

Labor Smart, Inc.
Form 10-K
April 14, 2014
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013

Commission File Number 000-54654

Labor Smart, Inc.
(Exact name of registrant as specified in its charter)

Nevada **45-2433287**
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

5604 Wendy Bagwell Parkway, Ste 223
Hiram, GA **30141**
(Address of principal executive offices) (Zip Code)

Telephone: (770) 222-5888
(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common Stock	N/A

Securities registered pursuant to Section 12(g) of the Exchange Act:
Common Stock, \$0.001 Par Value
(Title of each class)

Edgar Filing: Labor Smart, Inc. - Form 10-K

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

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

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 (§ 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 if disclosure of delinquent filers in response to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Edgar Filing: Labor Smart, Inc. - Form 10-K

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 Accelerated filer
Non-accelerated filer Smaller reporting company

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

On June 30, 2013, the last business day of the registrant’s most recently completed second quarter, the aggregate market value of the Common Stock held by non-affiliates of the registrant was \$148,500, based upon the closing price on that date of the Common Stock of the registrant on OTC Markets.com of \$0.15. For purposes of this response, the registrant has assumed that its directors, executive officers and beneficial owners of 5% or more of its Common Stock are deemed affiliates of the registrant.

As of April 11, 2014, the registrant had 22,239,315 shares of and Common Stock, \$0.001 par value, outstanding.

Documents incorporated by reference: None

TABLE OF CONTENTS

	Page
Part I	
Item 1 Business	5
Item 1A Risk Factors	8
Item 1B Unresolved Staff Comments	11
Item 2 Properties	12
Item 3 Legal Proceedings	12
Item 4 Mine Safety Disclosures	12
Part II	
Item 5 Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	12
Item 6 Selected Financial Data	14
Item 7 Management’s Discussion and Analysis of Financial Condition and Results of Operations	14
Item 7A Quantitative and Qualitative Disclosures about Market Risk	18
Item 8 Financial Statements and Supplementary Data	18
Item 9 Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	19
Item 9A Controls and Procedures	19
Item 9B Other Information	19
Part III	
Item 10 Directors, Executive Officers and Corporate Governance	20
Item 11 Executive Compensation	22
Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	22
Item 13 Certain Relationships and Related Transactions, and Director Independence	23
Item 14 Principal Accounting Fees and Services	23
Item 15 Exhibits, Financial Statement Schedules	24
Signatures	24

SPECIAL NOTE ABOUT FORWARD-LOOKING INFORMATION

Certain statements in this Annual Report on Form 10-K are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements are typically identified by the use of the words "believe," "may," "could," "should," "expect," "anticipate," "estimate," "project," "propose," "plan," "intend," and similar words or expressions. Statements that describe our future strategic plans, goals, or objectives are also forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause our actual results, performance, or achievements to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. The forward-looking statements included in this report are made only as of the date of this report.

The forward-looking information is based on present circumstances and on our predictions regarding events that have not occurred, that may not occur, or that may occur with different consequences from those now assumed or anticipated. Actual events or results may differ materially from those discussed in the forward-looking statements. The forward-looking statements included in this report are made only as of the date of this report.

We may be deemed to be insolvent and may face liquidation.

The auditors' report for our most recent fiscal year contains an explanatory paragraph about our ability to continue as a going concern.

We will require substantial amounts of additional capital from external sources.

Any substantial increase in sales will require skilled management of growth.

We cannot predict the impact on our activities of the current economic crises.

We are authorized to issue substantial additional shares of stock, which would dilute the ownership of our stockholders.

Penny stock regulations will impose certain restrictions on resales of our securities, which may cause an investor to lose some or all of its investment.

The factors set forth under "Management's Discussion and Analysis of Analysis of Financial Condition and Results of Operation" and other factors that are not currently known to us that may emerge from time to time.

PART I

ITEM 1. BUSINESS

Use of Certain Defined Terms

Except as otherwise indicated by the context, references in this report to:

• “Labor Smart” “Labor Smart, Inc.,” “we,” “us,” or “our,” “Successor” and the “Company” are references to the business of Labor Smart, Inc.

• “Securities Act” refers to the Securities Act of 1933, as amended, and “Exchange Act” refers to the Securities Exchange Act of 1934, as amended

About Labor Smart

Labor Smart, Inc. was incorporated in the State of Nevada on May 31, 2011. Since inception, the Company has been engaged in organizational efforts, obtaining financing and deployment of our business model. Labor Smart provides temporary blue-collar staffing services. It supplies general laborers on demand to the light industries, including manufacturing, logistics, and warehousing, skilled trades’ people and general laborers to commercial construction industries.

Industry Summary

The on-demand temporary staffing industry developed out of the need for businesses to have flexible staffing options that would allow them to respond quickly to changing business conditions. Cyclical business environments and competitive pressures have prompted businesses to focus on cost reduction, sometimes replacing full-time employees when absent due to illness, vacation, or unplanned termination and utilizing temporary staff during peak seasons.

The on-demand temporary staffing industry is highly fragmented and the industry continues to develop specialized market segments that reflect the diverse needs of the businesses it serves. Technical skills, work history, duration of assignment, and background check requirements vary among industries and employers. We operate primarily within the short-term, skilled and unskilled segments of the on-demand temporary staffing industry. We oversee the operation of multiple locations from a single corporate office. We are a business to business service provider. Methods used to sell and market our services to local and regional businesses vary depending on local economic factors, types of business in the geographic area, and other competitive considerations. Our sales processes can take place at varying

locations including our branch offices, the customers' worksite, or via e-commerce. Temporary employees are recruited by our branch staff for placement with our customers based upon customer requirements.

Business Strategies

Our objective is to aggressively grow our share of the on demand temporary staffing market. We plan to achieve this objective by:

- Growing revenue in existing locations
- Growing revenue through new branch openings
- Leveraging customer relationships across vertical markets

Growing revenue in existing locations: As a branch location matures, the Company seeks to increase its revenues by expanding sales opportunities with existing customers and aggressively increasing the number of customers served. By servicing our customers with a high level of responsiveness and attention to detail, we believe additional market share and revenue growth is obtainable.

Growing revenue through new branch openings: In 2013 we opened and acquired a total of 9 branches. We will continue to rapidly open new locations based on the availability of talent in target markets and financial resources of the company. We believe that having the right talent to oversee the day to day operations of a branch is key to the success of the branch and the company as a whole. The Company plans to open approximately 15-25 branches prior to the end of 2014 and an additional 30-40 branch locations in 2014.

Leveraging customer relationships across vertical markets: Due to the extensive fragmentation of our industry, the Company believes our expanding footprint of branches provides a competitive edge when servicing customers with a regional presence. The company intends to leverage local customer relationships to seek out opportunities on a macro scale with new and existing customers.

Branch Expansion

The Company has grown rapidly from 6 branch locations in 2012 to 15 branch locations at December 31, 2013. The Company's expansion has been achieved by opening company owned branch locations and by acquisitions of branch locations that are managed day to day by Branch Managers.

The Company currently anticipates opening a total of 15-25 branches in 2014, 30-40 in 2015 and 30-40 in 2016 while establishing a nationwide presence. The Company may pursue acquisitions in certain circumstances and may slow or accelerate expansion based on future developments.

Operations

Branch Locations. Branch locations are offices where temporary and prospective temporary employees report prior to being placed on an assignment. Branch locations open between 5am and 6am daily depending on customer needs. Generally, the Branch Manager will coordinate assignment of temporary employees to customer work orders. Prior to dispatching the temporary employee, branch staff will ensure that temporary employees have the necessary Personal Protective Equipment (PPE) as needed for the assignment they are placed on. The Company provides PPE needed to the temporary employee at no cost to the temporary employee. Temporary employees are matched to customer assignments primarily based on the customer specific requirements such as skills, experience, and availability.

Most work orders from customers are scheduled in advance. However, a significant portion of work orders are requested on short notice by the customer.

The temporary employees are provided a work order by a branch staff member that is completed and signed by the customer. The work order shows the hours worked and allows the customer to note a request for the same or different temporary employee at a future date.

Branch locations are generally staffed with at least two full time employees including the Branch Manager and a Customer Service Representative or an Account Executive. Each branch locations sets their own hours based on business volume for accepting applications from prospective temporary employees.

Customers. The Company's customers are primarily businesses that require employees for manual labor such as hauling, cleaning, digging, loading, and assembly. The Company's customers are generally engaged in construction, freight handling, landscaping, warehousing, janitorial, disaster response, light manufacturing, retail or wholesale operations.

A new branch location initially targets the construction and janitorial industries for potential customers. The Company has identified these industries as having a relatively short sales cycle and ever changing workforce needs. As the branch matures, the customer base broadens and diversifies. The Company currently derives its business from a large number of customers.

Sales and Marketing. Generally, each branch location is responsible for its own sales and marketing efforts. The Branch Manager is primarily responsible for new customer acquisition and customer service with all branch employees being involved in customer service, and to some degree, the sales process. The Company's goal is for each branch to make contact with 125-200 potential customers weekly.

In the future, the Company plans to support branch sales efforts from a national approach. The Company will continue to implement sales and marketing strategies that reflect its expanding branch footprint and growing corporate infrastructure.

Management Employees and Training. The Company seeks to hire experienced branch and multi-unit managers as part of its expansion strategy. After a thorough interview process, new staff members undergo two weeks of training at an existing branch. The Company is currently developing a structured training program for all branch staff members that will emphasize

Company sales and service philosophies and approaches. Additionally, the Company is identifying top performing Branch Managers to become Certified Training Branches, which will be responsible for training new staff hires in the future.

Workers' Compensation Program. The Company maintains workers' compensation insurance as required by state laws. In 2012, the Company's workers' compensation insurance for all states was carried by Lumbermen's Underwriting, except for Ohio and Washington, states that provide state administered workers compensation pools. In January 2013, the Company began coverage with Zurich Insurance Group. Both of these policies are guaranteed cost policies in which the Company pays a percentage of payroll as premium but assumes no financial liability beyond the premiums. As the Company continues to grow its branch footprint it intends to develop an internal safety department at its corporate office to manage claims filing, a return to work program, and coding support for branch staff.

Safety Program. The Company, has deployed a general safety program that focuses on prevention. The Company believes that safety awareness and injury prevention will help control long term worker's compensation costs as rates are increased or reduced annually based on accident frequency, amount of claims, and overall loss runs.

Competition. The on demand temporary staffing industry is highly fragmented and competitive with limited barriers to entry. There is no one company dominant in the on demand temporary staffing industry, however, there are several large competitors. The Company believes that the primary factors in obtaining and retaining customers are the cost of services, the quality of employees provided, the responsiveness of service, and the number of markets that can be serviced. The Company believes it may face pricing pressures until and unless it has the ability to service larger customers on a national scale.

Emerging Growth Company

We are an "emerging growth company," as defined in the Jumpstart Our Business Startups Act of 2012 ("JOBS Act"), and we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies" including, but not limited to, not being required to comply with the auditor attestation requirements of section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved. We cannot predict if investors will find our common stock less attractive because we may rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

In addition, Section 107 of the JOBS Act also provides that an "emerging growth company" can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an "emerging growth company" can delay the adoption of certain accounting

standards until those standards would otherwise apply to private companies. We are choosing to take advantage of the extended transition period for complying with new or revised accounting standards.

We will remain an “emerging growth company” for up to five years, although we will lose that status sooner if our revenues exceed \$1 billion, if we issue more than \$1 billion in non-convertible debt in a three year period, or if the market value of our common stock that is held by non-affiliates exceeds \$700 million as of any May 30.

Because of the exemptions from various reporting requirements provided to us as an “emerging growth company” and because we will have an extended transition period for complying with new or revised financial accounting standards, we may be less attractive to investors and it may be difficult for us to raise additional capital as and when we need it. Investors may be unable to compare our business with other companies in our industry if they believe that our financial accounting is not as transparent as other companies in our industry. If we are unable to raise additional capital as and when we need it, our financial condition and results of operations may be materially and adversely affected.

Where You Can Find Us

The address of our principal executive office is:

Labor Smart, Inc,

5604 Wendy Bagwell Parkway, Ste 223

Hiram, GA 30141

Our telephone number is (770) 222-5888. Our facsimile number is (770) 222-5550. Our website can be viewed at www.laborsmart.com.

ITEM 1A. RISK FACTORS

The following risk factors should be considered carefully in addition to the other information contained in this report. This report contains forward-looking statements. Forward-looking statements relate to future events or our future financial performance. We generally identify forward-looking statements by terminology such as “may,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “target,” “projects,” “contemplates,” “believes,” “estimates,” “predicts,” “potential” or “continue” or the negative of these terms or other similar words. These statements are only predictions. The outcome of the events described in these forward-looking statements is subject to known and unknown risks, uncertainties and other factors that may cause our customers’ or our industry’s actual results, levels of activity, performance or achievements expressed or implied by these forward-looking statements, to differ. “Risk Factors,” “Management’s Discussion and Analysis” and “Business,” as well as other sections in this report, discuss some of the factors that could contribute to these differences.

The forward-looking statements made in this report relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events.

Investment in the securities offered herein is speculative, involves a high degree of uncertainty, is subject to a number of risks and is suitable only for investors of substantial financial means. Prospective investors should carefully consider the following risk factors in addition to the other information contained in this prospectus, before making an investment decision concerning the common stock offered in this prospectus. Only those investors who are prepared to potentially risk a total financial loss of their investment in this company should consider investing. Any of the following risks could have a material adverse effect on the Company’s business, financial condition, operations or prospects and cause the value of our common stock to decline, which could cause you to lose all or part of your investment. When determining whether to invest, you should also refer to and consider the other information in this annual report, including, but not limited to, the financial statements and related notes.

The factors set forth below, along with the other information contained herein, should be considered carefully in evaluating our prospects. Further, this document contains certain forward-looking statements that involve risks and uncertainties, such as statements of our plans, goals, objectives, expectations and intentions. The cautionary statements made in this section apply to all forward-looking statements wherever they appear in this document. Readers are cautioned that, while the forward-looking statements reflect our good faith beliefs, they are not guarantees of future performance, and involve risks and uncertainties. In addition, actual results could differ materially from those discussed herein and our business, our financial condition or the results of operations could be materially and adversely affected. In such case, some of the factors that could cause or contribute to such differences include those discussed below, as well as those discussed elsewhere in this document. In the event that actual results do not meet expectations, there could be a consequent negative effect on the position of investors.

The following are risk factors which are directly related to the Company's business and financial condition. Investing in our securities involves a high degree of risk and you should not invest in these securities unless you can afford to lose your entire investment. You should read these risk factors in conjunction with other more detailed disclosures located elsewhere in this annual report.

OUR BUSINESS IS SIGNIFICANTLY AFFECTED BY FLUCTUATIONS IN GENERAL ECONOMIC CONDITIONS

The demand for our blue-collar staffing services is highly dependent upon the state of the economy and upon staffing needs of our customers. As economic activity slows, companies tend to reduce their use of temporary employees before terminating their regular employees. Significant declines in demand and corresponding revenues, can result in expense de-leveraging, which would result in lower profit levels. Any variation in the economic condition or unemployment levels of the United States or in the economic condition of any region or specific industry in which we have a significant presence may severely reduce the demand for our services and thereby significantly decrease our revenues and profits.

-8-

WE MAY INCUR EMPLOYMENT RELATED AND OTHER CLAIMS THAT COULD MATERIALLY HARM OUR BUSINESS.

We employ individuals on a temporary basis and place them in our customers' workplaces. We have minimal control over our customers' workplace environments. As the employer of record of our temporary workers, we incur a risk of liability for various workplace events, including claims for personal injury, wage and hour violations, discrimination or harassment, and other actions or inactions of our temporary workers. In addition, some or all of these claims may give rise to litigation including class action litigation. A material adverse impact on our financial statements also could occur for the period in which the effect of an unfavorable final outcome becomes probable and can be reasonably estimated.

We cannot be certain that our insurance will be sufficient in amount or scope to cover all claims that may be asserted against us. Should the ultimate judgments or settlements exceed our insurance coverage, they could have a material effect on our business. We cannot be certain we will be able to obtain appropriate types or levels of insurance in the future, that adequate replacement policies will be available on acceptable terms or that the companies from which we have obtained insurance will be able to pay claims we make under such policies.

WE OPERATE IN A HIGHLY COMPETITIVE BUSINESS AND MAY BE UNABLE TO RETAIN CUSTOMERS OR MARKETSHARE.

The staffing services business is highly competitive and the barriers to entry are low. There are new competitors entering the market which may increase pricing pressures. In addition, long-term contracts form only a small portion of our revenue. Therefore, there can be no assurance that we will be able to retain customers or market share in the future. Nor can there be any assurance that we will, in light of competitive pressures, be able to remain profitable or, if profitable, maintain our current profit margins.

WE MAY BE UNABLE TO ATTRACT AND RETAIN SUFFICIENT QUALIFIED TEMPORARY WORKERS.

