 152,538
Cost of sales	\$ 31,390	\$ 90,286	\$ 88,483
Operating expenses	\$ 16,682	\$ 50,203	\$ 50,707
Net income (loss)	\$ (411)	\$ (4,387)	\$ (2,253)
Basic and diluted loss per common share	\$ (0.04)	\$ (0.47)	\$ (0.24)

The proforma results of operations for the three months ended and nine months ended June 30, 2016, included approximately \$29,123,000 and \$86,480,000 of sales, respectively, and approximately \$261,000 and \$1,396,000 of net income, respectively of SNI Companies. The nine months ended June 30, 2016 included approximately \$4,785,000 of sales and approximately \$83,000 of a net loss of Paladin.

The Company's consolidated financial statements for the three months ended June 30, 2017 include the actual results of SNI since the date of acquisition and include sales of approximately \$24,274,000 and net loss of approximately \$580,000.

Table of Contents

**12. Commitments and Contingencies**

Lease

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

Rent expense was approximately \$1,029,000 and \$1,608,000 and \$345,000 and \$847,000 for the three and nine month periods ended June 30, 2017 and 2016, respectively. As of June 30, 2017, future minimum lease payments due under non-cancelable lease agreements having initial terms in excess of one year, including certain closed offices, totaled approximately \$6,262,000 as follows: fiscal 2017 - \$796,000, fiscal 2018 - \$2,544,000, fiscal 2019 - \$1,879,000, fiscal 2020 - \$821,000 fiscal 2021 - \$137,000 and thereafter - \$85,000.

Working Capital Deposit

The Company retained approximately \$1,500,000 of the purchase price, in cash, as a guarantee from the sellers that the SNI Companies would provide a minimum of \$9,200,000 of working capital, as defined in the purchase agreement. As of June 30, 2017, the Company and the sellers of the SNI Companies have not agreed to the provided working capital and the amount continues to be retained by the Company.

**13. Mezzanine Equity**

On April 3, 2017, the Company agreed to issue to certain SNIH Stockholders upon receipt of duly executed letters of transmittal as part of the Merger Consideration, an aggregate of approximately 5,926,000 shares of its no par value, Series B Convertible Preferred Stock to certain of the SNIH Stockholders as part of the Merger Consideration. The no par value, Series B Convertible Preferred Stock has a liquidation preference equal to \$4.86 per share and ranks senior to all "Junior Securities" (including the Company's Common Stock) with respect to any distribution of assets upon liquidation, dissolution or winding up of the Company, whether voluntary or involuntary. In the event that the Company declares or pays a dividend or distribution on its Common Stock, whether such dividend or distribution is payable in cash, securities or other property, including the purchase or redemption by the Company or any of its subsidiaries of shares of Common Stock for cash, securities or property, the Company is required to simultaneously

declare and pay a dividend on the no par value, Series B Convertible Preferred Stock on a pro rata basis with the Common Stock determined on an as-converted basis assuming all shares had been converted as of immediately prior to the record date of the applicable dividend or distribution. Except as set forth in the Resolution Establishing Series (as defined below) as may be required by Illinois law, the holders of the no par value, Series B Convertible Preferred Stock have no voting rights. Pursuant to the Resolution Establishing Series, without the prior written consent of holders of not less than a majority of the then total outstanding Shares of no par value, Series B Convertible Preferred Stock, voting separately as a single class, the Company shall not create, or authorize the creation of, any additional class or series of capital stock of the Company (or any security convertible into or exercisable for any class or series of capital stock of the Company) that ranks pari passu with or superior to the no par value, Series B Convertible Preferred Stock in relative rights, preferences or privileges (including with respect to dividends, liquidation or voting). Each share of Series B Convertible Preferred Stock shall be convertible at the option of the holder thereof into one share of Common Stock at an initial conversion price equal to \$4.86 per share, each as subject to adjustment in the event of stock splits, stock combinations, capital reorganizations, reclassifications, consolidations, mergers or sales, as set forth in the Resolution Establishing Series: provided, however, that unless and until such time as the Company has received Requisite Stockholder Approval a holder of Shares of no par value, Series B Convertible Preferred Stock shall not be permitted to effect any conversion of any shares of no par value, Series B Preferred Stock to the extent that the shares of Common Stock issuable upon such conversion when taken together with the shares of Common Stock previously issued with respect to (i) prior conversions of shares of no par value, Series B Convertible Preferred Stock, and/or (ii) prior conversions of any 9.5% Notes and/or (iii) the payment of dividends on any 9.5% Notes in shares of Common Stock and/or (iv) otherwise in connection with the issuance of the 9.5% Notes would result in the issuance of shares of Common Stock that exceed the Conversion Limit.

