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

FORM 10-Q

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

For the quarterly period ended **December 31, 2018**

OR

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

Commission File Number **1-05707**

GEE GROUP INC.

(Exact name of registrant as specified in its charter)

Illinois

(State or other jurisdiction of
incorporation or organization)

36-6097429

(I.R.S. Employer
Identification Number)

7751 Belfort Parkway, Suite 150, Jacksonville, FL 32256

(Address of principal executive offices)

(630) 954-0400

(Registrant's telephone number, including area code)

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

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

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

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

Large accelerated filer

Non-accelerated filer

Accelerated filer

Smaller reporting company

Emerging Growth Company

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

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

The number of shares outstanding of the registrant's common stock as of February 8, 2019 was 11,720,967.

GEE GROUP INC.
Form 10-Q
For the Quarter Ended December 31, 2018
INDEX

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS 3

PART I. FINANCIAL INFORMATION

<u>Item 1.</u>	<u>Financial Statements (unaudited)</u>	4
	<u>Condensed Consolidated Balance Sheets at December 31, 2018 and September 30, 2018</u>	4
	<u>Condensed Consolidated Statements of Operations for the three months ended December 31, 2018 and December 31, 2017</u>	5
	<u>Condensed Consolidated Statements of Shareholders' Equity for the three months ended December 31, 2018 and year ended September 30, 2018</u>	6
	<u>Condensed Consolidated Statements of Cash Flows for the three months ended December 31, 2018 and December 31, 2017</u>	7
	<u>Notes to Condensed Consolidated Financial Statements</u>	8
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	26
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	33
<u>Item 4.</u>	<u>Controls and Procedures</u>	33

PART II. OTHER INFORMATION

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

CAUTIONARY STATEMENT REGARDING FORWARD LOOKING STATEMENTS

As a matter of policy, the Company does not provide forecasts of future financial performance. The statements made in this quarterly report on Form 10-Q which are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements often contain or are prefaced by words such as "believe", "will" and "expect." These statements are based on current expectations, estimates and projections about our business based, in part, on assumptions made by management. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. As a result of a number of factors, our actual results could differ materially from those set forth in the forward-looking statements. Certain factors that might cause the Company's actual results to differ materially from those in the forward-looking statements include, without limitation, general business conditions, the demand for the Company's services, competitive market pressures, the ability of the Company to attract and retain qualified personnel for regular full-time placement and contract assignments, the possibility of incurring liability for the Company's business activities, including the activities of its contract employees and events affecting its contract employees on client premises, and the ability to attract and retain qualified corporate and branch management, as well as those risks discussed in the Company's Annual Report on Form 10-K for the year ended September 30, 2018, and in other documents which we file with the Securities and Exchange Commission. Any forward-looking statements speak only as of the date on which they are made, and the Company is under no obligation to (and expressly disclaims any such obligation to) and does not intend to update or alter its forward-looking statements whether as a result of new information, future events or otherwise.

PART I - FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS (unaudited)****GEE GROUP INC.****CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)**

(In Thousands)

	December 31, 2018	September 30, 2018
ASSETS		
CURRENT ASSETS:		
Cash	\$ 3,500	\$ 3,213
Accounts receivable, less allowances (\$302 and \$302, respectively)	19,047	20,755
Prepaid expenses and other current assets	<u>2,452</u>	<u>2,266</u>
Total current assets	24,999	26,234
Property and equipment, net	849	891
Goodwill	76,593	76,593
Intangible assets, net	28,070	29,467
Other long-term assets	394	416
TOTAL ASSETS	\$ 130,905	\$ 133,601
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 2,856	\$ 2,523
Acquisition deposit for working capital guarantee	883	883
Accrued compensation	4,215	5,212
Short-term portion of subordinated debt	-	106
Short-term portion of term loan, net of discount	3,226	2,331
Other current liabilities	<u>2,274</u>	<u>2,064</u>
Total current liabilities	13,454	13,119
Deferred taxes	668	146
Revolving credit facility	12,676	11,925
Term loan, net of discounts	38,466	40,253
Subordinated debt	1,000	1,000
Subordinated convertible debt	16,685	16,685
Other long-term liabilities	<u>535</u>	<u>583</u>
Total long-term liabilities	70,030	70,592
Commitments and contingencies		
MEZZANINE EQUITY		
Preferred stock; no par value; authorized - 20,000 shares -		
Preferred series A stock; authorized - 160 shares; issued and outstanding - none	-	-
Preferred series B stock; authorized - 5,950 shares; issued and outstanding - 5,566 and 5,816 at December 31, 2018 and September 30, 2018, respectively; liquidation value of the preferred series B stock is approximately \$27,050 and \$28,255 at December 31, 2018 and September 30, 2018, respectively	27,551	28,788
SHAREHOLDERS' EQUITY		
Common stock, no-par value; authorized - 200,000 shares; issued and outstanding - 11,204 shares at December 31, 2018 and 10,783 shares at September 30, 2018, respectively	-	-
Additional paid in capital	46,340	44,120
Accumulated deficit	<u>(26,470)</u>	<u>(23,018)</u>
Total shareholders' equity	19,870	21,102
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 130,905	\$ 133,601

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

[Table of Contents](#)

GEE GROUP INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)
(In Thousands, Except Per Share Data)

	Three Months Ended	
	December 31,	
	2018	2017
NET REVENUES:		
Contract staffing services	\$ 34,014	\$ 39,461
Direct hire placement services	4,529	5,771
NET REVENUES	38,543	45,232
Cost of contract services	25,812	29,458
GROSS PROFIT	12,731	15,774
Selling, general and administrative expenses (including noncash stock-based compensation expense of \$581 and \$293, respectively)	10,078	12,766
Acquisition, integration and restructuring expenses	1,159	40
Depreciation expense	79	97
Amortization of intangible assets	1,396	1,396
INCOME FROM OPERATIONS	19	1,475
Interest expense	(2,948)	(3,294)
LOSS BEFORE INCOME TAX PROVISION	(2,929)	(1,819)
Provision for income tax	(523)	28
NET LOSS	\$ (3,452)	\$ (1,791)
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	\$ (3,452)	\$ (1,791)
BASIC AND DILUTED LOSS PER SHARE	\$ (0.32)	\$ (0.18)
WEIGHTED AVERAGE NUMBER OF SHARES - BASIC AND DILUTED	10,946	9,905

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

[Table of Contents](#)

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

	<u>Common Stock Shares</u>	<u>Additional Paid In Capital</u>	<u>Accumulated Deficit</u>	<u>Total Shareholders' Equity</u>
Balance, September 30, 2017	9,879	\$ 39,517	\$ (15,454)	\$ 24,063
Share-based compensation	-	1,660	-	1,660
Issuance of stock for interest	794	2,400	-	2,400
Conversion of preferred Series B to common stock	110	543	-	543
Net loss	-	-	(7,564)	(7,564)
Balance, September 30, 2018	<u>10,783</u>	<u>\$ 44,120</u>	<u>\$ (23,018)</u>	<u>\$ 21,102</u>
Share-based compensation	-	581	-	581
Issuance of stock for interest	171	401	-	401
Conversion of preferred Series B to common stock	250	1,238	-	1,238
Net loss	-	-	(3,452)	(3,452)
Balance, December 31, 2018	<u>11,204</u>	<u>\$ 46,340</u>	<u>\$ (26,470)</u>	<u>\$ 19,870</u>

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

[Table of Contents](#)

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

	Three Months Ended	
	December 31,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (3,452)	\$ (1,791)
Adjustments to reconcile net loss to cash provided by (used in) operating activities:		
Depreciation and amortization	1,475	1,493
Stock Compensation expense	581	293
Provision for doubtful accounts	-	(53)
Deferred income taxes	523	-
Amortization of debt discount	195	192
Interest expense paid with common stock	401	210
Changes in operating assets and liabilities:		
Accounts receivable	1,710	562
Accrued interest	-	(388)
Accounts payable	333	(577)
Accrued compensation	(997)	(1,267)
Other current items, net	21	1,295
Long-term items, net	(11)	(218)
Net cash provided by (used in) operating activities	<u>779</u>	<u>(249)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(36)	(128)
Net cash used in investing activities	<u>(36)</u>	<u>(128)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment on term loan	(1,087)	(812)
Payments on subordinated debt	(107)	(212)
Payments on capital lease	(13)	-
Net proceeds from revolving credit	751	2,096
Net cash provided by (used in) financing activities	<u>(456)</u>	<u>1,072</u>
Net change in cash	287	695
Cash at beginning of period	<u>3,213</u>	<u>2,785</u>
Cash at end of period	<u>\$ 3,500</u>	<u>\$ 3,480</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	\$ 2,615	\$ 2,699
Cash paid for taxes	\$ 12	\$ -
Non-cash financing activities		
Conversion of Series B Convertible Preferred Stock to common stock	\$ 1,238	\$ -
Issuance of stock for extinguishment of debt	\$ -	\$ 385

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

[Table of Contents](#)

GEE GROUP INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(Dollar amounts in thousands except per share data, unless otherwise stated)

1. Description of Business

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

2. Significant Accounting Policies and Estimates

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Article 8 of Regulation S-X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the three-month period ended December 31, 2018 are not necessarily indicative of the results that may be expected for the year ending September 30, 2019. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 2018 as filed on December 27, 2018.

Liquidity

The Company experienced significant net losses for its most recent fiscal year ended September 30, 2018, and for the three months ended December 31, 2018. Management has implemented a strategy which includes cost reductions and consolidation of certain operating activities to continue gain efficiencies as well as identifying strategic acquisitions, financed primarily through a combination of the issuance of equity and debt, to improve the overall profitability and cash flows of the Company.

As of December 31, 2018, the Company had cash of approximately \$3.5 million, which was an increase of approximately \$0.3 million from approximately \$3.2 million at September 30, 2018. Working capital at December 31, 2018 was approximately \$11.5 million, as compared to working capital of approximately \$13.1 million for September 30, 2018.

Management currently expects that the combination of future cash flow from operations and the availability under the Revolving Credit Facility will provide sufficient liquidity for the next 12 months. See Note 6, for a further discussion of the terms, conditions, status and related matters regarding the Company's Revolving Credit, Term Loan and Security Agreement and subsequent amendments related to waivers of covenants.

Principles of Consolidation

The unaudited condensed 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.

Estimates and Assumptions

Management makes estimates and assumptions that can affect the amounts of assets and liabilities reported as of the date of the unaudited 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.

[Table of Contents](#)

GEE GROUP INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(Dollar amounts in thousands except per share data, unless otherwise stated)

Revenue Recognition

Revenues from contracts with customers are generated through the following services: direct hire placement services, temporary professional services staffing, and temporary light industrial staffing. Revenues are recognized when promised services performed to customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those services. Our revenues are recorded net of variable consideration such as sales adjustments or allowances.

Direct hire placement service revenues from contracts with customers are recognized when employment candidates accept offers of employment, less a provision for estimated credits or refunds to customers as the result of applicants not remaining employed for the entirety of the Company's guarantee period (referred to as "falloffs"). The Company's guarantee periods for permanently placed employees generally ranges from 60 to 90 days from the date of hire. Fees associated with candidate placement are generally calculated as a percentage of the new employee's annual compensation. No fees for permanent placement services are charged to employment candidates.

Temporary staffing service revenues from contracts with customers are recognized in amounts for which the Company has a right to invoice, as the services are rendered by the Company's temporary employees. The Company records temporary staffing revenue on a gross basis as a principal versus on a net basis as an agent in the presentation of revenues and expenses. The Company has concluded that gross reporting is appropriate because the Company controls the specified service before that service is performed for a customer. The Company has the risk of identifying and hiring qualified employees, has the discretion to select the employees and establish their price, and bears the risk for services that are not fully paid for by customers.

Falloffs and refunds during the period are reflected in the unaudited condensed consolidated statements of operations as a reduction of placement service revenues and were approximately \$0.7 million and \$0.6 million for the three months ended December 31, 2018 and 2017, respectively. Expected future falloffs and refunds are reflected in the unaudited condensed consolidated balance sheet as a reduction of accounts receivable as described under Accounts Receivable, below.

See Note 13 for disaggregated revenues by segment.

Payment terms in our contracts vary by the type and location of our customer and the services offered. The terms between invoicing and when payments are due are not significant.

Cost of Contract Staffing Services

The cost of contract services includes the wages and the related payroll taxes, employee benefits and certain other employee-related costs of the Company's contract service 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. As of December 31, 2018 and September 30, 2018, there were no cash equivalents. The Company maintains deposits in financial institutions and, at times, balances may exceed federally insured limits. We have never experienced any losses related to these balances.