We compete with other temporary staffing companies to meet our customer needs and we must continually attract qualified temporary workers to fill positions. Attracting and retaining some skilled temporary employees depends on factors such as desirability of the assignment, location, and the associated wages and other benefits. We have in the past experienced worker shortages and we may experience such shortages in the future. Further, if there is a shortage of temporary workers, the cost to employ these individuals could increase. If we are unable to pass those costs through to our customers, it could materially and adversely affect our business.

LOSS OF RYAN SCHADEL, OUR PRESIDENT AND CHIEF EXECUTIVE OFFICER, COULD IMPAIR OUR ABILITY TO OPERATE.

If we lose our key employees, such as Ryan Schadel, our President and Chief Executive Officer, our business could suffer. Our success is highly dependent on our ability to attract and retain qualified management personnel. We are highly dependent on our management and the loss of Mr. Schadel's services could have a material adverse effect on our operations. If we were to lose Mr. Schadel's services, we may experience difficulties in competing effectively, developing our technology and implementing our business strategies.

IF WE ARE UNABLE TO CONTINUE AS A GOING CONCERN, INVESTORS MAY FACE A COMPLETE LOSS OF THEIR INVESTMENT.

Our independent registered public accounting firm has expressed substantial doubt about our ability to continue as a going concern in the independent registered public accounting firm's report to the financial statements included in this Form 10-K. If our business fails, the investors may face a complete loss of their investment.

BECAUSE WE ARE A NEWLY FOUNDED COMPANY, WE FACE A HIGH RISK OF BUSINESS FAILURE.

We were incorporated on May 31, 2011. We have no significant operating history nor do we have anyone experienced in managing a public company. There is no assurance that we will be able to maintain any sustainable operations. It is not possible at this time to predict success with any degree of certainty. An investor should consider the risks, expenses and uncertainties that a developing company like ours faces. Potential investors should be aware that there is

a substantial risk of failure associated with any new business venture as a result of problems encountered in connection with the commencement of new operations. These problems include, but are not limited to, an unstable economy, unanticipated problems relating to the entry of new competition, unanticipated moves by existing competition and unexpected additional costs and expenses that may exceed current estimates. Also, to date, we have completed only partial development of our intended operations and we can provide no assurance that our company will have a successful commercial application. There is no operating history upon which to base any projections as to the likelihood that we will prove successful in our current business plan, and thus there can be no assurance that we will be a viable, ongoing concern.

WE MAY NOT BE ABLE TO ATTAIN PROFITABILITY WITHOUT ADDITIONAL FUNDING, WHICH MAY BE UNAVAILABLE.

Unless we begin to generate sufficient revenues, on a consistent basis, to sustain an ongoing business operation, we may experience liquidity and solvency problems. Such liquidity and solvency problems may force us to cease operations if additional financing, under acceptable terms and conditions, is not available. In the event our cash resources are insufficient to continue operations we intend to consider raising additional capital through offerings and sales of equity or debt securities. In the event we are unable to raise sufficient funds, we will be forced to terminate business operations. The possibility of such an outcome presents the risk of a complete loss of your investment in our common stock.

INVESTORS MAY LOSE THEIR ENTIRE INVESTMENT IF THE COMPANY FAILS TO IMPLEMENT ITS BUSINESS PLAN.

We expect to face substantial risks, uncertainties, expenses and difficulties. Since inception, we have accumulated deficits of \$3,193,778. Our prospects must be considered in light of the risks, uncertainties, expenses and difficulties frequently encountered by companies in their early stages of operation. These risks include, without limitation, an unstable economy, competition, inexperienced management, lack of sufficient capital, and lack of brand recognition. We cannot guarantee that we will be successful in accomplishing our objectives.

THE COSTS, EXPENSES AND COMPLEXITY OF SEC REPORTING AND COMPLIANCE MAY INHIBIT OR SEVERELY RESTRICT OUR OPERATIONS.

We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended. The costs of complying with these complex requirements are substantial and require extensive consumption of our time as well as retention of expensive specialists in this area. In the event we are unable to establish a base of operations that generates sufficient cash flows or cannot obtain additional equity or debt financing, the costs of maintaining our status as a reporting entity may inhibit our ability to continue our operations.

THE COMPANY MAY NOT BE ABLE TO GENERATE SUFFICIENT REVENUES TO STAY IN BUSINESS.

We expect to earn revenues solely in our chosen business area. In the opinion of our management, we reasonably believe that the Company will begin to generate reasonable revenues. However, failure to generate sufficient and consistent revenues to fully execute and adequately maintain our business plan may result in failure of our business and the loss of your investment.

COMPETITORS WITH MORE RESOURCES MAY FORCE US OUT OF BUSINESS.

The market for customers is intensely competitive and such competition is expected to continue to increase. Generally, our actual and potential competitors are larger companies with longer operating histories, greater financial and marketing resources, with superior name recognition and an entrenched client base. Therefore, many of these competitors may be able to devote greater resources to attracting customers and be able to grant preferred pricing. Competition by existing and future competitors could result in our inability to secure an adequate customer base sufficient enough to support our endeavors. We cannot be assured that we will be able to compete successfully against present or future competitors or that the competitive pressure we may face will not force us to cease operations.

OUR COMMON STOCK IS ILLIQUID AND THE PRICE OF OUR COMMON STOCK MAY BE NEGATIVELY IMPACTED BY FACTORS WHICH ARE NOT RELATED TO OUR OPERATIONS.

Our common stock currently trades on a limited basis on the OTC. Trading of our stock through the over-the-counter markets is frequently thin and highly volatile. There is no assurance that a sufficient market will develop in our stock, in which case it could be difficult for shareholders to sell their stock. The market price of our common stock could fluctuate substantially due to a variety of factors, including market perception of our ability to achieve our planned growth, quarterly operating results of our competitors, trading volume in our common stock, changes in general conditions in the economy and the financial markets or other developments affecting our competitors or us. In addition, the stock market is subject to extreme price and volume fluctuations. This volatility has had a significant effect on the market price of securities issued by many companies for reasons unrelated to their operating performance and could have the same effect on our common stock.

INVESTORS MAY HAVE DIFFICULTY LIQUIDATING THEIR INVESTMENT BECAUSE OUR STOCK IS SUBJECT TO PENNY STOCK REGULATION.

The SEC has adopted rules that regulate broker/dealer practices in connection with transactions in penny stocks. Penny stocks generally are equity securities with a price of less than \$5.00 (other than securities registered on certain national securities exchanges or quoted on the NASDAQ system, provided that current price and volume information with respect to transactions in such securities is provided by the exchange system). The rules, in part, require broker/dealers to provide penny stock investors with increased risk disclosure documents and make a special written determination that a penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These heightened disclosure requirements may have the effect of reducing the number of broker/dealers willing to make a market in our shares, thereby reducing the level of trading activity in any secondary market that may develop for our shares. Consequently, shareholders in our securities may find it difficult to sell their securities, if at all.

WE DO NOT CURRENTLY INTEND TO PAY DIVIDENDS ON OUR COMMON STOCK SO CONSEQUENTLY YOUR ABILITY TO ACHIEVE A RETURN ON YOUR INVESTMENT WILL DEPEND ON APPRECIATION IN THE PRICE OF OUR COMMON STOCK.

Prospective investors should not anticipate receiving any dividends from our common stock. We intend to retain future earnings, if any, to finance our growth and development and do not plan to pay cash or stock dividends. The lack of dividend potential may discourage prospective investors from purchasing our common stock.

THE CONTINUED SALE OF OUR EQUITY SECURITIES WILL DILUTE THE OWNERSHIP PERCENTAGE OF OUR EXISTING STOCKHOLDERS AND MAY DECREASE THE MARKET PRICE FOR OUR COMMON STOCK.

Given our lack of financial resources and the doubtful prospect that we will earn significant profits in the next several years, we will require additional financing which will result in dilution to our existing stockholders. In short, our

continued need to sell equity will result in reduced percentage ownership interests for all of our investors, which may decrease the market price for our common stock.

THE COMPANY MAY LOSE ITS TOP MANAGEMENT WITHOUT EMPLOYMENT AGREEMENTS.

Our operations depend substantially on the skills, knowledge and experience of the present management. The Company does not maintain key man life insurance. Without an employment contract, we may lose the present management of the Company to other pursuits without a sufficient warning and, consequently, we may be forced to terminate our operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company leases all of its branch locations. Branch location leases have, at minimum, a one year term and require additional payments for taxes, insurance, maintenance and renewal options. In addition to branch locations, the Company oversees companywide operations at a leased corporate office space located in an office building at 5604 Wendy Bagwell Parkway, Suite 223 in Hiram, Georgia.

-11-

ITEM 3. LEGAL PROCEEDINGS

We know of no material, active or pending legal proceedings against our company, nor are we involved as a plaintiff in any material proceeding or pending litigation. There are no proceedings in which any of our directors, officers or affiliates, or any registered or beneficial shareholder, is an adverse party or has a material interest adverse to our interest.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

The Company's common stock is traded on the over-the-counter markets under the symbol LTNC. As of April 11, 2014, the Company's common stock was held by 40 shareholders of record, which does not include shareholders whose shares are held in street or nominee name.

The Company's shares commenced trading on or about June 29, 2012. The following chart is indicative of the fluctuations in the stock prices:

	For the Years Ended December			
	31,		2012	
	2013		2012	
	High	Low	High	Low
First Quarter	\$0.32	\$0.19	\$0.735	\$0.211
Second Quarter	\$0.352	\$0.2311	\$0.52	\$0.245

Edgar Filing: Labor Smart, Inc. - Form 10-K

Third Quarter	\$0.52	\$0.245	\$0.352	\$0.2311
Fourth Quarter	\$0.735	\$0.211	\$0.12	\$0.19

The Company's transfer agent is West Coast Stock Transfer, Inc., located in San Diego, CA.

The Company's common stock is subject to Rule 15c-2 of the Securities and Exchange Commission, known as the Penny Stock Rule. This rule imposes requirements on broker/dealers who sell securities subject to the rule to persons other than established customers and accredited investors. For transactions covered by the rule, brokers/dealers must make a special suitability determination for purchasers of the securities and receive the purchaser's written agreement to the transaction prior to sale. The Securities and Exchange Commission also has rules that regulate broker/dealer practices in connection with transactions in "penny stocks." Penny stocks generally are equity securities with a price of less than \$5.00, other than securities registered on certain national securities exchanges or quoted on the NASDAQ system, provided that current price and volume information with respect to transactions in that security is provided by the exchange or system. The Penny Stock Rules requires a broker/dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document prepared by the Commission that provides information about penny stocks and the nature and level of risks in the penny stock market. The broker/dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker/dealer and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer's account. The bid and offer quotations, and the broker/dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer's confirmation. These disclosure requirements have the effect of reducing the level of trading activity in the secondary market for our common stock. As a result of these rules, investors may find it difficult to sell their shares.

Dividend Policy

-12-

No cash dividends have been paid by the Company on its common stock. It is anticipated that the Company's future earnings will be retained to finance its continuing development. The payment of any future dividends will be at the discretion of the Company's board of directors and will depend upon, among other things, future earnings, any contractual restrictions, success of business activities, regulatory and corporate law requirements and the general financial condition of the Company.

Equity Compensation Plan Information

2012 Stock Option Plan

Effective July 13, 2012, we adopted the 2012 Stock Incentive Plan (the "2012 Plan"). The 2012 Plan allows us to grant certain options to our directors, officers, employees and eligible consultants. The purpose of the 2012 Plan is to enhance our long-term stockholder value by offering opportunities to our directors, officers, employees and eligible consultants to acquire and maintain stock ownership in us in order to give these persons the opportunity to participate in our growth and success, and to encourage them to remain in our service.

The 2012 Plan allows us to grant options to our officers, directors and employees. In addition, we may grant options to individuals who act as our consultants, so long as those consultants do not provide services connected to the offer or sale of our securities in capital raising transactions and do not directly or indirectly promote or maintain a market for our securities.

A total of 6,000,000 shares of our common stock are available for issuance under the 2012 Plan. The 2012 Plan provides for the grant of incentive stock options and non-qualified stock options. Incentive stock options granted under the 2012 Plan are those intended to qualify as "incentive stock options" as defined under Section 422 of the Internal Revenue Code. However, in order to qualify as "incentive stock options" under Section 422 of the Internal Revenue Code, the 2012 Plan must be approved by our stockholders within 12 months of its adoption. The 2012 Plan has not been approved by our stockholders. Non-qualified stock options granted under the 2012 Plan are option grants that do not qualify as incentive stock options under Section 422 of the Internal Revenue Code.

Options granted under the 2012 Plan are non-transferable, other than by will or the laws of descent and distribution.

The 2012 Plan terminates on July 13, 2022, unless sooner terminated by action of our Board of Directors. No option is exercisable by any person after such expiration. If an award expires, terminates or is canceled, the shares of our common stock not purchased there under shall again be available for issuance under the 2012 Plan.

The following table summarizes stock option activity during fiscal 2012 and 2013:

Number of Options	Weighted Average Exercise
-------------------	---------------------------

Edgar Filing: Labor Smart, Inc. - Form 10-K

		Price Per Share
Outstanding – January 1, 2012	-	\$ -
Granted	130,000	0.50
Forfeited or expired	-	-
Exercised	-	-
Outstanding - December 31, 2012	130,000	0.50
Granted	4,110,037	0.16
Forfeited or expired	(356,582)	0.05
Exercised	-	-
Outstanding and exercisable – December 31, 2013	3,883,455	\$ 0.18

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

We did not purchase any of our shares of common stock or other securities during our fiscal year ended December 31, 2013.

Recent Sales of Unregistered Securities

On October 7, 2013, JMJ Financial elected to convert 75,000 shares of common stock with an aggregate fair value of \$19,875 (\$0.265 per share) based on the quoted market price of the shares at time of issuance for \$11,250 for principal and interest and \$8,625 for debt discount.

On October 8, 2013, the Company issued 30,000 shares of its common stock with an aggregate fair value of \$8,550 (\$0.285 per share) based on the quoted market price of the shares at time of issue to Iconic Holding, LLC for finance costs upon the election of the Company to prepay the Convertible Promissory Note dated April 10, 2013.

On October 8, 2013, Vista Capital Investments, LLC elected to convert 50,000 shares of common stock with an aggregate fair value of \$14,250 (\$0.285 per share) based on the quoted market price of the shares at time of issuance for \$7,500 for principal and interest and \$6,750 for debt discount.

On October 21, 2013, JMJ Financial elected to convert 100,000 shares of common stock with an aggregate fair value of \$25,000 (\$0.25 per share) based on the quoted market price of the shares at time of issuance for \$13,128 for principal and interest and \$11,872 for debt discount.

On October 24, 2013, Vista Capital Investments, LLC elected to convert 60,000 shares of common stock with an aggregate fair value of \$15,000 (\$0.25 per share) based on the quoted market price of the shares at time of issuance for \$7,848 for principal and interest and \$7,152 for debt discount.

On October 29, 2013, Evolution Capital LLC elected to convert 227,342 shares of common stock with an aggregate fair value of \$65,929 (\$0.29 per share) based on the quoted market price of the shares at time of issuance for \$26,000 for principal and interest and \$39,929 for debt discount.

Edgar Filing: Labor Smart, Inc. - Form 10-K

On November 12, 2013, JMJ Financial elected to convert 118,705 shares of common stock with an aggregate fair value of \$29,083 (\$0.245 per share) based on the quoted market price of the shares at time of issuance for \$15,584 for principal and interest and \$13,499 for debt discount.

On November 21, 2013, Vista Capital Investments, LLC elected to convert 57,374 shares of common stock with an aggregate fair value of \$14,917 (\$0.26 per share) based on the quoted market price of the shares at time of issuance for \$7,532 for principal and interest and \$7,385 for debt discount.

On November 26, 2013, Evolution Capital Fund I, LLC elected to convert 418,060 shares of common stock with an aggregate fair value of \$96,154 (\$0.23 per share) based on the quoted market price of the shares at time of issuance for \$50,000 for principal and interest and \$46,154 for debt discount.

On December 12, 2013, the Company issued to Group 10 Holdings, LLC in conjunction with the Convertible Promissory Note issued to Group 10 Holdings, LLC on December 9, 2013 40,000 shares of common stock with an aggregate fair value of \$10,800 (\$0.27 per share) based on the quoted market price for a commitment fee.

ITEM 6. SELECTED FINANCIAL DATA

As the Company is a “smaller reporting company,” this item is not applicable.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report on Form 10-K contains forward-looking statements within the meaning of Rule 175 of the Securities Act of 1933, as amended, and Rule 3b-6 of the Securities Act of 1934, as amended, that involve substantial risks and uncertainties. These

forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about our industry, our beliefs and our assumptions. Words such as “anticipate”, “expects”, “intends”, “plans”, “believes”, “seeks” and “estimates” and variations of these words and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Form 10-K. Investors should carefully consider all of such risks before making an investment decision with respect to the Company’s stock. The following discussion and analysis should be read in conjunction with our consolidated financial statements. Such discussion represents only the best present assessment from our Management.

