GENERAL EMPLOYMENT ENTERPRISES INC
Form 10-K
December 29, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

x Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended **September 30, 2015**

¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number **1-05707**

GENERAL EMPLOYMENT ENTERPRISES, INC.

(Exact name of registrant as specified in its charter)

Illinois (State or other jurisdiction of incorporation or organization)	**36-6097429** (I.R.S. Employer Identification Number)
184 Shuman Blvd., Suite 420, Naperville, IL (Address of principal executive offices)	**60563** (Zip Code)

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, no par value	NYSE MKT

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to the Form 10-K. o

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

Large accelerated filer	o	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	x

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

The aggregate market value of shares of common stock held by non-affiliates of the registrant on March 31, 2015 was 2,577,365 x 9.10 = $23,454,022.

The number of shares outstanding of the registrant's common stock as of December 29, 2015 was 9,256,311.

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PART IV

PART I

Forward Looking Statements

This Annual Report on Form 10-K includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Company has based these forward-looking statements on the Company's current expectations and projections about future events. These forward-looking statements are subject to known and unknown risks, uncertainties and assumptions about us and the Company's subsidiaries that may cause the Company's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "would," "expect," "plan," "anticipate," "believe," "estimate," "continue" or the negative of such terms or other similar expressions. Factors that might cause or contribute to such a material difference include, but are not limited to, those discussed elsewhere in this Annual Report, including the section entitled "Risk Factors" and the risks discussed in the Company's other Securities and Exchange Commission filings. The following discussion should be read in conjunction with the Company's audited Financial Statements and related Notes thereto included elsewhere in this report.

Item 1. Business.

General

General Employment Enterprises, Inc. (the "Company", "us", "our" or "we") was incorporated in the State of Illinois in 1962 and is the successor to employment offices doing business since 1893. In 1987, the Company established Triad Personnel Services, Inc., a wholly-owned subsidiary, incorporated in the State of Illinois. In June 2010, the Company purchased certain assets of On-Site Services, a temporary staffing agricultural business, which was discontinued as of July 7, 2013. In December 2010, the Company purchased certain assets of DMCC Staffing, LLC ("DMCC") and RFFG of Cleveland, LLC ("RFFG of Cleveland") an industrial staffing business located in the State of Ohio. In August 2011, the Company purchased certain assets of Ashley Ellis, LLC ("Ashley Ellis"), a professional staffing and placement business.

In April 2015, the Company entered into a stock exchange agreement with Brittany M. Dewan as Trustee of the Derek E. Dewan Irrevocable Living Trust II dated the 27th of July, 2010, Brittany M. Dewan, individually, Allison Dewan, individually, Mary Menze, individually, and Alex Stuckey, individually (collectively, the "Scribe Shareholders"), pursuant to which the Company acquired 100% of the outstanding stock of Scribe Solutions Inc., a provider of data entry assistants (medical scribes) who specialize in electronic medical records (EMR) services for emergency departments, specialty physician practices and clinics ("Scribe"), from the Scribe Shareholders for 640,000 shares of Series A Preferred Stock of the Company. In addition, the Company issued to the Scribe Shareholders warrants to purchase shares of the Company's common stock in exchange for warrants to purchase shares of Scribe's common stock.

In July 2015, the Company entered into a stock purchase agreement with Tricia Dempsey (the "Agile Seller"), pursuant to which the Company acquired on July 31, 2015, 100% of the outstanding stock of Agile Resources, Inc., a Georgia corporation and a provider of innovative IT staffing solutions and IT consulting services, for up to a total of approximately $4,000,000 in consideration, subject to certain adjustments. The purchase price consisted of $2,500,000 in cash (subject to minimum working capital), the issuance to the Agile Seller of 120,192 shares of

Company common stock and up to $500,000 of an "earnout".

On October 4, 2015 the Company entered into a Stock Purchase Agreement with William Daniel Dampier and Carol Lee Dampier (the "Access Sellers") pursuant to which the Company acquired on October 4, 2015, 100% of the outstanding stock of Access Data Consulting Corporation., a Colorado corporation, for a purchase price equal to approximately $15,000,000 in consideration. The purchase price consisted of $8,000,000 in cash (subject to minimum working capital), the issuance to the Access Sellers 327,869 share of Company common stock, a promissory note in the aggregate of $3,000,000 and up to $2,000,000 of an "earnout".

Recent Developments

On October 9, 2015, the Company filed a certificate of change to our amended and restated articles of incorporation with the Secretary of the State of Illinois in order to effectuate a reverse stock split of our issued and outstanding common stock on a 1-for-10 basis (the "Reverse Stock Split"); and increased the total number of authorized shares of Common Stock of the Company from 20,000,000, post Reverse Stock Split, to 200,000,000 (the "Capital Increase").The Reverse Stock Split and the Capital Increase, were approved by the Company's shareholders at an annual meeting held on September 15, 2015.

The Reverse Stock Split became effective with the FINRA as of the open of business on October 9, 2015. As a result of the Reverse Stock Split, every 10 shares of the Company's pre-Reverse Split common stock was combined and reclassified into one share of the Company's common stock. No fractional shares of common stock were issued as a result of the Reverse Split.

Throughout this annual report on Form 10-K, each instance that refers to a number of shares of the Company's common stock, refers to the number of shares of common stock after giving effect to the Reverse Stock Split, unless otherwise indicated.

Services Provided

The Company and its subsidiaries provide the following distinctive services: (a) professional placement services specializing in the placement of information technology, engineering, medical and accounting professionals for direct hire and contract staffing, and (b) temporary staffing services in light industrial staffing. As a result of our acquisition of 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.

Together with its subsidiaries, the Company provides staffing services through a network of branch offices located in major metropolitan areas throughout the United States. The Company's professional staffing services provide information technology, engineering, medical and accounting professionals to clients on either a regular placement basis or a temporary contract basis. The Company's industrial staffing business provides weekly temporary staffing for light industrial clients in Ohio and Pennsylvania.

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

	Year Ended September 30,	
	2015	**2014**
Industrial contract services	61%	63%
Professional contract services	24%	19%

Direct hire placement services	15%	18%

Marketing

The Company markets its services using the trade names General Employment Enterprises, Omni One, Business Management Personnel, Ashley Ellis, Agile Resources, Scribe Solutions Inc., Access Data Consulting Corporation, Triad Personnel Services, Triad Staffing, Generation Technologies, BMCH, and BMCHPA. As of September 30, 2015, it operated eighteen branch offices in downtown or suburban areas of major U.S. cities in nine states. The offices are located in Arizona, California (2), Florida (3), Georgia (1), Illinois (1), Indiana (1), Massachusetts (1), Ohio (7) and Texas.

The Company markets its staffing services to prospective clients primarily through telephone marketing by its recruiting and sales consultants, and through mailing of employment bulletins which list candidates available for placement and contract employees available for assignment.

There was no customer that represented more than 10% of the Company's consolidated revenue in fiscal 2015 or fiscal 2014.

Competition

The staffing industry is highly competitive. There are relatively few barriers to entry by firms offering placement services, while significant amounts of working capital typically are required for firms offering contract services. The Company's competitors include a large number of sole-proprietorship operations, as well as regional and national organizations. Many of them are large corporations with substantially greater resources than the Company.

The Company's professional and industrial staffing services compete by providing highly qualified candidates who are well matched for the position, by responding quickly to client requests, and by establishing offices in convenient locations. As part of its service, the Company provides professional reference checking, scrutiny of candidates' work experience and optional background checks. In general, pricing is considered to be secondary to quality of service as a competitive factor. During slow hiring periods, however, competition can put pressure on the Company's pricing.

Recruiting

The success of the Company's services is highly dependent on its ability to obtain qualified candidates. Prospective employment candidates are generally recruited through telephone contact by the Company's employment consultants or through postings on the Internet. For Internet postings, the Company maintains its own web page at www.generalemployment.com and uses other Internet job posting bulletin board services. The Company maintains database records of applicants' skills to assist in matching them with job openings and contract assignments. The Company generally screens and interviews all applicants who are presented to its clients.

Employees

As of September 30, 2015, the Company had approximately 122 regular employees and the number of contract service employees varied week to week from a minimum of approximately 500 to a maximum of 1,500.

Available Information

We file annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy and information statements and amendments to reports filed or furnished pursuant to Sections 13(a), 14 and 15(d) of the Exchange Act. The public may obtain these filings at the Securities and Exchange Commission (the "SEC") Public Reference Room at 100 F Street, NE, Washington DC 20549 or by calling the SEC at 1-800-SEC-0330. The SEC also maintains a web site at http//www.sec.gov that contains reports, proxy and information statements and other information regarding the Company and other companies that file material with the SEC electronically. Copies of the Company's reports can be obtained, free of charge, electronically through our internet website, http//www.generalemployment.com. Information on the Company's website is not incorporated in this report by the foregoing reference.

Item 1A. Risk Factors.

WE HAVE EXPERIENCED LOSSES FROM OPERATIONS AND MAY NOT BE PROFITABLE IN THE FUTURE.

The Company experienced losses for the years ended September 30, 2015 and September 30, 2014. There can be no assurance that the Company will not incur losses in the future. There are no assurances that the Company will be able to generate sufficient revenue to meet its operating expenditures or operate profitably in the future.

RECENT GLOBAL TRENDS IN THE FINANCIAL MARKETS COULD ADVERSELY AFFECT OUR BUSINESS, LIQUIDITY AND FINANCIAL RESULTS.

Recent global economic conditions, including disruption of financial markets, could adversely affect our business and results of operations, primarily through limiting our access to credit, our ability to refinance debt and disrupting our customers' businesses, which are heavily dependent on retail and e-commerce transactions. Although we currently believe that we will be able to obtain the necessary financing in the future, there is no assurance that these institutions will be able to loan us the necessary capital, which could have a material adverse impact on our business. In addition, continuation or worsening of general market conditions in the United States economy important to our businesses may adversely affect our customers' level of spending, ability to obtain financing for acquisitions and ability to make timely payments to us for our services, which could require us to increase our allowance for doubtful accounts, negatively impact our days sales outstanding and adversely affect our results of operations.

WE DEPEND ON ATTRACTING, INTEGRATING, MANAGING, AND RETAINING QUALIFIED PERSONNEL.

Our success depends upon our ability to attract, integrate, manage and retain personnel who possess the skills and experience necessary to fulfill our clients' needs. Our ability to hire and retain qualified personnel could be impaired by any diminution of our reputation, decrease in compensation levels relative to our competitors or modifications to our total compensation philosophy or competitor hiring programs. If we cannot attract, hire and retain qualified personnel, our business, financial condition and results of operations may suffer. Our future success also depends upon our ability to manage the performance of our personnel. Failure to successfully manage the performance of our personnel could affect our profitability by causing operating inefficiencies that could increase operating expenses and reduce operating income.

WE MAY NOT BE ABLE TO COMPETE EFFECTIVELY.

Competition in the market for placement and staffing services is intense. The Company faces competition from many larger, more established companies. In addition, other companies could seek to introduce competing services and increased competition could result in a decrease in the price charged by the Company's competitors for their services or reduce demand for the Company's products and services, which would have a material adverse effect on the Company's business, operating results and financial condition. There can be no assurance that the Company will be able to compete successfully with its existing or potential competitors, which may have substantially greater financial, technical, and marketing resources, longer operating histories, greater name recognition or more established relationships in the industry than the Company. If any of these competitors provides competitive services to the marketplace in the future, the Company cannot be sure that it will have the resources or expertise to compete successfully.