None of the shares of no par value, Series B Preferred Stock issued to the SNIH Stockholders are registered under the Securities Act. Each of the SNIH Stockholders who received shares of Series B Preferred Stock is an accredited investor. The issuance of the shares of no par value, Series B Preferred Stock to such SNIH Stockholders is exempt from the registration requirements of the Act in reliance on an exemption from registration provided by Section 4(2) of the Act.

Based on the terms of the Series B Convertible Preferred Stock, if certain fundamental transactions were to occur, the Series B Convertible Preferred Stock would require redemption, which precludes permanent equity classification on the accompanying consolidated Balance Sheet.

Table of Contents**14. Segment Data**

The Company provides the following distinctive services: (a) direct hire placement services, (b) temporary professional services staffing in the fields of information technology, engineering, medical, and accounting, and (c) temporary light industrial staffing. These distinct services can be divided into two reportable segments, Industrial Staffing Services and Professional Staffing Services. Selling, general and administrative expenses are not completely separately allocated among light industrial services and professional staffing services.

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

(In Thousands)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
<b>Industrial Staffing Services</b>				
Industrial services revenue	\$ 6,718	\$ 5,356	\$ 18,824	\$ 16,230
Industrial services gross margin	14.08%	13.07%	14.69%	11.86%
Operating income	\$ 365	\$ 172	\$ 954	\$ 212
Depreciation & amortization	43	71	184	209
Accounts receivable – net	3,967	2,556	3,967	2,556
Intangible assets	745	961	745	961
Goodwill	1,084	1,084	1,084	1,084
Total assets	\$ 8,484	\$ 6,870	\$ 8,484	\$ 6,870
<b>Professional Staffing Services</b>				
Permanent placement revenue	\$ 5,969	\$ 1,671	\$ 8,578	\$ 5,356
Placement services gross margin	100%	100%	100%	100%
Professional services revenue	\$ 33,382	\$ 14,955	\$ 61,222	\$ 39,687
Professional services gross margin	29.29%	26.10%	26.87%	25.99%
Operating income	\$ 535	\$ 1,189	\$ 2,659	\$ 3,155
Depreciation and amortization	1,705	447	2,452	1,223
Accounts receivable – net	20,073	8,802	20,073	8,802
Intangible assets	36,541	10,503	36,541	10,503
Goodwill	71,967	16,905	71,967	16,905
Total assets	\$ 132,478	\$ 39,413	\$ 132,478	\$ 39,413
<b>Unallocated Expenses</b>				
Corporate administrative expenses	\$ 900	\$ 560	\$ 2,135	\$ 1,333
Corporate facility expenses	80	48	223	130
Stock option amortization expense	255	202	640	594

Edgar Filing: GEE Group Inc. - Form 10-Q

Board related expenses	-	-	38	-
Acquisition, integration and restructuring expenses	2,111	29	2,211	597
Total unallocated expenses	\$ 3,346	\$ 839	\$ 5,247	\$ 2,654

**Consolidated**

Total revenue	\$ 46,069	\$ 21,982	\$ 88,624	\$ 61,273
Operating income (loss)	(2,446)	522	(1,642)	713
Depreciation and amortization	1,748	518	2,636	1,432
Total accounts receivables – net	24,040	11,358	24,040	11,358
Intangible assets	37,286	11,464	37,286	11,464
Goodwill	73,051	17,989	73,051	17,989
Total assets	\$ 140,962	\$ 46,283	\$ 140,962	\$ 46,283

Table of Contents

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

**Overview**

We specialize in the placement of information technology, engineering, and accounting professionals for direct hire and contract staffing for our clients, and provide temporary staffing services for our light industrial clients. As a result of our acquisition of Scribe Solutions, Inc. ("Scribe") in April 2015, we now also offer data entry assistants (medical scribes) who specialize in electronic medical records (EMR) services for emergency departments, specialty physician practices and clinics. There is currently a growing need for medical scribes due to the rise in EMR being utilized for billing and documentation of health care services and the meaningful use requirements that are part of the Affordable Care Act. The acquisitions of Agile Resources, Inc. a Georgia Corporation ("Agile"), Access Data Consulting Corporation, a Colorado corporation ("Access"), Paladin Consulting Inc., a Texas corporation ("Paladin") and SNI Companies, Inc. a Delaware corporation ("SNI") expanded our geographical footprint within the placement and contract staffing of information technology.