Accounts Receivable

The Company extends credit to its various customers based on evaluation of the customer's financial condition and ability to pay the Company in accordance with the payment terms. An allowance for placement fall-offs is recorded, as a reduction of revenues, for estimated losses due to applicants not remaining employed for the Company's guarantee period. An allowance for doubtful accounts is recorded, as a charge to bad debt expense, where collection is considered to be doubtful due to credit issues. These allowances together reflect management's estimate of the potential losses inherent in the accounts receivable balances, based on historical loss statistics and known factors impacting its customers. The nature of the contract service business, where companies are dependent on employees for the production cycle allows for a relatively small accounts receivable allowance. As of each of December 31, 2018, and September 30, 2018 allowance for doubtful accounts was \$0.3 million. The Company charges off uncollectible accounts once the invoices are deemed unlikely to be collectible. The allowance also includes permanent placement falloffs of \$0.2 million as of December 31, 2018 and September 30, 2018.

GEE GROUP INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(Dollar amounts in thousands except per share data, unless otherwise stated)

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 three-months period ended December 31, 2018 and 2017.

Goodwill

Goodwill represents the excess of cost over the fair value of the net assets acquired in the various acquisitions. The Company evaluates 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 Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 820, “Fair Value Measurement”, 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 of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company’s assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is described below:

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

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

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

The fair value of the Company’s current assets and current liabilities approximate their carrying values due to their short-term nature. The fair value disclosures of the Company’s long-term liabilities included herein are estimated using Level 3 inputs. The Company’s goodwill and other intangible assets are measured at fair value on a non-recurring basis using Level 3 inputs, as discussed in Note 5.

[Table of Contents](#)

GEE GROUP INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(Dollar amounts in thousands except per share data, unless otherwise stated)

Earnings and Loss per Share

Basic loss per share is computed by dividing net loss attributable to common stockholders by the weighted average common shares outstanding for the period. Diluted loss per share is computed giving effect to all potentially dilutive common shares. Potentially dilutive common shares may consist of incremental shares issuable upon the exercise of stock options and warrants and the conversion of notes payable and preferred stock 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 stock equivalents, which are excluded because their effect is anti-dilutive were 11.8 million and 10.3 million for the three months ended December 31, 2018 and 2017, respectively.

Advertising Expenses

The Company expenses the costs of print and internet media advertising and promotions as incurred and reports these costs in selling, general and administrative expenses. Advertising expense totaled \$0.6 million for each of the three months ended December 31, 2018 and 2017.

Intangible Assets

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

Impairment of Long-lived Assets

The Company records an impairment of long-lived assets used in operations, other than goodwill, when events or circumstances indicate that the asset might be impaired and the estimated undiscounted cash flows to be generated by those assets over their remaining lives are less than the carrying amount of those items. The net carrying value of assets not recoverable is reduced to fair value, which is typically calculated using the discounted cash flow method. The Company did not recognize any impairments during the three-month periods ended December 31, 2018 and 2017.

Stock-Based Compensation

The Company accounts for stock-based awards to employees in accordance with FASB ASC 718, "Compensation-Stock Compensation", 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 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 FASB ASC 718, "Compensation-Stock Compensation". 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.

[Table of Contents](#)

GEE GROUP INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(Dollar amounts in thousands except per share data, unless otherwise stated)

Income Taxes

We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, we determine deferred tax assets and liabilities on the basis of the differences between the financial statement and tax bases of assets and liabilities by using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

We recognize deferred tax assets to the extent that we believe that these assets are more likely than not to be realized. In making such a determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. If we determine that we would be able to realize our deferred tax assets in the future in excess of their net recorded amount, we would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

We record uncertain tax positions in accordance with ASC 740 on the basis of a two-step process in which (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

We recognize and group interest and penalties, if any, with income tax expense in the accompanying consolidated statement of operations. As of December 31, 2018 and September 30, 2018, no material accrued interest or penalties are included on the related tax liability line in the consolidated balance sheet.

Segment Data

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

3. Recent Accounting Pronouncements

On May 28, 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU superseded the existing revenue recognition guidance under U.S. GAAP. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which delayed the effective date of the new standard from January 1, 2017 to January 1, 2018. The FASB also agreed to allow entities to choose to adopt the standard as of the original effective date. This ASU permits the use of either the retrospective or cumulative effect transition method. The new standard was adopted by the Company under the modified retrospective approach effective October 1, 2018. The adoption of this standard did not have a material impact on the Company's financial statements.

GEE GROUP INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(Dollar amounts in thousands except per share data, unless otherwise stated)

In February 2016 FASB issued ASU No. 2016-02, Leases (Topic 842), which supersedes the existing guidance for lease accounting, Leases (Topic 840). ASU 2016-02 requires lessees to recognize leases on their balance sheets, and leaves lessor accounting largely unchanged. The amendment in the ASU are effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early application is permitted for all entities. ASU 2016-02 requires a modified retrospective approach for all leases existing at, or entered into after, the date of initial application, with an option to elect to use certain transition relief. In July 2018, the FASB issued ASU No. 2018-10, “Codification of Improvement to Topic 842 Leases.” The amendments in ASU 2018-10 clarify, correct or remove inconsistencies in the guidance provided under ASU 2016-02 related to sixteen specific issues identified. Also, in July 2018, the FASB issued ASU No. 2018-11 “Leases (Topic 842): Targeted Improvement” which now allows entities the option of recognizing the cumulative effect of applying the new standard as an adjustment to the opening balance of retained earnings in the year of adoption while continuing to present all prior period under previous lease accounting guidance. The effective date and transition requirement for these two ASUs are the same as the effective date and transition requirement as ASU 2016-02. While the Company continues to assess all potential impacts of the standard, the Company currently believes the most significant impact relates to recording right-to-use assets and related lease liabilities on the consolidated balance sheets.

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

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

4. Property and Equipment

Property and equipment, net consisted of the following:

	December 31, 2018	September 30, 2018
Computer software	\$ 1,447	\$ 1,447
Office equipment, furniture and fixtures and leasehold improvements	3,374	3,356
Total property and equipment, at cost	4,821	4,803
Accumulated depreciation and amortization	(3,972)	(3,912)
Property and equipment, net	<u>\$ 849</u>	<u>\$ 891</u>

Depreciation expense for three-month periods ended December 31, 2018 and 2017, was approximately \$0.1 million.

[Table of Contents](#)

GEE GROUP INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(Dollar amounts in thousands except per share data, unless otherwise stated)

5. Intangible Assets

The following tables set forth the costs, accumulated amortization and net book value of the Company's separately identifiable intangible assets as of December 31, 2018 and September 30, 2018, and estimated future amortization expense.

(in thousands)	December 31, 2018			September 30, 2018		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Customer relationships	\$ 29,070	\$ 8,175	\$ 20,895	\$ 29,070	\$ 7,459	\$ 21,611
Trade name	8,329	2,892	5,437	8,329	2,537	5,792
Non-Compete agreements	4,331	2,593	1,738	4,331	2,267	2,064
Total	\$ 41,730	\$ 13,660	\$ 28,070	\$ 41,730	\$ 12,263	\$ 29,467
Estimated Amortization Expense						
Remainder of Fiscal 2019	\$ 4,190					
Fiscal 2020	5,038					
Fiscal 2021	4,088					
Fiscal 2022	3,469					
Fiscal 2023	2,879					
Thereafter	8,406					
	<u>\$ 28,070</u>					

The trade names are amortized on a straight – line basis over the estimated useful life of between five and ten years. Intangible assets that represent customer relationships are amortized on the basis of estimated future undiscounted cash flows or using the straight – line basis over estimated remaining useful lives of five to ten years. Non-compete agreements are amortized based on a straight-line basis over the term of the respective noncompete agreements, which are typically five years in duration.

The intangible assets amortization expense was \$1.4 million for the three-month periods ended December 31, 2018 and 2017.

6. Revolving Credit Facility and Term Loan

Revolving Credit, Term Loan and Security Agreement

After the close of business on March 31, 2017, the Company and its subsidiaries, as borrowers, entered into a Revolving Credit, Term Loan and Security Agreement (the "Credit Agreement") with PNC Bank National Association ("PNC"), and certain investment funds managed by MGG Investment Group LP ("MGG"). Initial funds were distributed on April 3, 2017 (the "Closing Date") to repay existing indebtedness, pay fees and expenses relating to the Credit Agreement, and to pay a portion of the purchase price for the acquisition of the SNI Companies.

Under the terms of the Credit Agreement, the Company may borrow up to \$73.8 million consisting of a four-year term loan in the principal amount of \$48.8 million and revolving loans in a maximum amount up to the lesser of (i) \$25.0 million or (ii) an amount determined pursuant to a borrowing base that is calculated based on the outstanding amount of the Company's eligible accounts receivable, as described in the Credit Agreement. The loans under the Credit Agreement mature on March 31, 2021.

The Credit Agreement, as amended, contains certain financial covenants, which are required to be maintained as of the last day of each fiscal quarter, including the following:

Fixed Charge Coverage Ratio ("FCCR"). This is the ratio of consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA") to Fixed Charges, each of which is as defined in the Credit Agreement, as amended. The minimum FCCR requirements are: 1.25 to 1.00 for the trailing four quarters ended September 30, 2018; 0.80 to 1.00 for the quarter ending December 31, 2018; 1.00 to 1.00 for the two fiscal quarters ending March 31, 2019; 1.05 to 1.00 for the three fiscal quarters ending June 30, 2019; 1.05 to 1.00 for the four fiscal quarters ending September 30, 2019; and 1.25 to 1.00 for each fiscal quarter thereafter.

GEE GROUP INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(Dollar amounts in thousands except per share data, unless otherwise stated)

Minimum EBITDA. Minimum EBITDA, which is determined on a consolidated basis, as defined in the Credit Agreement, as amended, are: \$13.3 million for the quarter ended September 30, 2018; \$12.7 million for the fiscal quarter ended December 31, 2018; \$13.0 million for the fiscal quarter ended March 31, 2019; \$13.3 million for the fiscal quarter ended June 30, 2019; and \$14.0 million for the fiscal quarter ending September 30, 2019 and each fiscal quarter thereafter.

Senior Leverage Ratio. This is the ratio of maximum Indebtedness, which is substantially comprised of consolidated senior indebtedness, to consolidated EBITDA, each of which is as defined under the Credit Agreement, as amended. The Senior Leverage Ratios are: 4.00 to 1.00 for the fiscal quarter ended September 30, 2018; 4.40 to 1.00 for the fiscal quarter ended December 31, 2018; 4.25 to 1.00 for the fiscal quarter ended March 31, 2019; 4.10 to 1.00 for the fiscal quarter ended June 30, 2019; and 4.00 to 1.00 for the fiscal quarter ending September 30, 2019 and 2.50 to 1.00 for each fiscal quarter thereafter.

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

On August 31, 2017, the Company entered into a Consent to Extension of Waiver to the Credit Agreement (the "Waiver"). Under the terms of the Waiver, the Lenders and the Agents agreed to extend to October 3, 2017 the deadline by which the Company must deliver updated financial information satisfactory to the lenders in order to amend the financial covenant levels, execute a fully executed amendment to the Credit Agreement, and any other terms and conditions required by the lenders in their sole discretion. Additionally, the Company paid a \$73,500 consent fee to the Agents for the pro rata benefit of the lenders, in connection with the Waiver. On August 31, 2017, an additional waiver to the Credit Agreement ("Additional Waiver"), pursuant to which the due date for the Company to deliver the subordination agreement and an amended subordinated note, executed by one of the Company's subordinated lenders was extended from August 31, 2017 to October 3, 2017, also was obtained.

On October 2, 2017, the Company, the other borrower entities and guarantor entities named therein (collectively, the "Loan Parties"), PNC, and certain investment funds managed by MGG (collectively the "Lenders") entered into a First Amendment and Waiver (the "First Amendment") to the Revolving Credit, Term Loan and Security Agreement dated as of March 31, 2017 (the "Credit Agreement") by and among the Loan Parties, and the Lenders. The First Amendment, which was effective as of October 2, 2017, modified the required principal repayment schedule with respect to the Term Loans. The Amendment also modified the ability of the Loan Parties to repay or make other payments with respect to certain other loans that are subordinated in right of payment to the indebtedness under the Credit Agreement.

Pursuant to the First Amendment the Lenders also waived any Event of Default arising out of the Loan Parties' failure to deliver, on or before October 3, 2017, the materials satisfying the requirements of clauses (i) and (ii) of Section 5 of the Waiver to Revolving Credit, Term Loan and Security Agreement, dated as of August 14, 2017, as amended.