Overview

Labor Smart, Inc. was incorporated in the State of Nevada on May 31, 2011. We are a provider of temporary employees to the construction, manufacturing, hospitality, restoration and retail industries. We provide unskilled and semi-skilled temporary workers to our customers. Generally, we pay our workers the same day they perform the job.

Our mission is to be the provider of choice to our growing community of customers, with a service-focused approach, that positions us as a resource and partner for their business.

At December 31, 2013, we were operating 15 branches located in 9 states.

Seasonality

We expect our revenues to be higher and gross margin percent to be higher during the second and third fiscal quarters as compared to the first and fourth fiscal quarters each year. During the second and third quarters we received the majority of our contracts to supply labor to constructions firms. Contacts for construction work tends to be both larger in dollar amount and to be more profitable than our other contracts.

Growth Strategy

We have three strategies to grow the revenue and to achieve profitability for our business.

- 1) Add new branches

2) Growth from existing branches

Acquisitions. Our goal is to complete one small acquisition per year. We define a small acquisition as approximately 20% of our revenue. We will consider an acquisition that is both economical and that fits with the culture of our Company. Acquisitions are not essential to our growth strategy. We will not make acquisitions if they do not meet our criteria. At December 31, 2012, we had 6 branches and at December 31, 2013, we had 15 branches. The increase in branches was due to three branches added through acquisition and six branches added through internal growth. For the six branches in place at December 31, 2012, revenue has increased by 86% for the year ended December 31, 2013 when compared to the similar period in 2012.

Results of Continuing Operations

Summary of Operations:

Revenue for the year ended December 31, 2013 was \$16,651,885 as compared to \$7,175,846 for the year ended December 31, 2012. An increase for the year ended December 31, 2013 of \$9,476,039 or 132%.

Cost of Services:

Cost of services was 84% of revenue for the year ended December 31, 2013 and 83% for the year ended December 31, 2012. Cost of services mainly consists of payroll related and worker's compensation expense for our laborers which was \$13,485,552 or 81% and \$467,570 or 3% of revenues, respectively for the year ended December 31, 2013 and \$5,718,583 or 80% and \$237,096 or 3% of revenues, respectively for the year ended December 31, 2012.

Selling, General and Administrative Expenses (SG&A):

General and administrative fees were 8% of revenue for the year ended December 31, 2013 and 7% for the year ended December 31, 2012.

For the year ended December 31, 2013, of our total \$4,436,247 in operating expenses, \$308,515 is attributable to professional fees including legal, accounting, and consulting services, \$801,915 in stock based compensation related to consulting fees, \$1,620,859 to staff payroll expenses, \$90,826 for loss on sale of receivables, \$215,255 for bad debt expense and \$1,398,877 to general and administrative expenses.

For the year ended December 31, 2012, of our total \$1,519,698 in operating expenses, \$41,131 is attributable to professional fees including legal, accounting, and consulting services, \$210,600 in stock based compensation related to consulting fees, \$549,371 to staff payroll expenses, bad debt expense to \$64,318, \$126,321 for loss on sale of receivables and \$527,957 to general and administrative fees.

We have funded our operations to date primarily through the sale of equity, invoice factoring, convertible notes payable and shareholder loans. Based on our current operating plan, we anticipate that we have sufficient cash and cash equivalents to fund our operations into the coming months. We will require additional cash to fund our operating plan past that time. If the level of sales anticipated by our financial plan are not achieved or our working capital requirements are higher than planned, we will need to raise additional cash sooner or take actions to reduce operating expenses. We are implementing plans to reduce our costs of capital and improve our revenue. If we cannot generate adequate cash by implementing these steps, we plan to obtain additional cash through the issuance of equity or debt securities. There can be no assurance that additional cash will be available or that, if available, it will be available on terms acceptable to us on a timely basis. If adequate funds are not available on a timely basis, we intend to limit our operations to extend our funds as we pursue other financing opportunities and business relationships. This limitation of operations could include reducing our planned investment in working capital to fund revenue growth and result in reductions in staff, operating costs, and capital expenditures.

Net cash used in operations was \$1,524,975 during the year ended December 31, 2013. Net cash flows used in operating activities for the year ended December 31, 2013 mainly consisted of a net loss of \$2,722,980 adjusted for stock based compensation of \$801,915, interest and financing fees of \$698,585, an increase of our off-balance sheet receivables factoring of \$291,708, offset by an increase of \$1,153,774 in accounts receivable and an increase of \$908,807 in payroll taxes payable.

Net cash used in operations was \$131,606 during the year ended December 31, 2012. Net cash flows used in operating activities for the year ended December 31, 2013 mainly consisted of a net loss of \$449,465 adjusted for stock based compensation of \$185,000, interest and financing fees of \$124,242, an increase of our off-balance sheet receivables factoring of \$291,708, offset by an increase of \$995,050 in accounts receivable and an increase of \$553,709 in payroll

taxes payable.

Cash used in investing activities totaled \$130,433 for the year ended December 31, 2013. Net cash flows used by investing activities consists of \$150,000 paid towards the asset purchase agreement, purchase of fixed assets of \$1,188 and \$1,833,129 in the purchase of marketable securities offset by \$1,853,884 in proceeds from the sale of marketable securities.

Cash used in investing activities totaled \$26,933 for the year ended December 31, 2012. Net cash flows used by investing activities consists of \$28,469 in the purchase of marketable securities offset by \$1,536 in proceeds from the sale of marketable securities.

Net cash provided by financing activities totaled \$1,709,059 for the year ended December 31, 2013. Net cash flows from financing activities consisted of proceeds from convertible notes payable of \$1,630,200, proceeds from the issuance of common stock of \$100,000 offset by payments on a convertible note payable of \$607,500, payments on related party notes of \$173,962, proceeds from loan payable to factor \$865,321, payments towards a contingent liability of \$89,840, and payments on financed insurance premiums of \$15,160.

Cash provided by financing activities totaled \$218,316 for the year ended December 31, 2012. The proceeds were generated from the issuance of convertible notes of \$120,000, shareholder loans of \$210,000 offset by repayments of \$110,000, and payments on financed insurance premiums of \$1,684.

Our continued capital needs will depend on branch operating performance, our ability to control costs, and the continued impact from our expansion plans in 2014.

Assets and Liabilities:

At December 31, 2013, we had total current assets of approximately \$2,239,784 and current liabilities of approximately \$3,611,938. Included in current assets are trade accounts receivable of approximately \$1,941,437, prepaid expenses of \$45,497, and deferred financing costs of \$57,748. Accounts receivable are recorded at the invoiced amounts. We regularly review our accounts receivable for collectability. We will typically refer overdue balances to a collection agency at 120 days and the collection agent pursues collection for another 60 days. Most balances over 120 days past due are written off, as it is probable the receivable will not be collected. As our business matures, we will continue to monitor and seek to improve our historical collection ratio and aging experience with respect to trade accounts receivable. As we grow, our historical collection ratio and aging experience with respect to trade accounts receivable will continue to be important factors affecting our liquidity.

Financing:

On July 24, 2013, the Company terminated a month-to-month financing agreement with Riviera Finance LLC (“Riviera”) that included a non-recourse factoring arrangement that provides notification factoring on substantially all of the Company’s sales. Receivables were factored at a rate of 85% of the invoice face value on accepted accounts. Our total financing costs through our facility with Riviera for the year ended December 31, 2013 and 2012 was \$90,826 and \$126,321, respectively, which is reflected on our Statements of Operations as a loss on sale of receivables. As collateral for repayment of any and all obligations, we granted Riviera a security interest in all our property, including, but not limited to, accounts receivable, intangible assets, contract rights, investment property, deposit accounts, and other such assets.

On July 31, 2013, the Company entered into a Purchase and Sale Agreement with Transfac Capital, Inc. (“Transfac”). Under the terms of the Purchase and Sale Agreement, Transfac shall have the right, but not the obligation, to purchase up to Two Million Dollars (\$2,000,000) worth of accounts receivable (the “Maximum Advances”) of the Company. For each account receivable purchased, Transfac shall advance seventy percent (70%) of the face value of the account and the balance after receipt of full payment on the account. As consideration, the Company shall pay Transfac two percent (2%) of the average monthly balance of the outstanding accounts purchased, with a minimum of one half of one percent (0.5%) of the Maximum Advances per month, as long as long as the Purchase and Sale Agreement remains in effect. Advance to the Company from Transfac are with recourse and are secured by assets of the Company and are treated as a secured financing arrangement.

Our total financing costs through our facility with Transfac for the year ended December 31, 2013 and 2012 was \$103,165 and \$0, respectively, which is reflected on our Statements of Operations in interest and finance expense. As

collateral for repayment of any and all obligations, we granted Transfac a security interest in all our property, including, but not limited to, accounts receivable, intangible assets, contract rights, investment property, deposit accounts, and other such assets.

On February 27, 2014, the Company entered into a First Amendment to Purchase and Sale Agreement (the "Amendment") Transfac. The Amendment amended the original Purchase and Sale Agreement executed by and between the Company and Transfac on July 31, 2013 (the "Agreement"). Under the terms of the Amendment, the definition of "Advance Rate" in the Agreement shall be amended to read: "Advance Rate" means eighty five percent (85%), or such other percent as may be determined from time to time by Transfac in its sole discretion. The definition of "Account Due Date" in the Agreement shall be amended to read: "Account Due Date" means eighty (80) days from the date of the invoice evidencing the Account. The definition of "Contract Term" in the Agreement shall be amended to read: "Contract Term" means an initial period of eighteen (18) months commencing on the date of this signed First Amendment to Purchase and Sale Agreement and renewal periods of one (1) year thereafter. Finally, under Section 5 of the Agreement, the following subparagraphs d) and e) were added to read: d) An invoice fee in the amount of five dollars (\$5.00) for each invoice evidencing a Purchased Account or Serviced Account. e) The Administrative Fee, Supplemental Fee, Invoice Fee and other fees and charges are for administration of the Accounts, collection of the Accounts, and administration of this Agreement and are not intended to be and shall not be construed as interest. All other provisions of the Agreement shall remain in full force and effect.

Off-Balance Sheet Arrangements

As of December 31, 2013, we do not have any off-balance sheet arrangements except for our factored receivables under our agreements with Transfac Capital, Inc. The cash received from our factored receivables finance the Company's operating expenses and are a significant source of liquidity for the Company. For more information about the factoring terms, see "Financing" discussion above.

Inflation

Inflation has not had a material impact on our business and we do not expect inflation to have an impact on our business in the near future

Critical Accounting Policies

Our financial statements are based on the application of accounting principles generally accepted in the United States ("GAAP"). GAAP requires the use of estimates; assumptions, judgments and subjective interpretations of accounting principles that have an impact on the assets, liabilities, revenue, and expense amounts reported. These estimates can also affect supplemental information contained in our external disclosures including information regarding contingencies, risk and financial condition. We believe our use of estimates and underlying accounting assumptions adhere to GAAP and are consistently and conservatively applied. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ materially from these estimates under different assumptions or conditions. We continue to monitor significant estimates made during the preparation of our financial statements.

Our significant accounting policies are summarized in Note 2 of our financial statements. While all these significant accounting policies impact our financial condition and results of operations, we view certain of these policies as critical. Policies determined to be critical are those policies that have the most significant impact on our financial statements and require management to use a greater degree of judgment and estimates. Actual results may differ from those estimates. Our management believes that given current facts and circumstances, it is unlikely that applying any other reasonable judgments or estimate methodologies would cause an effect on our results of operations, financial position or liquidity for the periods presented in this report.

Recent Accounting Pronouncements

In February 2013, the FASB issued authoritative guidance on the reporting of reclassifications out of accumulated other comprehensive income. The guidance requires an entity to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income if the amount is reclassified to net income in its entirety in the same reporting period. The guidance is effective for fiscal years beginning after December 15, 2012, with early adoption permitted. The adoption of this guidance did not have a material effect on the Company's financial condition, results of operations or cash flows.

From time to time, new accounting pronouncements are issued by FASB that are adopted by the Company as of the specified effective date. If not discussed, management believes that the impact of recently issued standards, which are not yet effective, will not have a material impact on the Company's financial statements upon adoption.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As the Company is a "smaller reporting company," this item is not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
Report of Independent Registered Public Accounting Firm	F-2
Balance Sheets as of December 31, 2013 and 2012	F-3
Statements of Operations and Comprehensive Loss for the Years Ended December 31, 2013 and December 31, 2012	F-4
Statement of Stockholders' Equity (Deficit) for the Years Ended December 31, 2013 and December 31, 2012	F-5
Statements of Cash Flows for the Years Ended December 31, 2013 and December 31, 2012	F-6
Notes to Financial Statements	F-8

F-1

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders

Labor Smart, Inc.

We have audited the accompanying balance sheets of Labor Smart, Inc. (the “Company”) as of December 31, 2013 and 2012 and the related statements of operations and comprehensive loss, stockholders’ deficit and cash flows for the years then ended. Labor Smart, Inc.’s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Labor Smart, Inc. as of December 31, 2013 and 2012 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has suffered losses from operations, which raise substantial doubt about its ability to continue as a going concern. Management’s plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ De Joya Griffith, LLC

Henderson, Nevada

April 11, 2014

F-2

LABOR SMART, INC.**BALANCE SHEETS**

December 31, 2013 and 2012

(Audited)

ASSETS

	December 31,	
	2013	2012
Current assets		
Cash	\$ 178,539	\$ 124,888
Accounts receivable, net	1,941,437	711,210
Prepaid expense	45,497	43,336
Deferred financing costs	57,748	83,634
Marketable securities	4,972	28,424
Other assets	11,591	26,897
Total current assets	2,239,784	1,018,389
Deposits	20,014	7,655
Equipment, net	7,894	—
Customer relationships, net	228,028	—
Total long-term assets	255,936	7,655
Total assets	\$ 2,495,720	\$ 1,026,044

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current liabilities		
Accounts payable and accrued liabilities	\$ 135,524	\$ 126,705
Loan payable to factor	865,321	—
Payroll taxes payable	1,487,907	579,400
Notes payable, related party	44,806	219,375
Note payable	—	15,160
Convertible notes payable, net of unamortized discount of \$578,848	1,057,679	184,355
Convertible note payable, derivative liability	20,701	—
Total current liabilities	3,611,938	1,124,995
Contingent liability	79,221	—
Total liabilities	3,691,159	1,124,995
Stockholders' deficit		
Common stock; \$0.001 par value; 75,000,000 shares authorized, 20,982,740 and 16,757,000 issued and outstanding as of December 31, 2013 and 2012, respectively.	20,982	16,757
Additional paid-in capital	1,978,043	348,838

Edgar Filing: Labor Smart, Inc. - Form 10-K

Accumulated deficit	(3,193,778)	(470,798)
Accumulated other comprehensive income(loss)	(686)	6,252
Total stockholder's deficit	(1,195,439)	(98,951)
Total liabilities and stockholders' deficit	\$2,495,720	\$1,026,044

See the accompanying notes to the financial statements

F-3

LABOR SMART, INC.**STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**

For years ended December 31, 2013 and 2012

(Audited)

	For the year ended December 31, 2013	For the year ended December 31, 2012
Revenues	\$ 16,651,885	\$ 7,175,846
Cost of sales	13,953,122	5,955,679
Gross profit	2,698,763	1,220,167
Operating expenses		
Professional fees	308,515	41,131
Stock-based compensation	801,915	210,600
Payroll expenses	1,620,859	549,371
Bad debt expense	215,255	64,318
Loss on sale of receivables	90,826	126,321
General and administrative expense	1,398,877	527,957
Total operating expenses	4,436,247	1,519,698
Operating loss	(1,737,484)	(299,531)
Other income (expenses)		
Interest and finance expense	(1,035,031)	(145,173)
Interest income	73	—
Gain on change in fair value in derivative liability	45,222	—
Gain (loss) on sale of securities	4,240	(4,761)
Total other income (expenses)	(985,496)	(149,934)
Net loss	\$(2,722,980)	\$(449,465)
Other comprehensive income (loss):		
Unrealized gain (loss) on marketable securities	(6,938)	6,252
Other comprehensive income (loss)	(6,938)	6,252

Edgar Filing: Labor Smart, Inc. - Form 10-K

Comprehensive loss	\$(2,729,918)	\$(443,213)
Basic loss per common share	\$(0.14)	\$(0.03)
Basic weighted average common shares outstanding	19,337,142	16,293,667

See the accompanying notes to the financial statements

F-4

LABOR SMART, INC.**STATEMENT OF STOCKHOLDERS' DEFICIT**

For years ended December 31, 2013 and 2012

(Audited)

