Zacks Small-Cap Research

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Corporate Resource Services (CRRS-NASDAQ)

CRRS: *Lowering Rating to Hold from Buy; Longer Term, Remain Positive on Growth Prospects*

Current Recommendation	**Hold**
Prior Recommendation	Buy
Date of Last Change	6/04/2014
Current Price (01/27/14)	$2.54
Six- Month Target Price	**$2.90**

OUTLOOK

Corporate Resource Services (CRS) is a rapidly growing temporary staffing company that has an ambitious M&A strategy to augment organic growth. CRS is also focused on margin improvements through diversification efforts, focus on higher margin services and acquisition of higher margin businesses. We are enthusiastic about the company's growth prospects and believe the favorable outlook for the temporary staffing industry provides a positive tailwind. However, at this point, we believe it prudent to step to the sidelines until the company resolves its failure to report year-end 2013 and first quarter 2014 results on time.

SUMMARY DATA

52-Week High	**$5.62**
52-Week Low	**$1.55**
One-Year Return (%)	**54**
Beta	**0.55**
Average Daily Volume (sh)	**153,968**
Shares Outstanding (mil)	**163**
Market Capitalization ($mil)	**$414**
Short Interest Ratio (days)	**4.40**
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 Estimate	**36.3**
P/E using 2014 Estimate	**23.1**
P/E using 2015 Estimate	**12.7**
Zacks Rank	**N/A**

Risk Level	**Above Average**
Type of Stock	**Small-Growth**
Industry	**Business Svcs**
Zacks Rank in Industry	**N/A**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)*
2012	145 A	154 A	180 A	200 E	679 E
2013	194 A	199 A	209 A	214 E	817 E
2014	221 E	227 E	238 E	244 E	931 E
2015					1,020 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	$0.03 E	$0.07 E
2014	$0.02 E	$0.03 E	$0.03 E	$0.03 E	$0.11 E
2015					$0.20 E

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Zacks Projected EPS Growth Rate - Next 5 Years %	**200**
*FY end has changed to Dec.in 2013	**N/A**

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KEY POINTS

- We are lowering our rating on shares of Corporate Resource Services (CRRS-Nasdaq) to Hold from Buy. We remain enthusiastic about the company's growth prospects but believe it **prudent at this time to step to the sidelines until the company resolves** its failure to report year-end 2013 and first quarter 2014 results on time.
- CRRS continues to focus on acquiring small staffing companies and improving margins. In March 2014, the company acquired Nationwide Screening Services. Management expects Nationwide to help its consolidated margins, as Nationwide's gross margins are north of 65%. Moreover, the company anticipates that it can achieve significant synergies by adding a firm that screens job applicants to its core business of providing temporary staffing services.
- Year-to-date in 2014, CRRS has purchased two small staffing companies. Combined, these acquisitions add roughly $115 million in annual revenue. Earlier this year, management indicated that it expects the company **to exceed the $1 billion revenue mark in 2014.**
- Our outlook for the temporary staffing industry is positive. We believe it creates a solid tailwind to complement the company's organic and M&A expansion.

LOWERING RATING

We are lowering our rating on shares of Corporate Resource Services (CRRS-Nasdaq) to Hold from Buy. We remain enthusiastic about the company's strategy to complement organic growth with ambitious M&A efforts. Nevertheless, we are concerned about the overhang arising from the company's failure to report year-end 2013 and first quarter 2014 results on time. The annual report was due by April 18, 2014. The first quarter 2014 filing was due by May 20, 2014. **We believe it prudent at this time to step to the sidelines until the company resolves this.**

Nasdaq has given CRRS until June 23, 2014 to outline a plan to become compliant with the reporting requirements. CRRS management has indicated that it intends to file its annual report ahead of the June 23 deadline, although it may require additional time to complete the filing for the first quarter 2014. The company appointed a new auditor in January 2014 and cited this change as a factor behind the late filings. If CRRS meets the deadline to file a plan, Nasdaq can give the company until October 20, 2014 to regain compliance. We are also lowering our price target to $2.90 from $4.00, as we believe the overhang of the late filing may constrain the multiple in the near-term.