On November 14, 2017, the Company and its subsidiaries, as Borrowers, entered into a second amendment (the "Second Amendment") to the Revolving Credit, Term Loan and Security Agreement, dated as of March 31, 2017 (the "Credit Agreement"). Pursuant to the Second Amendment the Borrowers agreed, among other things, to use commercially reasonable efforts to prepay, or cause to be prepaid, \$10.0 million in principal amount of Advances (as defined in the Credit Agreement) outstanding, which amount shall be applied to prepay the Term Loans in accordance with the applicable terms of the Credit Agreement. Any prepayment to the term loan is contingent upon a future financing, non-operational cash flow or excess cash flow as defined in the agreement. The Company also agreed to certain amendments to the loan covenants required to be maintained.

[Table of Contents](#)

GEE GROUP INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(Dollar amounts in thousands except per share data, unless otherwise stated)

The Company did not meet its financial loan covenants at September 30, 2018 or at June 30, 2018 or March 31, 2018, previously. On May 15, 2018, the Company obtained a temporary waiver from its lenders for the missed financial covenants at March 31, 2018. On August 10, 2018, the Company and its subsidiaries, as Borrowers, entered into a third amendment and waiver (the "Third Amendment and Waiver") to the Credit Agreement. Pursuant to the Third Amendment and Waiver, the Lenders agreed to modify the definition of EBITDA in the Credit Agreement to allow for the recognition and exclusion of certain additional acquisition, integration and restructuring expenses not previously specified and to provide a temporary waiver for any Defaults and Events of Default under the Credit Agreement that have solely arisen by reason of the Company failing to comply with the financial covenants of the Credit Agreement for the period ending June 30, 2018.

On December 27, 2018, the Company and its subsidiaries, as Borrowers, entered into a fourth amendment and waiver (the "Fourth Amendment and Waiver") to the Revolving Credit, Term Loan and Security Agreement, dated as of March 31, 2017 (the "Credit Agreement"). Under the Fourth Amendment and Waiver, the Company and its Lenders have negotiated and agreed to a waiver for non-compliance with the financial covenants under the Credit Agreement as of September 30, 2018, and amendments to the financial covenants and to the remaining scheduled principal payments. The Company met its financial loan covenants for the three-month period ended December 31, 2018.

Management has taken definitive actions to improve operations, reduce costs and improve profitability, and position the Company for future growth. The Company also is seeking replacement financing with a view towards lowering its borrowing costs. Based on its current projections, management expects that the Company can meet its future debt service requirements and comply with its financial covenants and other commitments, as amended in the Fourth Amendment. However, the Company's projections are based on assumptions and estimates about future performance and events, which are subject to change or other unforeseen conditions or uncertainties. As such, there can be no assurance that the Company will not fall into non-compliance with its loan covenants or that its Lenders will continue to provide waivers or amendments to the Company in the event of future non-compliance with debt covenants or other possible events of default that could happen in the future.

Revolving Credit Facility

As of December 31, 2018, the Company had \$12.7 million in outstanding borrowings under the Revolving Credit Facility, of which approximately \$1.0 million was at an interest rate of approximately 17.31%, approximately \$8.0 million was at an interest rate of approximately 17.46%, and the remainder was at an interest rate of approximately 19.50%.

As of December 31, 2018, the Company had \$0.6 million available on the Revolving Credit facility.

The Revolving Credit Facility is secured by all 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.

Term Loan

The Company had outstanding balances under its Term Loan, as follows:

	December 31, 2018	September 30, 2018
Term loan	\$ 43,505	\$ 44,505
Unamortized debt discount	(1,813)	(1,921)
Term loan, net of discount	41,692	42,584
Short term portion of term loan, net of discount	3,226	2,331
Long term portion of term loan, net of discount	<u>\$ 38,466</u>	<u>\$ 40,253</u>

[Table of Contents](#)

GEE GROUP INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(Dollar amounts in thousands except per share data, unless otherwise stated)

The Term Loan is payable as follows, subject to acceleration upon the occurrence of an Event of Default under the Credit Agreement or termination of the Credit Agreement and provided that all unpaid principal, accrued and unpaid interest and all unpaid fees and expenses shall be due and payable in full on March 31, 2021. Principal payments are required as follows: Remainder of Fiscal 2019 – \$2.1 million, Fiscal 2020 – \$8.3 million and Fiscal 2021 - \$33.1 million.

The Company also is required to prepay the outstanding amount of the Term Loan in an amount equal to the Specified Excess Cash Flow Amount (as defined in the agreement) for the immediately preceding fiscal year, commencing with the fiscal year ending September 30, 2018. The Company does not owe any amount as of December 31, 2018.

Interest

The loans under the Credit Agreement for the period commencing on the Second Amendment Effective Date up to and including May 31, 2018, (i) so long as the Senior Leverage Ratio is equal to or greater than 3.75 to 1.00, an amount equal to prime plus 9.75% for Advances consisting of Domestic Rate Loans and LIBOR plus 10.75% for Advances consisting of LIBOR Rate Loans and (ii) so long as the Senior Leverage Ratio is less than 3.75 to 1.00, an amount equal to prime plus 9.00% for Advances consisting of Domestic Rate Loans and LIBOR plus 10.00% for Advances consisting of LIBOR Rate Loans.

Commencing on June 1, 2018 up to and including August 31, 2018, (i) so long as the Senior Leverage Ratio is equal to or greater than 4.00 to 1.00, interest on the loans is payable in an amount equal to prime plus 14.00% for Advances consisting of Domestic Rate Loans and LIBOR plus 15.00% for Advances consisting of LIBOR Rate Loans and (ii) so long as the Senior Leverage Ratio is less than 4.00 to 1.00, interest is payable in an amount equal to prime plus 9.75% for Advances consisting of Domestic Rate Loans and LIBOR plus 10.75% for Advances consisting of LIBOR Rate Loans.

Commencing on September 1, 2018 through the remainder of the Term, (i) so long as the Senior Leverage Ratio is equal to or greater than 3.50 to 1.00, interest on the loans is payable in an amount equal to prime plus 14.00% for Advances consisting of Domestic Rate Loans and LIBOR plus 15.00% for Advances consisting of LIBOR Rate Loans and (ii) so long as the Senior Leverage Ratio is less than 3.50 to 1.00, interest is payable in an amount equal to prime plus 9.00% for Advances consisting of Domestic Rate Loans and LIBOR plus 10.00% for Advances consisting of LIBOR Rate Loans.

As of December 31, 2018, the Company had \$43.5 million in outstanding borrowings under the Term Loan Facility, of which approximately \$37.0 million was at an interest of approximately 17.53%, and approximately \$6.4 million was at an interest of approximately 17.45%.

Loan Fees and Amortization

In connection with the Credit Agreement, the Company agreed to pay an original discount fee of approximately \$0.9 million, a closing fee for the term loan of approximately \$0.1 million, a finder's fee of approximately \$1.6 million and a closing fee for the revolving credit facility of approximately \$0.5 million. The total of the loan fees paid is approximately \$3.1 million. The Company has reported these direct loan-related costs in the form of a discount and reduction of the term loan in the accompanying consolidated balance sheets and is amortizing them as interest expense over the term of the loans. For the three months ended December 31, 2018 and 2017, the Company amortized approximately \$0.2 million of debt discount.

7. Accrued Compensation

Accrued Compensation includes accrued wages, the related payroll taxes, employee benefits of the Company's employees, including those working on contract assignments, commissions earned and not yet paid and estimated commissions and bonuses payable.

[Table of Contents](#)

GEE GROUP INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(Dollar amounts in thousands except per share data, unless otherwise stated)

8. Subordinated Debt – Convertible and Non-Convertible

The Company had outstanding balances under its Convertible and Non-Convertible Subordinated Debt agreements, as follows:

	December 31, 2018	September 30, 2018
10% Convertible Subordinated Note	\$ 4,185	\$ 4,185
Amended and Restated Non-negotiable promissory note	-	106
Subordinated Promissory Note	1,000	1,000
9.5% Convertible Subordinated Note	12,500	12,500
Total subordinated debt, convertible and non-convertible	17,685	17,791
Short term portion of subordinated debt, convertible and non-convertible	-	(106)
Long term portion of subordinated debt, convertible and non-convertible	\$ 17,685	\$ 17,685

10% Convertible Subordinated Note

The Company had a Subordinated Note payable to JAX Legacy – Investment 1, LLC (“JAX Legacy”), pursuant to a Subscription Agreement dated October 2, 2015, in the amount of \$4.2 million, and which was scheduled to become due on October 2, 2018.

On April 3, 2017, the Company and JAX Legacy amended and restated the Subordinated Note in its entirety in the form of a 10% Convertible Subordinated Note (the “10% Note”) in the aggregate principal amount of \$4.2 million. The 10% Note matures on October 3, 2021 (the “Maturity Date”). The 10% Note is convertible into shares of the Company’s Common Stock at a conversion price equal to \$5.83 per share. All or any portion of the 10% Note may be redeemed by the Company for cash at any time on or after April 3, 2018 that the average daily VWAP of the Company’s Common Stock reported on the principal trading market for the Common Stock exceeds the then applicable Conversion Price for a period of 20 trading days. The redemption price shall be an amount equal to 100% of the then outstanding principal amount of the 10% Note being redeemed, plus accrued and unpaid interest thereon. The Company agreed to issue to the investors in JAX Legacy approximately 77,775 shares of common stock, at a value of approximately \$0.4 million which was expensed as loss on the extinguishment of debt during the year ended September 30, 2017.

Total discount recorded at issuance of the original JAX Legacy subordinated note payable was approximately \$0.6 million. Total amortization of debt discount for the year ended September 30, 2017 was approximately \$0.1 million, and the remaining \$0.3 million was written off to loss on extinguishment of debt upon amendment and restatement resulting in the 10% Note.

During the three months ended December 31, 2018 the Company issued approximately 40,226 shares of common stock to Jax Legacy related to interest of \$0.1 million on the 10% Note.

On January 4, 2019 the Company issued approximately 148,834 shares of common stock to Jax Legacy related to interest of \$0.1 million on the 10% Note.

Amended and Restated Non-Negotiable Promissory Note

On October 4, 2017, the Company executed an Amended and Restated Non-Negotiable Promissory Note in favor of William Daniel Dampier and Carol Lee Dampier (sellers of Access Data Consulting Corporation) in the amount of approximately \$1.2 million (the “Note”). This Note amends and, as so amended, restates in its entirety and replaces that certain Subordinated Nonnegotiable Promissory Note dated October 4, 2015, issued by the Company to William Daniel Dampier and Carol Lee Dampier in the original principal amount of \$3.0 million. The Company agreed to pay William Daniel Dampier and Carol Lee Dampier 12 equal installments of approximately \$107,675, commencing on November 4, 2017 and ending on October 4, 2018. The note was paid off during the three months ended December 31, 2018.

[Table of Contents](#)

GEE GROUP INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(Dollar amounts in thousands except per share data, unless otherwise stated)

Subordinated Promissory Note

On January 20, 2017, the Company entered into Addendum No. 1 (the "Addendum") to the Stock Purchase Agreement dated as of January 1, 2016 (the "Paladin Agreement") by and among the Company and Enoch S. Timothy and Dorothy Timothy (collectively, the "Sellers"). Pursuant to the terms of the Addendum, the Company and the Sellers agreed (a) that the conditions to the "Earnouts" (as defined in the Paladin Agreement) had been satisfied or waived and (b) that the amounts payable to the Sellers in connection with the Earnouts shall be amended and restructured as follows: (i) the Company paid \$250,000 in cash to the Sellers prior to January 31, 2017 (the "Earnout Cash Payment") and (ii) the Company issued to the Sellers a subordinated promissory note in the principal amount of \$1.0 million (the "Subordinated Note"). The Subordinated Note bears interest at the rate of 5.5% per annum. Interest on the Subordinated Note is payable monthly and principal can only be paid in stock until the term loan and Revolving Credit Facility are repaid. The Subordinated Note shall have a term of three years and may be prepaid without penalty. The principal of and interest on the Subordinated Note may be paid, at the option of the Company, either in cash or in shares of common stock of the Company or in any combination of cash and common stock. The Sellers have agreed that all payments and obligations under the Subordinated Note shall be subordinate and junior in right of payment to any "Senior Indebtedness" (as defined in the Paladin Agreement) now or hereafter existing to "Senior Lenders" (current or future) (as defined in the Paladin Agreement).