	Common Stock		Additional paid-in	Accumulated	Accumulated other comprehensive	Total Stockholders' Equity (deficit)
	Shares	Amount	capital	Deficit	income	
Balance, December 31, 2011	16,045,000	\$16,045	\$16,355	\$(21,333)	\$ —	\$11,067
Shares issued for services	625,000	625	124,375	—	—	125,000
Warrants issued for services	—	—	17,020	—	—	17,020
Warrants issued for finance costs	—	—	133,521	—	—	133,521
Shares issued for employee compensation	87,000	87	43,113	—	—	43,200
Options issued for employee compensation	—	—	14,454	—	—	14,454
Net change in unrealized gain on marketable securities	—	—	—	—	6,252	6,252
Net loss	—	—	—	(449,465)	—	(449,465)
Balance, December 31, 2012	16,757,000	16,757	348,838	(470,798)	6,252	(98,951)
Shares issued for services	1,833,500	1,834	442,561	—	—	444,395
Shares issued for cash	200,000	200	99,800	—	—	100,000
Conversion of convertible notes	2,152,240	2,151	675,879	—	—	678,030
Commitment fees	40,000	40	10,760	—	—	10,800
Warrants issued for finance costs	—	—	57,359	—	—	57,359
Options issued for employee compensation	—	—	342,846	—	—	342,846
Net change in unrealized gain on marketable securities	—	—	—	—	(6,938)	(6,938)

Edgar Filing: Labor Smart, Inc. - Form 10-K

Net loss	—	—	—	(2,722,980)	—	(2,722,980)
Balance, December 31, 2013	20,982,740	\$20,982	\$1,978,043	\$(3,193,778)	\$(686)	\$(1,195,439)

See the accompanying notes to the financial statements

F-5

LABOR SMART, INC.**STATEMENTS OF CASH FLOWS**

For years ended December 31, 2013 and 2012

(Audited)

	For the year ended December 31, 2013	For the year ended December 31, 2012
Cash flows from operating activities:		
Net loss	\$(2,722,980)	\$(449,465)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	801,915	185,000
Interest and financing costs	698,585	124,242
Depreciation and amortization	70,020	—
Bad debt expense	215,255	64,318
(Gain) loss on sale of securities	(4,240)	4,761
(Gain) on change in fair value of derivative liability	(45,222)	—
Changes in operating assets and liabilities:		
Increase (decrease) in off-balance sheet receivable factoring	(291,708)	291,708
Increase in accounts receivables	(1,153,774)	(995,050)
Increase in prepaid expense and deposits	(25,458)	(8,699)
Increase in other assets	15,306	(32,168)
Increase in accounts payable and accrued liabilities	8,819	117,848
Increase in accrued liabilities, related party	—	19,375
Increase in payroll taxes payable	908,507	553,709
(Decrease) in other liabilities	—	(7,185)
Net cash used by operating activities	(1,524,975)	(131,606)
Cash flows from investing activities:		
Assets acquired in asset purchase agreement	(150,000)	—
Purchase of fixed assets	(1,188)	—
Proceeds from sale of marketable securities	1,853,884	1,536
Purchase of marketable securities	(1,833,129)	(28,469)
Net cash used by investing activities	(130,433)	(26,933)
Cash flows from financing activities:		
Proceeds from common stock	100,000	—
Proceeds from convertible notes payable	1,630,200	120,000
Payment on convertible notes payable	(607,500)	—
Proceeds from notes payable- related party	—	210,000
Payment on notes payable - related party	(173,962)	(110,000)
Proceeds from loan payable to factor	865,321	—

Edgar Filing: Labor Smart, Inc. - Form 10-K

Payments on contingent liability	(89,840)	—
Payment on financed insurance	(15,160)	(1,684)
Net cash provided by financing activities	1,709,059	218,316
Net change in cash	53,651	59,777
Cash, beginning of period	124,888	65,111
Cash, end of period	\$ 178,539	\$ 124,888
Supplemental disclosure of cash flow information:		
Interest paid	\$ 227,854	\$ —
Taxes paid	\$ —	\$ —
Non-cash investing and financing activities		
Warrants issued as part of deferred finance costs	\$ 57,359	\$ 83,634
Shares issued for prepaid services	\$ —	\$ 14,674
Finance costs included in convertible note value	\$ 104,550	\$ 16,844
Commitment fees	\$ 10,800	\$ —
Shares issued for convertible notes	\$ 678,030	\$ —
Contingent liability associated with asset purchase	\$ 158,490	\$ —

See the accompanying notes to the financial statements

F-6

LABOR SMART, INC.

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2013 and 2012

(Audited)

NOTE 1 – NATURE OF OPERATIONS

Nature of Business

Labor Smart, Inc. (the “Company”) was incorporated in the State of Nevada on May 31, 2011. Labor Smart, Inc. provides temporary blue-collar staffing services. It supplies general laborers on demand to the light industries, including manufacturing, logistics, and warehousing, skilled trades’ people, and general laborers to commercial construction industries.

NOTE 2 – GOING CONCERN

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company requires capital for its contemplated operational and marketing activities. The Company’s ability to raise additional capital through the future issuances of common stock is unknown. Accordingly, the Company had a net loss of \$2,722,980 for the year ended December 31, 2013. Additionally, the operating activities of the Company used \$1,524,975 net cash during the same one year period. The obtainment of additional financing and increasingly profitable operations are necessary for the Company to continue operations. The ability to successfully resolve these factors raise substantial doubt about the Company’s ability to continue as a going concern. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or amounts and classification of liabilities that might result from this uncertainty.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements are presented in United States dollars and have been prepared in accordance with generally accepted accounting principles in the United States of America. The Company has adopted a December 31 fiscal year

end.

Fair Value of Financial Instruments

As required by the Fair Value Measurements and Disclosures Topic of the FASB ASC (“ASC 820-10”), fair value is measured based on a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows: (Level 1) observable inputs such as quoted prices in active markets; (Level 2) inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and (Level 3) unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The three levels of the fair value hierarchy are described below:

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;
- Level 3 Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

Pursuant to ASC 825, the fair value of cash and marketable securities is determined based on “Level 1” inputs, which consist of quoted prices in active markets for identical assets. The Company believes that the recorded values of cash, accounts receivables, marketable securities, accounts payable and accrued liabilities, and notes payable approximate their current fair values because of their nature and respective relatively short maturity dates or durations.

F-7

Assets measured at fair value on a recurring basis were presented on the Company's balance sheet as of December 31, 2013 and 2012 as follows:

Fair Value Measurements as of December 31, 2013 Using:

	Total Carrying Value as of 12/31/13	Quoted Market Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Equity securities	\$4,972	\$ 4,972	\$ 0	\$ 0
Total	\$4,972	\$ 4,972	\$ 0	\$ 0
Liabilities:				
Derivative liability	\$20,701	\$ 0	\$ 20,701	\$ 0
Contingent liability	79,221	0	0	79,221
Total	\$99,922	\$ 0	\$ 20,701	\$ 79,221

Fair Value Measurements as of December 31, 2012 Using:

	Total Carrying Value as of 12/31/12	Quoted Market Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Equity securities	\$28,424	\$28,424	\$ 0	\$ 0
Total	\$28,424	\$28,424	\$ 0	\$ 0
Liabilities:				
Derivative liability	\$0	\$0	\$ 0	\$ 0
Contingent liability	\$0	\$0	\$ 0	\$ 0
Total	\$0	\$0	\$ 0	\$ 0

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and short-term investments with original maturities of less than 90 days. Cash equivalents are placed with high credit quality financial institutions and are primarily in money market funds. The carrying value of those investments approximates fair value.

Income Taxes

F-8

The Company follows the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax balances. Deferred tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply to the taxable income in the years in which those differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. Deferred income taxes are reported for timing differences between items of income or expense reported in the financial statements and those reported for income tax purposes in accordance with FASB ASC 740-10, "Income Taxes," which requires the use of the asset/liability method of accounting for income taxes.

The Company provides for deferred taxes for the estimated future tax effects attributable to temporary differences and carry-forwards when realization is more likely than not.

Revenue Recognition

The Company recognizes revenues and the related costs when persuasive evidence of an arrangement exists, delivery and acceptance has occurred or service has been rendered, the price is fixed or determinable, and collection of the resulting receivable is reasonably assured. Amounts invoiced or collected in advance of product delivery or providing services are recorded as deferred revenue. The Company accrues for customer credits, bad debts, and other allowances based on its historical experience. Staffing revenue is recognized as the services are performed. Revenue also includes billable travel and other reimbursable costs and is record net of sales tax.

Deferred Financing Costs

Deferred financing costs consist of costs incurred to obtain debt financing, including legal fees, origination fees and administration fees. Costs associated with the Convertible Promissory Note are deferred and amortized in our accompanying statement of operations using the straight-line method, which approximates the effective interest method, over the terms of the respective financing instrument.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company to make estimates and judgments that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. These estimates and judgments are based on historical information, information that is currently available to the Company, and on various other assumptions that the Company believes to be reasonable under the circumstances. Actual results could differ from those estimates.

Factoring Agreements and Accounts Receivable

The Company had a month-to-month financing agreements with Riviera Finance LLC (“Riviera”) which was terminated on July 24, 2013. On July 31, 2013 the Company entered into a Purchase and Sale Agreement with Transfac Capital, Inc. (“Transfac”). The agreement with Riviera includes a non-recourse factoring arrangement that provides notification factoring on substantially all of the Company’s sales. Riviera, based on credit approved orders, assumes the accounts receivable risk of the Company’s customers in the event of insolvency or non-payment. All other receivable risks for customer deductions that reduce the customer receivable balances are retained by the Company, including, but not limited to, allowable customer markdowns, disputes, and discounts. The Company assumes the risk on accounts receivable not factored to Riviera, which is shown as accounts receivable on the accompanying balance sheets, net of factored accounts receivable. Advance to the Company from Transfac are with recourse and are secured by assets of the Company and are treated as a secured financing arrangement. As of December 31, 2013 and 2012, factored accounts receivable total \$865,321 and \$772,676, respectively.

Allowance for Doubtful Accounts

The Company allows for an estimated amount of receivables that may not be collected. The Company estimates its allowance for doubtful accounts based on historical experience and customer relationships. As of December 31, 2013 and 2012, the Company has recorded an allowance of \$215,255 and \$64,318, respectively.

Equipment

Property and equipment are stated at the lower of cost or fair value. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, as follows:

Description	Estimated Life
Office equipment and furniture	3 years

The estimated useful lives are based on the nature of the assets as well as current operating strategy and legal considerations such as contractual life. Future events, such as property expansions, property developments, new competition, or new regulations, could result in a change in the manner in which the Company uses certain assets requiring a change in the estimated useful lives of such assets.

	December 31, 2013	December 31, 2012
Office equipment and furniture	\$ 11,842	\$ —
Less: accumulated depreciation	(3,948)	—
	\$ 7,894	\$ —

Customer Relationships

Customer relationships comprise customer lists acquired from Qwik Staffing Solutions, Inc. on April 29, 2013. Customer lists are amortized on a straight-line basis over three years.

	December 31, 2013	December 31, 2012
Customer lists	\$ 294,100	\$ —
Less: accumulated amortization	(66,072)	—
	\$ 228,028	\$ —

Earnings (loss) per share

Basic earnings (loss) per common share is computed by dividing net income (loss) available to common shareholders by the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per common share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the period increased to include the number of additional shares of common stock that would have been outstanding if potentially dilutive securities had been issued.

Convertible Debentures

Beneficial Conversion Feature

If the conversion features of conventional convertible debt provides for a rate of conversion that is below market value, this feature is characterized as a beneficial conversion feature (“BCF”). A BCF is recorded by the Company as a debt discount pursuant to ASC Topic 470-20 “Debt with Conversion and Other Options.” In those circumstances, the convertible debt is recorded net of the discount related to the BCF and the Company amortizes the discount to interest expense over the life of the debt using the effective interest method.

Debt Discount

The Company determines if the convertible debenture should be accounted for as liability or equity under ASC 480, Liabilities — Distinguishing Liabilities from Equity. ASC 480, applies to certain contracts involving a company's own equity, and requires that issuers classify the following freestanding financial instruments as liabilities. Mandatorily redeemable financial instruments, Obligations that require or may require repurchase of the issuer's equity shares by transferring assets (e.g., written put options and forward purchase contracts), and Certain obligations where at inception the monetary value of the obligation is based solely or predominantly on:

- A fixed monetary amount known at inception, for example, a payable settleable with a variable number of the issuer's equity shares with an issuance date fair value equal to a fixed dollar amount,
- Variations in something other than the fair value of the issuer's equity shares, for example, a financial instrument indexed to the S&P 500 and settleable with a variable number of the issuer's equity shares, or

– Variations inversely related to changes in the fair value of the issuer's equity shares, for example, a written put that could be net share settled.

If the entity determined the instrument meets the guidance under ASC 480 the instrument is accounted for as a liability with respective debt discount. The Company records debt discounts in connection with raising funds through the issuance of convertible debt (see Note 8). These costs are amortized to non-cash interest expense over the life of the debt. If a conversion of the underlying debt occurs, a proportionate share of the unamortized amounts is immediately expensed.

Derivative Financial Instruments

Derivative financial instruments, as defined in ASC 815, “Accounting for Derivative Financial Instruments and Hedging Activities”, consist of financial instruments or other contracts that contain a notional amount and one or more underlying (e.g. interest rate, security price or other variable), require no initial net investment and permit net settlement. Derivative financial instruments may be free-standing or embedded in other financial instruments. Further, derivative financial instruments are initially, and subsequently, measured at fair value and recorded as liabilities or, in rare instances, assets.

The Company does not use derivative financial instruments to hedge exposures to cash-flow, market or foreign-currency risks. However, the Company has issued financial instruments including senior convertible notes payable and freestanding stock purchase warrants with features that are either (i) not afforded equity classification, (ii) embody risks not clearly and closely related to host contracts, or (iii) may be net-cash settled by the counterparty. As required by ASC 815, in certain instances, these instruments are required to be carried as derivative liabilities, at fair value, in our financial statements.

Stock-based compensation

The Company records stock based compensation in accordance with the guidance in ASC Topic 505 and 718 which requires the Company to recognize expenses related to the fair value of its employee stock option awards. This eliminates accounting for share-based compensation transactions using the intrinsic value and requires instead that such transactions be accounted for using a fair-value-based method. The Company recognizes the cost of all share-based awards on a graded vesting basis over the vesting period of the award.

The Company accounts for equity instruments issued in exchange for the receipt of goods or services from other than employees in accordance with FASB ASC 718-10 and the conclusions reached by the FASB ASC 505-50. Costs are measured at the estimated fair market value of the consideration received or the estimated fair value of the equity instruments issued, whichever is more reliably measurable. The value of equity instruments issued for consideration other than employee services is determined on the earliest of a performance commitment or completion of performance by the provider of goods or services as defined by FASB ASC 505-50.

Recent Accounting Pronouncements

The Company does not expect the adoption of recently issued accounting pronouncements to have a significant impact on the Company's results of operations, financial position, or cash flow.

NOTE 4 – PREPAID

As of December 31, 2013 and 2012, the Company had prepaid expenses of \$45,497 and \$43,336, respectively. Prepaid expenses at December 31, 2013 comprises primarily of prepaid lease payments.

NOTE 5 – CUSTOMER RELATIONSHIP, NET

On April 29, 2013 the Company entered into an Asset Purchase Agreement (“Agreement”) with Qwik Staffing Solutions, Inc. (“Qwik”). Under the terms of the Agreement, Qwik sold all of the operating assets (“Assets”) of Qwik, excluding cash and accounts receivable. In consideration for the Assets, the Company agreed to pay \$320,000 in cash. The first \$150,000 is due one day prior to the delivery and transfer of the Assets. The remaining \$170,000 is due in monthly installments by paying an amount equal to 6.5% of the monthly accounts receivable collected by operating the Orlando, Jacksonville and Tampa, Florida locations. In the event these aggregate monthly payments total less than \$170,000, after 14 months, Qwik will issue the Company a credit memo for the difference.

The total purchase price for Qwik was approximately \$308,490. The purchase price consisted of approximately (i) \$150,000 in cash, (ii) Estimated fair value of consideration payable on collection 6.5% of the monthly accounts receivable collected by operating the Orlando, Jacksonville and Tampa, Florida locations over the next fourteen months of \$158,490. The Company expected to pay total consideration of \$170,000 in equal installments over 14 months. The fair value of the consideration was estimated by discounting the monthly installments by 12% per annum.

Equipment	\$ 10,654
Prepaid supplies	3,736
Customer relationships	294,100
Net assets acquired	\$ 308,490

Cash	\$ 150,000
Contingent consideration	158,490
Consideration paid	\$ 308,490

As of December 31, 2013 and 2012, the customer list is valued at \$228,028 and \$0, respectively. Amortization expense was \$66,072 and \$0 for the year ended December 31, 2013 and 2012, respectively.