Our staffing services are provided through a network of fifty five branch offices located in downtown or suburban areas of major U.S. cities in seventeen states. We have one office located in each of Arizona, Connecticut, Maryland, Minnesota, Pennsylvania and Washington DC, two offices in each of California, Georgia, Iowa, Indiana and New Jersey, three offices in Virginia, four offices in Colorado, five offices in Illinois and Texas, six offices in Massachusetts, seven offices in Ohio and eleven offices in Florida.

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

**Results of Operations – Three Months Ended June 30, 2017 Compared to the Three Months Ended June 30, 2016**

**Results of Operations**

*Net Revenues*

Consolidated net revenues are comprised of the following:

<b>Three Months Ended</b>					
<b>June 30,</b>					
<b>(In thousands)</b>	<b>2017</b>	<b>2016</b>	<b>\$ change</b>	<b>% change</b>	
Direct hire placement services	\$ 5,969	\$ 1,671	\$ 4,298	257%	
Professional contract services	33,382	14,955	18,427	123	
Industrial contract services	6,718	5,356	1,362	25	
Consolidated Net Revenues	\$ 46,069	\$ 21,982	\$ 24,087	110%	



Table of Contents

Consolidated net revenues increased approximately \$24,087,000 or 110% compared with the same period last year. The Company acquired SNI as of March 31, 2017, which increased the direct hire placement services by approximately \$4,621,000 and increased professional contract services by approximately \$19,653,000. Direct hire placement services excluding SNI is down as the total number of recruiters and sales professionals are down in the Company, however management does expect to increase hiring in the following quarter. Industrial contract services increased due to a management effort to replace certain customers lost in the prior year. Executive management has started to hire additional national sales force that can be serviced by the expanded geographical service area.

*Cost of Contract Services*

Cost of services includes wages and related payroll taxes and employee benefits of the Company's employees while they work on contract assignments. Cost of contract services for the three-month period ended June 30, 2017 increased by approximately 85% to approximately \$29,015,000 compared with the prior period of approximately \$15,708,000 for the three-month period ended June 30, 2016. Cost of contract services, as a percentage of contract revenue, for the three-month period ended June 30, 2017 decreased approximately 8% to 63% compared with the prior period of approximately 71%. The change in the contract revenue gross margin is related to several factors, including the increase of lower gross margin revenue from Paladin, SNI and Industrial contract services.

Gross Profit percentage by segment:

	<b>Three Months Ended June 30,</b>	<b>Three Months Ended June 30,</b>
<b>Gross Profit Margin %</b>	<b>2017</b>	<b>2016</b>
Direct hire placement services	100%	100%
Industrial contract services	14.08%	13.07%
Professional contract services	29.29%	26.10%
Combined Gross Profit Margin % (1)	37.02%	28.54%

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

*Selling, General and Administrative Expenses*

Selling, general and administrative expenses include the following categories:

- Compensation and benefits in the operating divisions, which includes salaries, wages and commissions earned by the Company's employment consultants and branch managers on permanent and temporary placements.
- Administrative compensation, which includes salaries, wages, payroll taxes and employee benefits associated with general management and the operation of the finance, legal, human resources and information technology functions.
- Occupancy costs, which includes office rent, and other office operating expenses.
- Recruitment advertising, which includes the cost of identifying job applicants.
- Other selling, general and administrative expenses, which includes travel, bad debt expense, fees for outside professional services and other corporate-level expenses such as business insurance and taxes.

Table of Contents

The Company's largest selling, general and administrative expense is for compensation in the operating divisions. Most of the Company's sales agents and recruiters are paid on a commission basis and receive advances against future commissions. When commissions are earned, prior advances are applied against them and the sales agent or recruiter is paid the net amount. The Company recognizes the full amount as commission expense, and advance expense is reduced by the amount recovered. Thus, the Company's advance expense represents the net amount of advances paid, less amounts applied against commissions, plus commission accruals for billed but uncollected revenue.

Selling, general and administrative expenses for the three months ended June 30, 2017 increased by approximately \$10,341,000 or approximately 199% compared to the same period last year. The increase was primarily related to the inclusion of approximately \$9,950,000 of selling, general and administrative expenses of SNI following the acquisition by the Company.

*Acquisition, Integration and Restructuring Charges*

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

The acquisition, integration and restructuring charges for the three months ended June 30, 2017, increased by approximately \$2,177,000 compared with the same period last year as the Company continues to evaluate potential acquisitions and perform due diligence, and the acquisition of SNI was closed during the period.

*Interest Expense*

Interest expense for the three months ended June 30, 2017, increased by approximately \$1,960,000, or 469% compared with the same period last year primarily as a result of the newly obtained long-term debt, the interest expense for acquisition payments and higher average borrowings related to the new acquisitions.

