Zacks Small-Cap Research

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Marla Backer
212-831-2417
mbacker@zacks.com

scr.zacks.com

111 North Canal Street, Chicago, IL 60606

Corporate Resource Services

(CRRS-NASDAQ)

CRRS: *Rapid Growth Outpacing Sector; Initiating Coverage With Buy Rating*

Current Recommendation	**Buy**
Prior Recommendation	N/A
Date of Last Change	1/24/2014
Current Price (01/27/14)	$2.15
Six- Month Target Price	**$4.00**

OUTLOOK

Corporate Resource Services (CRS) is a rapidly growing temporary staffing company that has launched an ambitious M&A strategy to augment organic growth. CRS has also implemented initiatives to improve margins and profitability, including a diversification effort to complement the core staffing business. The company has a nationwide footprint that extends to 42 states and, through a recent acquisition, operates in the U.K., with further European expansion planned. We are enthusiastic about the company's growth prospects and believe the favorable outlook for the temporary staffing industry creates a positive tailwind.

SUMMARY DATA

52-Week High	**$5.62**
52-Week Low	**$0.35**
One-Year Return (%)	**159**
Beta	**-0.10**
Average Daily Volume (sh)	**74,013**
Shares Outstanding (mil)	**163**
Market Capitalization ($mil)	**$350**
Short Interest Ratio (days)	**4.70**
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 TTM EPS	**43.0**
P/E using 2014 Estimate	**20.5**
P/E using 2015 Estimate	**10.8**
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					1020 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

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

KEY POINTS

- Corporate Resource Services (CRS) is a rapidly growing temporary staffing company that has launched an ambitious M&A strategy to augment organic growth and implemented initiatives to improve margins and profitability.
- We are enthusiastic about the company's prospects and believe the favorable outlook for the temporary staffing industry creates a positive tailwind.
- Our outlook for the temporary staffing industry is positive. Despite robust growth over the past three years, U.S. staffing industry employment has not recovered all of the jobs lost during the recession. We believe further industry growth will be driven by cost containment efforts from companies and the Affordable Care Act, among other factors.
- The company recently made its first acquisition in the U.K., with further expansion in the European staffing industry planned.
- The temporary staffing industry is highly fragmented, which we believe implies significant M&A opportunities for CRS.
- Risks include a potential negative economic impact on the temporary staffing industry, increased competition, ongoing industry consolidation driving up costs for future acquisitions and that CRS is essentially a controlled company.

OVERVIEW

With an estimated $816.5 million in 2013 revenue, Corporate Resource Services (CRS) is a rapidly growing temporary staffing company that has launched an ambitious M&A strategy to augment organic growth. The company 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 are enthusiastic about the company's growth prospects and believe the favorable outlook for the temporary staffing industry creates a positive tailwind.

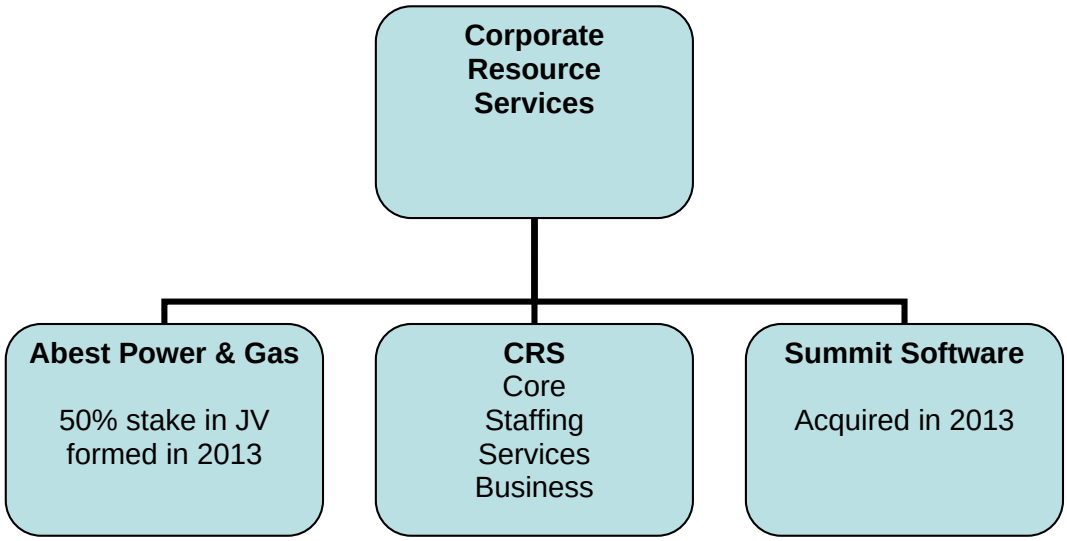
CRS provides staffing services, primarily for administrative support and positions in light industrial services, as well as the insurance industry. The company's 6,000 plus customer base ranges from mom and pops to Fortune 1000 companies in a broad array of sectors. Through its recent acquisition of Summit Software (see below), 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).