NOTE 6 – FACTORING AGREEMENT

On July 24, 2013, the Company terminated a month-to-month financing agreement with Riviera Finance LLC (“Riviera”) that included a non-recourse factoring arrangement that provides notification factoring on substantially all of the Company’s sales. Receivables were factored at a rate of eight-five (85) percent of the invoice face value on accepted accounts up to \$500,000. A reserve of eight (8) percent of the invoice face value is held by Riviera in case of customer disputes.

Fees charged by Riviera are two (2) percent of the unpaid invoice face value for the first twenty-five (25) days after the factored date and 0.8% of the invoice face value for every ten (10) days thereafter up to a total of seven (7) percent, including the initial two (2) percent. Administrative charges based on various rates are charged on the gross face amount of all accounts with minimum fees as defined in the agreement. The following table details the amounts of the factoring agreement with Riviera as of December 31, 2013 and 2012.

	Receivables Factored	Reserve Deposit	Fees	Administrative Charges
December 31, 2013	\$ 0	\$ 0	\$90,826	\$ 0
December 31, 2012	\$ 291,708	\$ 25,597	\$ 126,321	\$ 0

The reserve deposit is included in other current assets within the balance sheets and receivables factored are netted against accounts receivable. Fees or charges billed by Riviera Finance as of December 31, 2013 and 2012 are \$90,826 and \$126,321, respectively.

On July 31, 2013 the Company entered into a Purchase and Sale Agreement with Transfac Capital, Inc. (“Transfac”). Under the terms of the Purchase and Sale Agreement, Transfac shall have the right, but not the obligation, to purchase up to Two Million Dollars (\$2,000,000) worth of accounts receivable (the “Maximum Advances”) of the Company. For each account receivable purchased, Transfac shall advance seventy percent (70%) of the face value of the account and the balance after receipt of full payment on the account. As consideration, the Company shall pay Transfac two percent (2%) of the average monthly balance of the outstanding accounts purchased, with a minimum of one half of one percent (0.5%) of the Maximum Advances per month, as long as the Purchase and Sale Agreement remains in effect.

The factoring line of credit with Transfac has been treated as a secured financing arrangement. As of December 31, 2013 under the agreement with Transfac, the Company had factored receivables in the amount of \$1,281,122 and recorded a liability of \$865,321. Discounts and interest provided during factoring of the accounts receivable have been expensed on the accompanying combined statements of operations as interest expense. For the year ended December 31, 2013, interest expense related to the factoring arrangement was \$103,165.

NOTE 7 – RELATED PARTY

On January 11, 2012, the Company issued a promissory note to the Company's President in exchange for \$50,000 in cash. The note is unsecured, bears interest at 10% per annum if not paid before the maturity date, and matures on January 11, 2013. As of April 23, 2013, \$43,000 of this note has been repaid. The unpaid portion of this note of \$7,000 was consolidated into the loan agreement dated April 25, 2013.

On January 19, 2012, the Company issued a promissory note to the Company's President in exchange for \$50,000 in cash. The note is unsecured, bears interest at 10% per annum if not paid before the maturity date, and matures on January 19, 2013. This note was consolidated into the loan agreement dated April 25, 2013.

On February 6, 2012, the Company issued a promissory note to the Company's President in exchange for \$25,000 in cash. The note is unsecured, bears interest at 10% per annum if not paid before the maturity date, and matures on February 6, 2013. This note was consolidated into the loan agreement dated April 25, 2013.

On February 20, 2012, the Company issued a promissory note to the Company's President in exchange for \$15,000 in cash. The note is unsecured, bears interest at 10% per annum if not paid before the maturity date, and matures on February 20, 2013. This note was consolidated into the loan agreement dated April 25, 2013.

On March 5, 2012, the Company issued a promissory note to the Company's President in exchange for \$15,000 in cash. The note is unsecured, bears interest at 10% per annum if not paid before the maturity date, and matures on March 5, 2013. This note was consolidated into the loan agreement dated April 25, 2013.

On March 8, 2012, the Company issued a promissory note to the Company's President in exchange for \$45,000 in cash. The note is unsecured, bears interest at 10% per annum if not paid before the maturity date, and matures on March 8, 2013. This note was consolidated into the loan agreement dated April 25, 2013.

On March 12, 2012, the Company issued a promissory note to the Company's President in exchange for \$10,000 in cash. The note is unsecured, bears interest at 10% per annum if not paid before the maturity date, and matures on March 12, 2013. This note was consolidated into the loan agreement dated April 25, 2013.

On April 25, 2013, the Company entered into a loan agreement with the CEO of the Company in the amount of \$175,768. This loan is payable on demand, unsecured, and bears 0% interest per annum. This loan consolidates all previous loans issued. As of December 31, 2013, \$130,962 of this note has been repaid and \$44,806 of this note remains outstanding.

NOTE 8 – CONVERTIBLE PROMISSORY NOTES

On September 20, 2012, the Company entered into a Convertible Promissory Note with Evolution Capital, LLC, (the 'Holder') in the original principle amount of \$130,000 bearing a 12% annual interest rate and maturing June 20, 2013. This convertible note together with any unpaid accrued interest is convertible into shares of common stock at the holder's option at a variable conversion price calculated as 50% of the market price which means the average of the lowest three trading prices during the ten trading day period ending on the latest complete trading day prior to the conversion date. On March 28, 2013, Evolution Capital, LLC elected to convert \$130,000 of principal amount for 604,651 shares of common stock of the Company valued at \$268,088 (\$0.44 per share) in accordance with the terms of the Note. After conversion the Convertible Promissory Note was paid in full.

F-14

On January 17, 2013, the Company entered into a Convertible Promissory Note with Asher Enterprises, Inc. (“Holder”) in the original principal amount of \$103,500 bearing an 8% annual interest rate and maturing October 21, 2013. This convertible promissory note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder’s option at a variable conversion price calculated at 51% of the market price which means the average of the lowest three trading prices during the ten trading day period ending on the latest complete trading day prior to the conversion date. The Company may repay the convertible promissory note if repaid within 60 days of date of issue at 130% of the original principal amount plus interest, between 60 days and 120 days at 140% of the original principal amount plus interest and between 120 days and 180 days at 150% of the original principal amount plus interest. Thereafter, the Company does not have the right of prepayment. The Company received cash proceeds of \$100,000, which was net of original issue discount of \$105,478. On April 16, 2013, Company elected to prepay the Convertible Promissory Note dated January 17, 2013 with Asher Enterprises, Inc. for \$146,647 in cash. The payment includes prepayment of \$103,500 in original principal, a prepayment penalty and outstanding accrued interest of \$43,147.

On February 25, 2013, the Company entered into a Convertible Promissory Note with Evolution Capital Fund I, L.P. (“Holder”) in the original principal amount of \$106,000 bearing a 12% annual interest rate and maturing November 25, 2013. This convertible note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder’s option at a variable conversion price calculated as 52% of the market price which means the average of the lowest three trading prices during the ten trading day period ending on the latest complete trading day prior to the conversion date. The Company may repay the convertible promissory note if repaid within 120 days of date of issue at 140% of the original principal amount plus interest, between 121 days and 150 days at 145% of the original principal amount plus interest and between 151 days and 180 days at 150% of the original principal amount plus interest. Thereafter, the Company does not have the right of prepayment. The Company received cash proceeds of \$101,000, which was net of original issue discount of \$106,628. On September 28, 2013, the Holder converted 221,108 shares of common stock of the Company with a fair market value of \$61,910 for \$27,529 and \$2,471 in principal and interest, respectively. On October 29, 2013, the Holder converted 227,342 shares of common stock of the Company with a fair market value of \$65,929 for \$23,859 and \$2,141 in principal and interest, respectively. On November 26, 2013, the Holder converted 418,060 shares of common stock of the Company with a fair market value of \$96,154 for \$45,882 and \$4,118 in principal and interest, respectively. On November 26, 2013, the Holder waived \$9,514 of interest and the Convertible Promissory Note was paid in full.

On March 4, 2013, the Company issued a Convertible Note to Vista Capital Investments, LLC (“Holder”), in the original principal amount of \$275,000 bearing a 12% annual interest rate and maturing one year for \$250,000 of consideration paid in cash and a \$25,000 original issue discount. The Company may repay the convertible note any time and if repaid within 90 days of date of issue with an interest rate is 0%. This convertible note together with any unpaid accrued interest is convertible into shares of common stock at the Holder’s option at a variable conversion price calculated as lessor of (a) \$0.62 or (b) 60% of the lowest trade occurring during the 25 consecutive trading days immediately preceding the conversion date.

i) The Company received cash proceeds of \$25,000 on the first tranche of the Convertible Note, which was net of original issue discount of \$20,533. On September 5, 2013, the Holder converted 50,000 shares of common stock of the Company with a fair market value of \$17,500 for \$7,071 and \$849 in principal and interest, respectively. On October 8, 2013, the Holder converted 50,000 shares of common stock of the Company with a fair market value of \$14,250 for \$6,696 and \$804 in principal and interest, respectively. On October 24, 2013, the Holder converted 60,000 shares of common stock of the Company with a fair market value of \$15,000 for \$7,007 and \$841 in principal and interest, respectively. On November 21, 2013, the Holder converted 57,374 shares of common stock of

Edgar Filing: Labor Smart, Inc. - Form 10-K

the Company with a fair market value of \$14,917 for \$6,725 and \$807 in principal and interest, respectively. On November 21, 2013, the first tranche of the Convertible Note was paid in full.

On October 30, 2013, the Company received cash proceeds of \$25,000 on the second tranche of the Convertible ii) Note, which was net of original issue discount of \$18,667. At December 31, 2013, \$3,680 of discount has been amortized on the second tranche.

F-15

On March 6, 2013, the Company issued a Convertible Note to JMJ Financial (“Holder”), in the original principle amount of \$275,000 bearing a 12% annual interest rate and maturing in one year for \$250,000 of consideration paid in cash and a \$25,000 original issue discount. The Company may repay the convertible note any time and if repaid within 90 days of date of issue with an interest rate is 0%. This convertible note together with any unpaid accrued interest is convertible into shares of common stock at the Holder’s option at a variable conversion price calculated as lessor of (a) \$0.62 or (b) 60% of the lowest trade occurring during the 25 consecutive trading days immediately preceding the conversion date.

On March 6, 2013, the Company received cash of \$46,000 in the first tranche, which was net of original issue discount of \$41,067. On September 9, 2013, the Holder converted 60,000 shares of common stock of the Company with a fair market value of \$21,000 for \$8,486 and \$1,018 in principal and interest, respectively. On September 19, 2013, the Holder converted 80,000 shares of common stock of the Company with a fair market value of \$20,800 for \$10,834 and \$1,300 in principal and interest, respectively. On October 7, 2013, the Holder converted 75,000 shares i) of common stock of the Company with a fair market value of \$19,875 for \$10,045 and \$1,205 in principal and interest, respectively. On October 21, 2013, the Holder converted 100,000 shares of common stock of the Company with a fair market value of \$25,000 for \$11,721 and \$1,407 in principal and interest, respectively. On November 12, 2013, the Holder converted 118,705 shares of common stock of the Company with a fair market value of \$29,083 for \$13,914 and \$1,670 in principal and interest, respectively. On November 12, 2013, the first tranche was paid in full.

- ii) On June 27, 2013, the Company received the second tranche of \$50,000 in cash, which was net of original issue discount of \$42,000. At December 31, 2013, \$24,976 of discount has been amortized on the second tranche.
- iii) On September 27, 2013, the Company received the third tranche of \$50,000 in cash, which was net of original issue discount of \$42,000. At December 31, 2013, \$12,688 of discount has been amortized on the third tranche.
- iv) On December 9, 2013, the Company received the fourth tranche of \$40,000 in cash, which was net of original issue discount of \$36,497. At December 31, 2013, \$2,526 of discount has been amortized on the fourth tranche.

On April 10, 2013, the Company issued a Convertible Promissory Note to Iconic Holding, LLC (“Holder”), in the original principle amount of \$115,500 bearing a 5% annual interest rate and maturing April 10, 2014 for \$101,200 of consideration paid in cash, \$8,800 in issuer expenses and a \$5,500 original issue discount. This unsecured convertible promissory note is convertible into shares of common stock at the Holder’s option at a variable conversion price calculated at 65% of the lowest trading price of any day during the 10 consecutive trading days prior to the dated on which the Holder elects to convert all or part of the Note. The Company may repay the convertible promissory note within 60 days of date of issue at 110% of the original principal amount plus interest, between 60 days and 120 days at 120% of the original principal amount plus interest and between 120 days and 180 days at 130% of the original principal amount plus interest and 30,000 shares of common stock of the Company with a fair market value of \$8,550. Thereafter, the Note may only be repaid with the consent of the Holder. The Company received cash proceeds of \$101,200, which was net of unamortized discount of \$62,192. On October 7, 2013, Company elected to prepay the Convertible Promissory Note for \$149,500 in cash. The payment includes prepayment of \$115,500 in original principal a prepayment penalty and outstanding accrued interest of \$34,000.

On April 29, 2013, the Company entered into a Convertible Promissory Note with Asher Enterprises, Inc. (“Holder”) in the original principle amount of \$128,500 bearing an 8% annual interest rate and maturing January 31, 2014. This convertible promissory note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder’s option at a variable conversion price calculated at 58% of the market price which means the average of the lowest three trading prices during the ten trading day period ending on the latest complete trading day prior to the conversion date. The Company may repay the convertible promissory note if repaid within 30 days of date of issue at 112% of the original principal amount plus interest, between 31 days and 60 days at 119% of the

original principal amount plus interest, between 61 days and 90 days at 125% of the original principal amount plus interest, between 91 days and 120 days at 130% of the original principal amount plus interest and between 121 days and 180 days at 135% of the original principal amount plus interest. Thereafter, the Company does not have the right of prepayment. The Company received cash proceeds of \$125,000, which was net of original issue discount of \$93,052. On October 24, 2013, Company elected to prepay the Convertible Promissory Note for \$176,291 in cash. The payment includes prepayment of \$128,500 in original principal a prepayment penalty and outstanding accrued interest of \$47,791.

On May 17, 2013, the Company entered into a Convertible Promissory Note with Redwood Fund II, LLC (“Holder”) in the original principle amount of \$101,000 bearing a 10% annual interest rate and maturing November 17, 2013. This convertible note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder’s option at a variable conversion price calculated as 58% of the lowest trading price, determined on the then current trading market for the Company’s common stock, for 20 trading days prior to conversion. The Company received cash proceeds of \$101,000, which was net of original issue discount of \$76,825. At December 31, 2013, \$60,547 of discount has been amortized. On November 19, 2013, Company elected to prepay the Convertible Promissory Note for \$138,875 in cash. The payment includes prepayment of \$101,000 in original principal a prepayment penalty and outstanding accrued interest of \$37,875.

On May 20, 2013, the Company entered into a Convertible Promissory Note with Asher Enterprises, Inc. (“Holder”) in the original principle amount of \$53,000 bearing an 8% annual interest rate and maturing February 20, 2014. This convertible promissory note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder’s option at a variable conversion price calculated at 58% of the market price which means the average of the lowest three trading prices during the ten trading day period ending on the latest complete trading day prior to the conversion date. The Company may repay the convertible promissory note if repaid within 30 days of date of issue at 112% of the original principal amount plus interest, between 31 days and 60 days at 119% of the original principal amount plus interest, between 61 days and 90 days at 125% of the original principal amount plus interest, between 91 days and 120 days at 130% of the original principal amount plus interest and between 121 days and 180 days at 135% of the original principal amount plus interest. Thereafter, the Company does not have the right of prepayment. The Company received cash proceeds of \$50,000, which was net of original issue discount of \$40,701. On November 20, 2013, Company elected to prepay the Convertible Promissory Note for \$73,641 in cash. The payment includes prepayment of \$53,000 in original principal a prepayment penalty and outstanding accrued interest of \$20,641.

On June 4, 2013, the Company entered into a Convertible Promissory Note with Evolution Capital Fund I, L.P. (“Holder”) in the original principle amount of \$106,000 bearing a 12% annual interest rate and maturing March 4, 2014. This convertible note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder’s option at a variable conversion price calculated as 58% of the market price which means the average of the lowest three trading prices during the ten trading day period ending on the latest complete trading day prior to the conversion date. The Company may repay the convertible promissory note if repaid within 120 days of date of issue at 140% of the original principal amount plus interest, between 121 days and 150 days at 145% of the original principal amount plus interest and between 151 days and 180 days at 150% of the original principal amount plus interest. Thereafter, the Company does not have the right of prepayment. The Company received cash proceeds of \$101,000, which was net of original issue discount of \$81,648. On December 31, 2013, Company elected to prepay the Convertible Promissory Note for \$148,400 in cash. The payment includes prepayment of \$106,000 in original principal a prepayment penalty and outstanding accrued interest of \$42,400.