**Results of Operations – Nine Months Ended June 30, 2017 Compared to the Nine Months Ended June 30, 2016**

**Results of Operations***Net Revenues*

Consolidated net revenues are comprised of the following:

<b>(In thousands)</b>	<b>Nine Months Ended June</b>				
	<b>2017</b>	<b>2016</b>	<b>\$ change</b>	<b>% change</b>	
Direct hire placement services	\$ 8,578	\$ 5,356	\$ 3,222	60%	
Professional contract services	61,222	39,687	21,535	54	
Industrial contract services	18,824	16,230	2,594	16	
Consolidated Net Revenues	\$ 88,624	\$ 61,273	\$ 27,351	45%	

Table of Contents

Consolidated net revenues increased approximately \$27,351,000 or 45% compared with the same period last year. The Company acquired SNI as of March 31, 2017, which increased the direct hire placement services by approximately \$4,621,000 and increased professional contract services by approximately \$19,653,000. Direct hire placement services excluding SNI is down as the total number of recruiters and sales professionals are down in the Company, however management does expect to increase hiring in the following quarter. Industrial contract services increased due to a management effort to replace certain customers lost in the prior year. Executive management has started to hire additional national sales force that can be serviced by the expanded geographical service area.

*Cost of Contract Services*

Cost of services includes wages and related payroll taxes and employee benefits of the Company's employees while they work on contract assignments. Cost of contract services for the nine-month period ended June 30, 2017 increased by approximately 38% to approximately \$60,472,000 compared with the prior period of approximately \$43,675,000 for the nine-month period ended June 30, 2016. Cost of contract services, as a percentage of contract revenue, for the nine-month period ended June 30, 2017 decreased approximately 3% to approximately 68% compared with the prior period of approximately 71%. The change in the contract revenue gross margin is related to several factors, including the addition of lower gross margin from the Paladin acquisition as of January 1, 2016, the SNI acquisition as of April 3, 2017 and increase in Industrial contract services.

Gross Profit percentage by segment:

	<b>Nine Months</b>	<b>Nine Months</b>
	<b>Ended June 30,</b>	<b>Ended June 30,</b>
<b>Gross Profit Margin %</b>	<b>2017</b>	<b>2016</b>
Direct hire placement services	100%	100%
Industrial contract services	14.69%	11.86%
Professional contract services	26.87%	25.99%
Combined Gross Profit Margin % (1)	31.77%	28.72%

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

*Selling, General and Administrative Expenses*

Selling, general and administrative expenses include the following categories:

- Compensation and benefits in the operating divisions, which includes salaries, wages and commissions earned by the Company's employment consultants and branch managers on permanent and temporary placements.
- Administrative compensation, which includes salaries, wages, payroll taxes and employee benefits associated with general management and the operation of the finance, legal, human resources and information technology functions.
- Occupancy costs, which includes office rent, and other office operating expenses.
- Recruitment advertising, which includes the cost of identifying job applicants.
- Other selling, general and administrative expenses, which includes travel, bad debt expense, fees for outside professional services and other corporate-level expenses such as business insurance and taxes.

Table of Contents

The Company's largest selling, general and administrative expense is for compensation in the operating divisions. Most of the Company's sales agents and recruiters are paid on a commission basis and receive advances against future commissions. When commissions are earned, prior advances are applied against them and the sales agent or recruiter is paid the net amount. The Company recognizes the full amount as commission expense, and advance expense is reduced by the amount recovered. Thus, the Company's advance expense represents the net amount of advances paid, less amounts applied against commissions, plus commission accruals for billed but uncollected revenue.

Selling, general and administrative expenses for the nine months ended June 30, 2017 increased by approximately \$9,996,000 or 67% compared to the same period last year. The increase was primarily related to the inclusion of approximately \$9,950,000 selling, general and administrative expenses of SNI following the acquisition by the Company.

*Acquisition, Integration and Restructuring Charges*

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

The acquisition, integration and restructuring charges for the nine months ended June 30, 2017, increased by approximately \$1,709,000 compared with the same period last year as the Company continues to evaluate potential acquisitions and perform due diligence, and the acquisition of SNI was closed during the period.

*Interest Expense*

Interest expense for the nine months ended June 30, 2017, increased by approximately \$1,978,000, or 172% compared with the same period last year primarily as a result of the newly obtained long-term debt, the interest expense for acquisition payments and higher average borrowings related to the new acquisitions.