Heading into 2014 from Strength

Since 2006, through a combination of organic growth and an ambitious acquisition strategy, CRS has expanded its footprint to 231 staffing offices. Its domestic network extends to 42 states and Washington, D.C. In addition, with the recent acquisition of FlexPlus in the U.K., the company now has an operating base from which to launch further expansion in the European staffing industry. The company's services range from filling individual positions to staffing entire facilities with temporary and permanent workers.

Revenue reached an estimated $816.5 million in 2013, as noted, up 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 that were assembled together to form a larger organization with a national footprint. Following six major acquisitions in 2009-2013 that helped build CRS to its current scale, management's focus has increasingly turned to **improving CRS margins and profitability**.

Diversified Operating Structure



Source: Company reports

MARGIN ENHANCING INITIATIVES

Last year was a transformative one for CRS. The company launched several initiatives to improve profitability, including rebranding to better leverage the CRS brand, re-negotiating economics with key vendors and customers and diversifying into new businesses that management believes will be complementary to the core staffing operation. The company also acquired its first offshore staffing operation.

Rebranding

To consolidate all of its acquired businesses, CRS initiated a rebranding effort to bring all of its staffing operations under one umbrella: Corporate Resource Services. CRS had operated many of its acquired subsidiaries under their separate legacy names. Where brands have gained recognition with customers, management has determined that it will co-brand the CRS name in order to make it clear that the subsidiary is part of a much larger, national – and now international – staffing organization. As a result, TS Staffing Services, Diamond Staffing Services, AccountAbilities, Corporate Resource Development and Integrated Consulting Group are all being rebranded as Corporate Resource Services.
Utilizing the CRS brand communicates to customers the company's scale and range of services. This will enable CRS to leverage the brand, in our view, with customers and potentially with vendors. CRS also hired NFL Hall of Fame player Dan Marino as a corporate spokesperson in 2013. His role is to interact with corporate customers and potential customers and management believes that his association with CRS has already led to increased business prospects. While we do not know to what extent his association with CRS helped obtain these contracts, Dan Marino's role as a corporate spokesperson can also help CRS build brand recognition, in our view, as he interacts with current and potential customers.

Driving Improved Productivity

In addition to re-branding efforts, the company is also focused on boosting operational efficiencies to improve margins and profitability. One strategy has been to expand CRS' government business, as these assignments generally generate higher margins. CRS was awarded the contract to provide temporary

staffing services for the Alameda Contra Costa Transit District in Oakland, California. Another strategy is to cross-sell additional services to existing customers.

Government Business

The company formed a Government Services team and in 2013, announced contracts to provide temporary staffing services for the Alameda Contra Costa Transit District in Oakland, California, the Delaware River Port Authority, the City of West Palm Beach, Florida, the County of San Bernardino, California and other government entities. These assignments generally generate higher margins.

On Premise Services

The company's On Premise Program involves placing an agent at the customers' facility for larger customers and assignments. CRS can leverage this position for recruiting, training and supervising large jobs on-site at the customers' facility. This also enables the CRS on-site agent to cross-sell other services to the customer. For example, if CRS has an assignment to fill production staffing needs at a factory, the on-site agent could have an opportunity to fill other needs that arise such as clerical, cleaning, warehousing, as well as potentially to sell to other companies located in the same industrial park.

We believe the company performs ongoing cost-benefit analysis of its on-premise services to determine that the cost of maintaining an agent or agents at the customer's facility yields the appropriate incremental revenue and margin. For example, in 2009, the company discontinued its CPA Partner on Premise operations, having determined that it was not going to be as profitable as originally expected.

Renegotiating Fee for PEO Services

CRS commenced discussions with Tri-State in mid-2012 to re-negotiate the administrative fee CRS pays to Tri-State for services rendered including payroll and workers compensation insurance. The company was able to successfully negotiate this down to 1.4% from 2% earlier. This 60bps reduction equates to over $3 million in annual cost savings based on 2012 metrics and an estimated roughly $3.5 million through the first nine months of 2013.

Diversification

In addition, CRS diversified by entering into the retail energy services industry through a 50% stake in Abest Power & Gas and the data services industry through its acquisition of Summit Software. Management expects both Summit and Abest to produce higher margins than the core staffing business.