9.5% Convertible Subordinated Notes

On April 3, 2017, the Company issued and paid to certain SNIH Stockholders as part of the acquisition of SNIH an aggregate of \$12.5 million in the form of 9.5% Convertible Subordinated Notes (the "9.5% Notes"). The 9.5% Notes mature on October 3, 2021 (the "Maturity Date"). The 9.5% Notes are convertible into shares of the Company's Common Stock at a conversion price equal to \$5.83 per share. Interest on the 9.5% Notes accrues at the rate of 9.5% per annum and is payable quarterly in arrears on June 30, September 30, December 31 and March 31, beginning on June 30, 2017, on each conversion date with respect to the 9.5% Notes (as to that principal amount then being converted), and on the Maturity Date (each such date, an "Interest Payment Date"). At the option of the Company, interest may be paid on an Interest Payment Date either in cash or in shares of Common Stock of the Company, which Common Stock shall be valued based on the terms of the agreement, subject to certain limitations defined in the loan agreement. Each of the 9.5% Notes is subordinated in payment to the obligations of the Company under its Credit Agreement (see Note 6) pursuant to Subordination and Inter-creditor Agreements dated as of March 31, 2017 by and among the Company, the Credit Agreement lenders, and each of the holders of the 9.5% Notes.

Future minimum payments of all subordinated debt will total approximately as follows: fiscal 2019 - \$0.0 million, fiscal 2020 - \$1.0 million, fiscal 2021- \$0.0 and fiscal 2022 - \$16.7 million.

During the three months ended December 31, 2018 the Company issued approximately 130,952 shares of common stock to the SNI Sellers related to interest of \$0.3 million on the 9.5% Notes.

On January 4, 2019 the Company issued approximately 367,498 shares of common stock to the SNI Sellers related to interest of \$0.3 million on the 9.5% Notes.

9. Equity

During the three months ended December 31, 2018 the Company issued 250,000 shares of common stock for the conversion of approximately 250,000 shares of Series B Convertible Preferred Stock, see Note 10.

[Table of Contents](#)

GEE GROUP INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(Dollar amounts in thousands except per share data, unless otherwise stated)

Restricted Stock

During the three months ended December 31, 2018 no restricted stock was granted or exercised. The restricted shares are to be earned over a three-year period and cliff vest at the end of the third year from the date of grant. Stock-based compensation expense attributable to restricted stock was \$0.2 million and \$0.0 million for the three months ended December 31, 2018 and 2017, respectively. As of December 31, 2018, there was approximately \$1.9 million of unrecognized compensation expense related to restricted stock outstanding.

A summary of restricted stock activity is presented as follows:

	Number of Shares
Restricted stock outstanding as of September 30, 2018	1,100
Granted	-
Exercised	-
Restricted stock outstanding as of December 31, 2018	<u>1,100</u>

Warrants

No warrants were granted or exercised during the three months ended December 31, 2018.

	Number of Shares	Weighted Average Exercise Price Per Share (\$)	Weighted Average Remaining Contractual Life	Total Intrinsic Value of Warrants (\$)
Warrants outstanding as of September 30, 2018	497	3.84	2.87	67
Granted	-	-		
Exercised	-	-		
Forfeited	(58)	2.00		
Warrants outstanding as of December 31, 2018	<u>439</u>	<u>4.09</u>	<u>2.48</u>	<u>-</u>
Warrants exercisable as of September 30, 2018	497	3.84	2.87	67
Warrants exercisable as of December 31, 2018	<u>439</u>	<u>4.09</u>	<u>2.48</u>	<u>-</u>

Stock Options

As of December 31, 2018, there were stock options outstanding under the Company's Second Amended and Restated 1997 Stock Option Plan and the Company's Amended and Restated 2013 Incentive Stock Plan. Both plans were approved by the shareholders. 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 December 31, 2018 and September 30, 2018 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.

Stock-based compensation expense attributable to stock options and warrants was \$0.4 million and \$0.3 million for the three months ended December 31, 2018 and 2017, respectively. As of December 31, 2018, there was approximately \$2.7 million of unrecognized compensation expense related to unvested stock options outstanding, and the weighted average vesting period for those options was 3.5 years.

[Table of Contents](#)

GEE GROUP INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(Dollar amounts in thousands except per share data, unless otherwise stated)

A summary of stock option activity is as follows:

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price per share (\$)</u>	<u>Weighted Average Remaining Contractual Life (Years)</u>	<u>Total Intrinsic Value of Options (\$)</u>
Options outstanding as of September 30, 2018	1,578	3.76	7.53	142
Granted	394	1.91		
Exercised	-	-		
Forfeited/Expired	(178)	3.89		
Options outstanding as of December 31, 2018	<u>1,794</u>	<u>3.34</u>	<u>8.58</u>	<u>-</u>
Exercisable as of September 30, 2018	512	5.08	7.30	1
Exercisable as of December 31, 2018	<u>385</u>	<u>5.92</u>	<u>7.19</u>	<u>-</u>

The fair value of stock options granted was made using the Black-Scholes option pricing model and the following assumptions:

	<u>Three Months Ended December 31, 2018</u>
Weighted average fair value of options	\$ 1.75
Weighted average risk-free interest rate	3.03%
Weighted average dividend yield	\$ -
Weighted average volatility factor	104%
Weighted average expected life (years)	10

10. Mezzanine Equity

On April 3, 2017, the Company issued an aggregate of approximately 5.9 million shares of no par value, Series B Convertible Preferred Stock to certain of the SNIH Stockholders as part of the SNIH acquisition. The no par value, Series B Convertible Preferred Stock has a liquidation preference equal to \$4.86 per share and ranks senior to all "Junior Securities" (including the Company's Common Stock) with respect to any distribution of assets upon liquidation, dissolution or winding up of the Company, whether voluntary or involuntary.

In the event that the Company declares or pays a dividend or distribution on its Common Stock, whether such dividend or distribution is payable in cash, securities or other property, including the purchase or redemption by the Company or any of its subsidiaries of shares of Common Stock for cash, securities or property, the Company is required to simultaneously declare and pay a dividend on the no par value, Series B Convertible Preferred Stock on a pro rata basis with the Common Stock determined on an as-converted basis assuming all shares had been converted as of immediately prior to the record date of the applicable dividend or distribution.

Except as set forth in the Resolution Establishing Series (as defined below) or as may be required by Illinois law, the holders of the no par value, Series B Convertible Preferred Stock have no voting rights. Pursuant to the Resolution Establishing Series, without the prior written consent of holders of not less than a majority of the then total outstanding Shares of no par value, Series B Convertible Preferred Stock, voting separately as a single class, the Company shall not create, or authorize the creation of, any additional class or series of capital stock of the Company (or any security convertible into or exercisable for any class or series of capital stock of the Company) that ranks *pari passu* with or superior to the no par value, Series B Convertible Preferred Stock in relative rights, preferences or privileges (including with respect to dividends, liquidation or voting).

GEE GROUP INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(Dollar amounts in thousands except per share data, unless otherwise stated)

Each share of Series B Convertible Preferred Stock is convertible at the option of the holder thereof into one share of Common Stock at an initial conversion price equal to \$4.86 per share, which is subject to adjustment in the event of stock splits, stock combinations, capital reorganizations, reclassifications, consolidations, mergers or sales, as set forth in the Resolution Establishing Series.

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

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

During the three months ended December 31, 2018 the Company issued 250,000 shares of common stock for the conversion of approximately 250,000 shares of Series B Convertible Preferred Stock.

11. Income Tax

The following table presents the provision for income taxes and our effective tax rate for the three months ended December 31, 2018 and 2017:

	Three Months Ended, December 31,	
	2018	2017
Provision for Income Taxes	523	(28)
Effective Tax Rate	-17%	2%

The effective income tax rate on operations is based upon the estimated income for the year, and adjustments, if any, in the applicable quarterly periods for the potential tax consequences, benefits, resolutions of tax audits or other tax contingencies.

Our effective tax rate for the three months ended December 31, 2018 is lower than the statutory tax rate primarily due to an increase in the deferred tax liability related to indefinite lived assets. Other than the deferred tax liability relating to indefinite lived asset, the Company is maintaining a full valuation allowance against the remaining net DTA position.

Our effective tax rate for the three months ended December 31, 2017 is lower than the statutory tax rate primarily due to a tax provision for state income taxes and an increase in the deferred tax liability related to indefinite lived assets being offset by a discrete tax benefit recorded for the impact from the US Tax Reform. The tax provision for the three months ended December 31, 2017 includes discrete tax benefit totaling \$0.4 million relating to the US Tax Reform.

On December 22, 2017, President Trump signed into law the "Tax Cuts and Jobs Act" ("US Tax Reform"). The US Tax Reform provides for significant changes in the U.S. Internal Revenue Code of 1986, as amended. Certain provisions of the US Tax Reform became effective during our fiscal year ending September 30, 2018 with all provisions of the US Tax Reform effective as of the beginning of our fiscal year ending September 30, 2019.

[Table of Contents](#)

GEE GROUP INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(Dollar amounts in thousands except per share data, unless otherwise stated)

During the period ending December 31, 2017, we recorded tax charges for the impact of the Tax Act effects using the current available information and technical guidance on the interpretations of the US Tax Reform. As permitted by SEC Staff Accounting Bulletin 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act, we recorded provisional estimates and have subsequently finalized our accounting analysis based on the guidance, interpretations, and data available as of December 31, 2018 with no material adjustments to our consolidated financial statements from what was originally recorded.

12. Commitments and Contingencies

Leases

The Company leases space for all its branch offices, which are generally located either in downtown or suburban business centers, and for its corporate headquarters. Branch offices are generally leased over periods ranging from three to five years. The corporate office lease expires in 2020. The leases generally provide for payment of basic rent plus a share of building real estate taxes, maintenance costs and utilities.

Rent expense was \$0.8 million and \$0.9 million for the three-month periods ended December 31, 2018 and 2017, respectively.

As of December 31, 2018 future minimum lease payments due under non-cancelable lease agreements having initial terms in excess of one year, including certain closed offices are as follows:

Remainder of Fiscal 2019	\$ 1,506
Fiscal 2020	1,289
Fiscal 2021	742
Fiscal 2022	699
Fiscal 2023	505
Thereafter	648
Total	\$ 5,389

13. Segment Data

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

Unallocated Corporate expenses primarily include, certain executive compensation expenses and salaries, certain administrative salaries, corporate legal expenses, stock amortization expenses, consulting expenses, audit fees, corporate rent and facility costs, board fees, acquisition, integration and restructuring expenses and interest expense.

[Table of Contents](#)

GEE GROUP INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(Dollar amounts in thousands except per share data, unless otherwise stated)

(in thousands)	Three Months Ended	
	December 31,	
	2018	2017
Industrial Staffing Services		
Industrial services revenue	\$ 5,620	\$ 5,872
Industrial services gross margin	13.9%	15.6%
Operating income	\$ 255	\$ 253
Depreciation & amortization	64	66
Accounts receivable – net	3,136	3,521
Intangible assets	415	637
Goodwill	1,084	519
Total assets	\$ 4,635	\$ 4,177
Professional Staffing Services		
Permanent placement revenue	\$ 4,529	\$ 5,771
Placement services gross margin	100%	100%
Professional services revenue	\$ 28,394	\$ 33,589
Professional services gross margin	26.14%	27.0%
Operating income	\$ 2,219	\$ 2,477
Depreciation and amortization	1,411	1,427
Accounts receivable – net	15,911	19,148
Intangible assets	27,655	33,016
Goodwill	75,509	76,074
Total assets	\$ 126,270	\$ 134,844
Unallocated Expenses		
Corporate administrative expenses	\$ 609	\$ 817
Corporate facility expenses	106	105
Stock Compensation expense	581	293
Acquisition, integration and restructuring expenses	1,159	40
Total unallocated expenses	\$ 2,455	\$ 1,255
Consolidated		
Total revenue	\$ 38,543	\$ 45,232
Operating income	19	1,475
Depreciation and amortization	1,475	1,493
Total accounts receivables – net	19,047	22,669
Intangible assets	28,070	33,653
Goodwill	76,593	76,593
Total assets	\$ 130,905	\$ 139,021

GEE GROUP INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

(Dollar amounts in thousands except per share data, unless otherwise stated)

14. Subsequent Events

On February 13, 2019, the Company entered into an employment agreement with Kim Thorpe (the “Thorpe Employment Agreement”), for an initial term of four years ending on February 13, 2023, which shall be extended automatically for one year on February 13, 2023 and each annual anniversary thereof. Mr. Thorpe will receive an annual base salary of \$200,000 which will be subject to annual review by the Company’s Chief Executive Officer for discretionary periodic increases in accordance with the Company’s compensation policies. Mr. Thorpe is also entitled to receive stock option, and other forms of equity compensation such as restricted stock, stock appreciation rights or phantom stock which may be granted to him from time to time at the discretion of the Compensation Committee of the Board of Directors. The Thorpe Employment Agreement contains standard termination, change in control, severance, non-competition and non-disclosure, in addition to others customarily included in executive employment agreements.