CHANGES IN GOVERNMENT REGULATION COULD LIMIT OUR GROWTH OR RESULT IN ADDITIONAL COSTS OF DOING BUSINESS.

We are subject to the same federal, state and local laws as other companies conducting placement and staffing services, which is extensive. The adoption or modification of laws related to the placement and staffing industry, such as the Healthcare for America Plan, could harm our business, operating results and financial condition by increasing our costs and administrative burdens.

INTERRUPTION OF THE COMPANY'S BUSINESS COULD RESULT FROM INCREASED SECURITY MEASURES IN RESPONSE TO TERRORISM.

The continued threat of terrorism within the United States and the ongoing military action and heightened security measures in response to such threat has and may cause significant disruption to commerce. The U.S. economy in general is being adversely affected by terrorist activities and potential activities. Any economic downturn could adversely impact the Company's results of operations, impair the Company's ability to raise capital or otherwise adversely affect the Company's ability to grow the business. It is impossible to predict how this may affect the Company's business or the economy in the U.S. and in the world. In the event of further threats or acts of terrorism, the Company's business and operations may be severely and adversely affected or destroyed.

SUBSTANTIAL ALTERATION OF THE COMPANY'S CURRENT BUSINESS AND REVENUE MODEL COULD HURT SHORT-TERM RESULTS.

The Company's present business and revenue model represents the current view of the optimal business and revenue structure, which is to derive revenues and achieve profitability in the shortest period. There can be no assurance that current models will not be altered significantly or replaced with an alternative model that is driven by motivations other than near-term revenues and/or profitability (for example, building market share before the Company's competitors). Any such alteration or replacement of the business and revenue model may ultimately result in the deferring of certain revenues in favor of potentially establishing larger market share. The Company cannot assure that any adjustment or change in the business and revenue model will prove to be successful.

THE REQUIREMENTS OF BEING A PUBLIC COMPANY MAY STRAIN OUR RESOURCES AND DISTRACT MANAGEMENT.

As a public company, we are subject to the reporting requirements of the Exchange Act and the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"). These requirements are extensive. The Exchange Act requires that we file annual, quarterly and current reports with respect to our business and financial condition. The Sarbanes-Oxley Act requires that we maintain effective disclosure controls and procedures and internal controls over financial reporting.

We may incur significant costs associated with our public company reporting requirements and costs associated with applicable corporate governance requirements. We expect all of these applicable rules and regulations to significantly increase our legal and financial compliance costs and to make some activities more time consuming and costly. This may divert management's attention from other business concerns, which could have a material adverse effect on our business, financial condition and results of operations. We also expect that these applicable rules and regulations may make it more difficult and more expensive for us to obtain director and officer liability insurance and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our Board of Directors or as executive officers. We are currently evaluating and monitoring developments with respect to these rules, and we cannot predict or estimate the amount of additional costs we may incur or the timing of such costs.

FAILURE TO ACHIEVE AND MAINTAIN EFFECTIVE INTERNAL CONTROLS IN ACCORDANCE WITH SECTION 404 OF THE SARBANES-OXLEY ACT COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS AND OPERATING RESULTS. IN ADDITION, CURRENT AND POTENTIAL STOCKHOLDERS COULD LOSE CONFIDENCE IN OUR FINANCIAL REPORTING, WHICH COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR STOCK PRICE.

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. If we cannot provide reliable financial reports or prevent fraud, our operating results could be harmed. We are required to document and test our internal control procedures in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act, which requires annual management assessments of the effectiveness of our internal controls over financial reporting. During the course of our testing, we may identify deficiencies which we may not be able to remediate in time for compliance with the requirements of Section 404. In addition, if we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time; we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Failure to achieve and maintain an effective internal control environment could also cause investors to lose confidence in our reported financial information, which could have a material adverse effect on our stock price.

We cannot provide assurance as to the result of these efforts. We cannot be certain that any measures we take will ensure that we implement and maintain adequate internal controls in the future. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations.

A MORE ACTIVE, LIQUID TRADING MARKET FOR OUR COMMON STOCK MAY NOT DEVELOP, AND THE PRICE OF OUR COMMON STOCK MAY FLUCTUATE SIGNIFICANTLY.

Although our common stock is listed on the NYSE MKT, we cannot assure you that an active public market will develop for our common stock. There has been relatively limited trading volume in the market for our common stock, and a more active, liquid public trading market may not develop or may not be sustained. Limited liquidity in the trading market for our common stock may adversely affect a stockholder's ability to sell its shares of common stock at the time it wishes to sell them or at a price that it considers acceptable. If a more active, liquid public trading market does not develop, we may be limited in our ability to raise capital by selling shares of common stock and our ability to acquire other companies or assets by using shares of our common stock as consideration. In addition, if there is a thin trading market or "float" for our stock, the market price for our common stock may fluctuate significantly more than the stock market as a whole. Without a large float, our common stock would be less liquid than the stock of companies with broader public ownership and, as a result, the trading prices of our common stock may be more volatile. Furthermore, the stock market is subject to significant price and volume fluctuations, and the price of our common stock could fluctuate widely in response to several factors, including:

- our quarterly or annual operating results;
- changes in our earnings estimates;
- investment recommendations by securities analysts following our business or our industry;
- additions or departures of key personnel;
- changes in the business, earnings estimates or market perceptions of our competitors;
- our failure to achieve operating results consistent with securities analysts' projections;
- changes in industry, general market or economic conditions; and
- announcements of legislative or regulatory changes.

The stock market has experienced extreme price and volume fluctuations in recent years that have significantly affected the quoted prices of the securities of many companies, including companies in our industry. The changes often appear to occur without regard to specific operating performance. The price of our common stock could fluctuate based upon factors that have little or nothing to do with our company and these fluctuations could materially reduce our stock price.

NO DIVIDENDS ANTICIPATED.

We intend to retain all future earnings for use in the development of our business and do not anticipate paying any cash dividends on our common stock in the near future. We may not pay any cash dividends on our common stock unless all dividends on our Series A Preferred Stock are fully declared and paid. Subject to certain limited exclusions set forth in the Certificate of Designations with respect to the Series A Preferred Stock, if we declare or pay a dividend or distribution on our common stock, whether such dividend or distribution is payable in cash, securities or other property, we are required to simultaneously declare and pay a dividend on our Series A Preferred Stock on a pro rata basis with our common stock determined on an as-converted basis assuming all shares of Series A Preferred Stock had been converted immediately prior to the record date of the applicable dividend (or if no record date is fixed, the date as of which the record holders of common stock entitled to such dividends are to be determined).

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

There is no guarantee that we will be able to obtain any additional financing that may be required to continue to expand our business. Our continued viability depends on our ability to raise capital. Changes in economic, regulatory or competitive conditions may lead to cost increases. Management may also determine that it is in our best interest to expand more rapidly than currently intended, to expand marketing activities, to develop new or enhance existing services or products, to respond to competitive pressures or to acquire complementary services, businesses or technologies. In any such case or other change of circumstance, additional financing will be necessary. If any additional financing is required, there can be no assurances that we will be able to obtain such additional financing on terms acceptable to us and at times required by us, if at all. In such event, we may be required to materially alter our business plan or curtail all or a part of our expansion plans.

WE MAY NOT BE ABLE TO MANAGE EXPECTED GROWTH AND INTERNAL EXPANSION.

We have not yet undergone the significant managerial and internal expansion that we expect will occur, and our inability to manage growth could hurt our results of operations. Expansion of our operations will be required to address anticipated growth of our customer base and market opportunities. Expansion will place a significant strain on our management, operational and financial resources. Currently, we have a limited number of employees. We will need to improve existing procedures and controls as well as implement new transaction processing, operational and financial systems, procedures and controls to expand, train and manage our employee base. Our failure to manage growth effectively could have a damaging effect on our business, results of operations and financial condition.

WE COULD BE HARMED BY IMPROPER DISCLOSURE OR LOSS OF SENSITIVE OR CONFIDENTIAL COMPANY, EMPLOYEE, ASSOCIATE OR CLIENT DATA, INCLUDING PERSONAL DATA.

In connection with the operation of our business, we store, process and transmit a large amount of data, including personnel and payment information, about our employees, clients, associates and candidates, a portion of which is confidential and/or personally sensitive. In doing so, we rely on our own technology and systems, and those of third party vendors we use for a variety of processes. We and our third party vendors have established policies and procedures to help protect the security and privacy of this information. Unauthorized disclosure or loss of sensitive or confidential data may occur through a variety of methods. These include, but are not limited to, systems failure, employee negligence, fraud or misappropriation, or unauthorized access to or through our information systems, whether by our employees or third parties, including a cyberattack by computer programmers, hackers, members of organized crime and/or state-sponsored organizations, who may develop and deploy viruses, worms or other malicious software programs.

Such disclosure, loss or breach could harm our reputation and subject us to government sanctions and liability under our contracts and laws that protect sensitive or personal data and confidential information, resulting in increased costs or loss of revenues. It is possible that security controls over sensitive or confidential data and other practices we and our third party vendors follow may not prevent the improper access to, disclosure of, or loss of such information. The potential risk of security breaches and cyberattacks may increase as we introduce new services and offerings, such as mobile technology. Further, data privacy is subject to frequently changing rules and regulations, which sometimes conflict among the various jurisdictions and countries in which we provide services. Any failure or perceived failure to successfully manage the collection, use, disclosure, or security of personal information or other privacy related matters, or any failure to comply with changing regulatory requirements in this area, could result in legal liability or impairment to our reputation in the marketplace.

WE COULD BE ADVERSELY AFFECTED BY RISKS ASSOCIATED WITH ACQUISITIONS AND JOINT VENTURES.

We intend to expand our business through investments in joint ventures with, or acquisitions of, complementary businesses, technologies, services or products, subject to our business plans and management's ability to identify, acquire and develop suitable investments or acquisition targets in both new and existing service categories. In certain circumstances, acceptable investments or acquisition targets might not be available. Acquisitions involve a number of risks, including: (1) difficulty in integrating the operations, technologies, products and personnel of an acquired business, including consolidating redundant facilities and infrastructure; (2) potential disruption of our ongoing business and the distraction of management from our day-to-day operations; (3) difficulty entering markets in which we have limited or no prior experience and in which competitors have a stronger market position; (4) difficulty maintaining the quality of services that such acquired companies have historically provided; (5) potential legal and financial responsibility for liabilities of acquired businesses; (6) overpayment for the acquired company or assets or failure to achieve anticipated benefits, such as cost savings and revenue enhancements; (7) increased expenses associated with completing an acquisition and amortizing any acquired intangible assets; (8) challenges in implementing uniform standards, accounting policies, customs, controls, procedures and policies throughout an acquired business; (9) failure to retain, motivate and integrate key management and other employees of the acquired business; and (10) loss of customers and a failure to integrate customer bases.

In addition, if we incur indebtedness to finance an acquisition, it may reduce our capacity to borrow additional amounts and requiring us to dedicate a greater percentage of our cash flow from operations to payments on our debt, thereby reducing the cash resources available to us to fund capital expenditures, pursue other acquisitions or investments in new business initiatives and meet general corporate and working capital needs. This increased indebtedness may also limit our flexibility in planning for, and reacting to, changes in or challenges relating to our business and industry.

The use of our common stock or other securities (including those convertible into or exchangeable or exercisable for our common stock) to finance any such acquisition may also result in dilution of our existing shareholders.

The potential risks associated with future acquisitions could disrupt our ongoing business, result in the loss of key customers or personnel, increase expenses and otherwise have a material adverse effect on our business, results of operations and financial condition.