REMAIN POSITIVE ON TRENDS

As noted, we remain enthusiastic about the company's growth prospects. In addition to its M&A initiatives, CRRS also has implemented initiatives to improve margins and profitability, including a diversification effort to complement the core staffing business. CRS has a nationwide footprint that extends to 42 states. Through a recent acquisition, CRS now operates in the U.K., as well, with further European expansion planned. We also believe the favorable outlook for the temporary staffing industry creates a positive tailwind.

CRS provides staffing services, primarily for administrative support and positions in light industrial services, as well as the insurance industry. The company's 6,000 plus customer base ranges from mom and pops to Fortune 1000 companies in a broad array of sectors. Through its recent acquisition of Summit Software, CRS also provides cloud-based technology support, as well as proprietary SaaS (Software-as-a-Service) tools to customers in the staffing industry and PEOs (professional employer organization).

Revenue reached an estimated $816.5 million in 2013, from $63.7 million in 2009. This equates to CAGR of nearly 80% and reflects a combination of organic growth and the merger of several smaller, regional staffing companies. **Earlier this year, management indicated that it expects the company to exceed $1 billion in revenue in 2014.**

Importantly, management's focus has increasingly turned to **improving CRS margins and profitability**. In 2013, the company launched several initiatives to improve profitability, including rebranding to better leverage the CRS brand, re-negotiating economics with key vendors and customers, focusing on providing higher margin services to staffing clients and diversifying into new businesses that management believes are complementary to the core staffing operation.

ACQUISITIONS

With an eye towards **improving margins**, CRS targets higher margin and high growth segments of the staffing and related industries. In March 2014, the company purchased Nationwide Screening Services. Management expects Nationwide to help CRRS consolidated gross margins, as the screening company generates gross margins north of 65%. Moreover, the company anticipates that it can achieve significant synergies by adding a firm that screens job applicants to its core business of providing temporary staffing services.

In addition, the company continues to pursue smaller tuck-in acquisitions on the staffing side. Year-to-date in 2014, CRRS has purchased two small staffing companies: Staff Management Group and Alar Staffing. Combined, these acquisitions add roughly $115 million in annual revenue. They mark the seventh and eight major acquisitions of regional staffing agencies that CRRS has made since 2009. CRS has aggregated these smaller companies under one umbrella operating under the CRS brand or co-branded with CRS.

Date	*Acquisition*	*Price Paid*	*Rev ($M)*	*Multiple*
Apr 2010	GT Systems	$3M	NA	NA
Aug 2010	Tri-Overload Staffing*	$6.2M in stock	$27	0.2x`
Dec 2010	Integrated Consulting Group	Assumption of debt	NA	NA
Jan 2011	Tri-Diamond Staffing*	$25M in stock	$100	0.3x
April 2011	Cameo Personnel Systems	$750,000	$12	0.1x
Nov 2011	TS Staffing Services*	$30M in stock	$180	0.2x
2013	Summit Software*	$13.75 in stock	$2.5	5.5x
2013	Personally Yours, Inc.	NA	NA	NA
2013	Personnel Solutions, Inc.	NA	NA	NA
Nov 2013	Flex Recruitment Plus	NA	NA	NA
Feb 2014	Staff Management Group	$10M	$85	0.1x
Feb 2014	Alar Staffing	$5M	$30	0.2x

*Related transaction
Source: Company reports, Zacks Small Cap Research

INDUSTRY OUTLOOK

Our outlook for the temporary staffing industry is positive. Demand for temporary services is highly correlated to the economy and to the labor markets. Not surprisingly, during periods of economic growth, demand for temporary services tends to rise. Conversely, during economic downturns, demand for temporary labor slows. Historically the U.S. staffing industry has grown faster than the general economy. Over the past 20 years, for example, real GDP has averaged 2.5% growth per annum while temporary and contract staffing employment has averaged 4.8% growth per annum.

During this current economic recovery, the industry has enjoyed solid growth. Interestingly, since the recent recession ended, the U.S. staffing and recruiting industry has created more jobs than any other single industry in America, according to BLS (the Bureau of Labor Statistics). From June 2009 to July 2012, staffing companies added more than 786,000 jobs. To put that metric in context, BLS estimates that the entire healthcare sector, which represents nearly 11% of the U.S. nonfarm work force, added 829,000 jobs during the same period including hospitals, private physician offices, nursing homes, HOPDs (hospital outpatient departments), etc.

This outperformance is consistent with historical trends. In the early stages of an economic recovery, companies first look to temporary and contract workers to help meet growing demand. This explains the rapid uptick in staffing employment since the recession ended. Nevertheless, the growth the domestic staffing industry has experienced in this recovery has been more robust than it was following the previous two recessions that ended in 2001 and 1991, respectively. According to the ASA (American Staffing Association), staffing employment grew 4.1% in 2012, as U.S. staffing companies employed an average of 2.9 million temporary and contract workers per day that year. The fourth quarter of 2012 marked the twelfth consecutive quarter of year-over-year staffing job growth since the end of the recession, according to ASA.

RECENT NEWS

- On February 3, 2014, CRRS announced that it had purchased New Jersey-based Staff Management Group for $10 million. Staff Management generates annual revenue of more than $85 million, according to management.

- On February 6, 2014, the company announced that it expected to beat $1 billion in revenue in 2014. The company also indicated at that time that it intended to introduce its software dashboard, a product designed to facilitate job placement, by April 1, 2014.

- On February 13, 2014, CRRS announced that it had purchased Alar Staffing for $5 million. Alar Staffing operates three offices. According to management, Alar generates annual revenue of more than $30 million.

- On March 3, 2014, the company announced the acquisition of screening company Nationwide Screening Services in a transaction that management indicated would help consolidated gross margins. The company anticipates that it can achieve significant synergies by adding a firm that screens job applicants to its footprint of job placement offices.

- On March 27, 2014, management reported that CRRS it had won a 3-year services agreement with SBM, a privately-held provider of facility services.

RISKS

- We believe the company faces the risk that its shares are delisted from Nasdaq if it cannot submit a satisfactory plan to regain compliance by the June 23, 2014 deadline.
- The company recently began to convert strong revenue expansion into positive EPS. Quarterly EPS could be lumpy over the next several quarters.
- Competition could increase. The temporary staffing industry is one with few barriers to entry, we believe.
- Customers could shift towards hiring permanent employees instead of using temporary workers.
- Economic factors could constrain industry growth.
- The industry is populated heavily with mom & pops. As other, larger players acquire smaller operations, it could drive up costs of future acquisitions for CRS.
- The company's diversification efforts with Summit Software and Abest might take longer than expected or not be successful.
- **We believe among the biggest risks is that CRS is essentially a controlled company, with significant related party transactions, and insider interests could conflict with those of outside shareholders.**

INSIDER TRADING AND OWNERSHIP

In 2009, privately-held Tri-State Employment Services gained control of CRS. Robert Cassera, a member of the company's board, owns Tri-State Employment Services and beneficially owns roughly 90% of CRS shares. Other insiders, including the management team, hold another 2.5%, for total insider holdings of about 92.5%. This sizable insider ownership is a double edged sword, in our view. On the one hand, management's investment in the company gives them a strong interest in driving growth and share price appreciation, in our view. On the other hand, it also makes the shares highly illiquid and therefore difficult for outside investors to accumulate any meaningful stake.

We would expect insiders to reduce their holdings over time to enable outside investors to participate. CRS shares moved from the OTC market to the Nasdaq on September 6, 2013, which could also enhance the company's trading liquidity over time, in our view, as more shares enter the free float.

PROJECTED INCOME STATEMENT & BALANCE SHEET

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

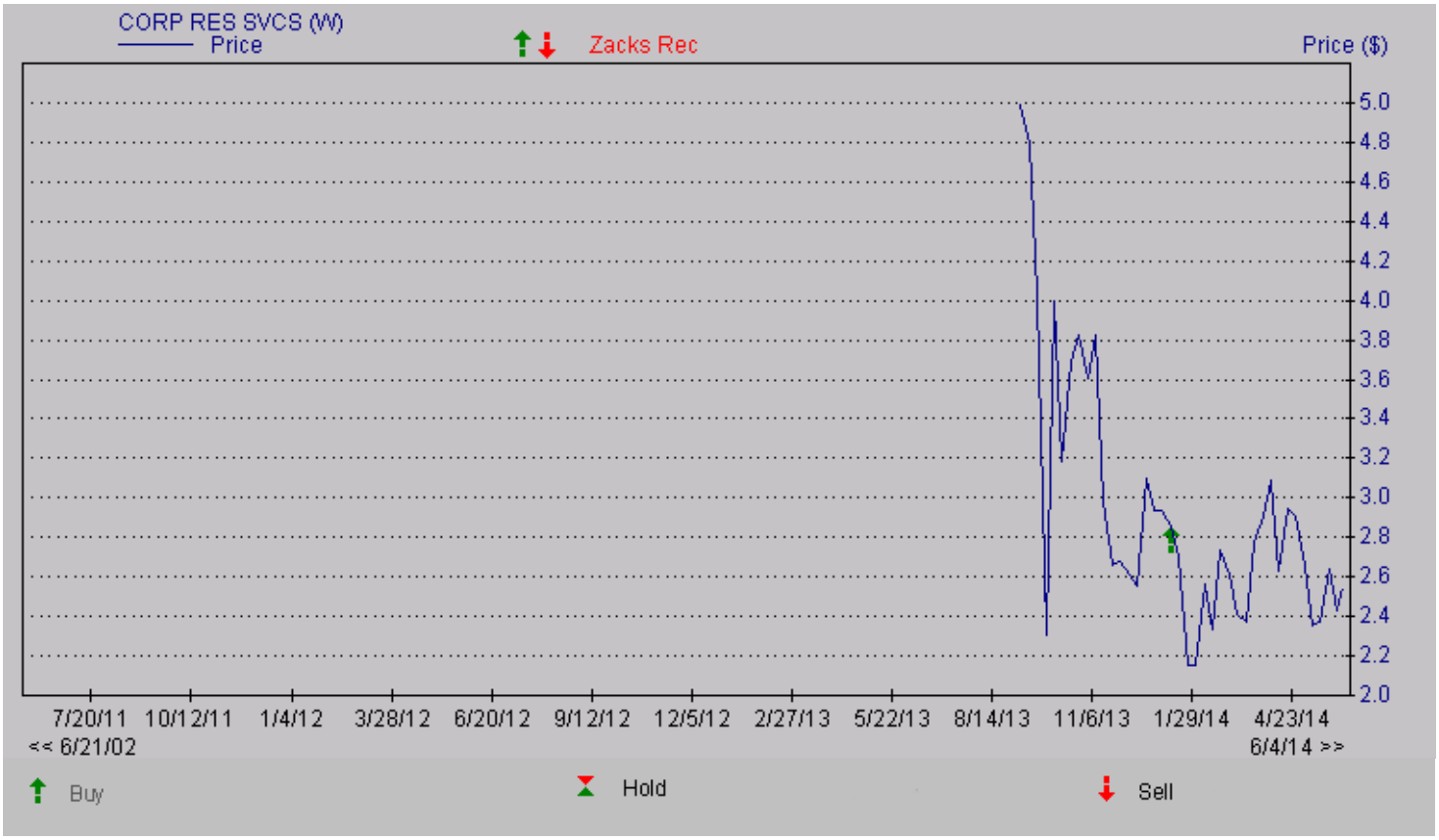
	Pro Forma										
	1Q12	**2Q12**	**3Q12**	**4Q12E**	**2012E**	**1Q13**	**2Q13**	**3Q13**	**4Q13E**	**2013E**	**2014E**
				479,169							
Revenues	144,678	154,082	180,409	200,158	679,327	194,218	199,195	208,957	214,169	816,539	930,855
Direct cost related	127,386	134,706	158,480	175,614	596,186	171,633	175,197	182,256	186,627	715,713	809,192
Direct cost	995	834	352	1,210	3,391	936	972	784	942	3,634	3,903
Gross profit	16,297	18,542	21,577	23,334	79,750	21,649	23,026	25,917	26,600	97,192	117,760
S,G&A - related	12,591	11,508	12,166	13,131	49,396	15,012	12,176	12,058	12,636	51,882	53,524
S,G&A	4,972	7,277	6,280	6,200	24,729	4,821	6,660	7,660	7,496	26,637	32,580
D&A	505	473	453	485	1,916	416	363	466	468	1,713	1,776
Operating income	(1,771)	(716)	2,678	3,518	3,709	1,400	3,827	5,733	6,000	16,960	29,880
Interest expense	1,159	886	1,059	1,171	4,275	1,139	1,407	927	931	4,404	3,760
Int expense related	338	86	145	292	861	358	422	464	466	1,710	6,908
Acquisition exp	12		84	48	144	30	32	34	34	130	526
Other		543	(2)		541	(164)	10	24	24	(106)	40
Net inc / (loss)	(2,743)	(2,231)	1,392	2,007	(1,575)	37	1,956	4,284	4,545	10,822	18,645
Noncontrolling interest						(82)	(71)	(113)	(113)	(379)	(1,533)
Net income (loss)	(2,743)	(2,231)	1,392	2,007	(1,575)	119	2,027	4,397	4,432	10,975	17,112
EPS											
Diluted	($0.02)	($0.01)	$0.01	$0.01	($0.01)	$0.00	$0.01	$0.03	$0.03	$0.07	$0.11
Avg shares out (FD)	124,381	149,898	153,593	134,656	140,632	156,150	158,422	162,896	163,896	160,341	162,841

Corporate Resource Services Balance Sheet ($000)

	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14
Cash	$284	$253	$228	$647	$602	$560	$520	$515	$510
Accounts receivable	8,638	9,747	11,786	12,151	11,543	10,966	10,418	9,897	9,402
Due from financial institution	8,891	8,383	8,242	8,177	8,218	8,259	8,300	8,342	8,383
Unbilled receivables	9,542	14,209	12,780	16,348	16,430	16,512	16,594	16,677	16,761
Prepaid expenses & other	599	1,329	2,112	2,551	2,787	2,989	3,287	3,523	3,732
Total current assets	$27,954	$33,921	$35,148	$39,874	$39,579	$39,286	$39,121	$38,955	$38,789
Property & equipment	1,141	1,167	1,243	1,264	1,289	1,315	1,341	1,368	1,396
Deferred tax asset				1,744	1,744	1,744	1,744	1,744	1,744
Other assets	278	639	446	429	431	433	435	438	440
Intangible assets	5,618	5,629	5,503	5,262	5,367	5,475	5,584	5,696	5,810
Goodwill	15,756	17,661	17,515	17,755	17,755	17,755	17,755	17,755	17,755
Total assets	**$50,747**	**$59,017**	**$59,855**	**$66,328**	**$66,166**	**$66,008**	**$65,981**	**$65,956**	**$65,933**
Accounts payable & accrued liabs	5,364	4,571	4,907	4,391	4,360	4,330	4,299	4,269	4,239
Accruals - related party	9,665	13,466	12,194	15,160	15,008	14,858	14,710	14,563	14,417
Other borrowings									
Income taxes payable	204			444	446	448	451	453	455
Current portion long-term debt	1,544	2,551	1,917	1,473	1,480	1,488	1,495	1,503	1,510
Current portion related party debt	750	750	750						
Deferred income tax liabilities				1,300	1,307	1,313	1,320	1,326	1,333
Loan payable – related party	9,782	13,760	14,923	14,341	14,198	14,056	14,042	14,028	14,013
Total current liabilities	$27,309	$35,098	$34,691	$37,109	$36,799	$36,493	$36,316	$36,141	$35,968
Long-term debt of current portion	1,766	2,318	2,089	2,046	2,056	2,067	2,077	2,087	2,098
Deferred rent	144	226	213	213	214	215	216	217	218
Total liabilities	**$29,219**	**$37,642**	**$36,993**	**$39,368**	**$39,070**	**$38,775**	**$38,609**	**$38,446**	**$38,284**
Stockholders' equity	$21,528	$21,457	$23,015	$27,226	$27,362	$27,499	$27,636	$27,775	$27,913
Noncontrolling interest		(82)	(153)	(266)	(266)	(265)	(265)	(265)	(265)
Total stockholders' equity	**$21,528**	**$21,375**	**$22,862**	**$26,960**	**$27,096**	**$27,233**	**$27,371**	**$27,510**	**$27,649**
Total liabilities & equity	**$50,747**	**$59,017**	**$59,855**	**$66,328**	**$66,166**	**$66,008**	**$65,981**	**$65,956**	**$65,933**

Source: Company reports, Zacks Small Cap Research Estimates

HISTORICAL ZACKS RECOMMENDATIONS



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Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

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