Zacks Small-Cap Research

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Marla Backer
312-265-9211
mbacker@zacks.com

scr.zacks.com

10 S. Riverside Plaza, Chicago, IL 60606

Corporate Resource Services (CRRS-NASDAQ)

CRRS: *Heightened Risk Scenario*

OUTLOOK

Recent events increase the risk of holding shares of Corporate Resource Services (CRRS) greatly, in our view. The shares have dropped 77.5% year-to-date versus a -0.2% decline for the NASDAQ and mirror much of the risk, we believe. Nevertheless, there could be further downward pressure, in our view, depending on the impact of pending 10-K and 10-Q restatements.

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Current Recommendation	**Hold**
Prior Recommendation	Buy
Date of Last Change	6/4/2014
Current Price (02/9/15)	$0.27
Six- Month Target Price	**$0.20**

SUMMARY DATA

52-Week High	**$3.75**
52-Week Low	**$0.20**
One-Year Return (%)	**-90**
Beta	**2.27**
Average Daily Volume (sh)	**80,168**
Shares Outstanding (mil)	**164**
Market Capitalization ($mil)	**$44**
Short Interest Ratio (days)	**22.5**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**93**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**78.0**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using 2013 Actual	**NM**
P/E using 2014 Estimate	**6.8**
P/E using 2015 Estimate	**1.2**

Risk Level	**High**
Type of Stock	**Small-Growth**
Industry	**Business Svcs**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)*
2012	145 A	154 A	180 A	201 A	680 A
2013	194 A	199 A	209 A	217 A	820 A
2014	218 A	246 A	260 A	269 E	994 E
2015					1,200 E

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012	-$0.02 A	-$0.01 A	$0.01 A	$0.01 A	-$0.01 A
2013	$0.00 A	$0.01 A	$0.03 A	-$0.02 A	$0.02 A
2014	-$0.02 A	$0.00 A	$0.01 E	$0.04 E	$0.04 E
2015					$0.22 E

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Zacks Projected EPS Growth Rate - Next 5 Years % **N/A**

*FY end has changed to Dec.in 2013 Disclosures pg 6

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KEY POINTS

- Recent events increase the risk of holding shares of Corporate Resource Services (CRRS) greatly, in our view. The shares have dropped 77.5% year-to-date versus a -0.2% decline for the NASDAQ and mirror much of the risk, we believe. Nevertheless, there could be further downward pressure, in our view, if CRRS finds that it has a sizable tax liability when it restates recent financial filings.

- Per a February 4, 2015 a letter of agreement with Wells Fargo, Wells Fargo is no longer obligated to extend credit to CRRS and can "demand immediate repayment" of outstanding debt.

- CRRS is now under the management of turnaround specialist Focus Management Group, with presumably heavy scrutiny by Wells Fargo. This could turn out to be a long-term positive for the company, in our view. The company cannot make payments or transfer funds without the approval of its newly appointed Chief Restructuring Officer.

- The Chairman and three board members have resigned, as have the Corporate Secretary and CFO.

- However, there is also the risk that potential 10-K and 10-Q restatements lead to a material tax liability, in our view. We believe non-core assets such as Summit Software, Abest and other investments could be monetized to satisfy potential financial needs for Wells Fargo and / or taxes. Moreover, with better management, a higher portion of the company's revenue – CRRS generated $724.8 million in the first nine months of 2014 – could be earmarked for any future tax liability, we believe.

- We are lowering our price target to $0.20 until there is greater clarity about the impact of potential restatements.

HEIGHTENED RISK

Recent events increase the risk of holding shares of Corporate Resource Services (CRRS) greatly, in our view. In several filings last week and this week, the company disclosed that TS Employment (TSE), a related company that provides PEO services to CRRS, has a material unpaid federal payroll tax liability and filed Chapter 11 on February 2, 2015. The company believes its 10-K and 10-Qs for the year ended January 3, 2014 and subsequent quarters are no longer reliable, which in our view, portends further potential restatements.

Robert Cassera subsequently resigned from CRRS' board. He owns TSE and also beneficially owns roughly 90% of CRRS shares.

BALANCE SHEET

CRRS failed to repay the Wells Fargo line of credit by the original January 31, 2015 deadline. CRRS entered into a letter of agreement with Wells Fargo on February 4, 2015 to modify their agreement, including acknowledging that breaches by CRRS and its heightened risk profile constitute "events of termination." Wells Fargo is no longer obligated to extend credit to the company and moreover can "demand immediate repayment" of outstanding debt.