WE FACE SIGNIFICANT EMPLOYMENT-RELATED LEGAL RISK.

We employ people internally and in the workplaces of other businesses. Many of these individuals have access to client information systems and confidential information. An inherent risk of such activity includes possible claims of errors and omissions; intentional misconduct; release, misuse or misappropriation of client intellectual property, confidential information, funds, or other property; cyber security breaches affecting our clients and/or us; discrimination and harassment claims; employment of illegal aliens; criminal activity; torts; or other claims. Such claims may result in negative publicity, injunctive relief, criminal investigations and/or charges, civil litigation, payment by us of monetary damages or fines, or other material adverse effects on our business.

Item 1B. Unresolved Staff Comments.

Not applicable.

Item 2. Properties.

The Company's policy is to lease commercial office space for all of its offices. The Company's headquarters are located in a building near Chicago, Illinois. The Company leases approximately 5,000 square feet of space at that location under a lease that will expire in 2018.

The Company's staffing offices are located in downtown and suburban business centers in the following nine states: Arizona, California, Florida, Illinois, Georgia, Indiana, Ohio, Texas, and Massachusetts. Established offices are operated from leased space ranging from 800 to 7,500 square feet, generally for initial lease periods of one to five years, with cancellation clauses after certain periods of occupancy in some cases. Management believes that existing facilities are adequate for the Company's current needs and that its leasing strategies provide the Company with sufficient flexibility to open or close offices to accommodate business needs.

Item 3. Legal Proceedings.

As of September 30, 2015, the Company was not a party to any material legal proceedings.

Item 4. Mine Safety Disclosures.

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

The Company's common stock is listed on the NYSE MKT and is traded under the symbol "JOB." The following table sets forth the quarterly high and low sales prices per share of the Company's common stock on the consolidated market for each quarter within the last two fiscal years.

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Fiscal 2015:				
High	$ 9.80	$ 12.00	$ 17.40	$ 18.70
Low	3.60	7.10	5.80	1.20
Fiscal 2014:				
High	$ 2.00	$ 2.30	$ 4.30	$ 3.00
Low	1.60	1.60	1.80	1.70

Holders of Record

There were approximately 636 holders of record of the Company's common stock on December 28, 2015.

Dividends

No dividends were declared or paid during the years ended September 30, 2015 and September 30, 2014. We do not anticipate paying any cash dividends for the foreseeable future.

During the years ended September 30, 2015 and 2014, no equity securities of the Company were repurchased by the Company.

Securities Authorized for Issuance under Equity Compensation Plans

As of September 30, 2015, there were stock options outstanding under the Company's 1995 Stock Option Plan, Second Amended and Restated 1997 Stock Option Plan, 1999 Stock Option Plan and the 2011 Company Incentive Plan. All four plans were approved by the shareholders. The 1995 Stock Option Plan and the 1999 Stock Option Plan have expired, and no further options may be granted under those plans. During fiscal 2009, the Second Amended and Restated 1997 Stock Option Plan was amended to make an additional 59,200 options available for granting and as of September 30, 2013, there were no shares available for issuance under the Amended and Restated 1997 Stock Option Plan. As of September 30, 2015, there were shares available for issuance under the 2011 Company Incentive Plan, however management does not anticipate issuing any shares under these plans. The plans granted specified numbers of options to non-employee directors, and they authorized the Compensation Committee of the Board of Directors to grant either incentive or non-statutory stock options to employees. Vesting periods are established by the Compensation Committee at the time of grant. All stock options outstanding as of September 30, 2015 and September 30, 2014 were non-statutory stock options, had exercise prices equal to the market price on the date of grant, and had expiration dates ten years from the date of grant.

On July 23, 2013, the Board of Directors approved the Company's 2013 Incentive Stock Plan (the "2013 Plan"), and resolved to cease issuing securities under all prior Company equity compensation plans. The 2013 Plan was approved by the Company's shareholders at the Annual Meeting of Stockholders on September 9, 2013. The purpose of the 2013 Plan is to provide additional incentives to select persons who can make, are making, and continue to make substantial contributions to the growth and success of the Company, to attract and retain the employment and services of such persons, and to encourage and reward such contributions, by providing these individuals with an opportunity to acquire or increase stock ownership in the Company through either the grant of options or restricted stock. The 2013 Plan is administered by the Compensation Committee or such other committee as is appointed by the Board of Directors pursuant to the 2013 Plan (the "Committee"). The Committee has full authority to administer and interpret the provisions of the 2013 Plan including, but not limited to, the authority to make all determinations with regard to the terms and conditions of an award made under the 2013 Plan. The maximum number of shares that may be granted under the 2013 Plan is 1,000,000. This number is subject to adjustment to reflect changes in the capital structure or organization of the Company.

(number of shares in thousands)	Number of securities to be issued upon exercise of outstanding options, warrants and rights		Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column)
Plan category				
Equity compensation plans approved by security holders	414	$	5.05	530(1)
Equity compensation plans not approved by security holders	-		-	-
Total	414	$	5.05	530(1)

(1) Includes only the Options that could be issuable under the 2013 Plan.

Item 6. Selected Financial Data.

Not applicable.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

You should read the following discussion in conjunction with our consolidated financial statements and related notes included elsewhere in this report. Management's discussion and analysis contains forward-looking statements that are provided to assist in the understanding of anticipated future performance. However, future performance involves risks and uncertainties which may cause actual results to differ materially from those expressed in the forward-looking statements. See "*Forward-Looking Statements"*.

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 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 acquisition of Agile expanded our geographical footprint within the placement and contract staffing of information technology.

Our staffing services are provided through a network of eighteen branch offices located in downtown or suburban areas of major U.S. cities in nine states. We have one office located in each of Arizona, Indiana, Massachusetts, North Carolina and Texas, two offices in each of California, Florida and Illinois and seven offices in Ohio.

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

Net Revenues

Consolidated net revenues are comprised of the following:

	Year Ended September 30,	
(In Thousands)	**2015**	**2014**
Industrial contract services	$ 26,499	$ 25,031
Professional contract services	10,223	7,692
Direct hire placement services	6,665	7,088
Consolidated net revenues	$ 43,387	$ 39,811

Consolidated net revenues increased approximately $3,576,000 or 9% compared with the same period last year. The Company acquired Scribe as of April 1, 2015, and Agile as of July 31, 2015, which increased the professional contract services by approximately $2,087,000 and $1,277,000 respectively. The Acquisition of Agile increased direct hire revenue by approximately $273,000. With the recent capital raise and addition of executive management, the Company has stabilized its sales force and is investing in revenue growth. Overall the professional services division continues to have less experienced recruiters working during the year ended September 30, 2015 compared to the prior year. Management continues to take action to increase the number of experienced recruiters and improve the profitability of both divisions.

Cost of Contract Services

Consolidated cost of contract services are comprised of the following:

	Year Ended September 30,	
(In Thousands)	**2015**	**2014**
Industrial contract services	$ 23,234	$ 21,117
Professional contract services	7,000	5,300
Consolidated cost of contract services	$ 30,234	$ 26,417

Cost of services includes wages and related payroll taxes and employee benefits of the Company's employees while they work on contract assignments. Cost of contract services for the year ended September 30, 2015, increased by approximately 15% to approximately $30 million compared with the prior year of approximately $26 million. Cost of contract services, as a percentage of contract revenue, for the year ended September 30, 2015, increased by approximately 3% to 70% compared to 67% in the prior year. The change in the contract revenue gross margin is related to several factors, including Ohio workers compensation rebate received in 2014, higher professional service contract revenue and the overall decrease in our workers compensation rates for the state of Ohio, as the rate was decreased by approximately 25% as of July 1, 2014.

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Gross Profit percentage by segment:

Gross Profit Margin %	Year Ended September 30, 2015	Year Ended September 30, 2014
Direct hire placement services	100%	100%
Industrial contract services	12.3%	15.6%
Professional contract services	31.5%	31.1%
Combined Gross Profit Margin % (1)	30.3%	33.6%

(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, depreciation and amortization, and other office operating expenses.
- Recruitment advertising, which includes the cost of identifying job applicants.
- Other selling, general and administrative expenses, which includes travel, bad debt expense, fees for outside professional services and other corporate-level expenses such as business insurance and taxes.
- Acquisition, integration and restructuring charges, are legal expenses, travel expenses, finders 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 recurring basis in normal operations, without acquisitions.

The Company's largest selling, general and administrative expense is for compensation in the operating divisions. Most of the Company's employment consultants are paid on a commission basis and receive advances against future commissions. When commissions are earned, prior advances are applied against them and the consultant is paid the net amount. At that time, the Company recognizes the full amount as commission expense, and advance expense is reduced by the amount recovered. Thus, the Company's advance expense represents the net amount of advances paid, less amounts applied against commissions.

Selling, general and administrative expenses for the year ended September 30, 2015, increased by approximately $751,000 to approximately $14.8 million as compared to the prior year of approximately $14 million. The increase was primarily related to the general selling, general and administrative expenses of Scribe Solutions Inc. and Agile Resources Inc. and the additional acquisition, integration and restructuring expenses of approximately $373,000 incurred during the year.

Interest Expense

Interest expense for the year ended September 30, 2015, increased $37,000, or 8% compared with the prior year primarily as a result of a change in lender, the interest expense for acquisition payments and higher average borrowings during fiscal year 2015.

Derivative Gain or Loss

Derivative loss for the year ended September 30, 2015, increased $2,298,000, compared with the prior year primarily as a result of a significant increase in the market value of the Company common shares.

Loss on Extinguishment of Debt

Loss on the extinguishment of debt for the year ended September 30, 2015, increased $234,000, compared with the prior year as the debt was converted during the year.

Discontinued Operations

As a result of terminating our Agricultural Division in July of 2013, we have classified the operations of that division to loss from discontinued operations, in the accompanying statement of operations. For the years ended September 30, 2015 and 2014, the Company recognized a loss of $0 and $230,000, respectively, for this division.

Taxes

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

Liquidity and Capital Resources

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

	For the year ended September 30, 2015	**For the year ended September 30, 2014**

Cash flows (used in) provided by continuing operating activities	$	(650)	$	308
Cash flows used in investing activities	$	(2,762)	$	(371)
Cash flows provided by (used in) financing activities	$	9,176	$	(108)

As of September 30, 2015, the Company had cash and cash equivalents of approximately $5,932,000, which was an increase of approximately $5,764,000 from approximately $168,000 at September 30, 2014. Working capital at September 30, 2015 was approximately $5,636,000, as compared to negative working capital of approximately $909,000 for September 30, 2014. The Company's current ratio was approximately 177%, an increase of approximately 89% from the prior year. Shareholders' equity as of September 30, 2015, was approximately $19,237,000 which represented approximately 72% of total assets. The net loss for the year ended September 30, 2015, was approximately $4,662,000.

Net cash (used in) provided by operating activities for the years ended September 30, 2015 and 2014 was approximately ($650,000) and $286,000, respectively. The fluctuation is due to the significant increase in account receivable, payments of accrued expenses and the acceleration of accounts payable payments to avoid additional late fee expenses, net losses and payments of certain compensation related accruals.

Net cash used in investing activities for the years ended September 30, 2015 and 2014 was ($2,762,000) and ($371,000) respectively. These uses related primarily to acquisition payments of Agile, final earn out payments to RFFG and purchasing of fixed assets.