Mr. Thorpe shall also receive up to three grants of 50,000 options each (150,000 options, in aggregate) under the Company’s 2013 Stock Incentive Plan based upon certain performance and other criteria. The first such grant of 50,000 options was made upon the effective date of the appointment of Mr. Thorpe as Chief Financial Officer, has an exercise price of \$2.21 per share and shall vest over five (5) years.

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

2.

Overview

We specialize in the placement of information technology, engineering, and accounting professionals for direct hire and contract staffing for our clients, data entry assistants (medical scribes) who specialize in electronic medical records (EMR) services for emergency departments, specialty physician practices and clinics and provide temporary staffing services for our light industrial clients. The acquisitions of Agile Resources, Inc., a Georgia corporation (“Agile”), Access Data Consulting Corporation, a Colorado corporation (“Access”), Paladin Consulting Inc. (“Paladin”) and SNI Companies, a Delaware corporation (“SNI”) expanded our geographical footprint within the placement and contract staffing of information technology.

The Company markets its services using the trade names General Employment Enterprises, Omni One, Ashley Ellis, Agile Resources, Scribe Solutions Inc., Access Data Consulting Corporation, Paladin Consulting Inc., SNI Companies, Triad Personnel Services and Triad Staffing. As of December 31, 2018, we operated thirty-four branch offices in downtown or suburban areas of major U.S. cities in thirteen states. We have one office located in each of Arizona, Connecticut, Georgia, Minnesota, New Jersey, Virginia and Washington DC, three offices in Colorado and Illinois, four offices in Massachusetts and Texas, six offices in Ohio and seven offices in Florida.

Management has implemented a strategy which includes 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. The Company’s contract and placement services are principally provided under two operating divisions or segments: Professional Staffing Services and Industrial Staffing Services. We believe our current segments complement one another and position us for future growth.

Results of Operations

Three Months Ended December 31, 2018 Compared to the Three Months Ended December 31, 2017

Net Revenues

Consolidated net revenues are comprised of the following:

	Three Months Ended		\$ Change	% Change
	December 31, 2018	December 31, 2017		
(in thousands)				
Professional contract services	\$ 28,394	\$ 33,589	(5,195)	(15)
Industrial contract services	5,620	5,872	(252)	(4)
Total professional and industrial contract services	34,014	39,461	(5,447)	(14)
Direct hire placement services	4,529	5,771	(1,242)	(22)
Consolidated net revenues	\$ 38,543	\$ 45,232	(6,689)	(15)

Contract staffing services contributed \$34 million or approximately 88% of consolidated revenue and direct hire placement services contributed \$4.5 million, or approximately 12%, of consolidated revenue for the three months ended December 31, 2018. This compares to contract staffing services revenue of \$39.5 million, or approximately 87%, of consolidated revenue and direct hire placement revenue of \$5.8 million, or approximately 13%, of consolidated revenue for the three months ended December 31, 2017.

[Table of Contents](#)

The overall decrease in contract staffing services revenue of \$5.4 million, or 14%, for the three months ended December 31, 2018 compared to the three months ended December 31, 2017 was primarily attributable to strategic actions instituted by management primarily in the professional services division to reduce the number of unproductive or underperforming full time personnel including recruiters, account representatives, sales professionals and related administrative support staff and to a lesser extent, reductions in the temporary workforce requirements of a few key customers in the industrial services division. In addition, some of the decline in revenue was a natural result of certain office consolidations and office closures that were undertaken by the Company as a by-product of its definitive actions to maximize productivity, reduce overall field costs and improve profitability. In addition, the lower revenue for three-month period ended December 31, 2018 was attributable to two additional holidays falling on weekdays and market speculation of an impending recession in the U.S economy during the first fiscal quarter of 2019.

Direct hire placement revenue for the three months ended December 31, 2018 decreased by \$1.2 million over the three months ended December 31, 2017. The decrease is attributable to market speculation of an impending recession in the U.S economy during the first fiscal quarter of 2019, which had a cooling effect on hiring, especially around the holiday season. An additional nuance of this trend were higher falloffs, in part, due to instances where placements initially accepted offers from the Company's customers, but immediately thereafter decided not to change employers, again due to economic concerns of the candidates.

The Company continues to pursue opportunities to selectively increase revenue producing headcount in key markets and industry verticals. The Company also seeks to organically grow its professional contract services revenue and direct hire placement revenue, including business from staff augmentation, permanent placement, statement of work (SOW) and other human resource solutions in the information technology, engineering, healthcare and finance and accounting higher margin staffing specialties. The Company's strategic plans to achieve this goal involve, setting aggressive new business growth targets, initiatives to increase services to existing customers, changes to compensation, commission and bonus plans to better incentivize producers, and frequent interaction with the field to monitor and motivate growth. The Company's strategic plan contains both internal and acquisition growth objectives to increase revenue in the aforementioned higher margin and more profitable professional services sectors of staffing, which represents approximately 85% of total revenue for the three months ended December 31, 2018.

Cost of Contract Services

Cost of contract services includes wages and related payroll taxes, employee benefits of the Company's contract services employees, and certain other employee-related costs, while working on contract assignments. Cost of contract services for the three months ended December 31, 2018 decreased by approximately 13% to \$25.8 million compared to the three months ended December 31, 2017 of \$29.5 million. The \$3.7 million overall decrease in cost of contract services for the three months ended December 31, 2018 compared to the three months ended December 31, 2017 was primarily attributable to and consistent with the corresponding declines in revenues, which is discussed further below.

	Three Months Ended	
	December 31, 2018	December 31, 2017
Professional contract services	26.1%	27.0%
Industrial contract services	13.9%	15.6%
Consolidated professional and industrial services	24.1%	25.4%
Direct hire placement services	100.0%	100.0%
Combined gross profit margin %(1)	33.0%	34.9%

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

[Table of Contents](#)

The Company's combined gross profit margin, including direct hire placement services (recorded at 100% gross margin) for the three months ended December 31, 2018 was approximately 33.0% versus approximately 34.9% for the three months ended December 31, 2017. The change in the overall gross margin from the comparable prior three months ended period was principally due to the greater reduction in direct hire placement services revenue proportionally and which have 100% gross margin than the reduction in contract professional services.

In the professional contract staffing services segment, the gross margin (excluding direct placement services) was approximately 26.1% for three months ended December 31, 2018 compared to approximately 27.0% for the three months ended December 31, 2017. The change in professional contract staffing services gross margin was primarily due to proportionally higher revenue from Vendor Management Systems ("VMS"), Managed Service Providers ("MSP"), Master Service Agreements ("MSA") and other volume corporate accounts that occurred in the three months ended December 31, 2018, all of which typically have lower gross margins. Other differences in the composition of revenues among the specialties served by the Company (information technology, engineering, healthcare, finance and accounting and others) also contributed to the change in the professional contract services gross profit and margin.

The Company's industrial staffing services gross margin for the three months ended December 31, 2018 was approximately 13.9% versus approximately 15.6% for the three months ended December 31, 2017. The change in industrial staffing services gross margin was primarily due to lower margin accounts that occurred in the three months ended December 31, 2018.

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.

In addition to depreciation and amortization, which are broken out and reported separately in the consolidated statement of operations from other selling, general and administrative expenses (SG&A), the Company separately reports SG&A expenses incurred that are related to acquisition, integration and restructuring activities. These include expenses associated with former closed and consolidated locations, personnel costs associated with eliminated positions, and other costs incurred related to acquisitions, including associated legal and professional costs. Management believes reporting these expenses separately from other SG&A provides useful information considering the Company's dual track growth strategy of internal (organic) growth and growth by acquisitions and when comparing and considering the Company's operating results and activities with other entities.

[Table of Contents](#)

The Company's SG&A for the three months ended December 31, 2018, excluding depreciation, amortization and acquisition, integration and restructuring expenses, decreased by approximately \$2.7 million as compared to the three months ended December 31, 2017. SG&A for the three months ended December 31, 2018, excluding depreciation, amortization and acquisition, integration and restructuring expenses, as a percentage of revenue decreased to approximately 26.1%, compared to approximately 28.2% of revenue for the three months ended December 31, 2017. The net decrease in the ratio of SG&A to revenue was the result of a combination of factors. These included strategic initiatives implemented by corporate and regional management to lower personnel costs by rightsizing the number of sales and recruitment full time employees (FTE's) and related ancillary costs, resulting in a reduction in rent and other expenses, leverage from implementation of shared services, economies of scale gained from reduced pricing obtained from vendors; much of which was associated with the continued integration of the SNI acquisition and related streamlining of field operations and related expenses.

Acquisition, Integration and Restructuring Expenses

The Company classifies and reports costs incurred related to acquisition, integration and restructuring activities separately from other SG&A within its operating expenses. These costs increased to \$1.2 million for the three months ended December 31, 2018 from \$0.04 million for the three months ended December 31, 2017 and include mainly expenses associated with former closed and consolidated locations, personnel costs associated with eliminated positions, costs incurred related to acquisitions and associated legal and professional costs.

Depreciation Expense

Depreciation expense for the three months ended December 31, 2018, decreased approximately \$18,000, or 19% compared to the three months ended December 31, 2017, primarily as a result of strategic initiatives related to the consolidation of various office locations.

Amortization Expense

Amortization expense for the three months ended December 31, 2018, remained flat compared to the three months ended December 31, 2017.

Income from Operations

As a result of the matters discussed regarding revenues and operating expenses above, income from operations decreased \$1.5 million for the three months ended December 31, 2018 from income of \$1.5 million for the three months ended December 31, 2017.

Interest Expense

Interest expense for the three months ended December 31, 2018, decreased by approximately \$0.3 million or 11% compared to the three months ended December 31, 2017 primarily as a result of the pay down of principal on long-term debt.

Provision for Income Taxes

The Company recognized a tax expense of approximately \$0.5 million for the three months ended December 31, 2018. Effective tax rate for the three-months ended December 31, 2018 is lower than the statutory tax rate primarily due to an increase in the deferred tax liability related to indefinite lived assets. Other than the deferred tax liability relating to indefinite lived asset, the Company is maintaining a full valuation allowance against the remaining net DTA position. Effective tax rate for the three months ended December 31, 2017 is lower than the statutory tax rate primarily due to a tax provision for state income taxes and an increase in the deferred tax liability related to indefinite lived assets being offset by a discrete tax benefit recorded for the impact from the US Tax Reform. The tax provision for the three months ended December 31, 2017 includes discrete tax benefit totaling \$0.4 million relating to the US Tax Reform.

Net Loss

As a result of the matters discussed regarding revenues and expenses above, the Company incurred net losses for the three months ended December 31, 2018 and 2017 of \$3.5 million and \$1.8 million, respectively.

[Table of Contents](#)

Liquidity and Capital Resources

The following table sets forth certain consolidated statements of cash flows data:

(in thousands)	December 31, 2018	December 31, 2017
Cash flows provided by (used in) operating activities	\$ 779	\$ (249)
Cash flows used in investing activities	\$ (36)	\$ (128)
Cash flows provided by (used in) financing activities	\$ (456)	\$ 1,072

As of December 31, 2018, the Company had \$3.5 million of cash which was an increase of approximately \$0.3 million from approximately \$3.2 million as of September 30, 2018. As of December 31, 2018, the Company had working capital of \$11.5 million compared to \$13.1 million of working capital as of September 30, 2018.

The increase in net cash provided by (used in) operating activities for the three months ended December 31, 2018 as compared to the three months ended December 31, 2017, is consistent with reductions in accounts receivable and changes in other accruals as the result of corresponding reductions in revenue during the three months ended December 31, 2018 in comparison with the three months ended December 31, 2017.

The primary uses of cash for investing activities were for the acquisition of property and equipment in the three months ended December 31, 2018 and 2017.

Cash flow used in financing activities for the three months ended December 31, 2018 was primarily for payments on our term loan offset by proceeds from advances taken on the revolving credit facility. Cash flow provided by financing activities for the three months ended December 31, 2017 was primarily from net borrowings of the Revolving Credit Facility.

Minimum debt service payments (principal) for the twelve-month period commencing after the close of business on December 31, 2018, are approximately \$4 million. All the Company's office facilities are leased. Minimum lease payments under all the Company's lease agreements for the twelve-month period commencing after the close of business on December 31, 2018, are approximately \$1.9 million.

In recent years, the Company has incurred significant net losses. Management has implemented a strategy which includes 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. Management currently expects that the combination of future cash flow from operations and the availability of borrowings under the Revolving Credit Facility will provide sufficient liquidity for the next 12 months.