On July 11, 2013, the Company entered into a Convertible Promissory Note with Asher Enterprises, Inc. (“Holder”) in the original principle amount of \$63,000 bearing an 8% annual interest rate and maturing April 15, 2014. This

convertible promissory note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder's option at a variable conversion price calculated at 58% of the market price which means the average of the lowest three trading prices during the ten trading day period ending on the latest complete trading day prior to the conversion date. The Company may repay the convertible promissory note if repaid within 30 days of date of issue at 112% of the original principal amount plus interest, between 31 days and 60 days at 119% of the original principal amount plus interest, between 61 days and 90 days at 125% of the original principal amount plus interest, between 91 days and 120 days at 130% of the original principal amount plus interest and between 121 days and 180 days at 135% of the original principal amount plus interest. Thereafter, the Company does not have the right of prepayment. The Company received cash proceeds of \$60,000, which was net of original issue discount of \$48,400. At December 31, 2013, \$32,508 of discount has been amortized.

F-17

On September 16, 2013, the Company entered into a Convertible Promissory Note (“Note”) with Willow Creek Capital Group, LLC (“Holder”) in the original principle amount of \$130,000 bearing a 12% annual interest rate and maturing July 16, 2014. At the option of the Holder:

The Note together with any unpaid accrued interest is convertible into shares of common stock of the Company at a

- i) variable conversion price calculated at 58% of the market price which means the average of the lowest three trading prices during the ten trading day period ending on the latest complete trading day prior to the conversion date, or
- ii) adjustment in the event the Company at any time, while the Notes are outstanding, issues equity securities including common stock or any security convertible or exchangeable for shares of common stock for no consideration or for consideration less than \$0.34 a share.

All principal, costs, charges and interest amounts outstanding may be exchanged for shares of the Company’s common stock at the Conversion Price of \$0.34 per share. The Conversion Price is subject to an anti-dilution

The Company may repay the convertible promissory note at 135% of the original principal amount plus interest. The Company received cash proceeds of \$125,000, which was net of original issue discount of \$103,516 and convertible note payable derivative liability of \$65,723. At December 31, 2013, \$40,744 of discount has been amortized.

On October 31, 2013, the Company issued a Convertible Promissory Note to Iconic Holding, LLC (“Holder”), in the original principle amount of \$110,250 bearing a 0% annual interest rate and maturing October 31, 2014 for \$105,000 of consideration paid in cash and a \$5,250 original issue discount. This unsecured convertible promissory note is convertible into shares of common stock at the Holder’s option at a variable conversion price calculated at 60% of the lowest trading price of any day during the 10 consecutive trading days prior to the dated on which the Holder elects to convert all or part of the Note. The Company may repay the convertible promissory note within 60 days of date of issue at 125% of the original principal amount plus interest, between 60 days and 120 days at 130% of the original principal amount plus interest plus 30,000 shares of common stock of the Company and between 120 days and 180 days at 135% of the original principal amount plus interest plus 60,000 shares of common stock of the Company. Thereafter, the Note may only be repaid with the consent of the Holder. The Company received cash proceeds of \$105,000, which was net of unamortized discount of \$73,500. At December 31, 2013, \$12,284 of discount has been amortized.

On November 4, 2013, the Company entered into a Convertible Promissory Note with Asher Enterprises, Inc. (“Holder”) in the original principle amount of \$128,500 bearing an 8% annual interest rate and maturing November 4, 2014. This convertible promissory note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder’s option at a variable conversion price calculated at 58% of the market price which means the average of the lowest three trading prices during the ten trading day period ending on the latest complete trading day prior to the conversion date. The Company may repay the convertible promissory note if repaid within 30 days of date of issue at 112% of the original principal amount plus interest, between 31 days and 60 days at 119% of the original principal amount plus interest, between 61 days and 90 days at 125% of the original principal amount plus interest, between 91 days and 120 days at 130% of the original principal amount plus interest and between 121 days and 180 days at 135% of the original principal amount plus interest. Thereafter, the Company does not have the right of prepayment. The Company received cash proceeds of \$125,000, which was net of original issue discount of \$100,496. At December 31, 2013, \$17,300 of discount has been amortized.

On December 9, 2013, the Company entered into a Convertible Promissory Note with Group 10 Holdings, LLC (“Holder”) in the original principle amount of \$106,000 bearing a 12% annual interest rate and maturing December 9,

2014. This convertible promissory note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder's option at a variable conversion price calculated at 55% of the lowest trading price of any day during the 10 consecutive trading days prior to the date on which the Holder elects to convert all or part of the Note. The Company may repay the convertible promissory note if repaid within 30 days of date of issue at 125% of the original principal amount plus interest and between 31 days and 179 days at 135% of the original principal amount plus interest. Thereafter, the Company subject to the approval of the Holder, may repay the convertible promissory note at 135% of the original principal amount plus interest. The Company received cash proceeds of \$101,000 which was net of original issue discount of \$97,135. At December 31, 2013, \$6,622 of discount has been amortized.

On December 12, 2013 the Company entered into a Convertible Promissory Note with Tonaquint Inc. (“Holder”) in the original principle amount of \$115,000 bearing a 10% annual interest rate and maturing November 12, 2014. The Convertible Promissory Note is due in six equal monthly installments plus interest (“Installment Amount”) commencing six months after the issue date. At the option of the Holder, the Installment Amount is convertible into shares of common stock of the Company at a variable conversion price calculated at 60% of the market price which means the average of the lowest two trading prices during the twenty trading day period ending on the latest complete trading day prior to the conversion date. The Company may elect to prepay in cash all or any portion of the outstanding balance of the convertible promissory note if the Company pays the holder 125% of the outstanding balance. The Company received cash proceeds of \$100,000, which was net of original issue discount of \$83,703. At December 31, 2013, \$5,346 of discount has been amortized.

On December 13, 2013 the Company entered into a Convertible Promissory Note with Tailwind Partners, LLC (“Holder”) in the original principle amount of \$106,000 bearing a 12% annual interest rate and maturing November 12, 2014. This convertible promissory note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder’s option at a variable conversion price calculated at 58% of the market price which means the average of the lowest three trading prices during the ten trading day period ending on the latest complete trading day prior to the conversion date. The Company may repay the convertible promissory note if repaid within 120 days of date of issue at 125% of the original principal amount plus interest, between 121 days and 150 days at 130% of the original principal amount plus interest and between 151 days and 180 days at 130% of the original principal amount plus interest. Thereafter, the Company does not have the right of prepayment. The Company received cash proceeds of \$101,000, which was net of original issue discount of \$83,673. At December 31, 2013, \$6,124 of discount has been amortized.

NOTE 9 – CONVERTIBLE NOTE PAYABLE DERIVATIVE LIABILITY

The Convertible Promissory Note with Willow Creek Capital Group, LLC are subject to anti-dilution adjustments that allow for the reduction in the Conversion Price in the event the Company subsequently issues equity securities including common stock or any security convertible or exchangeable for shares of common stock for no consideration or for consideration less than \$0.34 a share. The Company accounted for the conversion option in accordance with ASC Topic 815. Accordingly, the Conversion Option is not considered to be solely indexed to the Company’s own stock and, as such, recorded as a liability.

The Company’s convertible promissory note derivative liability has been measured at fair value at September 16, 2013 and December 31, 2013 using a binomial model. Since the Conversion Price contains an anti-dilution adjustment, the probability that the Conversion Price of the Notes would decrease as the share price decreased was incorporated into the valuation calculation.

The inputs into the binomial model are as follows:

	September 16, 2013		December 31, 2013	
Closing share price	\$0.34		\$0.248	
Conversion price	\$0.34		\$0.34	
Risk free rate	0.10	%	0.10	%
Expected volatility	150	%	99	%
Dividend yield	0	%	0	%
Expected life	10 months		7 months	

The fair value of the convertible note payable derivative liability is \$20,701 at December 31, 2013. The decrease in the fair value of the convertible note payable derivative liability of \$45,222 is recorded as a gain in the consolidated condensed statement of operations for the year ended December 31, 2013.

NOTE 10 – CONTINGENT LIABILITY

The Company has a contingent liability related to Asset Acquisition Agreement with Qwik Staffing Solutions, Inc. on April 29, 2013. The obligation is due in monthly installments by paying an amount equal to 6.5% of the monthly accounts receivable collected by operating the Orlando, Jacksonville and Tampa, Florida locations. The total payments are not to exceed \$170,000. The fair value of the obligation is determined by estimating discounted monthly installments at an interest rate of 12% per annum.

Opening balance at April 29, 2013	\$ 158,490
Payments	(89,940)
Interest	10,571
Closing balance at December 31, 2013	\$ 79,121

NOTE 11 – STOCKHOLDERS’ EQUITY

The Company has 75,000,000 shares of \$0.001 par value common stock authorized. As of December 31, 2013 and 2012, the Company had 20,982,740 and 16,757,000 shares issued and outstanding, respectively.

In July 2012, the Company issued 25,000 shares in conjunction with the Form S-8 Registration Statement as filed on July 13, 2012 with a fair market value of \$0.20 per share.

On July 12, 2012, the Company entered into an agreement with Infinity Global Consulting Group Inc. (“Infinity”) whereas the Company grants Infinity the option to purchase all or part of an aggregate total of 100,000 shares of the Company’s common stock at the strike price of \$0.50 per share. The aforementioned options expire on July 12, 2017. The options were measured at their fair value on July 12, 2012 using the following Black-Scholes Model Assumptions: risk free interest (0.83%); expected volatility (148%); expected life (5 years); no dividends. These warrants were valued at \$17,020 and expensed as stock based compensation.

In August 2012, the Company issued 100,000 restricted shares with a fair value of \$0.20 per share for services and 500,000 shares with a fair value of \$0.20 per share in conjunction with the Form S-8 Registration Statement as filed on July 13, 2012.

On September 20, 2012, the Company issued warrants to purchase 300,000 shares of common stock of the Company with an exercise price of \$0.40 per share and no specific term. These warrants were issued in conjunction to the Convertible Promissory Note the Company entered into on September 20, 2012. The warrants were measured at their

Edgar Filing: Labor Smart, Inc. - Form 10-K

fair value on September 20, 2012 using the following Black-Scholes Model Assumptions: risk free interest (2.53%); expected volatility (157%); expected life (10 years); no dividends. These warrants were valued at \$133,521 and are deferred and amortized in our accompanying statement of operations using the straight-line method, which approximates the effective interest method, over the term of the associated Convertible Promissory Note.

On October 1, 2012, the Company issued 57,000 shares of common stock for employee compensation with a fair value of \$0.50 per share in conjunction with the Form S-8 Registration Statement as filed on July 13, 2012.

In October 2012, the Company issued 30,000 shares for employee compensation in conjunction with the Form S-8 Registration Statement as filed on October 17, 2012 with a fair value of \$0.49 per share.

In October, 2012 the Company issued 30,000 stock options with an exercise price of \$0.50 per share, expiring on October 12, 2022 in conjunction with the Form S-8 Registration Statement as filed on July 13, 2012. The options were measured at their fair value on October 17, 2012 using the following Black-Scholes Model Assumptions: risk free interest (1.83%); expected volatility (149%); expected life (10 years); no dividends. These options were immediately vested and exercisable, valued at \$14,454 and expensed in our accompanying statement of operations.

F-20

On January 28, 2013, the Company entered into a Consultant Agreement for a term of six months for general corporate and due diligence services. As compensation, the Company agreed to issue to the consultant 300,000 shares of unrestricted common stock valued at \$72,000 (\$0.24 per share) in conjunction with the Form S-8 Registration Statement as filed on July 13, 2012.

On January 28, 2013, the Company entered into a Consultant Agreement for a term of six months for general corporate and due diligence services. As compensation, the Company agreed to issue to the consultant 700,000 shares of unrestricted common stock valued at \$168,000 (\$0.24 per share) in conjunction with the Form S-8 Registration Statement as filed on July 13, 2012.

On January 28, 2013, the Company entered into a Consultant Agreement for a term of six months. As compensation, the Company agreed to issue to the consultant 500,000 shares of common stock valued at \$120,000 (\$0.24 per share) of the Company.

On January 28, 2013, the Company entered into a Consultant Agreement for services. As compensation, the Company agreed to issue to the consultant 300,000 shares of unrestricted common stock valued at \$72,000 (\$0.24 per share) in conjunction with the Form S-8 Registration Statement as filed on July 13, 2012.

In February 21, 2013, the Company issued 50,000 stock options to a director of the Company with an exercise price of \$0.56 per share, expiring on February 21, 2018 in conjunction with the Form S-8 Registration Statement as filed on July 13, 2012. The options were measured at their fair value on February 21, 2013 using the following Black-Scholes Model Assumptions: risk free interest (0.86%); expected volatility (166%); expected life (5 years); no dividends. These options were immediately vested and exercisable, valued at \$26,244 and expensed in our accompanying statement of operations.

On February 25, 2013, the Company issued warrants to purchase 202,000 shares of common stock of the Company with an exercise price of \$0.40 per share and no specific term. These warrants were issued in conjunction to the Convertible Promissory Note the Company entered into on February 25, 2013. The warrants were measured at their fair value on February 25, 2013 using the following Black-Scholes Model Assumptions: risk free interest (1.93%); expected volatility (166%); expected life (10 years); no dividends. These warrants were valued at their relative fair value of \$57,359, recorded as a discount to convertible note payable and are deferred and amortized in our accompanying statement of operations using the straight-line method, which approximates the effective interest method, over the term of the associated Convertible Promissory Note.

In March 14, 2013, the Company issued 50,000 stock options to a director of the Company with an exercise price of \$0.62 per share, expiring on March 14, 2018 in conjunction with the Form S-8 Registration Statement as filed on July 13, 2012. The options were measured at their fair value on March 14, 2013 using the following Black-Scholes Model Assumptions: risk free interest (0.88%); expected volatility (166%); expected life (5 years); no dividends. These

options were immediately vested and exercisable, valued at \$29,057 and expensed in our accompanying statement of operations.

On March 20, 2013, the Company agreed to issue 100,000 shares of its common stock for cash. The shares were issued at \$0.50 per share for an aggregate of \$50,000.

On March 28, 2013, the Holder (Evolution Capital, LLC) of the Convertible Promissory Note originally issued on September 20, 2012, elected to convert \$130,000 of principal amount for 604,651 shares of common stock of the Company valued at \$268,088 (\$0.44 per share) in accordance with the terms of the Note. The amount of principal balance due after the conversion is \$0.

On April 5, 2013, the Company agreed to issue 100,000 shares of its common stock for cash. The shares were issued at \$0.50 per share for an aggregate of \$50,000.

In April 19, 2013, the Company issued 30,000 stock options for employee compensation with an exercise price of \$0.41 per share, expiring on April 19, 2018 in conjunction with the Form S-8 Registration Statement as filed on July 13, 2012. The options were measured at their fair value on April 19, 2013 using the following Black-Scholes Model

F-21

Assumptions: risk free interest (0.72%); expected volatility (167%); expected life (5 years); no dividends. These options were immediately vested and exercisable, valued at \$11,559 and expensed in our accompanying statement of operations.

On May 24, 2013, the Company issued 33,500 of shares of common stock to employees for services rendered by them for an aggregate fair value of \$12,395 (\$0.37 per share) based on the quoted market price of the shares at time of issuance in conjunction with the Form S-8 Registration Statement as filed on July 13, 2012.

On September 5, 2013, Vista Capital Investments, LLC elected to convert 50,000 shares of common stock with an aggregate fair value of \$17,500 (\$0.35 per share) based on the quoted market price of the shares at time of issuance for \$7,920 for principal and interest and \$9,580 for debt discount.

On September 9, 2013, JMJ Financial elected to convert 60,000 shares of common stock with an aggregate fair value of \$21,000 (\$0.35 per share) based on the quoted market price of the shares at time of issuance for \$9,504 for principal and interest and \$11,496 for debt discount.

On September 19, 2013, JMJ Financial elected to convert 80,000 shares of common stock with an aggregate fair value of \$20,800 (\$0.26 per share) based on the quoted market price of the shares at time of issuance for \$12,134 for principal and interest and \$8,666 for debt discount.

In October 28, 2013, the Company issued 1,500,000 stock options for employee compensation with an exercise price of \$0.30 per share, expiring on April 28, 2015 in conjunction with the Form S-8 Registration Statement as filed on July 13, 2012. The options were measured at their fair value on October 28, 2013 using the following Black-Scholes Model Assumptions: risk free interest (0.215%); expected volatility (148%); expected life (1.5 years); no dividends. These options were immediately vested and exercisable, valued at \$226,882 and expensed in our accompanying statement of operations.

On September 28, 2013, Evolution Capital LLC elected to convert 221,108 shares of common stock with an aggregate fair value of \$61,910 (\$0.28 per share) based on the quoted market price of the shares at time of issuance for \$30,000 for principal and interest and \$31,910 for debt discount.