**Liquidity and Capital Resources**

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

	<b>For the nine months ended June 30, 2017</b>	<b>For the nine months ended June 30, 2016</b>
Cash flows (used in) provided by operating activities	\$ (843)	\$ 667
Cash flows used in investing activities	\$ (25,335)	\$ (9,455)
Cash flows provided by financing activities	\$ 26,504	\$ 6,414

As of June 30, 2017, the Company had cash of approximately \$2,854,000, which was an increase of approximately \$326,000 from approximately \$2,528,000 at September 30, 2016. Working capital at June 30, 2017 was approximately \$1,565,000, as compared to negative working capital of approximately \$(597,000) for September 30, 2016. The net loss for the nine months ended June 30, 2017, was approximately \$(6,098,000).

Net cash used in and provided by operating activities for the nine months ended June 30, 2017 and 2016 was approximately \$(843,000) and \$667,000, respectively. The fluctuation is due to the significant increase in accounts receivable, decrease in accrued compensation and decrease in accounts payable for the nine months ended June 30, 2017 and the increased acquisition expense this period due to the SNI acquisition.



Table of Contents

Net cash used in investing activities for the nine months ended June 30, 2017 and 2016 was approximately \$(25,335,000) and \$(9,455,000), respectively. The primary use of cash was for the acquisition of SNI and payments to Access Sellers for the nine months ended June 30, 2017. The primary use of cash was for payments for acquisitions of Access and Paladin during the nine months ended June 30, 2016.

Net cash flows provided by financing activities for the nine months ended June 30, 2017 was approximately \$26,504,000 compared to approximately \$6,414,000 in the nine months ended June 30, 2016. Fluctuations in financing activities are attributable to the new term-loan and the level of net borrowings of the Revolving Credit Facility.

On March 31, 2017, the Company and its subsidiaries, as borrowers, entered into a Revolving Credit, Term Loan and Security Agreement (the "Credit Agreement") with PNC Bank, National Association ("PNC"), and certain investment funds managed by MGG Investment Group LP ("MGG").

The Company and its subsidiaries, as borrowers, entered into a Revolving Credit, Term Loan and Security Agreement (the "Credit Agreement") with PNC Bank, National Association ("PNC"), and certain investment funds managed by MGG Investment Group LP ("MGG").

Under the terms of the Credit Agreement, the Company may borrow up to \$73,750,000 consisting of a four-year term loan in the principal amount of \$48,750,000 and revolving loans in a maximum amount up to the lesser of (i) \$25,000,000 or (ii) an amount determined pursuant to a borrowing base that is calculated based on the outstanding amount of the Company's eligible accounts receivable, as described in the Credit Agreement. The loans under the Credit Agreement mature on March 31, 2021.

Amounts borrowed under the Credit Agreement may be used by the Company to repay existing indebtedness, to partially fund capital expenditures, to fund a portion of the purchase price for the acquisition of all of the issued and outstanding stock of SNI Holdco Inc. pursuant to that certain Agreement and Plan of Merger dated March 31, 2017 (the "Merger Agreement") (see note 11), to provide for on-going working capital needs and general corporate needs, and to fund future acquisitions subject to certain customary conditions of the lenders. On the closing date of the Credit Agreement, the Company borrowed \$48,750,000 from term-loans and borrowed approximately \$7,476,316 from the Revolving Credit Facility for a total of \$56,226,316 which was used by the Company to repay existing indebtedness, to pay fees and expenses relating to the Credit Agreement, and to pay a portion of the purchase price for the acquisition of all of the outstanding stock of SNI Holdco Inc. pursuant to the Merger Agreement.

The loans under the Credit Agreement will bear interest at rates at the Company's option of LIBOR rate plus 10% or PNC's floating base rate plus 9%. The Term Loans may consist of Domestic Rate Loans or LIBOR Rate Loans, or a combination thereof.

The Credit Agreement is secured by all of the Company's property and assets, whether real or personal, tangible or intangible, and whether now owned or hereafter acquired, or in which it now has or at any time in the future may acquire any right, title or interests.

The Term Loans were advanced on the Closing Date and are, with respect to principal, payable as follows, subject to acceleration upon the occurrence of an Event of Default under the Credit Agreement or termination of the Credit Agreement and provided that all unpaid principal, accrued and unpaid interest and all unpaid fees and expenses shall be due and payable in full on March 31, 2021. Principal payments are required as follows: Fiscal year 2017 - \$609,000, Fiscal year 2018 - \$5,789,000, Fiscal year 2019 - \$6,094,000, Fiscal year 2020 - \$6,398,000 and Fiscal year 2021 - \$29,860,000.

The Credit Agreement contains certain covenants including the following:

Fixed Charge Coverage Ratio. The Company shall cause to be maintained as of the last day of each fiscal quarter, a Fixed Charge Coverage Ratio for itself and its subsidiaries on a Consolidated Basis of not less the amount set forth in the Credit Agreement, which ranges from 1.10 to 1.0 to 1.40 to 1.0.