Revolving Credit Facility and Term Loan

On March 31, 2017, the Company and its subsidiaries, as borrowers, entered into a Revolving Credit, Term Loan and Security Agreement (the "Credit Agreement") with PNC Bank National Association ("PNC"), and certain investment funds managed by MGG Investment Group LP ("MGG"). Initial funds were distributed on April 3, 2017, the closing date to repay the existing indebtedness, pay fees and expenses relating to the Credit Agreement, and to pay a portion of the purchase price for the acquisition of the SNI Companies.

Under the terms of the Credit Agreement, the Company may borrow up to \$73.8 million consisting of a four-year term loan in the principal amount of \$48.8 million and revolving loans in a maximum amount up to the lesser of (i) \$25.0 million or (ii) an amount determined pursuant to a borrowing base that is calculated based on the outstanding amount of the Company's eligible accounts receivable, as described in the Credit Agreement. The loans under the Credit Agreement mature on March 31, 2021.

[Table of Contents](#)

On the closing date of the Credit Agreement, the Company borrowed \$48.8 million from term loans and borrowed approximately \$7.5 million from the Revolving Credit Facility for a total of \$56.2 million, which was used by the Company to repay existing indebtedness, to pay fees and expenses relating to the Credit Agreement, and to pay a portion of the purchase price for the acquisition of all of the outstanding stock of SNI Holdco Inc. pursuant to the Merger Agreement. Amounts borrowed under the Credit Agreement also may be used by the Company to partially fund capital expenditures, provide for on-going working capital needs and general corporate needs, and to fund future acquisitions subject to certain customary conditions of the lenders.

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

The Company did not meet its financial loan covenants at September 30, 2018 or at June 30, 2018 or March 31, 2018, previously. On May 15, 2018, the Company obtained a temporary waiver from its lenders for the missed financial covenants at March 31, 2018. On August 10, 2018, the Company and its subsidiaries, as Borrowers, entered into a third amendment and waiver (the “Third Amendment and Waiver”) to the Credit Agreement. Pursuant to the Third Amendment and Waiver, the Lenders agreed to modify the definition of EBITDA in the Credit Agreement to allow for the recognition and exclusion of certain additional acquisition, integration and restructuring expenses not previously specified and to provide a temporary waiver for any Defaults and Events of Default under the Credit Agreement that have solely arisen by reason of the Company failing to comply with the financial covenants of the Credit Agreement for the period ending June 30, 2018.

On December 27, 2018, the Company and its subsidiaries, as Borrowers, entered into a fourth amendment and waiver (the “Fourth Amendment and Waiver”) to the Revolving Credit, Term Loan and Security Agreement, dated as of March 31, 2017 (the “Credit Agreement”). Under the Fourth Amendment and Waiver, the Company and its Lenders negotiated and agreed to a temporary waiver for non-compliance with the financial covenants under the Credit Agreement as of September 30, 2018, and amendments to the financial covenants and to the remaining scheduled principal payments. The Company met its financial loan covenants for the three-month period ended December 31, 2018.

Management has taken definitive actions and expect to improve operations, reduce costs and improve profitability, and position the Company for future growth. The Company also is seeking replacement financing with a view towards lowering its borrowing costs. Based on its current projections, management expects that the Company can meet its future debt service requirement and comply with its financial covenants and other commitments, as amended in the Fourth Amendment and Waiver. However, the Company’s projections are based on assumptions and estimates about future performance and events, which are subject to change or other unforeseen conditions or uncertainties. As such, there can be no assurance that the Company will not fall into non-compliance with its loan covenants or that its Lenders will continue to provide waivers or amendments to the Company in the event of future non-compliance with debt covenants or other possible events of default that could happen in the future.

Subordinated Debt – Convertible and Non-Convertible

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

Table of Contents

On October 4, 2017, the Company executed an Amended and Restated Non-Negotiable Promissory Note in favor of William Daniel Dampier and Carol Lee Dampier in the amount of \$1,202,405 (the “Note”). This Note amends and, as so amended, restates in its entirety and replaces that certain Subordinated Nonnegotiable Promissory Note dated October 4, 2015, issued by the Company to William Daniel Dampier and Carol Lee Dampier in the original principal amount of \$3,000,000. The Company agreed to pay William Daniel Dampier and Carol Lee Dampier 12 equal installments of \$107,675, commencing on November 4, 2017 and ending on October 4, 2018.

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

On April 3, 2017, the Company issued and paid to certain SNIH Stockholders as part of the SNIH acquisition an aggregate of \$12.5 million in aggregate principal amount of its 9.5% Notes. The 9.5% Notes mature on October 3, 2021 (the “Maturity Date”). The 9.5% Notes are convertible into shares of the Company’s Common Stock at a conversion price equal to \$5.83 per share. Interest on the 9.5% Notes accrues at the rate of 9.5% per annum and shall be paid quarterly in arrears on June 30, September 30, December 31 and March 31, beginning on June 30, 2017, on each conversion date with respect to the 9.5% Notes (as to that principal amount then being converted), and on the Maturity Date (each such date, an “Interest Payment Date”). At the option of the Company, interest may be paid on an Interest Payment Date either in cash or in shares of Common Stock of the Company, which Common Stock shall be valued based on the terms of the agreement, subject to certain limitations defined in the loan agreement. Each of the 9.5% Notes is subordinated in payment to the obligations of the Company to the lending parties to the Credit Agreement, pursuant to those certain Subordination and Inter-creditor Agreements, each dated as of March 31, 2017 by and among the Company, the other borrowers under the Credit Agreement, the Agent under the Credit Agreement and each of the holders of the 9.5% Notes.

Series B Convertible Preferred Stock

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

[Table of Contents](#)

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

During the three months ended December 31, 2018, the Company issued 250,000 shares of common stock for the conversion of approximately 250,000 shares of Series B Convertible Preferred Stock.

Off-Balance Sheet Arrangements

As of December 31, 2018, there were no transactions, agreements or other contractual arrangements to which an unconsolidated entity was a party, under which the Company (a) had any direct or contingent obligation under a guarantee contract, derivative instrument or variable interest in the unconsolidated entity, or (b) had a retained or contingent interest in assets transferred to the unconsolidated entity.

Item Quantitative and Qualitative Disclosures About Market Risk.

3.

Not applicable.

Item Controls and Procedures.

4.

Disclosure Controls and Procedures

As of December 31, 2018, the Company's management evaluated, with the participation of its principal executive officer and its principal financial officer, the effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act"). Based on that evaluation, the Company's principal executive officer and its principal financial officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2018.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting or in any other factors that could significantly affect these controls, during the Company's three months ended December 31, 2018, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION.

Item Legal Proceedings.

1.

None.

Item Risk Factors.

1A.

Not required.

Item Unregistered Sales of Equity Securities and Use of Proceeds.

2.

Not required.

Item Defaults Upon Senior Securities.

3.

None.

Item Mine Safety Disclosures.

4.

Not Applicable

Item Other Information.

5.

On February 13, 2019, the Company entered into an employment agreement with Kim Thorpe (the “Thorpe Employment Agreement”), for an initial term of four years ending on February 13, 2023, which shall be extended automatically for one year on February 13, 2023 and each annual anniversary thereof. Mr. Thorpe will receive an annual base salary of \$200,000 which will be subject to annual review by the Company’s Chief Executive Officer for discretionary periodic increases in accordance with the Company’s compensation policies. Mr. Thorpe is also entitled to receive stock option, and other forms of equity compensation such as restricted stock, stock appreciation rights or phantom stock which may be granted to him from time to time at the discretion of the Compensation Committee of the Board of Directors. The Thorpe Employment Agreement contains standard termination, change in control, severance, non-competition and non-disclosure, in addition to others customarily included in executive employment agreements.

Mr. Thorpe shall also receive up to three grants of 50,000 options each (150,000 options, in aggregate) under the Company’s 2013 Stock Incentive Plan based upon certain performance and other criteria. The first such grant of 50,000 options was made upon the effective date of the appointment of Mr. Thorpe as Chief Financial Officer, has an exercise price of \$2.21 per share and shall vest over five (5) years.

[Table of Contents](#)

Item Exhibits

6.

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

No.	Description of Exhibit
<u>10.1</u>	<u>Employment Agreement, dated as of February 13, 2019, by and between GEE Group Inc., and Kim Thorpe.</u>
<u>31.01</u>	<u>Certifications of the principal executive officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.</u>
<u>31.02</u>	<u>Certifications of the principal financial officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.</u>
<u>32.01</u>	<u>Certifications of the principal executive officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act and Section 1350 of Title 18 of the United States Code.</u>
<u>32.02</u>	<u>Certifications of the principal financial officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act and Section 1350 of Title 18 of the United States Code.</u>
101.INS	Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

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

GEE GROUP INC.
(Registrant)

Date: February 14, 2019

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

By: /s/ Kim Thorpe
Kim Thorpe
Chief Financial Officer
(Principal Financial and Accounting
Officer)

EXECUTIVE EMPLOYMENT AGREEMENT

THIS EXECUTIVE EMPLOYMENT AGREEMENT (the "Agreement") is made and effective as of February 13, 2019 (the "Effective Date"), between GEE Group Inc., an Illinois corporation, whose principal place of business is 7751 Belfort Parkway Suite 150 Jacksonville, Florida 32256 (the "Company" or "Employer") and Kim Thorpe, an individual whose address is in Jacksonville Beach, Florida. (the "Executive").

RECITALS

- A. The Employer is an Illinois corporation and is principally engaged in the business of staffing and permanent placement, and related personnel activities, including benefit and insurance programs (the "Business").
- B. The Employer recognizes that the Executive's talents and abilities are unique, and have been integral to the success of the Employer and thus wishes to secure the ongoing services of the Executive on the terms and conditions set forth herein,
- C. The Employer desires to employ the Executive and the Executive desires to be employed by the Employer.
- D. The parties agree that a covenant not to compete is essential to the growth and stability of the Business of the Employer.
- E. Executive previously entered into an "Employment Arrangement" with Employer, the details of which were evidenced by a "Term Sheet" dated as of April 24, 2018. This Executive Employment Agreement supersedes and replaces the prior Employment Arrangement, which is hereby cancelled.

NOW, THEREFORE, in consideration of the mutual promises and agreements and covenants, and subject to the terms and conditions contained in this Agreement, the Employer and Executive, intending to be legally bound, hereby agree as follows:

1. Employment. Employer hereby employs Executive and Executive hereby accepts employment by Employer, in accordance with and subject to the terms and conditions of this Agreement.

2. Duties and Authority. During the Employment Period (as hereinafter defined), Executive will occupy the position of Senior Vice President ("SVP") and Chief Financial Officer ("CFO") of the Company and report directly to the Chief Executive Officer of the Employer. As Senior Vice President and Chief Financial Officer, Executive shall perform such duties as are customarily performed by the SVP and CFO of a company of similar size and structure to Employer. Executive agrees to devote his or her full time, attention and best efforts to the performance of his duties hereunder; provided, however, it shall not be considered a violation of the foregoing for the Executive to serve on corporate, industry, civic, or charitable boards or committees, so long as such activities do not materially interfere with the performance of the Executive's responsibilities as an employee of the Employer in accordance with this Agreement.

3. Term: Employment Period. The term of employment its provisions shall be effective and begin with the execution of this Employment Agreement on February 13, 2019 and end on February 13, 2023 (the "Term of this Agreement"). The Term of this Agreement shall be extended automatically for one year on February 13, 2023 and each annual anniversary thereof (the "Extension Date") unless, and until, at least 90 days prior to the applicable Extension Date either the Employer or the Executive provides written notice to the other party that this Agreement is not to be extended (the later of February 13, 2023 or the last date to which the Term is extended shall be the "End of Term"). For purposes of this Agreement, the period beginning on February 13, 2019 and ending on the Date of Termination (as hereinafter defined) shall be referred to herein as the "Employment Period."