Rate Increases

In addition to moving into higher margin services such as the government contracts noted above, CRS also intends to increase rates with existing customers. On certain larger accounts, an 80 to 100 bps rate increase could translate into several million dollars in incremental revenue and margin. The company has also begun the process of terminating unprofitable accounts in order to improve gross margins. The company has to balance these efforts with the competitive pricing pressures from other temporary service providers in order to remain competitive.

Streamlining

As the company integrates acquired subsidiaries, management continues to evaluate operating costs in order to eliminate redundancies and reduce S,G&A by consolidating offices and administrative tasks when appropriate.

Managing State Unemployment Taxes

The company is working with Equifax to better manage state unemployment taxes more effectively. Management believes this could result in annual cost savings of $1.5 million or more.

Cross Selling

The company seeks to cross-sell services to existing clients and to expand business with clients across multiple markets. For example, in 2013, CRS entered into a 3-year agreement with Del Monte Fresh Produce to expand its existing relationship to locations throughout the country and in Canada.

ACQUISITIONS

Acquisition Strategy Enhances Organic Growth Initiatives

CRS made six major acquisitions of regional staffing agencies from 2009-2013. 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

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

Following a change of control in 2009, Tri-State Employment Services became CRS' parent. The following year, CRS acquired Integrated Consulting Group of New York (ICGNY) out of bankruptcy for the assumption of ICGNY's debt and liabilities. This transaction added roughly $25 million in annual revenue and branches in New York, New Jersey, Pennsylvania and Illinois. That same year, the company acquired GT Systems and also purchased Tri-Overload Staffing from its corporate parent.

In 2011, CRS purchased another staffing company from its parent, TS Staffing Services. TS Staffing focused on customers in light industrial sectors. The company paid $30 million for TS Staffing in an all-stock transaction against TTM revenue of about $180 million. That equates to a 0.2x multiple on TTM revenue, which is below the average 0.5x at which public peers trade. The deal increased CRS' revenues by about 50%. CRS also purchased the much smaller Cameo Personnel Systems for roughly $750,000, adding three branches in New Jersey. This deal added annual revenue of more than $12 million. CRS also purchased Tri-Diamond Staffing from its parent that year for roughly $25 million in stock against an estimated roughly $100 million in annual revenue (0.3x). The deal added 23 offices located throughout the country.

The company intends to maintain its ambitious M&A strategy to augment organic growth. With an eye towards improving margins, CRS targets higher margin and high growth segments of the staffing industry. In 2012, CRS invested $1.8 million in purchasing small staffing companies and $2.3 million in the first nine months of 2013 for Florida based Personally Yours, Southern California based Temploy and Personnel Solutions, which is based in Iowa. The company continues to pursue smaller tuck-in acquisitions.

EUROPEAN EXPANSION

U.K.: Base For European Expansion

In November of 2013, CRS purchased U.K.-based Flex Recruitment Plus, its first offshore acquisition. The management team at FlexPlus will remain to help oversee CRS' planned expansion within the European market, as the company has indicated that it is pursuing three additional U.K. recruitment firms. FlexPlus founder Adrian Hobbs will oversee two of these anticipated deals and will also manage U.K. operations for CRS. The company expects FlexPlus to be immediately accretive to earnings.

Acqusition Added European Presence and Important Software Tool

In addition to a strategic presence in the U.K. and Europe, the acquisition also gave CRS FlexPlus' *iintegra* software. CRS intends to launch *iintegra*, which is a job posting and applicant tracking system, across its U.S. operations, beginning with New York branches. Moreover, many of CRS' corporate clients have U.K. operations and CRS intends to leverage these relationships in order to grow its overall revenues.

DIVERSIFICATION

Abest Power & Gas

In January 2013, CRS formed a joint venture with energy veteran Frank Rosa to launch Abest, an alternative energy provider that commenced operations in May, 2013. The JV was formed to take advantage of energy deregulation that enables consumers to select their energy provider. In states where it has been licensed, Abest offers electricity and gas supply services to residential and commercial customers. It is licensed in Massachusetts, New York and Connecticut and we believe Abest has applied for licenses in New Jersey, Ohio and New Hampshire, as well.

Connecticut deregulated in 1998, New York in 1996 and Massachusetts in 2005. Connecticut has a high percentage of customers who have opted to use an energy services company (ESCO) instead of the local gas or electric utility, with over 41% of customers using a competitive supplier as of 2011.

As a start-up, Abest is ramping up revenue and is not expected to attain breakeven in 2014. It recorded revenues of $389,000 for the first nine months of 2013, with $320,000 of that in the third quarter alone. It recorded a loss of $226,000 in 3Q13 and $532,000 for the first nine months of 2013. CRS recognized $113,000 and $266,000 of these losses below the operating line, per its 50% stake in Abest. Although undisclosed, CRS has indicated that its investment in Abest was relatively small.