Table of Contents

Minimum EBITDA. The Company shall cause to be maintained as of the last day of each fiscal quarter, EBITDA for itself and its subsidiaries on a Consolidated Basis of not less than the amount set forth in the Credit Agreement for each fiscal quarter specified therein, in each case, measured on a trailing four (4) quarter basis as set in the Credit Agreement, which ranges from \$13,000,000 to \$24,000,000 over the term of the Credit Agreement.

Senior Leverage Ratio. The Company shall cause to be maintained as of the last day of each fiscal quarter, a Senior Leverage Ratio for itself and its subsidiaries on a Consolidated Basis of not greater than the amount set forth in the Credit Agreement for each fiscal quarter, in each case, measured on a trailing four (4) quarter basis as set in the agreement, which ranges from 4.50 to 1.0 to 1.5 to 1.0 over the term of the Credit Agreement.

In addition to these financial covenants, the Credit Agreement includes other restrictive covenants. The Credit Agreement permits capital expenditures up to a certain level, and contains customary default and acceleration provisions. The Credit Agreement also restricts, above certain levels, acquisitions, incurrence of additional indebtedness, and payment of dividends.

At June 30, 2017, the Company was not in compliance with the EBITDA covenant, in addition to other covenants. The Company has received a waiver related to these covenants.

The Company believes that its current cash on hand and the borrowing availability under the new PNC Credit Agreement will be adequate to fund its working capital needs and provide sufficient cash for the next twelve months from the date of this report.

On October 2, 2015, the Company issued and sold a Subordinated Note in the aggregate principal amount of \$4,185,000 to JAX Legacy – Investment 1, LLC (“Jax”) pursuant to a Subscription Agreement dated October 2, 2015 between the Company and Jax. On April 3, 2017, the Company and Jax amended and restated the Subordinated Note in its entirety in the form of the 10% Convertible Subordinated Note (the “10% Note”) in the aggregate principal amount of \$4,185,000. The 10% Note matures on October 3, 2021 (the “Maturity Date”). The 10% Note is convertible into shares of the Company’s Common Stock at a conversion price equal to \$5.83 per share (subject to adjustment as provided in the 10% Note upon any stock dividend, stock combination or stock split or upon the consummation of certain fundamental transactions) (the “Conversion Price”). The 10% Note is subordinated in payment to the obligations of the Company to the lenders parties to the Credit Agreement, pursuant to a Subordination and Intercreditor Agreements, dated as of March 31, 2017 by and among the Company, the Borrowers, the Agent and Jax. The 10% Note issued to Jax is not registered under the Securities Act of 1933, as amended (the “Securities Act”). Jax is an accredited investor. The issuance of the 10% Note to Jax is exempt from the registration requirements of the Act in reliance on an exemption from registration provided by Section 4(2) of the Act.

On October 4, 2015, the Company issued to the sellers of Access Data Consulting Corporation (see note 11) a Promissory Note. Interest on the outstanding principal balance of the Promissory Note is payable at the rate of 5.5% per annum. The principal and interest amount of the Promissory Note is payable as follows: (i) for the first twelve months commencing on November 4, 2015 and ending on October 4, 2016, a monthly payment of approximately \$57,000 in principal and interest, (ii) on October 4, 2016 a balloon payment of principal of \$1,000,000, (iii) for the next twelve months commencing on November 4, 2016 and ending on October 4, 2017, a monthly payment of approximately \$28,000 in principal and interest, (iv) on October 4, 2017 a balloon payment of principal of \$1,202,000 and (v) on October 4, 2017 any and all amounts of previously unpaid principal and accrued interest. The Credit Agreement requires this loan to be subordinated to PNC and MGG, however the sellers of Access Data Consulting Corporation have not agreed to the subordination. The Company has received a waiver related to this requirement of the Credit Agreement until August 31, 2017.

On January 20, 2017, the Company entered into Addendum No. 1 (the "Addendum") to the Paladin Agreement Pursuant to the terms of the Addendum, the Company and the Sellers agreed (a) that the conditions to the "Earnouts" (as defined in the Paladin Agreement) had been satisfied or waived and (b) that the amounts payable to the Sellers in connection with the Earnouts shall be amended and restructured as follows: (i) the Company shall pay \$250,000 in cash to the Sellers on or prior to January 31, 2017 (the "Earnout Cash Payment") and (ii) the Company shall issue to the Sellers a subordinated promissory note in the principal amount of \$1,000,000 (the "Subordinated Note"). The Subordinated Note shall bear interest at the rate of 5.5% per annum. Interest on the Subordinated Note shall be payable monthly. The Subordinated Note shall have a term of three years and may be prepaid without penalty. The principal of and interest on the Subordinated Note may be paid, at the option of the Company, either in cash or in shares of common stock of the Company or in any combination of cash and common stock. The Sellers have agreed that all payments and obligations under the Subordinated Note shall be subordinate and junior in right of payment to any "Senior Indebtedness" (as defined in the Paladin Agreement) now or hereafter existing to "Senior Lenders" (current or future) (as defined in the Paladin Agreement). The Company has paid the \$250,000 cash payment to the Sellers.