4. Compensation. During the Employment Period which is in the Term of this Agreement, Executive shall receive the following compensation:

a. Base Salary. A base annual salary of \$200,000, payable in accordance with the Employer's standard practice for other senior executives. Executive's base salary shall be subject to annual review by the Chief Executive Officer for discretionary periodic increases in accordance with the Employer's compensation policies. References to "Base Salary" in this Agreement shall be to the base salary set forth in this Paragraph 4.a and shall include any increases to such base salary made hereby.

b. Incentive Compensation. Executive shall be eligible for a discretionary or formula bonus as determined by the Chief Executive Officer and be eligible to participate in one or more compensation plan(s) of Employer, subject to the terms and conditions of those plans

5. Equity Incentives.

a. Equity Incentives - General. Stock options of Employer and other forms of equity compensation such as restricted stock, stock appreciation rights or phantom stock (collectively, "Equity Incentives") may be granted to executive from time to time at the discretion of the Compensation Committee of the Board of Directors (the "Compensation Committee").

b. Investment Representation. Executive agrees that he will not sell or otherwise dispose of all or any part of the common stock of Employer acquired as part of the Equity Incentives unless he shall have received an opinion of counsel, in form and substance satisfactory to counsel for Employer (each party to bear the expense of its own counsel), to the effect that registration of the shares to be sold or disposed of is not required under the Securities Act of 1933, as amended (the "Act"), or unless there shall be in effect a registration statement under said Act with respect to the proposed sale or disposition of the shares to be sold or disposed of, and Executive shall have complied with all applicable provisions of the Act and the rules and regulations thereunder.

c. Registration. If stock options for common stock or other forms of equity compensation of Employer are granted to Executive as Equity Incentives, then it is acknowledged that the grants by the Compensation Committee may, in the Compensation Committee's sole discretion, require that Executive be provided with the right to require Employer, as soon as reasonably possible, to register Executive's shares upon vesting and exercise of the stock options or vesting of other forms of equity compensation pursuant to the appropriate form of registration statement under the Act and to thereafter maintain such registration statement's effectiveness at all required times.

d. Exercise. Any stock options granted after the effective date of this Agreement as Equity Incentives, may include the following terms and conditions, to the extent expressly approved by the Compensation Committee. These terms and conditions are:

- i. exercisability of vested options (including those vested under paragraph 5.d)(ii) below) for at least 2 years following the Executive's termination of employment with the Employer or if sooner, 10 years from date of grant of the option;
- ii. full vesting of options upon a Change in Control (as hereafter defined) or termination of the Executive's employment with the Employer for reasons other than (A) by the Employer for Cause (as hereafter defined), or (B) by the Executive without Good Reason (as hereafter defined); and
- iii. exercisability only to the extent vested on the date of the Executive's termination of employment with the Employer, in the event of termination (A) by the Employer for Cause, or (B) by the Executive without Good Reason.

6. Benefits. Executive shall receive the following additional benefits at no cost to the Executive:

a. Life Insurance. During the Employment Period, if requested by Executive in writing, Employer shall reimburse Executive up to \$5,000 annually for Executive's cost of life insurance, covering Executive's life.

b. Disability Insurance. During the Employment Period, until Executive attains the age of 65, if requested by Executive in writing, Employer shall reimburse Executive for up to \$5,000 annually for Executive's cost of disability insurance covering Executive.

c. Medical, Dental and Hospital Insurance; General. During the Employment Period, if requested by Executive during the Employment Period, Employer shall include Executive, his or her spouse and his or her dependents in any group medical, dental and hospital or similar plan of Employer in existence for senior executives from time to time until Executive and his spouse attain the age of 65. Employer will purchase individual medical, dental and hospital insurance for Executive, his or her spouse and his dependents if group coverage is not in existence or is unavailable.

d. Club Dues. Employer shall pay or reimburse Executive for Executive's membership or club dues up to \$5,000 per annum.

e. Vacation. Executive shall be entitled to four (4) weeks of paid vacation during each calendar year and time off for all holidays as designated by the Employer. Unused vacation time will be paid to Executive at calendar year end.

f. Automobile. Executive shall be eligible to receive an automobile allowance at the sole discretion of the Chief Executive Officer.

g. Communications and Other Equipment. Employer shall provide Executive with, and shall pay all reasonable costs of operating and maintaining, cellular telephones, pagers, telephone and cable lines, notebook and desk top computers, facsimile machines, hand-held organizers/palm tops, and such other equipment necessary for Executive to perform his or her duties.

h. Expense Reimbursement. Subject to compliance with Employer's business expense reimbursement policies, Executive shall be entitled to reimbursement for all reasonable expenses, including meals, telephone, travel, and entertainment, incurred by Executive in the performance of his duties. Executive will maintain records and written receipts as required by federal and state tax authorities to substantiate expenses as an income tax deduction for Employer and shall submit vouchers for expenses for which reimbursement is made. Credit card receipts (American Express, etc.) and other receipts are acceptable along with other corroborative evidence.

i. Other Benefits. To the extent not otherwise provided herein (it being the intent not to duplicate benefits), Employer shall provide Executive with the opportunity to participate in benefit plans provided by the Employer from time to time and made available to its other executive officers as a group. These include, but are not limited to, life and health insurance benefits, participation in pension and profit sharing plans, stock option and stock purchase plans, restricted stock grants, stock appreciation rights, and stock warrants.

7. Non-Compete and Non-Solicitation; Confidentiality. In consideration of the employment of Executive by Employer, Executive agrees as follows:

a. Non-Compete and Non-Solicitation. During the Employment Period and for a period of two (2) years after the Date of Termination, Executive will not, directly or indirectly, within a fifty (50) mile radius of any office of Employer (or a consolidated subsidiary) in existence on the Date of Termination, own, manage, be employed by, work for, consult for, be an officer or director of, advise, represent, engage in or carry on any business which competes with the Business of the Employer at that time. During the Employment Period and for a period of two (2) years after the Date of Termination, Executive will not, directly or indirectly, solicit or induce, or attempt to solicit or induce, any employee of the Employer (or a consolidated subsidiary) to leave the Employer (or a consolidated subsidiary) for any reason whatsoever, or solicit the services of any employee of the Employer (or a consolidated subsidiary). Currently the "consolidated subsidiaries" of Employer include, without limitation: (i) Scribe Solutions, Inc., (ii) Access Data Consulting Corporation, (iii) Agile Resources, Inc., (iv) Paladin Consulting, Inc., (v) GEE Portfolio, Inc., (vi) Triad, (vii) BMCH and any entities not specifically mentioned herein or that are subsequently acquired by GEE Group Inc. or its affiliates. The term "consolidated subsidiary" means an entity that is (i) wholly owned by Employer or (ii) is partially owned by Employer such that, for generally accepted accounting principles, its financials are Consolidated in the consolidated financials of Employer.

b. Non-Disclosure of Information. Executive will not at any time, during or after the term of this Agreement, in any fashion, form, or manner, either directly or indirectly, divulge, disclose, or communicate to any person, firm, or corporation, in any manner whatsoever, any information of any kind, nature, or description concerning any matters affecting or relating to the Business of the Employer, including, but not limited to, the names of any of its customers or prospective customers or any other information concerning the Business of the Employer, its manner of operation, its plans, its vendors, its suppliers, its advertising, its marketing, its methods, its practices, or any other information of any kind, nature, or description, without regard to whether any or all of the foregoing matters would otherwise be deemed confidential, material, or important; provided, however, that this provision shall not prevent disclosures by Executive to the extent such disclosures are (i) believed by the Executive, in good faith and acting reasonably, to be in the best interest of the Employer, (ii) of information that is public at the time of the disclosure (other than as a result of the Executive's violation of this Paragraph 7(b)), or (iii) as required by law or legal process (and, if the Executive is so required to disclose, Executive shall provide the Employer notice of such to allow the Company the opportunity to contest such disclosure).

8. Termination of Employment.

a. Death or Disability. The Executive's employment shall terminate automatically upon the Executive's death during the Employment Period. Additionally, if the Employer determines in good faith that the Executive has incurred a Disability, it may give the Executive written notice of its intention to terminate the Executive's employment. In such event, the Executive's employment with the Employer shall terminate effective on the later of (i) the date in the notice, (ii) the day after receipt of such notice by the Executive, or (iii) the date the Disability has been considered to occur (the "Disability Effective Date"), provided that, prior to such date, the Executive shall not have returned to full-time performance of the Executive's duties.

b. Cause. The Employer may terminate the Executive's employment during the Employment Period for Cause. For purposes of this Agreement, "Cause" shall mean (i) a material breach by the Executive of the Executive's obligations under paragraph 2 above (other than as a result of temporary incapacity due to physical or mental illness, or Disability) which is demonstrably willful and deliberate on the Executive's part, which is committed in bad faith or without reasonable belief that such breach is in the best interests of the Employer and which is not remedied in a reasonable period of time after receipt of written notice from the Employer specifying such breach; (ii) the conviction of the Executive of a capital felony, or any misdemeanor or felony involving a crime of dishonesty; or (iii) a breach of the Executive's fiduciary duty to the Employer or willful violation in the course of performing his duties for the Employer of any law, rule or regulation (other than traffic violation or other minor offenses). (No act or failure to act on the Executive's part shall be considered willful unless done or omitted in bad faith and without reasonable belief that the action or omission was in the best interest of the Employer.)

c. Good Reason. The Executive's employment may be terminated by the Executive at any time for Good Reason. For purposes of this Agreement, "Good Reason" shall mean:

- i. the assignment to the Executive of any duties inconsistent in a material respect with the Executive's position (including status, offices, titles and reporting requirement that Executive reports directly to the Chief Executive Officer), authority, duties or responsibilities as contemplated by Paragraph 2 above, or any other action by the Employer which results in a diminution in such position, authority, duties or responsibilities in a material respect (including the Executive no longer being the Senior Vice President and Chief Financial Officer of the Employer or a publicly held company successor) that is not consented to by Executive;
- ii. a reduction in the Executive's Base Salary, which is more than de minimis;
- iii. any failure by the Employer to comply with any of the provisions of this Agreement in a material respect;
- iv. the Employer's requiring the Executive to be based at any office or location other than Jacksonville, Florida;
- v. the Employer's providing notice to the Executive pursuant to Paragraph 3 that the Agreement will not be extended, if the effect is that Executive will not be covered by this Agreement for any period prior to Executive attaining the age of 65, unless the purpose of such notice is to negotiate the terms of a new agreement between the Employer and the Executive and the notice provides that the Agreement continues in effect until such new agreement is entered into; or
- vi. a Change of Control; For purposes of this Agreement, "Change in Control" shall mean the occurrence of any of the following events:
 - (A) one person or entity (or more than one person or entity acting as a "group" (as that term is defined in Section 409A-3(i)(5)(v)(B) of the Treasury Regulations) acquires legal or beneficial ownership of stock of the Employer that, together with the stock held legally or beneficially by such person or group, constitutes more than 45 % of the total fair market value or total voting power of the stock of such corporation; or

- (B) individuals who, as of the date of the signing of this Agreement, constitute the Board of Directors (the "Incumbent Board") cease for any reason to constitute at least a majority of such Board; provided that any individual who becomes a director of the Company subsequent to the date of the signing of this Agreement, whose election, or nomination for election by the Company stockholders, was approved by the vote of at least a majority of the directors then in office shall be deemed a member of the Incumbent Board; or
- (C) the sale of all or substantially all of the Employer's assets; or
- (D) the merger of the Employer into or consolidation with another entity and, after giving effect to such merger or consolidation, the holders of stock of the Employer immediately prior to such merger or consolidation own less than 51% of the stock of the surviving entity after such merger or consolidation.

Notwithstanding Paragraph 6(c)(i) above, the Executive shall not have Good Reason if Executive is involved in a "group" (as defined above) which acquires a substantial portion of the Company's assets or stock. For purposes of this subparagraph c, any good faith reasonable determination of "Good Reason" made by the Executive shall be conclusive. However, no such event described hereunder shall constitute Good Reason unless the Executive has given written notice to the Employer specifying the event relied upon for such termination within 30 days after the occurrence of such event and the Employer has not remedied such within 60 days of receipt of such notice. The Employer and the Executive, upon mutual written agreement, may waive any of the foregoing provisions which would otherwise constitute Good Reason.

d. Notice of Termination. Any termination by the Employer for Cause, or by the Executive for Good Reason, shall be communicated to the other party by Notice of Termination. For purposes of this Agreement, a "Notice of Termination" means a written notice which (i) indicates the specific termination provision in this Agreement relied upon; (ii) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment; and (iii) specifies the Date of Termination (as defined below). Notice of intent to terminate employment for Good Reason must be provided pursuant to Paragraph 8.c of this Agreement. The failure by the Executive or the Employer to set forth in the Notice of Termination any fact or circumstance which contributes to a showing of Good Reason or Cause shall not waive any right of the Executive or the Employer hereunder or preclude the Executive or the Employer from asserting such fact or circumstance in enforcing the Executive's or the Employer's rights hereunder.

e. Date of Termination. "Date of Termination" means (i) if the Executive's employment is terminated by the Employer for Cause, or by the Executive for Good Reason, the date specified in the Notice of Termination as the Date of Termination; (ii) if the Executive's employment is terminated by reason of death or Disability, the Date of Termination shall be the date of death of the Executive or the Disability Effective Date, as the case may be; and (iii) if the Executive's employment is terminated by either party other than for death, Disability, Cause or Good Reason, the date set forth in the notice required under subparagraph 8.d above as the date the termination is to be effective.