Net cash flow provided by financing activities for the year ended September 30, 2015 was approximately $9,176,000 compared to ($108,000) used in the year ended September 30, 2014. Fluctuations in financing activities are attributable to the level of borrowings and two significant capital raises.

All of the Company's office facilities are leased. As of September 30, 2015, future minimum lease payments under non-cancelable lease commitments having initial terms in excess of one year, including closed offices, totaled approximately $1,326,000.

On April 22, 2013, the Company finalized an Amendment to the Asset Purchase Agreement by and among DMCC Staffing, LLC, an Ohio limited liability company, RFFG of Cleveland, LLC an Ohio limited liability company (each a "Seller" and together, "Sellers"), the Company, and Triad Personnel Services, Inc., an Illinois corporation and wholly owned subsidiary of the Company ("Buyer").

The Company agreed to pay Sellers additional cash consideration of between $550,000 and $650,000 depending on the length of payments and 110,000 shares of common stock, in full satisfaction of all amounts owed to Seller, related to the Asset Purchase Agreement. The Company issued 110,000 shares of common stock on July 2, 2013, which was valued at approximately $330,000. The Company elected to pay the amount over two years. As of September 30, 2015 the debt related to this asset purchase agreement has been fully paid.

On September 27, 2013, the Company ("Borrower") entered into agreements with ACF FINCO I LP (successor-in-interest to Keltic Financial Partners II, LP) ("ACF") ("Lender"), that provide the Company with long term financing through a six million dollar ($6,000,000) secured revolving note (the "Note"). The Note has a term of three years and has no amortization prior to maturity. The interest rate for the Note is a fluctuating rate that, when annualized, is equal to the greatest of (A) the Prime Rate plus three and one quarter percent (3.25%), (B) the LIBOR Rate plus six and one quarter percent (6.25%), and (C) six and one half percent (6.50%), with the interest paid on a monthly basis. At September 30, 2015 and 2014 the interest rate was 6.5%. Loan advances pursuant to the Note are based on the accounts receivable balance and other assets. The Company incurred certain cash expense and commitment fees related to obtaining the agreement of approximately $170,000, which has been paid. The Note is secured by all of the Company's property and assets, whether real or personal, tangible or intangible, and whether now owned or hereafter acquired, or in which it now has or at any time in the future may acquire any right, title or interests. On April 1, 2015, the Company entered into a third Amendment and Waiver to the Loan and Security Agreement with ACF to adjust the future covenants as outlined below and update the overall document to reflect changes to the business. As of the date of this report, the Company was in compliance with all such covenants or had received waivers related thereto. The Company has several administrative covenants and the following financial covenant:

The Company must maintain the following EBITDA:

(a) The three (3) consecutive calendar month period ending on December 31, 2014, to be a negative number exceeding negative Two Hundred Fifty Thousand and 00/100 Dollars ($250,000);

(b) The six (6) consecutive calendar month period ending on March 31, 2015, to be a negative number exceeding negative Five Hundred Thousand and 00/100 Dollars ($500,000);

(c) The nine (9) consecutive calendar month period ending on June 30, 2015, to be a negative number exceeding negative Four Hundred Sixteen Thousand and 00/100 Dollars ($416,000);

(d) The twelve (12) consecutive calendar month period ending on September 30, 2015, to be a negative number exceeding negative Two Hundred Forty Thousand Five Hundred and 00/100 Dollars ($240,500); and

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

As of the September 30, 2015, the Company was in compliance with the EBITDA covenant and all other administrative covenants. At September 30, 2015 there was approximately $1,390,000 available on the line of credit. The interest expense related to the lines of credit for the years ended September 30, 2015 and 2014 was approximated $347,000 and $358,000, respectively.

The Company believes that the borrowing availability under the ACF facility will be adequate to fund the working capital needs. In recent years, the Company has incurred significant losses and negative cash flows from operations. Management has implemented a strategy which included cost reduction efforts as well as identifying strategic acquisitions, financed primarily through the issuance of equity and debt, to improve the overall profitability and cash flows of the Company. In addition, as discussed above, the Company entered into the ACF facility to provide working capital financing.

On March 31, 2014, the Company entered into a Securities Purchase Agreement (the "SPA") with Aracle SPF I, LLC ("Aracle") pursuant to which Aracle has the right to acquire up to 12 units (the "Units"), for $50,000 per Unit, with each Unit consisting of 25,000 shares of common stock of the Company and 12,500 common stock purchase warrants. The warrants are exercisable 6 months after issuance, have a term of 4 years, and have an exercise price of $2.50 per warrant share. In addition, the SPA contains a price adjustment mechanism that requires the Company, with certain exceptions, to issue additional shares of common stock to the investor in the event the Company, within 12 months of the initial closing under the SPA, issues certain equity securities at a price per share less than $2.00, provided, however, as long as the Company is listed on the NYSE MKT the total number of shares issuable under the foregoing adjustment provision may not exceed 19.9% of the Company's outstanding shares of common stock on March 30, 2014. Further, in the event the Company is delisted from the NYSE MKT while Aracle owns at least 51% of the shares issued to it under the SPA, the Company shall issue an additional 300,000 shares to Aracle, and the 12 month price adjustment period shall be extended to 36 months. The warrants do not include any price protection clause.

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

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

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

On August 7, 2014, the Company issued a Convertible Note (the "Note") with an original principal balance of $632,500 to Brio Capital Master Fund LTD ("Brio"), for a purchase price of $550,000. The Note matures on February 6, 2016, and is payable in thirteen monthly installments of $48,654, commencing in the sixth month post-closing. Brio has the right, however not the obligation, six months after closing, to convert all or any part of the outstanding Note into the Company's common stock at an initial conversion price of $2.00 per share. After six months from closing, the conversion price will have a one-time reset to the lower of $2.00 or 90% of the average of the 3 lowest closing prices for the previous 10 trading days, subject to a floor of $1.40 per share. The Company can force conversion if the Company's common stock trades at 250% greater than the conversion price for 20 consecutive trading days. The Company also issued a warrant to purchase up to 237,188 common shares of the Company for a purchase price of $2.50 per common share.

During the year ended, September 30, 2015, Brio converted $632,500 of its outstanding loan into 316,250 shares of the Company's common stock. Based on the closing stock prices of $8.50, $10.30 and $7.80 per common share, the 316,250 common shares were valued at approximately $2,867,000 and the Company has recognized a loss on the extinguishment of debt of approximately $235,000. Included in the loss in extinguishment was the fair value of the derivative liability at the date of conversion.

On January 8, 2015, the Company completed a Securities offering with 18 individuals who collectively have purchased a total of 200,000 shares of Preferred Stock ("Series A Preferred Stock") from the Company for a total purchase price of $2,000,000. Each share of Series A Preferred stock was initially convertible, at the election of the holder, into 5 shares of the Company's common stock. The Company netted approximately $1,960,000, with approximately $1,000,000 to be used as working capital and the remaining $960,000 for marketing, acquisitions, expansion and to further the operations of the Company. All shares of Series A Preferred Stock issued to the aforementioned individuals were converted into common stock prior to September 30, 2015.

On July 22, 2015, the Company entered into an underwriting agreement (the "Underwriting Agreement") with Roth Capital Partners, LLC (the "Representative"), as the representative of the several underwriters identified therein (collectively, the "Underwriters"), pursuant to which the Company agreed to offer and sell up to 1,120,000 shares of the Company's common stock, no par value (the "Common Stock"), at a price of $7.00 per share. Under the terms of the Underwriting Agreement, the Company granted the Representative an option, exercisable for 30 days, to purchase up to an additional 168,000 shares of Common Stock to cover over-allotments, if any.

The Company received net proceeds from this offering and the overallotment, after deducting underwriting discounts and commissions and offering expenses payable by the Company of approximately $7.8 million and issued 1,246,000 common shares, this includes the Underwriters exercise of the over-allotment option.

The Company also issued warrants (the "Underwriter's Warrant") to the Underwriters to purchase up to a total of 124,600 shares of Common Stock, at a price of $8.30 per common share and are exercisable for five years. The Underwriter's Warrant has a seven-year piggyback registration right with respect to shares of common stock underlying the Underwriter's Warrant from the date of the Underwriting Agreement.

On July 31, 2015 the Company entered into a Stock Purchase Agreement (the "Agile Agreement") with Tricia Dempsey ("Seller"). Pursuant to the terms of the Agile Agreement on July 31, 2015 the Company acquired 100% of the outstanding stock of Agile Resources, Inc., a Georgia corporation ("Agile"). The Company paid approximately $2,142,000 for net assets of approximately $92,000 and expects to pay an additional $500,000 during the year ended September 30, 2016.

Under the purchase method of accounting, the transaction was valued for accounting purposes at an estimated $3,865,000, which was the estimated fair value of the consideration paid by the Company. The estimate was based on the consideration paid of 120,192 shares of common stock valued based on the closing price on July 31, 2015 of $7.20 per share and estimated cash of approximately $3,000,000 paid based on terms of the agreement.

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

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

On October 2, 2015, the Company issued and sold a subordinated note in the aggregate principal amount of $4,185,000 (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"). The Subordinated Note is due on October 2, 2018 (the "Maturity Date"). Interest on the Subordinated Note is payable as follows: (i) 10% interest per annum on the outstanding principal balance of the Subordinated Note shall be payable quarterly in arrears, in cash, on each December 30th, March 30th, June 30th, and September 30th, until the Maturity Date and (ii) 4% interest per annum until the Maturity Date on the original principal balance of the Subordinated Note ($502,200), was paid in advance on the issuance date of the Subordinated Note through the issuance to the Investor of 91,309 shares of the Company's common stock (the "Interest Shares"). The Company may prepay the principal and interest under the Subordinated Note at any time, without penalty, provided, however, the Interest Shares shall be deemed paid in full and earned upon the issuance of the Subordinated Note. The Subordinated Note is subordinated in payment to the obligations of the Company to ACF FINCO I LLP pursuant to the terms and provisions of a Subordination and Intercreditor Agreement dated October 2, 2015 between, ACF FINCO I LLP and the Investor. In connection with the issuance of the Subordinated Note the Company and the Investor entered into a Registration Rights Agreement dated October 2, 2015 (the "Registration Rights Agreement") whereby the Company granted to the Investor certain piggyback registration rights with respect to the shares of Company common stock issued or issuable as interest payments under the Subordinated Note, and any shares of Company common stock issued as a dividend or other distribution with respect to, or in exchange for or in replacement of, shares of common stock of the Company issued or issuable as interest payments under the Subordinated Note.

On October 4, 2015 the Company issued to the Sellers the Sellers' Promissory Note. Interest on the outstanding principal balance of the Sellers' Promissory Note is payable at the rate of 5.5% per annum. The principal and interest amount of the Sellers' 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 $57,303.49 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 $27,963.72 in principal and interest, (iv) on October 4, 2017 a balloon payment of principal of $1,202,405.54 and (v) on October 4, 2017 any and all amounts of previously unpaid principal and accrued interest. The Sellers' Promissory Note is subordinated in payment to the obligations of the Company to ACF FINCO I LLP pursuant to the terms and provisions of a Subordination and Intercreditor Agreement dated October 5, 2015 between ACF FINCO I LLP and the Sellers.

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

Off-Balance Sheet Arrangements

As of September 30, 2015 and 2014, and during the two years then ended, there were no transactions, agreements or other contractual arrangements to which an unconsolidated entity was a party, under which the Company (a) had any direct or contingent obligation under a guarantee contract, derivative instrument or variable interest in the unconsolidated entity, or (b) had a retained or contingent interest in assets transferred to the unconsolidated entity.