Table of Contents

Pursuant to an Agreement and Plan of Merger dated as of March 31, 2017 (the “Merger Agreement”) by and among the Company, GEE Group Portfolio, Inc., a wholly owned subsidiary of the Company, (the “GEE Portfolio”), SNI Holdco Inc., a Delaware corporation (“SNI Holdco”), Smith Holdings, LLC a Delaware limited liability company, Thrivent Financial for Lutherans, a Wisconsin corporation, organized as a fraternal benefits society (“Thrivent”), Madison Capital Funding, LLC, a Delaware limited liability company (“Madison”) and Ronald R. Smith, in his capacity as both a stockholder and as the representative of the stockholders of SNI Holdco (“SNIH Stockholders”), on April 3, 2017, the Company issued and paid to certain SNIH Stockholders as part of the Merger Consideration (as defined below) an aggregate of \$12.5 million in aggregate principal amount of its 9.5% Notes. The 9.5% Notes mature on October 3, 2021 (the “Maturity Date”). The 9.5% Notes are convertible into shares of the Company’s Common Stock at a conversion price equal to \$5.83 per share. The Company has received Requisite Stockholder Approval which means approval by the stockholders of the Company in compliance with Section 712 of the NYSE MKT Company Guide and Regulation 14A under the Securities Exchange Act of 1934, as amended, of the issuance of shares of Common Stock that would constitute more than 19.99% of the Common Stock outstanding immediately prior to the closing date of the Merger (the “Conversion Limit”), (as hereinafter defined) the Company shall not be permitted to make any interest payment in shares of Common Stock to the extent that such issuance would cause the Company to exceed the Conversion Limit. Interest on the 9.5% Notes accrues at the rate of 9.5% per annum and shall be paid quarterly in arrears on June 30, September 30, December 31 and March 31, beginning on June 30, 2017, on each conversion date with respect to the 9.5% Notes (as to that principal amount then being converted), and on the Maturity Date (each such date, an “Interest Payment Date”). At the option of the Company, interest may be paid on an Interest Payment Date either in cash or in shares of Common Stock of the Company. As a result of the merger, GEE Portfolio became the owner of 100% of the outstanding capital stock of SNI Companies, Inc., a Delaware corporation and a wholly-owned subsidiary of SNI Holdco (“SNI Companies” and collectively with SNI Holdco, the “Acquired Companies”). The aggregate consideration paid for the shares of SNI Holdco (the “Merger Consideration”) was \$86 million minus the \$20,220,710.88 of Long Term Debt (as defined in the Merger Agreement) of the Acquired Companies immediately before closing plus or minus the “NWC Adjustment Amount” or the difference in the book value of the Closing Net Working Capital (as defined in Merger Agreement) of the Acquired Companies as compared to the Benchmark Net Working Capital (as defined in the Merger Agreement) of the Acquired Companies of \$9.2 million.

On April 3, 2017, the Company agreed to issue to certain SNIH Stockholders upon receipt of duly executed letters of transmittal as part of the Merger Consideration, an aggregate of approximately 5,926,000 shares of its Series B Convertible Preferred Stock to certain of the SNIH Stockholders as part of the Merger Consideration. The Series B Convertible Preferred Stock has a liquidation preference equal to \$4.86 per share and ranks senior to all “Junior Securities” (including the Company’s Common Stock) with respect to any distribution of assets upon liquidation, dissolution or winding up of the Company, whether voluntary or involuntary. In the event that the Company declares or pays a dividend or distribution on its Common Stock, whether such dividend or distribution is payable in cash, securities or other property, including the purchase or redemption by the Company or any of its subsidiaries of shares of Common Stock for cash, securities or property, the Company is required to simultaneously declare and pay a dividend on the Series B Convertible Preferred Stock on a pro rata basis with the Common Stock determined on an as-converted basis assuming all Shares had been converted as of immediately prior to the record date of the applicable dividend or distribution. On April 3, 2015, the Company filed a Statement of Resolution Establishing its Series B Convertible Preferred Stock with the State of Illinois. (the “Resolution Establishing Series”). Except as set forth in the Resolution Establishing Series, the holders of the Series B Convertible Preferred Stock have no voting rights. Pursuant to the Resolution Establishing Series, without the prior written consent of holders of not less than a majority of the then total outstanding Shares of Series B Convertible Preferred Stock, voting separately as a single class, the Company shall not create, or authorize the creation of, any additional class or series of capital stock of the Company