Summit Software

In 2013, CRS acquired Little Rock, Arkansas-based Summit Software from Tri-Tel. for $13.75 million in an all-stock deal. Summit is a software company that focuses on the PEO industry and provides cloud-based hosting and enterprise software applications for the PEO and staffing industries. Summit was founded in 1982 and has more than 270 PEOs and staffing clients ranging from start-ups to companies with an employee base of thousands. Summit generates annual revenue of about $2.5 million. As a software company, it enjoys high gross and operating margins of over 75% compared to the 11%-12% range for CRS.

The company's goal with these diversified investments is to cross sell new products and services to existing and new customers. We believe Summit Software has direct applicability to staffing companies and may already have relationships with existing CRS clients, we believe. Abest enables customers to lower their energy costs, which could be an attractive new product for CRS to cross-sell to its clients, particularly in the light industrial sectors.

INDUSTRY OUTLOOK

Our outlook for the temporary staffing industry is positive. The industry developed in the boom years following World War II. In 1946, William Russell Kelly launched Russell Kelly Office Service in Detroit with three employees and 12 customers. Kelly offered to pick up typing work from customers and have his staff complete the work at his office. Over time, he conceived the idea of dispatching clerical help to work on-site temporarily at customers' offices, generally for short term or last minute assignments. Thus, the temporary staffing industry developed to meet businesses needs for flexible staffing.

Russell Kelly Office Service changed its name to Kelly Girl Service, Inc. in 1957 to reflect that the majority of assignments it filled were secretarial. Not only was demand primarily for secretarial assistance, but a growing number of women wanted flexible options to work part-time outside of the home. Over time, Kelly Girl Service expanded the types of services its temporary staff could do and also began to find temporary assignments for a growing number of men. In 1966 the company changed its name to Kelly Services. Manpower Inc. was founded a year after Russell Kelly Office Service in MilwaU.K.ee by two attorneys and also enjoyed strong growth as demand for flexible staffing options increased.

Key Drivers

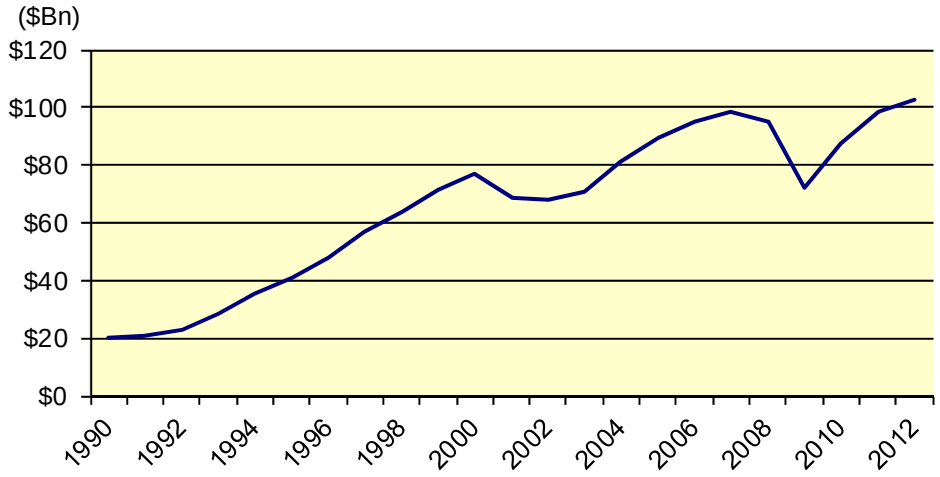
Demand for temporary services is highly correlated to the economy and to the labor markets. Not surprisingly, during periods of economic growth, demand for temporary services tends to rise. Conversely, during economic downturns, demand for temporary labor slows. Historically the U.S. staffing industry 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.

Temporary and Contract Staffing Sales



Source: American Staffing Association

Despite robust growth over the past three years, U.S. staffing industry employment has not recovered all of the jobs lost during the recession. ASA data illustrates that domestic staffing firms lost nearly 1.2 million jobs during the recession, which equates to 36% of the temporary and contract work force. According to the ASA, the industry is still nearly 250,000 people short of its pre-recession work force. Moreover, the temporary staffing industry still accounts for less than 2% of total domestic jobs, according to BLS data. We believe this implies continued room for growth, as this metric has exceeded 2% in prior years. We believe there are several factors that will drive continued sector growth. These include cyclicality and seasonality that characterize many industries, growing demand for flexibility by both employers and employees, the uncertain economic outlook and the pending impact of the Affordable Care Act.