Critical Accounting Policies

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America and the rules of the United States Securities and Exchange Commission.

The following accounting policies are considered by management to be "critical" because of the judgments and uncertainties involved, and because different amounts would be reported under different conditions or using different assumptions.

Estimates and Assumptions

Management makes estimates and assumptions that can affect the amounts of assets and liabilities reported as of the date of the consolidated financial statements, as well as the amounts of reported revenues and expenses during the periods presented. Those estimates and assumptions typically involve expectations about events to occur subsequent to the balance sheet date, and it is possible that actual results could ultimately differ from the estimates. If differences were to occur in a subsequent period, the Company would recognize those differences when they became known. Significant matters requiring the use of estimates and assumptions include, but may not be limited to, deferred income tax valuation allowances, accounts receivable allowances, accounting for acquisitions, accounting for derivative liabilities 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 years ended September 30, 2015 and 2014 are reflected in the consolidated statements of operations as a reduction of placement service revenues. Expected future falloffs and refunds are reflected in the consolidated balance sheet as a reduction of accounts receivable and were approximately $86,000 and $113,000 as of September 30, 2015 and September 30, 2014, respectively.

Cost of Contract Staffing Services

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

Income Taxes

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

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

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

Accounts Receivable

The Company extends credit to its various customers based on evaluation of the customer's financial condition and ability to pay the Company in accordance with the payment terms. An allowance for placement fall-offs is recorded, as a reduction of revenues, for estimated losses due to applicants not remaining employed for the Company's guarantee period. An allowance for doubtful accounts is recorded, as a charge to bad debt expense, where collection is considered to be doubtful due to credit issues. These allowances together reflect management's estimate of the potential losses inherent in the accounts receivable balances, based on historical loss statistics and known factors impacting its customers. The nature of the contract service business, where companies are dependent on employees for the production cycle allows for a small accounts receivable allowance. Based on management's review of accounts receivable, an allowance for doubtful accounts of approximately $524,000 and $395,000 is considered necessary as of September 30, 2015, and September 30, 2014, respectively. The Company charges uncollectible accounts against the allowance once the invoices are deemed unlikely to be collectible.

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, which allows the Company to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the entity determines that this threshold is not met, then performing the two-step impairment test is unnecessary. An impairment loss would be recognized to the extent the carrying value of goodwill exceeds its implied fair value.

Fair Value Measurement

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

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

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

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

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

The fair value of the Company's current assets and current liabilities, excluding the derivative liability, approximate their carrying values due to their short term nature. The carrying value of the Company's long-term liabilities and the derivative liability represents their fair value based on level 3 inputs, as discussed in Notes 6 and 8. The Company's goodwill and other intangible assets are measured at fair value on a non-recurring basis using level 3 inputs, as discussed in Note 4.

Derivative Financial Instruments

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

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

Intangible Assets

Customer 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 undiscounted cash flow method. The Company did not record any impairment during the years ended September 30, 2015 and 2014.

Stock-Based Compensation

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

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

See Note 9 for the assumptions used to calculate the fair value of stock-based employee and non-employee compensation. Upon the exercise of options, it is the Company's policy to issue new shares rather than utilizing treasury shares.

Segment Data

The Company has two operating business segments a) Contract staffing services (including our newly acquired Scribe Solutions, Inc. and Agile Resources Inc. businesses), and b) Direct hire placement services. These operating segments were determined based primarily on how the chief operating decision maker views and evaluates our operations. Operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance. Other factors, including type of business, type of employee, length of employment and revenue recognition are considered in determining these operating segments.

Recent Accounting Pronouncements

In May 2014, the FASB issued guidance that requires companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. It also requires enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively, and improves guidance for multiple-element arrangements. The guidance applies to any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. In July 2015, the FASB delayed the effective date of this guidance by one year. The guidance is now effective for public companies for annual periods beginning after December 15, 2017, as well as interim periods within those annual period using either the full retrospective approach or modified retrospective approach. The Company is currently evaluating the impacts of the new guidance on its financial statements.

In August 2015, the FASB issued No. 2015-15, *Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements.* ASU 2015-15 codifies the SEC's position that it would be allowable for an entity to defer and present debt issuance costs as an asset and subsequently amortize the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. In accordance with ASU 2015-15, we will continue presenting debt issuance costs for our asset-based revolving credit facility as an asset because of the potential volatility of borrowings and repayments under the facility. We are currently evaluating ASU 2015-15 to determine if this guidance will have a material impact on our financial position, results of operations or cash flows.

In September 2015, the FASB issued ASU 2015-16 - *Business Combinations*, which requires adjustments to provisional amounts recorded in business combinations to be recognized in the reporting period in which they are identified either separately on the face of the income statement or in the notes to the financial statements. ASU 2015-16 is effective for annual reporting periods beginning after December 15, 2015 and any interim periods within that period, and early adoption is permitted. We are currently evaluating ASU 2015-16 to determine if this guidance will have a material impact on our financial position, results of operations or cash flows.

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-17, *Balance Sheet Classification of Deferred Taxes*. ASU 2015-17 simplifies the presentation of deferred taxes by requiring deferred tax assets and liabilities be classified as noncurrent on the balance sheet. ASU 2015-17 is effective for public companies for annual reporting periods beginning after December 15, 2016, and interim periods within those fiscal years. The guidance may be adopted prospectively or retrospectively and early adoption is permitted. We are currently evaluating ASU 2015-17 to determine if this guidance will have a material impact on our financial position, results of operations or cash flows.

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.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Not applicable.

Item 8. Financial Statements and Supplementary Data.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders

General Employment Enterprises, Inc.

Naperville, Illinois

We have audited the accompanying consolidated balance sheets of General Employment Enterprises, Inc. (the "Company") as of September 30, 2015 and 2014, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of General Employment Enterprises, Inc. as of September 30, 2015 and 2014, and the consolidated results of its operations and cash flows for each of the years then ended in conformity with US generally accepted accounting principles.

/s/ FRIEDMAN LLP

Marlton, New Jersey

December 29, 2015

GENERAL EMPLOYMENT ENTERPRISES, INC.

CONSOLIDATED BALANCE SHEETS

(In Thousands)

		September 30, 2015		September 30, 2014
ASSETS				
CURRENT ASSETS:				
Cash	$	5,932	$	168
Accounts receivable, less allowances (2015 - $524; 2014 - $395)		6,156		4,907
Other current assets		942		1,650
Total current assets		13,030		6,725
Property and equipment, net		706		453
Other long-term assets		22		-
Goodwill		8,220		1,106
Intangible assets, net		4,896		1,560
TOTAL ASSETS	$	26,874	$	9,844
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Short-term debt	$	2,850	$	2,711
Accounts payable		825		910
Accrued compensation		2,687		2,633
Convertible note payable - current portion, net of discount		-		35
Derivative liability		-		131
Other current liabilities		532		1,214
Contingent consideration		500		-
Total current liabilities		7,394		7,634
Convertible note payable, net of discount		-		132
Other long-term liabilities		243		13
Total long-term liabilities		243		145
Commitments and contingencies				
SHAREHOLDERS' EQUITY				
Preferred stock; no par value; authorized - 20,000 shares; issued and outstanding - none		-		-
Common stock, no-par value; authorized - 200,000 shares; issued and outstanding - 8,833 shares at September 30, 2015 and 2,589 shares at September 30, 2014		-		-
Additional paid in capital		33,492		11,658
Accumulated deficit		(14,255)		(9,593)
Total shareholders' equity		19,237		2,065
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	26,874	$	9,844

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

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GENERAL EMPLOYMENT ENTERPRISES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands, Except Per Share Data)

	Years Ended September 30, 2015	2014
NET REVENUES:		
Contract staffing services	$ 36,722	$ 32,723
Direct hire placement services	6,665	7,088
NET REVENUES	43,387	39,811
Cost of contract services	30,234	26,417
Selling, general and administrative expenses	13,965	13,679
Acquisition, integration and restructuring expenses	373	30
Amortization of intangible assets	448	326
LOSS FROM OPERATIONS	(1,633)	(641)
(Loss) gain on change in derivative liability	(2,251)	47
Loss on extinguishment of debt	(234)	-
Interest expense	(544)	(507)
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAX PROVISION	(4,662)	(1,101)
Provision for income tax	-	(24)
LOSS FROM CONTINUING OPERATIONS	$ (4,662)	$ (1,125)
Loss from discontinued operations	$ -	$ (230)
NET LOSS	$ (4,662)	$ (1,355)
BASIC AND DILUTED LOSS PER SHARE		
From continuing operations	$ (1.14)	$ (0.46)
From discontinued operations	$ -	$ (0.09)
Total net loss per share	$ (1.14)	$ (0.56)
WEIGHTED AVERAGE NUMBER OF SHARES - BASIC AND DILUTED	4,084	2,436

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

GENERAL EMPLOYMENT ENTERPRISES, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In Thousands)

	Common Stock Shares	Additional Paid In Capital	Preferred Stock Shares	Preferred Stock	Accumulated Deficit	Shareholders' Equity
Balance, September 30, 2013	2,279	$ 10,851	-	$ -	$ (8,238)	$ 2,613
Stock compensation expense	-	98	-	-	-	98
Issuance of warrants related to debt	-	219	-	-	-	219
Issuance of common stock, net	300	470	-	-	-	470
Stock issued for services	10	20	-	-	-	20
Net loss	-	-	-	-	(1,355)	(1,355)
Balance, September 30, 2014	2,589	$ 11,658		$ -	$ (9,593)	$ 2,065
Proceeds from sale of preferred, net of fees			200	1,961	-	1,961
Issuance of preferred shares for acquisition of Scribe			640	6,265	-	6,265
Conversion of note payable	317	2,867	-	-	-	2,867
Issuance of stock for board of	35	258	-	-	-	258

directors						
Issuance of warrant for Scribe acquisition (see note 10)	-	1,330	-	-	-	1,330
Exercise of stock options	62	194	-	-	-	194
Issuance of stock for the exercise of warrants and options, cashless	149	-	-	-	-	-
Issuance of stock for conversion of preferred stock (including accrued dividends)	4,315	8,226	(840)	(8,226)	-	-
Stock compensation expense	-	340	-	-	-	340
Issuance of stock, net of expenese and warrants issued	1,246	7,754	-	-	-	7,754
Issuance of stock for acquisition of Agile	120	865	-	-	-	865
Net loss	-	-	-	-	(4,662)	(4,662)
Balance, September 30, 2015	8,833	$ 33,492	-	$ -	$ (14,255)	$ 19,237

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

GENERAL EMPLOYMENT ENTERPRISES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

	Years Ended September 30, 2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (4,662)	$ (1,355)
Loss from discontinued operations	-	(230)
Loss from continuing operations	(4,662)	(1,125)
Adjustments to reconcile loss from continuing operations to net cash (used in) provided by operating activities:		
Depreciation and amortization	733	498
Stock issued for services	189	20
Stock option expense	340	98
Provision for doubtful accounts	40	322
Change in fair value of derivative liability	2,251	-
Loss on extinguishment of debt	234	-
Loss on abandonment of fixed assets	15	49
Changes in operating assets and liabilities -		
Accounts receivable	223	1,468
Accounts payable	(1,068)	(105)
Accrued compensation	54	(100)
Other current assets	857	(1,234)
Other current liabilities	-	530
Long-term liabilities	144	(113)
Net cash provided by (used in) operating activities - Continuing Operations	(650)	308
Net cash (used in) provided by operating activities - Discontinued Operations	-	(22)
Net cash provided by (used in) operating activities	(650)	286
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(186)	(146)
Acquisition payments	(2,351)	-
Partial payment of earn-out	(225)	(225)
Net cash used in investing activities - Continuing Operations	(2,762)	(371)
Net cash used in investing activities - Discontinued Operations	-	-
Net cash used in investing activities	(2,762)	(371)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from short-term related party debt	-	185
Payments on short-term related party debt	-	(185)
Proceeds from the issuance of equity, net	7,754	470
Proceeds from the issuance of debt, net	-	517
Proceeds from the issuance of preferred stock	1,826	-
Proceeds from the exercise of stock options	194	-
Payments on capital lease	(101)	(72)
Net proceeds from short-term debt	(497)	(1,023)
Net cash (used in) provided by financing activities	9,176	(108)