(or any security convertible into or exercisable for any class or series of capital stock of the Company) that ranks pari passu with or superior to the Series B Convertible Preferred Stock in relative rights, preferences or privileges (including with respect to dividends, liquidation or voting). Each share of Series B Convertible Preferred Stock shall be convertible at the option of the holder thereof into one share of Common Stock at an initial conversion price equal to \$4.86 per share, each as subject to adjustment in the event of stock splits, stock combinations, capital reorganizations, reclassifications, consolidations, mergers or sales, as set forth in the Resolution Establishing Series: provided, however, that unless and until such time as the Company has received Requisite Stockholder Approval (as defined above) a holder of Shares of Series B Convertible Preferred Stock shall not be permitted to effect any conversion of any shares of Series B Preferred Stock to the extent that the shares of Common Stock issuable upon such conversion when taken together with the shares of Common Stock previously issued with respect to (i) prior conversions of shares of Series B Convertible Preferred Stock, and/or (ii) prior conversions of any 9.5% Notes and/or (iii) the payment of dividends on any 9.5% Notes in shares of Common Stock and/or (iv) otherwise in connection with the issuance of the 9.5% Notes would result in the issuance of shares of Common Stock that exceed the Conversion Limit.

None of the shares of Series B Preferred Stock issued to the SNIH Stockholders are registered under the Securities Act. Each of the SNIH Stockholders who received shares of Series B Preferred Stock is an accredited investor. The issuance of the shares of Series B Preferred Stock to such SNIH Stockholders is exempt from the registration requirements of the Act in reliance on an exemption from registration provided by Section 4(2) of the Act.

In recent years, the Company has incurred significant losses and negative cash flows from operations. Management has implemented a strategy which included cost reduction efforts as well as identifying strategic acquisitions, financed primarily through the issuance of common stock, to improve the overall profitability and cash flows of the Company. Management believes with the availability under the PNC Credit Agreement and its current cash, the Company will have sufficient liquidity for the next 12 months.

### **Off-Balance Sheet Arrangements**

As of June 30, 2017, there were no transactions, agreements or other contractual arrangements to which an unconsolidated entity was a party, under which the Company (a) had any direct or contingent obligation under a guarantee contract, derivative instrument or variable interest in the unconsolidated entity, or (b) had a retained or contingent interest in assets transferred to the unconsolidated entity.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Not applicable.

### **Item 4. Controls and Procedures.**

*Disclosure Controls and Procedures*

As of June 30, 2017, the Company's management evaluated, with the participation of its principal executive officer and its principal financial officer, the effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act"). Based on that evaluation, the Company's principal executive officer and its principal financial officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2017.

*Changes in Internal Control over Financial Reporting*

There were no changes in the Company's internal control over financial reporting or in any other factors that could significantly affect these controls, during the Company's third quarter ended June 30, 2017, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

**PART II – OTHER INFORMATION.**

**Item 1. Legal Proceedings.**

As of June 30, 2017, there were no material legal proceedings pending against the Company.

**Item 1A. Risk Factors.**

Not required.

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

Not required.

**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**

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

<b>No.</b>	<b>Description of Exhibit</b>
<u>10.1</u>	<u>Waiver to the Revolving Credit, Term Loan and Security Agreement dated as of August 14, 2017 by and among the Company, each Subsidiary of the Company listed as a “Borrower” on the signature pages thereto and each subsidiary of the Company listed as a “Guarantor” on the signature pages thereto and PNC Bank, National Association, as administrative agent and collateral agent for certain investment funds managed by MGG Investment Group LP.</u>
<u>31.01</u>	<u>Certifications of the principal executive officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.</u>
<u>31.02</u>	<u>Certifications of the principal financial officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.</u>
<u>32.01</u>	<u>Certifications of the principal executive officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act and Section 1350 of Title 18 of the United States Code.</u>
<u>32.02</u>	<u>Certifications of the principal financial officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act and Section 1350 of Title 18 of the United States Code.</u>
101.INS	Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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.

**GEE GROUP INC.**  
(Registrant)

Date: August 14, 2017

By: */s/ Derek Dewan*  
Derek Dewan  
Chief Executive Officer  
(Principal Executive Officer)

By: */s/ Andrew J. Norstrud*  
Andrew J. Norstrud  
Chief Financial Officer  
(Principal Financial and Accounting  
Officer)