9. Obligations of the Employer upon Termination. Upon termination of the Executive's employment for any reason during the Term of this Agreement, Executive shall be entitled to Base Salary and all benefits through the Date of Termination, and to exercise then vested stock options in accordance with and to the extent that exercise is approved by the Compensation Committee as provided in Paragraph 5.d above. Upon the termination of the Executive's employment during the Term of this Agreement by the Executive for Good Reason, or by the Employer for any reason other than Cause, Executive shall in addition be entitled to exercise the option(s) with accelerated vesting if and to the extent that exercise is approved by the Compensation Committee provided pursuant to Paragraph 5.d above. In addition, upon the termination of the Executive's employment during the Term of this Agreement by the Executive for Good Reason, or by the Employer for any reason other than Cause or death, the Executive shall be entitled to receive a lump sum payment equal to three (3) times the sum of (i) Executive's Base Salary as of the Date of Termination, and (ii) the Executive's target bonus opportunity under any Incentive Plan in place that executive participates in based on the target bonus opportunity for the year of termination or any other approved bonus arrangement for the year of termination; plus (iii) Executive's spouse and dependent medical, dental and hospital benefits that would continue to be provided at Employer expense (either group or individual policy) after employment to the extent provided in Paragraph 6 above. The lump sum payment shall be paid no later than thirty days after the Date of Termination in immediately available United States funds. Notwithstanding the preceding provisions, at the Employer's sole discretion, the Employer may pay the amount determined as a lump sum in this Paragraph 9 in 36 equal monthly payments beginning on the first day of the month first following the Date of Termination.

10. Indemnification of Executive. The Executive shall be entitled to indemnification and defense by the Employer to the full extent allowed by law, subject to and in accordance with the execution of the Employer's customary Indemnification Agreement—as established from time to time by the Employer's Board of Directors—to protect the Employer's officers and directors in the ordinary and prudent exercise of their duties to the Employer—including the benefits of any insurance coverage that the Employer may purchase or have in effect. To the extent that any such insurance coverage may not be sufficient or applicable, the Executive shall have the right to reimbursement and indemnification by the Employer, in accordance with the Employer's Indemnification Agreement in effect at the time of any relevant loss or claim. Nothing in this Agreement shall be deemed to alter, amend, limit, or vary any of the terms of the Employer's duly approved Indemnification Agreement or its effective date, as modified from time to time within the sole discretion of the Employer's Board of Directors.

11. Mitigation of Damages. Executive shall not be required to mitigate damages or the amount of any payment provided for under this Agreement by seeking other employment or otherwise. Except as otherwise provided above with respect to certain welfare benefits, the amount of any payment provided for under this Agreement shall not be reduced by any compensation earned by the Executive as the result of self-employment or employment by another employer or otherwise.

12. Tax Effect. If Independent Tax Counsel shall determine that the aggregate payments made and benefits provided to the Executive pursuant to this Agreement and any other payments and benefits provided to the Executive from the Employer, its affiliates and plans which constitute "parachute payments" as defined in Section 280G of the Code (or any successor provision thereto) ("Parachute Payments") would be subject to the excise tax imposed by Section 4999 of the Code (the "Excise Tax"), then the Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") in an amount (determined by Independent Tax Counsel) such that after payment by the Executive of all taxes (including any Excise Tax) imposed upon the Gross-Up Payment and any interest or penalties imposed with respect to such taxes, the Executive retains from the Gross-Up Payment an amount equal to the Excise Tax imposed upon the payments. For purposes of this Paragraph, "Independent Tax Counsel" shall mean a lawyer, a certified public accountant with a nationally recognized accounting firm, or a compensation consultant with a nationally recognized actuarial and benefits consulting firm with expertise in the area of executive compensation tax law, who shall be selected by the Employer and shall be reasonably acceptable to the Executive, and whose fees and disbursements shall be paid by the Employer.

a. If Independent Tax Counsel shall determine that no Excise Tax is payable by the Executive, it shall furnish the Executive with a written opinion that the Executive has substantial authority not to report any Excise Tax on the Executive's Federal income tax return. If the Executive is subsequently required to make a payment of any Excise Tax, then the Independent Tax Counsel shall determine the amount of such additional payment ('Gross-Up Underpayment'), and any such Gross-Up Underpayment shall be promptly paid by the Employer to or for the benefit of the Executive. The fees and disbursements of the Independent Tax Counsel shall be paid by the Employer.

b. The Executive shall notify the Employer in writing within 15 days of any claim by the Internal Revenue Service that, if successful, would require the payment by the Employer of a Gross-Up Payment. If the Employer notifies the Executive in writing that it desires to contest such claim and that it will bear the costs and provide the indemnification as required by this sentence, the Executive shall:

- i. give the Employer any information reasonably requested by the Employer relating to such claim;
- ii. take such action in connection with contesting such claim as the Employer shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney reasonably selected by the Employer;

- iii. cooperate with the Employer in good faith in order to effectively contest such claim; and
- iv. permit the Employer to participate in any proceedings relating to such claim; provided, however, that the Employer shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with such contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax, including interest and penalties with respect thereto, imposed as a result of such representation and payment of costs and expenses. The Employer shall control all proceedings taken in connection with such contest; provided, however, that if the Employer directs the Executive to pay such claim and sue for a refund, the Employer shall advance the amount of such payment to the Executive, on an interest-free basis and shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax, including interest or penalties with respect thereto, imposed with respect to such advance or with respect to any imputed income with respect to such advance.

c. If, after the receipt by the Executive of an amount advanced by the Employer pursuant to this Paragraph 12, the Executive becomes entitled to receive any refund with respect to such claim, the Executive shall, within 10 days, pay to the Employer the amount of such refund, together with any interest paid or credited thereon after taxes applicable thereto.

13. Section 409A. To the greatest extent permissible under Section 409A of the Internal Revenue Code of 1986, as amended (the "Code"), and Treasury Regulations promulgated thereunder (collectively, "Section 409A"), the payments to Executive under this Agreement are intended to be exempt from Section 409A, including pursuant to Treasury Regulation sections 1.409A-1(b)(4) (the "short term deferral" exemption) or 1.409A-1(b)(9) (the "separation pay" exemption), and shall be administered accordingly. Notwithstanding anything in this Agreement to the contrary:

a. To the extent any amounts or benefits payable pursuant to this Agreement constitute "deferred compensation" (within the meaning of Section 409A) and are not exempt from the applicability of Section 409A, then the following shall be applicable under this Agreement:

- i. If any amount paid pursuant to this Agreement is deferred compensation within the meaning of Section 409A, payable as a result of a termination of the Executive's employment, and as of the date of termination of employment giving rise to payment of such amount the Executive is a Specified Employee, then amount(s) that would otherwise be payable during the six (6) month period immediately following such date of termination shall instead be paid, with interest on any delayed payment at the applicable federal rate provided for in Section 7872(f)(2)(A) of the Code, on the first business day after the date that is six (6) months following the Executive's "separation from service" (within the meaning of Section 409A) (the "Delayed Payment Date"). As used in this Agreement, the term "Specified Employee" means a "specified employee" as defined in Section 409A(a)(2)(B)(i) of the Code. By way of clarification, "specified employee" means a "key employee" (as defined in Section 416(i) of the Code, disregarding Section 416(i)(5) of the Code) of Employer. The Executive shall be treated as a key employee if the Executive meets the requirement of Section 416(i)(1)(A)(i), (ii), or (iii) of the Code at any time during the twelve (12) month period ending on an "identification date." For purposes of any "Specified Employee" determination hereunder, the "identification date" shall mean the last day of each calendar year; and

- ii. Neither Employer nor the Executive or any other person or entity, acting alone or jointly, may exercise any discretion, through an amendment of this Agreement or otherwise, with respect to any payment under this Agreement which is not exempt from the requirements of Section 409A, regarding acceleration or other action or omission in respect of any such non-exempt payment, in a manner which would give rise to taxation under Section 409A.

14. Notices. Any notice provided for in this Agreement shall be given in writing. Notices shall be effective from the date of receipt if delivered personally to the party to whom notice is to be given, or on the second day after mailing if mailed by first class mail, postage prepaid. Notices shall be properly addressed to the parties at their respective addresses set forth below or to such other address as either party may later specify by notice to the other:

If to Employer:

GEE Group, Inc.
Attn: Derek Dewan, Chief Executive Officer
7751 Belfort Parkway Suite 150 Jacksonville, FL
32256

If to Executive:

Kim Thorpe
2200 Ocean Drive South, PH 1
Jacksonville Beach, Florida 32250

15. Entire Agreement. This Agreement contains the entire agreement and supersedes all prior agreements and understandings, oral or written, with respect to the subject matter hereof, including, but not limited to, any and all prior employment agreements and related amendments entered into between the Employer and the Executive. This Agreement may be changed only by an agreement in writing signed by the party against whom any waiver, change, amendment or modification is sought. Executive waives any rights under the Scribe Executive Agreement and (i) Executive agrees to sign and (ii) Employer agrees to cause its subsidiary, Scribe Solutions, Inc., to sign the termination agreement that terminates the Scribe Executive Agreement, in each case if the termination agreement has not been previously signed by the applicable party.

16. Waiver. The waiver by one party of a breach of any of the provisions of this Agreement by the other shall not be construed as a waiver of any subsequent breach.

17. Attorney's Fees. In the event of litigation or other dispute resolution proceeding involving the interpretation or enforcement of this Agreement, the prevailing party shall be entitled to recover from the other all fees, costs and expenses incurred in connection therewith, including attorney's fees through appeal.

18. Tax Withholding. The Employer shall have the right to deduct from all benefits and/or payments under the Agreement any taxes required by law to be paid or withheld with respect to such benefits or payments.

19. Governing Law; Venue. The Agreement shall be construed and enforced in accordance with the laws of the State of Florida. Duval County, Florida, shall be proper venue for any litigation arising out of this Agreement.

20. Paragraph Headings. Paragraph headings are for convenience only and are not intended to expand or restrict the scope or substance of the provisions of this Agreement.

21. Assignability. The rights and obligations of the Employer under this Agreement shall inure to the benefit of and shall be binding upon the successors and assigns of the Employer. This Agreement is a personal employment agreement and the rights, obligations and interests of the Executive hereunder may not be sold, assigned, transferred, pledged or hypothecated.

22. Severability. If any provision of this Agreement is held by a court of competent jurisdiction to be invalid or unenforceable, the remainder of the Agreement shall remain in full force and shall in no way be impaired.

[Signature Page to Follow]

23. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, and it shall not be necessary in making proof of this Agreement to account for more than one such counterpart.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the Effective Date.

EXECUTIVE:

Witness:

Kim Thorpe, Individually

Print Name: _____

EMPLOYER:

Witness:

By: _____
Derek Dewan
Its: Chief Executive Officer

Print Name: _____

CERTIFICATION

I, Derek Dewan, certify that:

1. I have reviewed this Form 10-Q quarterly report for the three months ended December 31, 2018 of GEE Group Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 14, 2019

By: /s/ Derek Dewan

Derek Dewan
(Principal Executive Officer)

CERTIFICATION

I, Kim Thorpe, certify that:

1. I have reviewed this Form 10-Q quarterly report for the three months ended December 31, 2018 of GEE Group Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 14, 2019

By: /s/ Kim Thorpe
Kim Thorpe
Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATIONS PURSUANT TO SECTION 1350
OF CHAPTER 63 OF TITLE 18 OF THE UNITED STATES CODE**

In connection with the Quarterly Report of GEE Group Inc. (the "Company") on Form 10-Q for the three months ended December 31, 2018 filed with the Securities and Exchange Commission (the "Report"), the undersigned hereby certifies, in his capacity as an officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

- (1) The Quarterly Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of the operations of the Company.

Date: February 14, 2019

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

**CERTIFICATIONS PURSUANT TO SECTION 1350
OF CHAPTER 63 OF TITLE 18 OF THE UNITED STATES CODE**

In connection with the Quarterly Report of GEE Group Inc. (the "Company") on Form 10-Q for the three months ended December 31, 2018 filed with the Securities and Exchange Commission (the "Report"), the undersigned hereby certifies, in his capacity as an officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

- (1) The Quarterly Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Quarterly Report fairly presents, in all material respects, the financial condition and results of the operations of the Company.

Date: February 14, 2019

By: /s/ Kim Thorpe

Kim Thorpe
Chief Financial Officer
(Principal Financial Officer)