Net change in cash - Continuing Operations		5,764		(171)
Net change in cash - Discontinued Operations		-		(22)
Cash at beginning of year - Continuing Operations		168		361
Cash at end of year	$	5,932	$	168
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash paid for interest	$	274	$	210
Cash paid for taxes	$	4	$	24
Issuance of preferred shares for acquisition	$	(135)	$	-
Non-cash financing activities				
Conversion of note payable	$	2,867	$	-
Issuance of shares for accrued board fees	$	69	$	-
Conversion of Perferred Stock	$	8,226	$	-
Issuance of stock for acquisition of Agile	$	865	$	-
Preferred stock and warrants issued for Scribe acquisition	$	7,730	$	-

For the year ended September 30, 2015:
The Company acquired 100% of the outstanding stock of Scribe Solutions Inc. for 640,000 shares of Series A Preferred Stock valued at $6,265,000, net of issuance costs. In addition, the Company exchanged warrants to purchase up to 6,350,000 shares of the Company's common stock valued at $1,330,000, for Scribe warrants held by three individuals.

For the year ended September 30, 2014:
None

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

GENERAL EMPLOYMENT ENTERPRISES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business

General Employment Enterprises, Inc. (the "Company", "us", "our" or "we") was incorporated in the State of Illinois in 1962 and is the successor to employment offices doing business since 1893. The Company provides permanent and temporary professional, industrial and physician assistant staffing and placement services in and near several major U.S cities. The Company specializes in the placement of information technology, engineering, medical and accounting professionals for direct hire and contract staffing for the Company's clients, and provides temporary staffing services for our commercial clients. As a result of the acquisition of Scribe Solutions in April 2015, the Company now offers data entry assistants (medical scribes) who specialize in electronic medical records (EMR) services for emergency departments, specialty physician practices and clinics.

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 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.

In 2013, the Company entered into a three year revolving credit agreement with ACF Finco I LP (formerly Keltic) to provide working capital financing. The agreement allows ACF Finco I LP to advance the Company funds based on a percentage of eligible invoices. Management believes with current cash flow from operations, equity offerings, issued debt and the availability under the ACF Finco I LP Revolving Credit Agreement, the Company will have sufficient liquidity for the next 12 months.

On July 22, 2015, the Company entered into an underwriting agreement (the "Underwriting Agreement") with Roth Capital Partners, LLC (the "Representative"), as the representative of the several underwriters identified therein (collectively, the "Underwriters"), pursuant to which the Company agreed to offer and sell up to 1,120,000 shares of the Company's common stock, no par value (the "Common Stock"), at a price of $7.00 per share. Under the terms of the Underwriting Agreement, the Company has granted the Representative an option, exercisable for 30 days, to purchase up to an additional 168,000 shares of Common Stock to cover over-allotments, if any.

The Company received net proceeds from this offering, after deducting underwriting discounts and commissions and offering expenses payable by the Company of approximately $7.8 million and issued 1,246,000 common shares, this includes the Underwriters exercise of the over-allotment option.

The Company also issued warrants (the "Underwriter's Warrant") to the Underwriters to purchase up to a total of 124,600 shares of Common Stock, at a price of $8.30 per common share and are exercisable for five years. The Underwriter's Warrant has a seven-year piggyback registration right with respect to shares of common stock underlying the Underwriter's Warrant from the date of the Underwriting Agreement.

On January 8, 2015, the Company completed a Securities offering with 18 individuals who collectively have purchased a total of 200,000 shares of Preferred Stock from the Company for a total purchase price of $2,000,000. The Company netted approximately $1,960,000, with approximately $1,000,000 to be used as working capital and the remaining $1,000,000 for marketing, acquisitions, expansion and to further the operations of the Company. The Preferred Stock was designated by the Company on December 15, 2014 through the filing of a Certificate of Designation of Series A Convertible Preferred Stock with the Illinois Secretary of State. Each share of Preferred Stock is initially convertible, at the election of the holder, into 5 shares of the Company's Common Stock. The foregoing conversion ratio is subject to standard adjustment mechanisms, as set forth in the Designation. All of the series A Convertible Preferred Stock have been converted into common shares during the year ended September 30, 2015.

On August 7, 2014, the Company issued a Convertible Note (the "Note") with an original principal balance of $632,500 to Brio Capital Master Fund LTD ("Brio"), for a purchase price of $550,000. The Note matures on February 6, 2016, and is payable in thirteen monthly installments of $48,654, commencing in the sixth month post-closing. Brio had the right, however not the obligation, six months after closing, to convert all or any part of the outstanding Note into the Company's common stock at an initial conversion price of $2.00 per share. As of September 30, 2015, Brio has converted the entire note into 316,250 shares of common stock.

2. Significant Accounting Policies and Estimates

Basis of Presentation

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America and the rules of the United States Securities and Exchange Commission.

Principles of Consolidation

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

Reverse Stock Split

On October 9, 2015, the Company filed a certificate of change to our amended and restated articles of incorporation with the Secretary of the State of Illinois in order to effectuate a reverse stock split of our issued and outstanding common stock on a 1-for-10 basis (the "Reverse Stock Split"); and increased the total number of authorized shares of Common Stock of the Company from 20,000,000, post Reverse Stock Split, to 200,000,000.

The Reverse Stock Split became effective with the FINRA as of the open of business on October 9, 2015. As a result of the Reverse Stock Split, every 10 shares of the Company's pre-Reverse Split common stock was combined and reclassified into one share of the Company's common stock. No fractional shares of common stock were issued as a result of the Reverse Split.

Throughout the consolidated financial statements, each instance that refers to a number of shares of the Company's common stock, refers to the number of shares of common stock after giving effect to the Reverse Stock Split, unless otherwise indicated.

Estimates and Assumptions

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

Revenue Recognition

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

The provision for falloffs and refunds, which is reflected in the consolidated statements of operations as a reduction of placement service revenues, was $904,000 in fiscal 2015 and $939,000 in fiscal 2014. Expected future falloffs and refunds are reflected in the consolidated balance sheet as a reduction of accounts receivable and were approximately $86,000 and $113,000 as of September 30, 2015 and September 30, 2014 respectively.

Cost of Contract Staffing Services

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

Cash and Cash Equivalents

Highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents. At September 30, 2015 and September 30, 2014, there were no cash equivalents. The Company maintains deposits in financial institutions in excess of amounts guaranteed by the Federal Deposit Insurance Corporation. Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. We have never experienced any losses related to these balances. Beginning 2013, insurance coverage reverted to $250,000 per depositor at each financial institution, and our non-interest bearing cash balances may again exceed federally insured limits.

Accounts Receivable

The Company extends credit to its various customers based on evaluation of the customer's financial condition and ability to pay the Company in accordance with the payment terms. An allowance for placement fall-offs is recorded, as a reduction of revenues, for estimated losses due to applicants not remaining employed for the Company's guarantee period. An allowance for doubtful accounts is recorded, as a charge to bad debt expense, where collection is considered to be doubtful due to credit issues. These allowances together reflect management's estimate of the potential losses inherent in the accounts receivable balances, based on historical loss statistics and known factors impacting its customers. The nature of the contract service business, where companies are dependent on employees for the production cycle allows for a small accounts receivable allowance. Based on management's review of accounts receivable, an allowance for doubtful accounts of approximately $524,000 and $395,000 is considered necessary as of September 30, 2015, and September 30, 2014, respectively. The Company charges uncollectible accounts against the allowance once the invoices are deemed unlikely to be collectible.

Property and Equipment

Property and equipment are recorded at cost. Depreciation expense is calculated on a straight-line basis over estimated useful lives of five years for computer equipment and two to ten years for office equipment, furniture and fixtures. The Company capitalizes computer software purchased or developed for internal use and amortizes it over an estimated useful life of five years. The carrying value of property and equipment is reviewed for impairment whenever events or changes in circumstances indicate that it may not be recoverable. If the carrying amount of an asset group is greater than its estimated future undiscounted cash flows, the carrying value is written down to the estimated fair value. There was no impairment of property and equipment for the years ended September 30, 2015 and 2014. For property and equipment included in current asset of discontinued operations in the accompanying balance sheet the Company has ceased recording depreciation expense.

Goodwill

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

Fair Value Measurement

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

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

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

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

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

The fair value of the Company's current assets and current liabilities, excluding the derivative liability, approximate their carrying values due to their short term nature. The carrying value of the Company's long-term liabilities and the derivative liability represents their fair value based on level 3 inputs, as discussed in Note 6. The Company's goodwill and other intangible assets are measured at fair value on a non-recurring basis using level 3 inputs, as discussed in Note 4.

Derivative Financial Instruments

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

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

Earnings (loss) per Share

Basic income (loss) per share is computed by dividing net income (loss) attributable to common stockholders by the weighted average common shares outstanding for the period. Diluted income (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. Common share equivalents of approximately 534,000 and 46,800 were excluded from the computation of diluted earnings per share for the years ended September 30, 2015 and 2014, respectively, because their effect is anti-dilutive.

Advertising Expenses

The majority of the Company's advertising expense budget is used to support the Company's business. Most of the advertisements are in print or internet media, with expenses recorded as they are incurred. For the years ended September 30, 2015 and 2014, included in selling, general and administrative expenses was advertising expense totaling approximately $751,000 and $718,000, respectively.

Intangible Assets

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

Impairment of Long-lived Assets

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

Stock-Based Compensation

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.

See Note 9 for the assumptions used to calculate the fair value of stock-based employee and non-employee compensation. 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.

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

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

Discontinued Operations

A discontinued operation is a component of an entity that has either been disposed of or that is classified as held for sale, which represents a separate major line of business or geographical area of operations and is part of a single coordinated plan to dispose of a separate line of business or geographical area of operations. In accordance with the rules regarding the presentation of discontinued operations, the assets, liabilities and activity of our agricultural business have been reclassified as a discontinued operation for all periods presented.

Segment Data

The Company has two operating business segments a) Contract staffing services (including our newly acquired Scribe Solutions, Inc. Business), and b) Direct hire placement. These operating segments were determined based primarily on how the chief operating decision maker views and evaluates our operations. Operating results are regularly reviewed by the chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance. Other factors, including type of business, type of employee, length of employment and revenue recognition are considered in determining these operating segments.

Recent Accounting Pronouncements

In May 2014, the FASB issued guidance that requires companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in exchange for those goods or services. It also requires enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively, and improves guidance for multiple-element arrangements. The guidance applies to any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. In July 2015, the FASB delayed the effective date of this guidance by one year. The guidance is now effective for public companies for annual periods beginning after December 15, 2017, as well as interim periods within those annual period using either the full retrospective approach or modified retrospective approach. The Company is currently evaluating the impacts of the new guidance on its financial statements.