Cyclicality The on-demand labor industry helps firms that need flexible staffing options. Many businesses operate in a cyclical environment and need to add workers during periods of peak production or activity. In addition, many companies also need to temporarily replace full-time employees who are absent for short periods because illness, vacation or other factors. On-demand labor offers employers a flexible option to meet their labor needs without having to add full time employees.

Seasonality Some businesses, such as construction, are generally seasonal because of factors such as weather. These businesses often turn to temporary or on demand staffing to help with short term staffing needs. Corporate Resources Services focuses on the commercial construction industry during its initial outreach to obtain potential customers when it opens a new branch.

Cost containment Competitive pressures have prompted many businesses to reduce costs, which sometimes translates into reduction of full time employees. On demand staffing allows companies to add workers as needed without having to employ people on a full time basis.

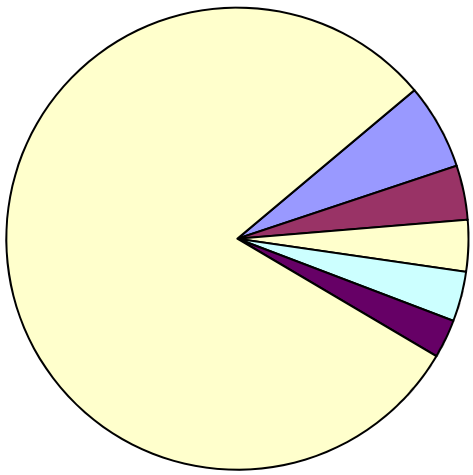
The Affordable Care Act President Obama's healthcare initiatives are generally expected to drive demand for temporary and on demand staffing. When these initiatives go into effect in 2014, companies that employ more than 50 full-time workers will need to provide health care coverage to them or pay penalties of up to $3,000. According to an article in the *Washington Post*, by requiring employer coverage only for those who put in at least 30 hours a week, the act appears to create an incentive for companies to do less with permanent workers and more with part-timers, which are the main focus of staffing agencies. Driven by these factors, particularly by the impact of pending regulatory changes to the healthcare system, temporary staffing is generally expected to continue to outpace general economic growth. Staffing Industry Analysts projects that staffing industry revenue will grow by 6% per annum over 2013-14.

COMPETITION

The temporary staffing industry is highly fragmented, which we believe implies significant M&A opportunities for CRS. As illustrated in the figure below, the top five competitors account for only about 20% of total industry revenue, according to Staffing Industry Analysts data. A handful of global players such as Manpower and Kelly Services compete with approximately 100 companies that operate nationally and myriads of small mom and pop local companies.

The industry continues to evolve to develop specialized market segments to match customers' needs. One example would be Kelly Services, which started by placing temporary secretarial help and expanded to place other types of temporary workers. Robert Half began with a focus on placing workers with accounting or financial skills.

Temporary Staffing Industry is Highly Fragmented



Allegis Adecco Randstad Manpower Kelly Other

Source: Staffing Industry Analysts

Multinational companies such as Manpower and Kelly Services at the $20+ billion and $5+ billion level, respectively. CRS is significantly smaller than these market leaders. As such, we believe its growth prospects are generally better than those of the bigger players, particularly given the company's M&A initiatives and recent diversification efforts. Specifically, CRS registered organic revenue CAGR of about 20+% from 2007-2012 compared to what management estimates at -1.7% for the overall industry.

CRS is also significantly larger than the regional and mom and pops. We believe this gives the company greater scale than the mom and pops which, in turn, can lead to business contracts across multiple markets such as the Del Monte and Delaware Valley Flowers relationships noted above. At the same time, CRS executives have substantial experience within the temporary staffing industry to help fuel growth.

MANAGEMENT

CRS executives have substantial experience within the temporary staffing industry. Most of the team members have worked together for a number of years and are largely responsible for implementing the strategies to grow the business and boost profits.

CEO John Messina Sr. has served as the company's CEO since October 2012 and Chairman of its board since May 2012. He was the company's president from March 2009 until October 2012. He has been a member of CRS' board since April 2007. He has more than fifteen years of experience in the staffing services industry. He joined Tri-State Employment Services in 1997 and continues to work for CRS' parent currently.

COO Mark Levine has more than 20 years of experience in the temporary staffing industry. He has been CRS' President of Operations since 2011 and was COO of AccountAbilities prior to that, beginning in February 2007. Accountabilities reorganized and became a subsidiary of CRS in February, 2010. Before joining AccountAbilities, he was EVP of privately-held Accretive Solutions from 2001 to 2007. He served as Regional Manager of another staffing company, Norrell Services, from 1993 to 1996. He started his career at Dun & Bradstreet, where he was AVP of U.S. Sales for ten years beginning in 1983.