As of October 3, 2014, the company had $74.3 million in borrowings under its Wells Fargo receivables-based credit facility against $156,000 in cash, $113.2 million in billed receivables and $19.4 million in unbilled receivables. Through the first nine months of 2014, the company registered revenue of $724.8 million. Management had issued guidance for revenue above $1 billion.

RESTRUCTING

Presumably as a condition of the modified Wells Fargo agreement, the company agreed to retain a Chief Restructuring Officer (CRO), Robert Riiska of Focus Management Group. According to the Focus Management Group website, he has "expertise as a turnaround professional." CRRS cannot make payments or transfer funds without his approval. He has also been given the authority to oversee any asset sales or liquidations that the company makes during the restructuring process.

Subsequently, on February 5, 2015, three board members, Thomas Clarke, Sylvan Holzer and Larry Melby, resigned from the company's board and from its Audit Committee. Gina Russo, the company's Corporate Secretary and Joseph P. Ciavarella, its CFO since January 12, 2015, also resigned. The CFO's resignation is effective February 20, 2015.

CONCLUSION

Reflecting the heightened risk outlined above, the shares have dropped 77.5% year-to-date versus a -0.2% decline for the NASDAQ over the same period. CRRS now being under the management of Robert Riiska and Focus Management Group, with presumably heavy scrutiny by Wells Fargo, could turn out to be a long-term positive for the company, in our view.

We believe the presence of an outside turnaround specialist could mitigate the likelihood of Wells Fargo calling the loan and forcing CRRS into bankruptcy. As CRRS receives funds on its receivables and repays Wells Fargo, the Wells Fargo risk further abates, in our opinion.

However, there is also the risk that the company itself has an unfunded tax liability, which in our view would send the shares down further. We are lowering our price target to $0.20 until there is greater clarity about the impact of potential restatements.

RISKS

- If Wells Fargo demands immediate repayment, it could force the company to sell assets below their value or, depending on timing, to seek Chapter 11 protection.
- When the company restates its 2013 10K and 2014 10-Qs, there is the risk that it could lead to a material tax liability, in our view.
- Other risks include that competition could increase, customers could shift towards hiring permanent employees instead of using temporary workers, and that economic factors could constrain industry growth.
- In addition, although temporarily under the supervision of Focus Management Group, the longer term management of CRRS is unclear. CRRS has essentially been a controlled company, with historically significant related party transactions.

PROJECTED INCOME STATEMENT

Corporate Resource Services Income Statement & Projections ($000 except per share data)

	Pro Forma 2012A	PF 1Q13	2Q13	3Q13	4Q13A	2013A	1Q14A	2Q14A	3Q14A	4Q14E	2014E
Revenues	679,839	194,217	199,195	208,957	217,304	819,673	218,410	246,107	260,300	269,457	994,274
Direct cost related	596,166	172,298	175,197	182,256	187,482	717,233	194,182	217,234		234,239	645,655
Direct cost	3,643	271	972	784	4,037	6,064	155	(30)		1,078	1,203
Gross profit	80,030	21,648	23,026	25,917	25,785	96,376	24,073	28,903	32,700	34,140	119,816
S,G&A - related	47,864	14,286	12,176	12,058	10,575	49,095	12,948	13,490		15,494	41,932
S,G&A	25,717	5,247	6,660	7,660	9,725	29,292	9,162	9,533		9,431	28,126
D&A	2,012	391	363	466	574	1,794	1,144	880	896	575	3,495
Other	1,264	324			5,264	5,588	1,234	1,192			
Operating income	3,173	1,400	3,827	5,733	(353)	10,607	(415)	3,808		8,641	12,034
Interest expense	4,344	1,166	1,407	927	946	4,446	980	1,316	4,332	992	7,620
Int expense related	861	359	422	464	448	1,693	691	941		-	1,632
Acquisition exp	144	-	32	34	-	-		-	2	-	2
Other exp (inc)	669	205	10	24	745	1,080	943	1,124	680	954	3,701
Net inc / (loss)	(1,219)	(330)	1,956	4,284	(2,522)	3,388	(3,029)	427		6,695	4,093
Noncontrolling interest		-	(71)	(113)	(428)	(612)	(18)	-		(18)	(36)
Taxes	518	48						97	301		
Net income (loss)	(1,737)	(378)	2,027	4,397	(2,950)	2,776	(3,047)	524	2,432	6,676	6,585
EPS											
Diluted	($0.01)	($0.00)	$0.01	$0.03	($0.02)	$0.02	($0.02)	$0.00	$0.01 E	$0.04	$0.04
Avg shares out (FD)	148,377	159,433	158,422	162,896	169,317	162,517	158,015	163,783	164,783 E	161,015	161,899

Source: Company reports, Zacks Small Cap Research Estimates

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