In August 2015, the FASB issued No. 2015-15, *Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements.* ASU 2015-15 codifies the SEC's position that it would be allowable for an entity to defer and present debt issuance costs as an asset and subsequently amortize the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. In accordance with ASU 2015-15, we will continue presenting debt issuance costs for our asset-based revolving credit facility as an asset because of the potential volatility of borrowings and repayments under the facility. We are currently evaluating ASU 2015-15 to determine if this guidance will have a material impact on our financial position, results of operations or cash flows.

In September 2015, the FASB issued ASU 2015-16 - *Business Combinations*, which requires adjustments to provisional amounts recorded in business combinations to be recognized in the reporting period in which they are identified either separately on the face of the income statement or in the notes to the financial statements. ASU 2015-16 is effective for annual reporting periods beginning after December 15, 2015 and any interim periods within that period, and early adoption is permitted. We are currently evaluating ASU 2015-16 to determine if this guidance will have a material impact on our financial position, results of operations or cash flows.

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-17, *Balance Sheet Classification of Deferred Taxes*. ASU 2015-17 simplifies the presentation of deferred taxes by requiring deferred tax assets and liabilities be classified as noncurrent on the balance sheet. ASU 2015-17 is effective for public companies for annual reporting periods beginning after December 15, 2016, and interim periods within those fiscal years. The guidance may be adopted prospectively or retrospectively and early adoption is permitted. We are currently evaluating ASU 2015-17 to determine if this guidance will have a material impact on our financial position, results of operations or cash flows.

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.

3. Property and Equipment

Property and equipment consisted of the following as of September 30:

(In thousands)	**Useful Lives**	**2015**	**2014**
Computer software	5 years	$ 1,447	$ 1,447
Office equipment, furniture and fixtures and leasehold improvements	2 to 10 years	2,278	1,413
Total property and equipment, at cost		3,725	2,860
Accumulated depreciation and amortization		(3,019)	(2,407)
Property and equipment, net		$ 706	$ 453

Disposals of property and equipment, consisting primarily of fully-depreciated office furniture, a vehicle and equipment, had an original cost of approximately $80,000 and $49,000 in fiscal 2015 and 2014, respectively. Leasehold improvements are amortized over the term of the lease.

During the year ended September 30, 2013, the Company sold vehicles with a value of approximately $225,000 and leased them back under a 30 month agreement at an interest rate of approximately 23%. At September 30, 2015, the lease was completed and the Company purchased the vehicles for the bargain purchase price.

Depreciation expense for the year ended September 30, 2015 and 2014 was approximately $176,000 and $174,000, respectively.

Total cost of property and equipment recorded under capital leases and accumulated depreciation as of September 30, 2015 and 2014 is approximately $285,000 and $157,000 and $100,000 and $66,000, respectively. Depreciation expense for property and equipment under capital lease for the year ended September 30, 2015 and 2014 was approximately $73,000 and $46,000, respectively.

4. Goodwill and Intangible Assets

Goodwill

Goodwill represents the excess of cost over the fair value of the net assets acquired from various acquisitions. Goodwill is not amortized. The Company performs a goodwill impairment test annually, by reporting unit, in the fourth quarter of the fiscal year, or whenever potential impairment triggers occur. Should the two-step process be necessary, the first step of the impairment test identifies potential impairment by comparing the fair value of a reporting unit to its carrying value including goodwill. In applying a fair-value-based test, estimates are made of the expected future cash flows to be derived from the reporting unit. Similar to the review for impairment of other long-lived assets, the resulting fair value determination is significantly impacted by estimates of future margins, capital needs, economic trends and other factors. If the carrying value of the reporting unit exceeds its fair value, the second step of the impairment test is performed to measure the amount of impairment loss, if any. The second step of the impairment test compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. An impairment loss would be recognized to the extent the carrying value of goodwill exceeds its implied fair value. No impairment loss was recorded in fiscal year 2015 or 2014.

Goodwill as of September 30, 2014	$	1,106
Acquisition of Scribe, see note 12		5,290
Acquisition of Agile, see note 12		1,824
Goodwill as of September 30, 2015	$	8,220

Intangible Assets

As of September 30, 2015

(In Thousands)		Cost		Accumulated Amortization		Loss on Impairment of Intangible Assets		Net Book Value
Customer relationships	$	5,232	$	1,557	$	-	$	3,675
Trade name		1,057		56		-		1,001
Non-compete agreement		225		5				220
	$	6,514	$	1,618	$	-	$	4,896

As of September 30, 2014

(In Thousands)	Cost	Accumulated Amortization	Loss on Impairment of Intangible Assets	Net Book Value
Customer relationships	$ 2,690	$ 1,137	$ -	$ 1,553
Trade name	17	10	-	7
	$ 2,707	$ 1,147	$ -	$ 1,560

Amortization expense was approximately $475,000 and $326,000 for the years ended September 30, 2015 and 2014, 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. Over the next five years, annual amortization expense for these finite life intangible assets will total approximately $4,896,000, as follows: fiscal 2016 - $735,000, fiscal 2017 - $629,000, fiscal 2018 - $632,000, fiscal 2019 – $636,000, fiscal 2020 – $633,000 and thereafter - $1,631,000.

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.

Intangible Assets as of September 30, 2014	$	2,707
Acquisition of Scribe		2,216
Acquisition of Agile		1,591
Less accumulated amortization		(1,618)
Intangible Assets as of September 30, 2015	$	4,896

During the year ended September 30, 2015, the Company did not record any impairment of intangible assets.

5. Short-term Debt

On September 27, 2013, the Company ("Borrower") entered into agreements with ACF FINCO I LP (successor-in-interest to Keltic Financial Partners II, LP) ("ACF") ("Lender"), that provides the Company with long term financing through a six million dollar ($6,000,000) secured revolving note (the "Note"). The Note has a term of three years and has no amortization prior to maturity. The interest rate for the Note is a fluctuating rate that, when annualized, is equal to the greatest of (A) the Prime Rate plus three and one quarter percent (3.25%), (B) the LIBOR Rate plus six and one quarter percent (6.25%), and (C) six and one half percent (6.50%), with the interest paid on a monthly basis. At September 30, 2015 and 2014 the interest rate was 6.5%. Loan advances pursuant to the Note are based on the accounts receivable balance and other assets. The Company incurred certain cash expense and commitment fees related to obtaining the agreement of approximately $170,000, which has been paid. The Note is secured by all of the Company's property and assets, whether real or personal, tangible or intangible, and whether now owned or hereafter acquired, or in which it now has or at any time in the future may acquire any right, title or interests. On April 1, 2015 the Company entered into a third Amendment and Waiver to the Loan and Security Agreement with ACF to adjust the future covenants as outlined below and update the overall document to reflect changes to the business. The Company has entered into other Amendments with ACF that did not materially change the terms of the Note. As of the date of this report, the Company was in compliance with all such covenants or had received waivers related thereto. The Company has several administrative covenants and the following financial covenant:

The Company must maintain the following EBITDA:

(a) The three (3) consecutive calendar month period ending on December 31, 2014, to be a negative number exceeding negative Two Hundred Fifty Thousand and 00/100 Dollars ($250,000);

(b) The six (6) consecutive calendar month period ending on March 31, 2015, to be a negative number exceeding negative Five Hundred Thousand and 00/100 Dollars ($500,000);

(c) The nine (9) consecutive calendar month period ending on June 30, 2015, to be a negative number exceeding negative Four Hundred Sixteen Thousand and 00/100 Dollars ($416,000);

(d) The twelve (12) consecutive calendar month period ending on September 30, 2015, to be a negative number exceeding negative Two Hundred Forty Thousand Five Hundred and 00/100 Dollars ($240,500); and

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

As of September 30, 2015, the Company was in compliance with the EBITDA covenant and all other administrative covenants. At September 30, 2015 there was approximately $1,390,000 available on the line of credit. The interest expense related to the lines of credit for the years ended September 30, 2015 and 2014 approximated $347,000 and $358,000, respectively.

6. Convertible Note

On August 7, 2014, the Company issued a Convertible Note (the "Note") with an original principal balance of $632,500 to Brio Capital Master Fund LTD ("Brio"), for a purchase price of $550,000. The Note matures on February 6, 2016, and is payable in thirteen monthly installments of $48,654, commencing in the sixth month post-closing. Brio had the right, however not the obligation, to convert all or any part of the outstanding Note into the Company's common stock at an initial conversion price of $2.00 per share. After six months from closing, the conversion price had a one-time reset to the lower of $2.00 or 90% of the average of the 3 lowest closing prices for the previous 10 trading days, subject to a floor of $1.40 per share. The Company was allowed to force conversion if the Company's common stock trades at 250% greater than the conversion price for 20 consecutive trading days (see Note 9).

In addition to the Note, the Company issued a warrant to purchase up to 237,188 shares of the Company's common stock. The warrant is exercisable at $2.50 per share, vests 6 months after the closing, and expires 5 years thereafter.

The Note contained an embedded conversion feature requiring bifurcation and liability treatment. The Company accounted for this conversion feature and the detachable warrants by allocating the proceeds from issuance of the convertible notes to the conversion feature and the warrants. These were valued by a third party using a binomial pricing model with the following assumptions: Volatility - 130.00%; Risk-Free Rate - 0.29%; Conversion Price Floor - $0.14; Conversion Price Cap - $0.20.

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

During the second quarter, Brio converted $500,000 of its outstanding loan in two tranches into 250,000 shares of the Company's common stock. Based on the closing stock price of $8.50 and $10.30 per common share, the 250,000 shares were valued at approximately $2,350,000 and the Company has recognized a loss on the extinguishment of debt of approximately $210,000. Included in the loss in extinguishment was the fair value of the derivative liability at the date of conversion.

During the third quarter, Brio converted the remaining $132,500 of its outstanding loan into 66,250 shares of the Company's common stock. Based on the closing stock price of $7.80 per common share, the 66,250 shares were valued at approximately $517,000.

Since the issuance in 2014, the Company received approximately $517,000 in net cash that was converted by Brio into 316,250 shares of the Company's common stock. Related to this transaction the Company recorded approximately $2,867,000 in equity (including 219,000 in warrants valued in 2014), $2,204,000 in a derivative loss, $234,000 extinguishment of debt, and interest expense of approximately $115,500 during the year ended September 30, 2015.

7. Other Current Liabilities

Other current liabilities consisted of the following:

	September 30,	
(In Thousands)	**2015**	**2014**
Accrued expenses	$ 242	$ 174
Accrued sales tax	129	762
Capital lease – short-term	85	72
Earn-out liability	-	201
Deferred rent	56	5
Customer deposits	20	-
Total other current liabilities	$ 532	$ 1,214

8. Long-Term Liabilities

In connection with the completion of the sale of shares of common stock to PSQ in fiscal year 2009, the Company's then Chairman, Chief Executive Officer and President (the "former CEO") retired from those positions and his employment agreement with the Company was replaced by a new consulting agreement. Under the consulting agreement, the Company became obligated to pay an annual consulting fee of $180,000 over a five-year period and to issue 50,000 shares of common stock to the former CEO for no additional consideration. During fiscal year 2009, the Company recorded a liability for the net present value of the future payments in the amount of $790,000 and recorded a charge to operations in the amount of $280,000 based on a quoted market price of $5.60 per share on the date of the award. On January 31, 2013, the former CEO retired from all positions with the Company, however he will continue to receive his monthly payments required under his consulting agreement. As of September 30, 2014, the liability for future payments was reflected on the consolidated balance sheet as short term accrued compensation of $60,000. As of September 30, 2015, the liability has been fully paid.