CFO Michael Golde is the newest member of the executive team, having joined CRS as CFO in May, 2012. He has over 20 years of experience in the staffing and professional services industries.

FINANCIALS

As noted, CRS has grown revenue from $147 million in 2009 to an estimated $800 million in 2013. For the first nine months of 2013, CRS' revenues grew by an impressive 25.7% year-over-year to $602.4 million, from $479.2 million registered in the comparable period of 2012.

That growth reflected several factors, including: 1) one extra week in 2013 (the nine months of 2013 was a 40-week period versus a 39-week period in 2012), which added $11.1 million of incremental revenue or 2.3% of the above-noted 25% increase; 2) the consolidation of subsidiaries that CRS acquired late in 2012 and in 2013. Management attributes $25.7 million of its increased revenues (5.4%) to M&A and; 3) new customers and higher demand from existing customers. Management believes that the 18.0% organic revenue growth outpaced the general industry.

Over the same period, CRS' direct costs rose 25.8%, which exceeded its revenue increase by 10-bps. The company attributes this primarily to higher state unemployment tax rates in states where CRS has sizable operations, as well as to the relative increase in its light industrial businesses, which traditionally generates lower gross margins. The company was able to offset these increases slightly by a lower Administrative fee to Tri-State, as management had negotiated that fee down from 2% to 1.4%. CRS registered operating income of $11.0 million for the first nine months of 2013 versus $191,000 for the same period of 2012.

In 3Q13 alone, the company's revenues increased by 15.8% to $209.0 million from $180.4 million registered in 3Q12. Excluding recent acquisitions, which added roughly $6.9 million in revenues, the company registered 12.0% organic revenue growth, despite ongoing elimination of unprofitable accounts. On lower relative Direct costs, CRS recorded a 40 bps gross margin improvement to 12.4%. Management attributes this largely to the lower administrative fee that it pays to TSE.

As a result, the company registered some operating leverage in 3Q13, with a 20.1% gross profit increase against the above-noted 15.8% revenue improvement. Gross margins came in at $25.9 million versus $21.6 million registered in 3Q12 and a gross profit margin of 12.4% compared to 12.0%. S,G&A expense was 9.4% of revenues compared to 10.2% in 3Q12, despite one-time costs associated with the uplifting of the company's shares to the NASDAQ.

CRS reported operating income of $5.7 million in 3Q13, more than double (up 111%) from $2.7 million registered in 3Q12. The company generated net income of $4.3 million, up from $1.4 million. Excluding an $113,000 net loss attributable to CRS' 50% stake in Abest, net income was $4.4 million versus the aforementioned $1.4 million registered in 3Q12. CRS turned net income positive in 3Q12 and has reported a quarterly net profit since. EPS came in at $0.03 compared to $0.01 registered in 3Q12.

RELATED TRANSACTIONS

CRS grew out of the merger of several small, privately held companies in the temporary staffing industry. Many of these companies were owned or controlled by one corporate parent, Tri-State, which is owned by Robert Cassera, a member of the CRS board. Tri-State Employment Services gained control of CRS in 2009 through a series of stock purchases.

We believe it is not unusual for private companies to spin-off several related companies to be unified under one publically traded entity. CRS also acquired Summit Software from Tri-State. The company obtained fairness opinions for the larger purchases. CRS also added significant revenue with these acquisitions. For example, TS Staffing Services had annual revenue of roughly $190 million prior to the purchase by CRS.

Similar to many other companies under private control, there were significant inter-company and/or related services that one division provided to another. In this particular case, Tri-State began providing professional employer services to CRS in January 2006. These services include payroll services, administration of employee benefits, workers compensation insurance coverage and accounts receivable collection. These are customary for companies in the temporary staffing industry.

CRS has elected to continue having Tri-State provide these services, rather than bringing them in-house. Management believes that using Tri-State enables CRS to benefit from lower insurance costs and employee benefits than it could obtain on its own. Tri-State bills CRS for the payroll, insurance and other expenses that it owes to and associated with the workers it places. Not surprisingly, Tri-State charges CRS an administrative fee for these services, as any third party supplier would. It is not unusual to outsource payroll and other administrative services, in our view. For example, Paychex (PAYX-not rated) generated over $1.5 billion in revenue in its fiscal year 2013 for providing payroll services.

Other temporary staffing companies such as Manpower (MAN-not rated) and Kelly Services (KELYA) incur the same costs as CRS. Their gross margins are at the 16.5% level compared to 12.4% for CRS in 3Q13. However, we believe there are significant differences in the businesses of the other staffing companies that drive higher margins. CRS' business consists primarily of placing unskilled workers in light industrial and clerical positions. By contrast, the other staffing companies place professional

employees for skilled positions in accounting and financial analysis, IT and engineering, among other areas.

Moreover, CRS has re-negotiated the administrative fee it pays Tri-State; the fee currently stands at 1.4%, down from 2.0% prior to the re-negotiation. The company launched the re-negotiations in 2012 to determine a fair market value and has also indicted that it intends to analyze and negotiate potential future reductions with Tri-State.

RECENT NEWS

As noted, 2013 was a transformational year for CRS. Below, we highlight some of the announcements and changes the company initiated.

- January 22, 2013 – CRS announced its entry into the retail energy services industry with the formation of Abest Power & Gas, a joint venture between it and retail energy veteran Frank Rosa.
- February 6, 2013 – CRS effectively creates a new seven member board.
- February 14, 2013 – CRS announced that it won the staffing contract for Howard County, Maryland.
- March 5, 2013 – CRS was awarded the staffing contract for the state of Nevada.
- March 28, 2013 – CRS announced the award the staffing contract for San Bernardino County, California.
- May 8, 2013 – CRS announced a 3-year contract with Del Monte Fresh Produce, which marks the expansion of an existing relationship.
- May 17, 2013 – CRS was awarded the project staffing contract for West Palm Beach, Florida.
- May 28, 2013 – CRS won the staffing contract for the Delaware River Port Authority.
- April 15, 2013 – CRS was selected as exclusive vendor for Delaware Valley Flowers' new Shrewsbury, Massachusetts location. This is consistent with the company's On-site Management Program, which seeks to leverage relationships with existing customers across multiple locations. With Delaware Valley Flowers, CRS also provides staffing services in New Jersey, Florida, California, and Maryland.

VALUATION

Based on our projections, CRS shares trade at 0.4x 2014 revenue compared to 0.6x, on average, for peers, despite the company's better than industry growth outlook. Our $4.00 price target equates to 0.7x on this metric, which is below several other companies trading above 1.0x on a market capitalization to revenue basis. On a PE basis, the shares trade in-line with the group. However, given the company's focus on cost containment efforts and margin improvements, we believe EPS at this point could represent a trough. If the company's efforts are successful, we believe EPS could reach $0.20 by 2015, which would put the shares at a PE of 20x, at our $4.00 price target. We believe the risk / reward ratio is attractive at this level. Separately, the company's shares moved from the OTC market to the Nasdaq on September 6, 2013.

Corporate Resource Services Peer Analysis

Company	Ticker	1/26/2014 Price	52-Week High	52-Week Low	Revenue ($M) 2012A	Revenue ($M) 2013E	Revenue ($M) 2014E	EPS 2012A	EPS 2013E	EPS 2014E
Corp. Resource Svces	CRRS	2.15	5.62	0.35	679	817	931	(0.01)	0.07	0.11
Insperity, Inc.	NSP	33.16	39.69	26.44	2,160	2,260	2,460	1.67	1.38	1.72
Kelly Services	KELYA	23.97	25.82	15.25	5,450	5,380	5,540	1.34	1.49	1.54
Kforce, Inc.	KFRC	19.07	21.37	12.23	1,080	1,150	1,250	0.85	0.85	1.17
Manpower Group	MAN	80.40	87.16	48.11	20,680	20,200	21,040	2.96	4.19	4.62
On Assignment	ASGN	30.69	30.80	29.44	1,240	1,650	1,860	1.03	1.21	1.49
Resources Connection*	RECN	14.66	15.94	10.58	556	570	586	0.53	0.54	0.64
Robert Half	RHI	40.01	43.06	30.64	4,110	4,240	4,560	1.55	1.83	2.12
TrueBlue, Inc.	TBI	26.40	27.76	16.80	1,390	1,660	1,830	0.84	1.09	1.34

	Mkt Cap ($M)	MC / Revenue			P/E		
Corp. Resource Svces	350	0.5x	0.4x	0.4x	nm	32.1x	20.5x
Insperity, Inc.	831	0.4x	0.4x	0.3x	19.9x	24.0x	19.3x
Kelly Services	893	0.2x	0.2x	0.2x	17.9x	16.1x	15.6x
Kforce, Inc.	606	0.6x	0.5x	0.5x	22.4x	22.4x	16.3x
Manpower Group	6,270	0.3x	0.3x	0.3x	27.2x	19.2x	17.4x
On Assignment	1,630	1.3x	1.0x	0.9x	29.8x	25.4x	20.6x
Resources Connection*	562	-	1.0x	1.0x	27.7x	27.1x	22.9x
Robert Half	5,600	1.4x	1.3x	1.2x	25.8x	21.9x	18.9x
TrueBlue, Inc.	1,010	0.7x	0.6x	0.6x	31.4	24.2	19.7
*FY ends May		0.6x	0.6x	0.6x	25.3x	23.6x	19.0x

Source: Company reports, Yahoo Finance, Zacks

RISKS

Risks include a potential negative economic impact on the temporary staffing industry, increased competition, ongoing industry consolidation driving up costs for future acquisitions and that CRS is essentially a controlled company.

- 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)

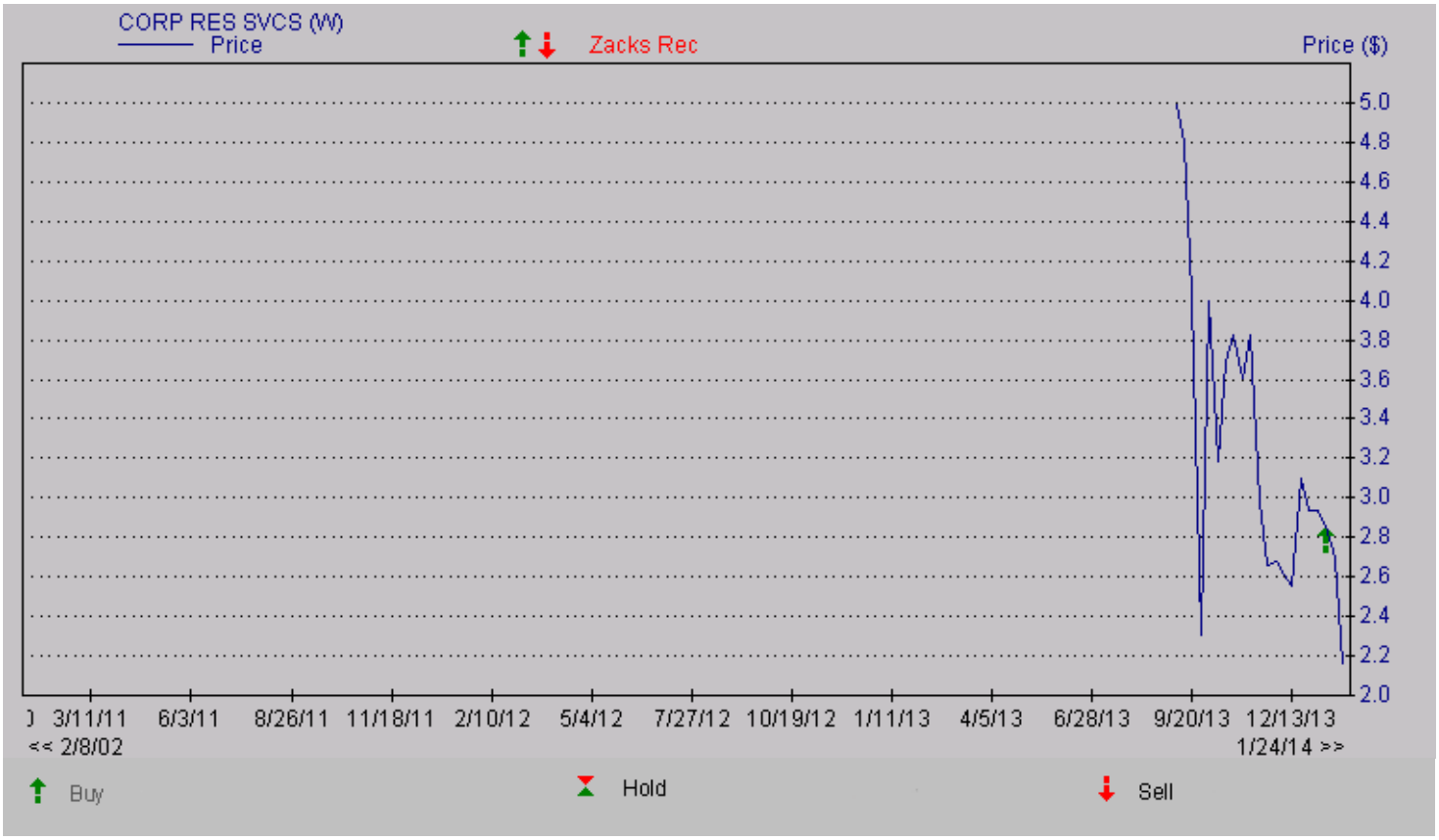
	Pro Forma										
	1Q12	**2Q12**	**3Q12**	**4Q12E**	**2012E**	**1Q13**	**2Q13**	**3Q13**	**4Q13E**	**2013E**	**2014E**
				479,169							
Revenues	144,678	154,082	180,409	200,158	679,327	194,218	199,195	208,957	214,169	816,539	930,855
Direct cost related	127,386	134,706	158,480	175,614	596,186	171,633	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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