On October 7, 2013, JMJ Financial elected to convert 75,000 shares of common stock with an aggregate fair value of \$19,875 (\$0.265 per share) based on the quoted market price of the shares at time of issuance for \$11,250 for principal and interest and \$8,625 for debt discount.

On October 8, 2013, the Company issued 30,000 shares of its common stock with an aggregate fair value of \$8,550 (\$0.285 per share) based on the quoted market price of the shares at time of issue to Iconic Holding, LLC for finance costs upon the election of the Company to prepay the Convertible Promissory Note dated April 10, 2013.

On October 8, 2013, Vista Capital Investments, LLC elected to convert 50,000 shares of common stock with an aggregate fair value of \$14,250 (\$0.285 per share) based on the quoted market price of the shares at time of issuance for \$7,500 for principal and interest and \$6,750 for debt discount.

On October 9, 2013, the Company agreed to issue options to purchase 2,405,037 shares of common stock to nineteen (19) employees of the Company with an exercise price of \$0.05 per share of common stock and a contractual life of ten years in conjunction with the Form S-8 Registration Statement as filed on July 13, 2012. The stock options as vest follows: 25% on October 9, 2016, 35% on October 9, 2017 and the remaining 40% on October 9, 2018. The options were measured at their fair value on October 9, 2013 using the following Black-Scholes Model Assumptions: risk free interest (1.73%); expected volatility (147%); expected life (ten years); no dividends. Share-based compensation related to these common stock option grants for the years ended December 31, 2013 and 2012 amounted to \$29,783 and \$0, respectively, and is reported as stock-based compensation in the statement of operations and additional paid-in capital in the statement of stockholders' equity.

On October 21, 2013, JMJ Financial elected to convert 100,000 shares of common stock with an aggregate fair value of \$25,000 (\$0.25 per share) based on the quoted market price of the shares at time of issuance for \$13,128 for principal and interest and \$11,872 for debt discount.

On October 24, 2013, Vista Capital Investments, LLC elected to convert 60,000 shares of common stock with an aggregate fair value of \$15,000 (\$0.25 per share) based on the quoted market price of the shares at time of issuance for \$7,848 for principal and interest and \$7,152 for debt discount.

In October 28, 2013, the Company issued 50,000 stock options for employee compensation with an exercise price of \$0.295 per share, expiring on September 24, 2018 in conjunction with the Form S-8 Registration Statement as filed on July 13, 2012. The options were measured at their fair value on October 28, 2013 using the following Black-Scholes Model Assumptions: risk free interest (0.72%); expected volatility (164%); expected life (5 years); no dividends. These options were immediately vested and exercisable, valued at \$13,792 and expensed in our accompanying statement of operations.

On October 29, 2013, Evolution Capital LLC elected to convert 227,342 shares of common stock with an aggregate fair value of \$65,929 (\$0.29 per share) based on the quoted market price of the shares at time of issuance for \$26,000 for principal and interest and \$39,929 for debt discount.

On November 12, 2013, JMJ Financial elected to convert 118,705 shares of common stock with an aggregate fair value of \$29,083 (\$0.245 per share) based on the quoted market price of the shares at time of issuance for \$15,584 for principal and interest and \$13,499 for debt discount.

On November 21, 2013, Vista Capital Investments, LLC elected to convert 57,374 shares of common stock with an aggregate fair value of \$14,917 (\$0.26 per share) based on the quoted market price of the shares at time of issuance for \$7,532 for principal and interest and \$7,385 for debt discount.

On November 26, 2013, Evolution Capital Fund I, LLC elected to convert 418,060 shares of common stock with an aggregate fair value of \$96,154 (\$0.23 per share) based on the quoted market price of the shares at time of issuance for \$50,000 for principal and interest and \$46,154 for debt discount.

On December 12, 2013, the Company issued to Group 10 Holdings, LLC in conjunction with the Convertible Promissory Note issued to Group 10 Holdings, LLC on December 9, 2013 40,000 shares of common stock with an aggregate fair value of \$10,800 (\$0.27 per share) based on the quoted market price of the for a commitment fee. The commitment fee is included in deferred finance costs and amortized on a straight line, which approximates the effective interest method, over the life the Convertible Promissory Note.

In December 24, 2013, the Company issued 25,000 stock options for employee compensation with an exercise price of \$0.25 per share, expiring on December 24, 2018 in conjunction with the Form S-8 Registration Statement as filed on July 13, 2012. The options were measured at their fair value on December 24, 2013 using the following Black-Scholes Model Assumptions: risk free interest (1.73%); expected volatility (147%); expected life (5 years); no dividends. These options were immediately vested and exercisable, valued at \$5,529 and expensed in our accompanying statement of operations.

The following is a summary of the common stock options granted, forfeited or expired and exercised:

F-23

Edgar Filing: Labor Smart, Inc. - Form 10-K

	Number of Options	Weighted Average Exercise Price Per Share
Outstanding – January 1, 2012	-	\$ -
Granted	130,000	0.50
Forfeited or expired	-	-
Exercised	-	-
Outstanding - December 31, 2012	130,000	0.50
Granted	4,110,037	0.16
Forfeited or expired	(356,582)	0.05
Exercised	-	-
Outstanding– December 31, 2013	3,883,455	\$ 0.18
Exercisable – December 31, 2013	1,835,000	\$ 0.33

The following table summarizes information on stock options exercisable as of December 31, 2013:

<u>Exercise Price</u>	Number Outstanding at <u>December 31, 2013</u>	Average Remaining <u>Life (Years)</u>	Aggregate Intrinsic <u>Value</u>
\$0.295	75,000	4.99	-
\$0.30	1,500,000	1.32	-
\$0.41	30,000	4.55	-
\$0.50	130,000	5.00	-
\$0.56	50,000	4.40	-
\$0.62	50,000	4.45	-

The following table summarizes information on stock options outstanding as of December 31, 2013:

<u>Exercise Price</u>	Number Outstanding at <u>December 31, 2013</u>	Average Remaining <u>Life (Years)</u>	Aggregate Intrinsic <u>Value</u>
\$0.05	2,048,455	9.78	\$405,594
\$0.295	75,000	4.99	-
\$0.30	1,500,000	1.32	-
\$0.41	30,000	4.55	-
\$0.50	130,000	5.00	-
\$0.56	50,000	4.40	-
\$0.62	50,000	4.45	-

The following is a summary of warrants activity during December 31, 2013:

	Number of Shares	Weighted Average Exercise Price
Balance, December 31, 2012	300,000	0.40

Edgar Filing: Labor Smart, Inc. - Form 10-K

Warrants granted and assumed	202,000	0.40
Warrants canceled	-	0.00
Warrants expired	-	0.00
Balance, December 31, 2013	502,000	0.40

All warrants outstanding as of December 31, 2013 are exercisable.

F-24

NOTE 12 – INCOME TAXES

As of December 31, 2013, the Company had net operating loss carry forwards of \$1,236,187 that may be available to reduce future years' taxable income through 2031 and 2032. Future tax benefits which may arise as a result of these losses have not been recognized in these financial statements, as their realization is determined not likely to occur and accordingly, the Company has recorded a valuation allowance for the deferred tax asset relating to these tax loss carryforwards.

Components of net deferred tax assets, including a valuation allowance, are as follows at December 31, 2013 and 2012:

	2013	2012
Net loss before taxes	\$(2,722,980)	\$(449,465)
Permanent adjustments:		
Stock based compensation	801,915	185,000
Penalties	—	41,459
Meals and Entertainment	12,926	3,637
Amortized debt discount	682,603	52,195
Temporary adjustments:		
Bad debt expense	113,538	64,318
NOL loss carryforward	\$(1,111,998)	\$(102,856)
Tax rate	35	% 35
Recovery) Provision for income taxes	\$(389,000)	\$(36,000)
Less: Valuation allowance	\$389,000	\$36,000
Net deferred tax asset	\$—	\$—

The valuation allowance for deferred tax assets as of December 31, 2013 was \$432,000. In assessing the recovery of the deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in the periods in which those temporary differences become deductible. Management considers the scheduled reversals of future deferred tax assets, projected future taxable income, and tax planning strategies in making this assessment. As a result, management determined it was more likely than not the deferred tax assets would not be realized as of December 31, 2013 and 2012.

Reconciliation between the statutory rate and the effective tax rate is as follows at December 31, 2013 and 2012:

Edgar Filing: Labor Smart, Inc. - Form 10-K

	2013	2012
Federal statutory tax rate	(35.0)%	(35.0)%
Valuation allowance	35.0%	35.0%
	- %	- %

Below is a chart showing the estimated corporate federal net operating loss (NOL) and the year in which it will expire.

Year	Amount	Expiration
2013	\$ 1,238,462	2033
2012	\$ 102,856	2032
2011	\$ 21,333	2031

F-25

NOTE 13 – COMMITMENTS

On November 12, 2011, the Company entered into a three year lease agreement with VFC Properties 8, LLC to rent office space at 1166 Franklin Road, Suite 5 for the Company's Marietta, GA operations. Minimum monthly lease payments equal \$1,083.

On November 12, 2011, the Company entered into a single year lease agreement with Brothers Investments, Inc. to rent office space at 427 Lafayette Street for the Company's Nashville, TN operations. Minimum monthly lease payments equal \$2,250. As of December 31, 2012, the lease term is month to month.

On December 9, 2011, Labor Smart, Inc. entered into a two year lease agreement with Cleanstar National, Inc. to rent office space at 44 Darby's Crossing Drive, Suite 116 for the Company's corporate operations. Minimum monthly lease payments total \$650.

On January 26, 2012, the Company entered into a three year lease agreement with Hull 2000 WS2, LLC, commencing February 1, 2012, to rent office space at the Windsor Square Two Shopping Center, Augusta for the Company's GA operations. Monthly lease payments, including CTI, are \$1,244. The Company has the option to extend the lease for an additional three years at an increased monthly lease payment of \$1,530.

On March 1, 2012, the Company entered into a lease agreement with Nancy Elaine Cagle, with an initial lease term commencing March 1, 2012 and expiring on February 28, 2015, to rent office space in Chattanooga, Tennessee. Monthly lease payments are \$935 plus common area maintenance. The Company has the option to extend the lease for three additional three year terms with the rental amount for each extension to be determined 30 days prior to commencement.

On March 29, 2012, the Company entered into a three year lease agreement with Phillips Holding, LP, commencing April 1, 2012, to rent office space at Wade Hampton Square for the Company's SC operations. Minimum monthly lease payments total \$1,600. The Company has the option to extend the lease for an additional three years.

On April 25, 2012, the Company entered into a three year lease agreement with Molay, Inc. commencing May 1, 2012, to rent office space at 430 Greensprings Highway for the Company's AL operations. Minimum monthly lease payments total \$1,132. The Company has the option to extend the lease for an additional three years at an increased monthly lease payment of \$1,232.

On February 14, 2013, the Company entered into a two year lease agreement with L. Gerald Crews Trust, commencing March 1, 2013, to rent office space at 5604 Wendy Bagwell Pkwy., Hiram, Georgia. The Company is not required to pay rent in the first month of the lease. Thereafter, monthly lease payments, including common area maintenance, are \$900 and \$936 in Year 1 and Year 2, respectively. The Company has the option to extend the lease for an additional two years at increased monthly lease payments of \$964 and \$993 in Year 1 and Year 2, respectively, during the renewal period.

On February 27, 2013, the Company entered into a 37 month lease agreement with Ross Properties, LLC, commencing March 1, 2013, to rent office space at 4424 Taggart Creek Road, Charlotte, North Carolina. The Company is not required to pay rent in the first month of the lease. Thereafter, monthly lease payments, including initial estimated monthly operating expense payments, are \$1,408 with an annual rent escalation of 3% per annum.

On March 15, 2013, the Company entered into a 37 month lease agreement with DV Partnership, commencing April 1, 2013, to rent office space at 2300 Decker Blvd., Columbia, South Carolina. The Company is not required to pay rent in the first month of the lease. Thereafter, monthly minimum lease payments are \$1,034, \$1,065 and \$1,097 in Year 1, Year 2 and Year 3, respectively. In addition, initial monthly estimated operating expense payments are \$366.

On March 21, 2013, the Company entered into a 37 month lease agreement with Rosie III, LLC, d/b/a Elis Enterprises L.P., commencing April 1, 2013, to rent office space at 6612 B&C Blue Ridge Blvd., Raytown, Missouri. The Company is not required to pay rent in the first month of the lease. Thereafter, monthly minimum lease payments which includes common area expenses are \$1,350, \$1,400 and \$1,450 in Year 1, Year 2 and Year 3, respectively.

On May 1, 2013, the Company entered into a 12 month lease agreement with Steven C. Cheeseman to rent office space at 14601 North Nebraska Ave., Tampa, Florida. Monthly minimum lease payments are \$1,200.

On May 1, 2013, the Company entered into a 12 month lease agreement with Progressive Properties LLC to rent office space at 4818 Preston Street, Louisville, Kentucky. Monthly minimum lease payments are \$1,500 along with a security deposit of \$1,500. The Company has the option to renew this lease for 12 additional months for monthly minimum lease payments are \$1,545.

On May 3, 2013, the Company entered into a 24 month lease agreement with Alterman Properties, Inc., commencing May 6, 2013, to rent office space at 6365 Philips Highway, Jacksonville, Florida. Monthly minimum lease payments are \$1,600 and \$1,700 in Year 1 and Year 2, respectively along with a security deposit of \$1,600. The Company has the option to renew this lease for 24 additional months for monthly minimum lease payments are \$1,775 and \$1,850 in Year 1 and Year 2, respectively during the renewal period.

On May 7, 2013, the Company entered into a 36 month lease agreement with Noujaim and Warren, Inc. to rent office space at 1517 North Orange Blossom Trail, Orlando, Florida. Monthly minimum lease payments are \$1,500, \$1,700 and \$1,700 in Year 1, Year 2 and Year 3, respectively plus 6.5% sales tax.

On May 29, 2013, the Company entered into a 36 month lease agreement with Terry Clyne, commencing June 1, 2013, to rent office space at 571 Murfreesboro Road, Nashville, Tennessee. Monthly minimum lease payments are \$0 June 1, 2013 through August 31, 2013, \$950 for September 2013 and \$1,900 from October 1, 2013 through May 31, 2016.

On April 15, 2013, the Company entered into a 60 month lease agreement with Gary T. Anderberg & Sharon D. Anderberg Family Trust Dated March 30th 1999, commencing July 1, 2013, to rent office space at 3945 N High School Road, Indianapolis, Indiana. Monthly minimum lease payments are \$425 for July 2013, \$850 for August 1, 2013 through June 30, 2015, \$876 for July 1, 2015 through June 30, 2016, \$902 for July 1, 2016 through June 30, 2017 and \$929 for July 1, 2017 through June 30, 2018.

On September 5, 2013, the Company entered into a 37 month lease agreement with Sarah T. Knott & Macon T. Newby, commencing September 6, 2013, to rent office space at 207 Oberlin Road, Raleigh, North Carolina. Monthly minimum lease payments are \$2,650 for September 6, 2013 through September 30, 2014, \$2,730 for October 1, 2014 through September 30, 2015, \$2,811 and for October 1, 2015 through September 30, 2016.

On October 1, 2013, the Company entered into a 60 month lease agreement with NG BIM Colony Plaza, LLC, commencing October 1, 2013, to rent office space at 2115 Windsor Spring Road, Augusta Georgia. Monthly minimum lease payments are \$1,200 for October 1, 2013 through December 31, 2014, \$1,250 for January 1, 2015 through December 31, 2015, \$1,300 for January 1, 2016 through December 31, 2016, \$1,350 for January 1, 2017 through December 31, 2017 and \$1,400 for January 1, 2018 through September 30, 2018,

The following table is a schedule of future minimum lease commitments for the Company:

Period ending December 31	2014	\$ 269,925
	2015	177,760
	2016	78,225
	2017	27,185
	2018	19,075
		\$ 572,170

NOTE 14 – SUBSEQUENT EVENTS

On January 6, 2014, JMJ Financial elected to convert 110,000 shares of common stock to convert \$11,352 principal amount of a Convertible Promissory Note.

On January 14, 2014, the Company received cash proceeds of \$25,000 on the third tranche of the Convertible Note dated March 4, 2013 with Vista Capital Investments, LLC.

On January 16, 2014, JMJ Financial elected to convert 120,000 shares of common stock to convert \$12,684 principal amount of a Convertible Promissory Note.

On January 31, 2014, JMJ Financial elected to convert 130,000 shares of common stock to convert \$13,650 principal amount of a Convertible Promissory Note.

Edgar Filing: Labor Smart, Inc. - Form 10-K

On January 31, 2014, the Company entered into a Convertible Promissory Note with Tonaquint Inc. (“Holder”) in the original principal amount of \$115,000 bearing a 10% annual interest rate and maturing December 31, 2014. The Convertible Promissory Note is due in six equal monthly installments plus interest (“Installment Amount”) commencing six months after the issue date. At the option of the Holder, the Installment Amount is convertible into shares of common stock of the Company at a variable conversion price calculated at 60% of the market price which means the average of the lowest two trading prices during the twenty trading day period ending on the latest complete trading day prior to the conversion date. The Company may elect to prepay in cash all or any portion of the outstanding balance of the convertible promissory note if the Company pays the holder 125% of the outstanding balance.

On February 11, 2014, the Company issued 100,000 shares of common stock to satisfy obligations under share subscription agreement for \$29,000 in professional fees included in share subscriptions payable.

On February 12, 2014, MJM Financial elected to convert 120,000 shares of common stock to convert \$12,600 principal amount of a Convertible Promissory Note.

On February 13, 2014, the Company entered into an Original Issue Discount Secured Promissory Note with Beaufort Ventures PLC (“Holder”) for a purchase price of \$101,000 and a face amount of \$136,350 and maturing August 13, 2014. After the maturity date, the Notes accrues interest at 22% per annum and the Note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder’s option at a variable conversion price calculated at 58% of the market price which means the lowest trading price of the prior 15 trading days, determined on the then current trading market of the Company’s common stock, for 10 trading days prior to conversion. The Company may repay the convertible promissory note, if repaid within 90 days of date of issue, for a net payment of \$136,350 plus 70,000 shares of common stock of the Company.

On March 3, 2014, JMJ Financial elected to convert 123,943 shares of common stock to convert \$13,014 principal amount of a Convertible Promissory Note.

On March 24, 2014, the Company entered into a Convertible Promissory Note with Carebourn Capital, L.P. (“Holder”) in the original principle amount of \$112,500 bearing a 8% annual interest rate and maturing November 24, 2014. This convertible promissory note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder’s option at a variable conversion price calculated at 58% of the market price which means the average of the lowest three trading prices during the ten trading day period ending on the latest complete trading day prior to the conversion date. The Company may repay the convertible promissory note if repaid within 30 days of date of issue at 110% of the original principal amount plus interest, between 31 days and 60 days at 115% of the original principal amount plus interest, between 61 days and 90 days at 120% of the original principal amount plus interest, between 91 days and 120 days at 125% of the original principal amount plus interest, between 121 days and 150 days at 130% of the original principal amount plus interest, and between 151 days and 180 days at 135% of the original principal amount plus interest. Thereafter, the Company does not have the right of prepayment.

On March 26, 2014, JMJ Financial elected to convert 552,632 shares of common stock to convert \$63,000 principal amount of a Convertible Promissory Note.

On March 27, 2014, the Company entered into a 10% Original Issue Discount Convertible Promissory Note (“Note”) with Gemini Master Fund, Ltd. (“Holder”) in the original principle amount of \$220,000 bearing a 10% annual interest rate and maturing January 1, 2015. At the option of the Holder:

- i) The Note together with any unpaid accrued interest is convertible into shares of common stock of the Company at a variable conversion price calculated at 65% of the market price which means the average of the lowest volume weighted average price during the twenty trading day period ending prior to the conversion date, or

All principal, costs, charges and interest amounts outstanding may be exchanged for shares of the Company’s common stock at the Conversion Price of \$0.25 per share. The Conversion Price is subject to an anti-dilution adjustment.

The Company may repay the convertible promissory note at 130% of the original principal amount plus interest.

On April 2, 2014, the Company entered into a Convertible Promissory Note with Coventry Enterprises, LLC (“Holder”) in the original principle amount of \$101,000 bearing a 10% annual interest rate and maturing April 5, 2015. This convertible promissory note together with any unpaid accrued interest is convertible into shares of common stock of the Company at the Holder’s option at a variable conversion price calculated at 58% of the lowest bid price during the twelve trading days prior to the conversion date including the day upon which a Notice of Conversion is received by the Company. The Company may repay the convertible promissory note if repaid within 180 days of date of issue at 135% of the original principal amount plus interest. Thereafter, the Company does not have the right of prepayment.

On April 9, 2014, the Company entered into an Asset Purchase Agreement (“Agreement”) with Shirley’s Employment Service, Inc. (“Shirley’s”). Under the terms of the Agreement, Shirley’s sold all of the operating assets (“Assets”) of Shirley’s, excluding cash and accounts receivable. In consideration for the Assets, the Company agreed to pay \$300,000 in cash minus the open accounts receivable of Shirley’s. The consideration to be paid will be determined on closing. It is currently estimated by the Company that \$180,000 will be paid for the Assets after deducting accounts receivable. The first \$80,000 is due one day prior to the delivery and transfer of the Assets. The remaining \$100,000 is due in monthly installments by paying an amount equal 5.0% of the monthly accounts receivable collected by operating the Tulsa, Oklahoma location. In the event these aggregate monthly payments total less than \$100,000, after 18 months, Shirley’s will issue the Company a credit memo for the difference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

No events occurred requiring disclosure under Item 304 of Regulation S-K during the fiscal year ending December 31, 2013.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934, we have carried out an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this annual report, being December 31, 2013. This evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in our company's reports filed under the Securities Exchange Act of 1934 is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Based upon that evaluation, including our Chief Executive Officer and Chief Financial Officer, we have concluded that our disclosure controls and procedures were not effective as of the end of the period covered by this annual report.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934). Management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2013 based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. As a result of this assessment, management concluded that, as of December 31, 2013, our internal control over financial reporting was not effective. Our management identified the following material weaknesses in our internal

control over financial reporting, which are indicative of many small companies with small staff: (i) inadequate segregation of duties and effective risk assessment; and (ii) insufficient written policies and procedures for accounting and financial reporting with respect to the requirements and application of both US GAAP and SEC guidelines.

We plan to take steps to enhance and improve the design of our internal control over financial reporting. During the period covered by this annual report on Form 10-K, we have not been able to remediate the material weaknesses identified above. To remediate such weaknesses, we hope to implement the following changes during our fiscal year ending December 31, 2014: (i) appoint additional qualified personnel to address inadequate segregation of duties and ineffective risk management; and (ii) adopt sufficient written policies and procedures for accounting and financial reporting. The remediation efforts set out in (i) and (ii) are largely dependent upon our securing additional financing to cover the costs of implementing the changes required. If we are unsuccessful in securing such funds, remediation efforts may be adversely affected in a material manner.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to an exemption for non-accelerated filers set forth in Section 989G of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The directors and executive officers of the Company are:

Name Age Position

Ryan SchadelK6 Chief Executive Officer, Chief Financial Officer, Director

Matthew RodgersM1 Director

Ryan Schadel, our founder, sole officer and a director, has nearly 13 years' experience in the temporary staffing industry. During these 12 years he has held numerous positions, starting as a sales rep in January 2000 with a nationwide temporary staffing company. Of his nearly 13 years' experience in our industry, 11 have been in a management or executive capacity, and 8 of those years in a multi-unit management capacity.

Matthew Rodgers serves as a director of the Company and as the President of iprospectcheck.com, a privately held employment screening firm located in Folsom, California. His tenure with iprospectcheck.com began in 2009. Prior to his tenure with iprospectcheck.com, Mr. Rodgers was the President and Chief Executive Officer of Interim Healthcare Staffing where he served from 2003 until 2012. Prior to his position at Interim HealthCare Staffing, Mr. Rodgers served as Executive Vice President and Chief Operating Officer of Labor Ready, Inc. His tenure at Labor Ready began in 1998 and he served until 2003.

Shannan Manix, served as a director of the Company and as the Director of Sales and National accounts at Payscale, Inc., an online salary, benefits and compensation information company. Her tenure with Payscale, Inc began in 2012. Prior to her tenure with Payscale, Inc., Ms. Manix served as a Regional Vice President at Labor Ready, Inc., a division of True Blue, Inc. Her tenure with Labor Ready, Inc. began in 1998 and she served until 2012. Ms. Manix resigned as a director of the Company on November 13, 2013.

The board of directors has no nominating, auditing or compensation committees.

None of our directors qualify as "independent" as that term is defined under the applicable rules and regulations of the SEC, meaning that our directors may have business interests in the Company that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. We believe that our chief executive officer is capable of analyzing and evaluating our financial statements and understanding internal controls and procedures for

financial reporting. We believe that retaining an independent director who would qualify as an "audit committee financial expert" would be overly costly and burdensome and is not warranted in our circumstances given the early stages of our development and the fact that we have not generated any material net income to date. In addition, we currently do not have nominating, compensation or audit committees or committees performing similar functions nor do we have a written nominating, compensation or audit committee charter. Our board of directors does not believe that it is necessary to have such committees because it believes the functions of such committees can be adequately performed by our board of directors. Further, we are not a "listed company" under SEC rules and thus we are not required to have a compensation committee or a nominating committee.

We do not have any defined policy or procedure requirements for shareholders to submit recommendations or nominations for directors. Our board of directors believes that, given the early stages of our development, a specific nominating policy would be premature and of little assistance until our business operations develop to a more advanced level. We do not currently have any specific or minimum criteria for the election of nominees to our board of directors and we do not have any specific process or procedure for evaluating such nominees. Our board of directors assesses all candidates, whether submitted by management or shareholders, and makes recommendations for election or appointment.

A shareholder who wishes to communicate with our board of directors may do so by directing a written request addressed to our Chief Executive Officer at the address appearing on the face page of this Prospectus.

Term of Office

Our directors are appointed to hold office until removed from office or until his successor has been elected and qualified in accordance with our bylaws. Our officers are appointed by our board of directors and hold office until removed by the board.

All officers and directors listed above will remain in office until the next annual meeting of our stockholders, and until their successors have been duly elected and qualified. There are no agreements with respect to the election of Directors. Officers are appointed annually by our Board of Directors and each Executive Officer serves at the discretion of our Board of Directors. We do not have any standing committees. Our Board of Directors may in the future determine to pay Directors' fees and reimburse Directors for expenses related to their activities.

None of our Officers and/or Directors have filed any bankruptcy petition, been convicted of or been the subject of any criminal proceedings or the subject of any order, judgment or decree involving the violation of any state or federal securities laws within the past five (5) years.

Audit Committee

We do not have an audit committee of the Board of Directors. Management has determined not to establish an audit committee at present because of our limited resources and limited operating activities do not warrant the formation of an audit committee or the expense of doing so. We do not have a financial expert serving on the Board of Directors or employed as an officer based on management's belief that the cost of obtaining the services of a person who meets the criteria for a financial expert under Section 407 of the Sarbanes-Oxley Act of 2002 and Item 407(d) of Regulation S-K is beyond our limited financial resources and the financial skills of such an expert are simply not required or necessary for us to maintain effective internal controls and procedures for financial reporting in light of the limited scope and simplicity of accounting issues raised in our financial statements at this stage of our development.

Family Relationships

None.

Involvement in Certain Legal Proceedings

Our directors, executive officers and control persons have not been involved in any of the following events during the past five years:

1. any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
2. any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);
3. being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; or
4. being found by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated.

Section 16(a) Beneficial Ownership Compliance

Section 16(a) of the Securities Exchange Act requires our executive officers and directors, and persons who own more than 10% of our common stock, to file reports regarding ownership of, and transactions in, our securities with the Securities and Exchange Commission and to provide us with copies of those filings. Based solely on our review of the copies of such forms received by us, or written representations from certain reporting persons, we believe that during fiscal year ended December 31, 2013, all filing requirements applicable to our officers, directors and greater than 10% percent beneficial owners were complied with.

Code of Ethics

At this time the Company has not established any code of conduct and ethics

ITEM 11. EXECUTIVE COMPENSATION

The following table sets forth information concerning the annual and long-term compensation awarded to, earned by, or paid to the named executive officer for all services rendered in all capacities to our company, or any of its subsidiaries, for the years ended December 31, 2013 and 2012:

<u>Name and Principal Position</u>		Salary	Deferred Compensation	Bonus	Stock Awards	and Warrant Awards	All Other Compensation	Total
Ryan Schadel	2013	\$104,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$104,000
Chief Executive Officer and Chief Financial Officer	2012	\$104,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$104,000

Employment Agreements

The Company has no formal employment agreements.

Compensation of Directors

The general policy of the Board of Directors is that compensation for independent Directors should be a nominal cash fee plus equity-based compensation. We do not pay employee Directors for Board service in addition to their regular employee compensation. The Board of Directors have the primary responsibility for considering and determining the amount of Director compensation.

The following table shows amounts earned by each Director in the fiscal year ended December 31, 2013.

Fees Earned	Non-Equity Incentive	Change in Pension Value and Nonqualified Deferred
------------------------	---------------------------------	--

Director	or Paid in Cash	Stock Awards	Warrant Awards	Plan Compensation	Compensation Earnings	All Other Compensation	Total
Ryan Schadel	\$ -	\$-	\$ -	\$ -	\$ -	\$ -	\$ -
Matthew Rodgers	\$ -	\$38,669	\$ -	\$ -	\$ -	\$ -	\$ -
Shannan Manix (1)	\$ -	\$35,953	\$ -	\$ -	\$ -	\$ -	\$ -

(1) Ms. Manix resigned as a director of the Company on November 13, 2013.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth information with respect to the beneficial ownership of our Common Stock as of March 26, 2014 for:

- 1 each of our executive officers and directors;
- 1 all of our executive officers and directors as a group; and
- 1 any other beneficial owner of more than 5% of our outstanding Common Stock.

Beneficial ownership is determined in accordance with the rules of the SEC. These rules generally attribute beneficial ownership of securities to persons who possess sole or shared voting power or investment power with respect to those

securities and include ordinary shares issuable upon the exercise of stock options that are immediately exercisable or exercisable within 60 days. Except as otherwise indicated, all persons listed below have sole voting and investment power with respect to the shares beneficially owned by them, subject to applicable community property laws. The information is not necessarily indicative of beneficial ownership for any other purpose.

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Owner	Percent of Class
Common Stock	Ryan Schadel 5604 Wendy Bagwell Parkway, Ste 223 Hiram, GA 30141	15,339,800 (1)	70.1 %
Common Stock	Matthew Rodgers 5604 Wendy Bagwell Parkway, Ste 223 Hiram, GA 30141	100,000 (2)	0.5 %
	Total of All Directors and Executive Officers	15,100,000	70.6 %

Shares beneficially owned include 45,800 shares of common stock held by Dana Schadel and 210,000 shares of (1) common stock issuable upon the exercise of 210,000 options granted to Dana Schadel. Dana Schadel is the spouse of Ryan Schadel.

(2) 100,000 shares of common stock issuable upon the exercise of 100,000 options granted.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

No director, executive officer, principal shareholder holding at least 5% of our common shares, or any family member thereof, had any material interest, direct or indirect, in any transaction, or proposed transaction, during the year ended December 31, 2013, in which the amount involved in the transaction exceeded or exceeds the lesser of \$120,000 or one percent of the average of our total assets at the year end for the last three completed fiscal years.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the fees billed and to be billed by our principal independent accountants, De Joya Griffith, LLC, for each of our last two fiscal years for the categories of services indicated.

Category	Years Ended	
	December 31, 2013	2012

Edgar Filing: Labor Smart, Inc. - Form 10-K

Audit Fees	\$44,225	\$25,200
Audit Related Fees	*	—
Tax Fees	*	850
All Other Fees	*	—
Total	\$44,225	\$26,050

Audit fees. Consists of fees billed for the audit of our annual financial statements and review of our interim financial information and services that are normally provided by the accountant in connection with year-end and quarter-end statutory and regulatory filings or engagements.

Audit-related fees. Consists of fees billed for services relating to review of other regulatory filings including registration statements, periodic reports and audit related consulting.

Tax fees. Consists of professional services rendered by our principal accountant for tax compliance, tax advice and tax planning.

Other fees. Other services provided by our accountants.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

Number Description

- 3.1 Articles of Incorporation (incorporated by reference to our Form S-1 filed on October 6, 2011)
- 3.2 Bylaws (incorporated by reference to our Form S-1 filed on October 6, 2011)
- 23.1 (1) Consent of Auditors
- 31.1 (1) Certification of Chief Executive Officer and Principal Accounting Officer of Labor Smart, Inc. Required by Rule 13a-14(1) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 (1) Certification of Principal Executive Officer and Principal Accounting Officer of Labor Smart, Inc. Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and Section 1350 Of 18 U.S.C. 63
- 101.INS
(1) XBRL Instance Document
- 101.SCH
(1) XBRL Taxonomy Extension Schema Document
- 101.CAL
(1) XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF
(1) XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB
(1) XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE
(1) XBRL Taxonomy Extension Presentation Linkbase Document

(1) Filed herewith

Financial Statement Schedules

None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Labor Smart, Inc.

April 14, 2014 By: */s/ Ryan Schadel*

Ryan Schadel

President, Treasurer, Director, Chief Executive and

Chief Accounting Officer (Principal Executive and Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

April 14, 2014 */s/ Ryan Schadel*

Ryan Schadel

President, Treasurer, Director, Chief Executive and

Chief Accounting Officer