Capital Lease Obligations

The Company leases computer equipment and furniture under various capital leases. The agreements require monthly payments of $7,132, including interest of approximately 6%. Future minimum lease payments are as follows:

Year Ending September 30,	
2016	$ 84,668
2017	45,912
2018	26,910

2019		26,910
2020		2,093
Total minimum lease payments		186,493
Less - Amount representing interest		11,157
Present value of minimum lease payments		175,336
Less - Current maturities		84,668
Included in – Other current liabilities	$	90,668

Other than capital lease obligations, other current liabilities, primarily comprised of deferred rent.

9. Common Stock and Preferred Stock

On March 31, 2014, the Company entered into a Securities Purchase Agreement (the "SPA") with Aracle SPF I, LLC ("Aracle") pursuant to which Aracle and another subscribed investors had the right to acquire up to 12 units (the "Units"), for $50,000 per Unit, with each Unit consisting of 25,000 shares of common stock (the "Shares") of the Company and 12,500 common stock purchase warrants (the "Warrants"). The Warrants were exercisable 6 months after issuance, had a term of 4 years, and had an exercise price of $2.50 per warrant share. The SPA contained standard representations, warranties, and covenants. In addition, the SPA contained a price adjustment mechanism that requires the Company, with certain exceptions, to issue additional shares of common stock to the investor in the event the Company, within 12 months of the initial closing under the SPA, issue certain equity securities at a price per share less than $2.00, provided, however, as long as the Company was listed on the NYSE MKT the total number of shares issuable under the foregoing adjustment provision may not exceed 19.9% of the Company's outstanding shares of common stock on March 30, 2014. Further, in the event the Company was delisted from the NYSE MKT while Aracle owns at least 51% of the Shares issued to it under the SPA, the Company would be required to issue an additional 300,000 shares to Aracle, and the 12 month price adjustment period shall be extended to 36 months.

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

On April 16, 2014, the Company, Aracle and a second institutional investor (both companies referred to as "Investors"), entered into certain Securities Purchase Agreements ("SPA") pursuant to which the Investors purchased 2.5 Units for $125,000. The Company incurred certain expenses related to the SPA of approximately $7,000, which were paid from the proceeds of this closing. The Company incurred additional expense of approximately $45,000, paid subsequent to the two closings.

Warrants to purchase up to 150,000 shares of common stock at $2.50 per share were issued related to this Securities Purchase Agreement. The Company issued 122,415 shares of common stock related to the cashless exercise of the warrants during 2015. There are no warrants remaining related to the SPA signed with Aracle.

On January 8, 2015, the Company completed a Securities offering with 18 individuals who collectively have purchased a total of 200,000 shares of Preferred Stock from the Company for a total purchase price of $2,000,000. The Company netted approximately $1,960,000, with approximately $1,000,000 to be used as working capital and the remaining $1,000,000 for marketing, acquisitions, expansion and to further the operations of the Company. Each share of Preferred Stock is initially convertible, at the election of the holder, into 5 shares of the Company's Common Stock.

In addition dividends were payable in kind at the Company's option at a rate of eight percent (8%) annually. Payments of annual dividends have not been declared by the Company's Board of Directors on the outstanding Series A shares because of losses sustained by the Company. See note 12 for additional preferred shares issued related to the Scribe acquisition. As of September 30, 2015, there were no preferred dividends in arrears as all Series A preferred shares and the accrued dividends have been converted into common stock.

During the year ended September 30, 2015, the Company issued 61,500 shares of common stock to employees or former directors of the Company who exercised their stock options. Approximately $194,000 was received related to the exercise of these options.

During the year ended September 30, 2015, a total of 5,055,673 shares of common stock were issued, however no cash was received for these issuances.

122,412 shares of common stock were issued related to several cashless warrant conversions.

120,192 shares of common stock were issued related to the acquisition of Agile.

34,402 shares of common stock were issued to the Board of Directors that were board members prior to January 1, 2015 for services provided prior to January 1, 2015. A portion of these were issued by the Company to settle approximately $69,000 of accrued board fees from December 31, 2014. These shares were valued at $258,000.

26,859 shares of common stock were issued to employees of the Company who exercised their stock options on a cashless basis.

Brio converted $632,500 of its outstanding loan into 316,250 shares of the Company's common stock. Based on the closing stock prices of $8.50, $1.30 and $7.80 per common share, the shares were valued at approximately $2,866,750.

840,000 shares of Series A preferred stock and the accumulated interest converted into 4,315,318 shares of common stock. As of September 30, 2015, there were no outstanding shares of preferred stock.

On July 22, 2015, the Company entered into an underwriting agreement (the "Underwriting Agreement") with Roth Capital Partners, LLC (the "Representative"), as the representative of the several underwriters identified therein (collectively, the "Underwriters"), pursuant to which the Company agreed to offer and sell up to 1,120,000 shares of the Company's common stock, no par value (the "Common Stock"), at a price of $7.00 per share. Under the terms of the Underwriting Agreement, the Company has granted the Representative an option, exercisable for 30 days, to purchase up to an additional 168,000 shares of Common Stock to cover over-allotments, if any.

The Company received net proceeds from this offering, after deducting underwriting discounts and commissions and offering expenses payable by the Company of approximately $7.8 million and issued 1,246,000 common shares, this includes the Underwriters exercise of the over-allotment option.

The offering was made pursuant to the Company's effective registration statements on Form S-3 (File No. 333- 204080), as amended and supplemented filed with the Securities and Exchange Commission (the "SEC").

The Company also issued warrants (the "Underwriter's Warrant") to the Underwriters to purchase up to a total of 124,600 shares of Common Stock, at a price of $8.40 per common share and are exercisable for five years. The Underwriter's Warrant has a seven-year piggyback registration right with respect to shares of common stock underlying the Underwriter's Warrant from the date of the Underwriting Agreement.

Stock Options

The Company has recognized compensation expense in the amount of approximately $340,000 (excluding $189,000 of stock compensation for board shares issued) and $120,000 during the years ended September 30, 2015 and 2014, respectively.

Warrants

(Number of Warrants in Thousands)	**Number of Shares**	**Exercise Price**		**Expiration**
Outstanding at September 30, 2013	-			
Warrants granted				
Aracle warrants	150	$	2.50	3/31/2018
Brio warrants	237	$	2.50	2/07/2020
Outstanding at September 30, 2014	387	$	2.50	
Warrants exercised				
Aracle warrants	(150)	$	2.50	
Warrants granted				

Scribe warrants	635	$	2.00	4/1/2025
Roth warrants	81	$	8.40	7/22/2020
Maxim warrants	44	$	8.40	7/22/2020
Outstanding at September 30, 2015	997	$	4.54	

The weighted average exercise price of outstanding warrants was $4.54 at September 30, 2015, with expiration dates ranging from February 7, 2020 to April 1, 2025.

10. Stock Option Plans

As of September 30, 2015, there were stock options outstanding under the Company's 1995 Stock Option Plan, Second Amended and Restated 1997 Stock Option Plan, 1999 Stock Option Plan and the 2011 Company Incentive Plan. All four plans were approved by the shareholders. The 1995 Stock Option Plan and the 1999 Stock Option Plan have expired, and no further options may be granted under those plans. During fiscal 2009, the Second Amended and Restated 1997 Stock Option Plan was amended to make an additional 592,000 options available for granting and as of September 30, 2013 there were no shares available for issuance under the Amended and Restated 1997 Stock Option Plan. As of September 30, 2015, there were no shares available for issuance under the 2011 Company Incentive Plan. The plans granted specified numbers of options to non-employee directors, and they authorized the Compensation Committee of the Board of Directors to grant either incentive or non-statutory stock options to employees. Vesting periods are established by the Compensation Committee at the time of grant. All stock options outstanding as of September 30, 2015 and September 30, 2014 were non-statutory stock options, had exercise prices equal to the market price on the date of grant, and had expiration dates ten years from the date of grant.

On July 23, 2013, the Board of Directors approved the Company's 2013 Incentive Stock Plan (the "2013 Plan"), and resolved to cease issuing securities under all prior Company equity compensation plans. The 2013 Plan was approved by the Company's shareholders at the Annual Meeting of Stockholders on September 9, 2013. The purpose of the 2013 Plan is to provide additional incentives to select persons who can make, are making, and continue to make substantial contributions to the growth and success of the Company, to attract and retain the employment and services of such persons, and to encourage and reward such contributions, by providing these individuals with an opportunity to acquire or increase stock ownership in the Company through either the grant of options or restricted stock. The 2013 Plan is administered by the Compensation Committee or such other committee as is appointed by the Board of Directors pursuant to the 2013 Plan (the "Committee"). The Committee has full authority to administer and interpret the provisions of the 2013 Plan including, but not limited to, the authority to make all determinations with regard to the terms and conditions of an award made under the 2013 Plan. The maximum number of shares that may be granted under the 2013 Plan is 1,000,000. This number is subject to adjustment to reflect changes in the capital structure or organization of the Company.

A summary of stock option activity is as follows:

	Year Ended September 30,	
(Number of Options in Thousands)	**2015**	**2014**
Number of options outstanding:		
Beginning of year	342	147
Granted	191	259
Exercised	(90)	-
Terminated	(29)	(64)
End of year	414	342
Number of options exercisable at end of year	121	147
Number of options available for grant at end of year	530	741
Weighted average option prices per share:		
Granted during the year	$ 7.00	$ 2.80
Exercised during the year	2.85	-

Terminated during the year	2.00	4.20
Outstanding at end of year	5.05	3.20
Exercisable at end of year	3.72	3.80

Stock options outstanding as of September 30, 2015 were as follows (number of options in thousands):

Range of Exercise Prices	Number Outstanding	Weighted Average Price	Number Exercisable	Weighted Average Price	Average Remaining Life (Years)
Under $5.00	221	$ 3.25	118	$ 3.47	7.5
5.01 to 10.00	191	7.00	-	7.00	9.8
$10.01 to 23.90	2	$ 23.90	2	$ 23.90	1.5

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As of September 30, 2015, the aggregate intrinsic value of outstanding stock options and exercisable stock options was approximately $913,000 and $445,000, respectively.

The average fair value of stock options granted was estimated to be $6.40 per share in fiscal 2015 and $2.10 per share in fiscal 2014. This estimate was made using the Black-Scholes option pricing model and the following weighted average assumptions:

	2015	2014
Expected option life (years)	10	9
Expected stock price volatility	104%	95%
Expected dividend yield	-%	-%
Risk-free interest rate	2.20%	2.75%

Stock-based compensation expense attributable to stock options was $340,000 and $120,000 in 2015 and 2014, respectively. As of September 30, 2015, there was approximately $1,333,000 of unrecognized compensation expense related to unvested stock options outstanding, and the weighted average vesting period for those options was 2.5 years.

11. Income Taxes

The components of the provision for income taxes are as follows:

	Year Ended September 30,	
(In Thousands)	**2015**	**2014**
Current tax provision	$ -	$ 24
Deferred tax provision	-	-
Provision for income taxes	$ -	$ 24

The differences between income taxes calculated at the statutory U.S. federal income tax rate and the Company's provision for income taxes are as follows:

	Year Ended September 30,	
(In Thousands)	**2015**	**2014**

Income tax provision at statutory federal tax rate	$	-	$	32
Valuation allowance		(-)		(8)
Provision for income taxes	$	-	$	24

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The net deferred income tax asset balance related to the following: