GENERAL EMPLOYMENT ENTERPRISES INC
Form 10QSB
May 04, 2007

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-QSB

[X] Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2007

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number 1-05707

GENERAL EMPLOYMENT ENTERPRISES, INC.
(Exact name of small business issuer as specified in its charter)

Illinois	36-6097429
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

One Tower Lane, Suite 2200, Oakbrook Terrace, Illinois 60181
(Address of principal executive offices)

(630) 954-0400
(Issuer's telephone number)

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. [ ]

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the past 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 [X] No [ ]

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

The number of shares outstanding of the issuer's common stock as of March 31, 2007 was 5,148,265.

Transitional small business disclosure format: Yes [ ] No [X]

PART I - FINANCIAL INFORMATION

Item 1, Financial Statements.

GENERAL EMPLOYMENT ENTERPRISES, INC.
CONSOLIDATED BALANCE SHEET

	March 31 2007	September 30 2006

(In Thousands)	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$5,539	$5,904
Accounts receivable, less allowances (Mar. 2007--$260; Sept. 2006--$280)	2,103	1,978
Other current assets	703	592
Total current assets	8,345	8,474
Property and equipment, net	928	801
Total assets	$9,273	$9,275
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accrued compensation	$2,059	$1,791
Other current liabilities	465	632
Total current liabilities	2,524	2,423
Shareholders' equity:		
Preferred stock, authorized -- 100 shares; issued and outstanding -- none	--	--
Common stock, no-par value; authorized -- 20,000 shares; issued and outstanding -- 5,148 shares	4,865	4,839
Retained earnings	1,884	2,013
Total shareholders' equity	6,749	6,852
Total liabilities and shareholders' equity	$9,273	$9,275

See notes to consolidated financial statements.

2

GENERAL EMPLOYMENT ENTERPRISES, INC.
CONSOLIDATED STATEMENT OF INCOME (Unaudited)

	Three Months Ended March 31		Six Months Ended March 31	
(In Thousands, Except Per Share)	2007	2006	2007	2006
Net revenues:				
Contract services	$2,113	$2,685	$4,313	$5,323
Placement services	2,847	2,315	5,491	4,390
Net revenues	4,960	5,000	9,804	9,713
Operating expenses:				
Cost of contract services	1,442	1,902	2,918	3,758
Selling	1,848	1,420	3,452	2,690
General and administrative	1,639	1,554	3,190	3,056
Total operating expenses	4,929	4,876	9,560	9,504
Income from operations	31	124	244	209
Investment income	59	51	142	94

Net income	$ 90	$ 175	$ 386	$ 303
Average number of shares:				
Basic	5,148	5,148	5,148	5,148
Diluted	5,381	5,328	5,358	5,351
Net income per share - basic and diluted	$ .02	$ .03	$ .07	$ .06
Cash dividends declared per share	$ --	$ --	$ .10	$ --

See notes to consolidated financial statements.

3

GENERAL EMPLOYMENT ENTERPRISES, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)

	Six Months Ended March 31	
(In Thousands)	2007	2006
Operating activities:		
Net income	$ 386	$ 303
Depreciation and other noncurrent items	139	80
Accounts receivable	(125)	(133)
Accrued compensation	268	(117)
Other current items, net	(278)	(193)
Net cash provided (used) by operating activities	390	(60)
Investing activities:		
Acquisition of property and equipment	(240)	(33)
Financing activities:		
Cash dividends paid	(515)	--
Decrease in cash and cash equivalents	(365)	(93)
Cash and cash equivalents at beginning of period	5,904	5,236
Cash and cash equivalents at end of period	$5,539	$5,143

See notes to consolidated financial statements.

4

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-QSB. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

This financial information should be read in conjunction with the financial statements included in the Company's annual report on Form 10-KSB for the year ended September 30, 2006.

Income Taxes

There was no provision for income taxes in either year, because of the availability of operating losses carried forward from prior years.

Shareholders' Equity

Changes in shareholders' equity for the six months ended March 31, 2007 and 2006 were as follows:

(In Thousands)	2007	2006
Common stock:		
Balance at beginning of period	$4,839	$4,839
Stock option expense	26	--
Balance at end of period	$4,865	$4,839
Retained earnings:		
Balance at beginning of period	$2,013	$1,011
Net income	386	303
Cash dividends declared	(515)	--
Balance at end of period	$1,884	$1,314

Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

The Company provides contract and placement staffing services for business and industry, specializing in the placement of information technology, engineering and accounting professionals. As of March 31, 2007 the Company operated 19 offices located in 9 states.

The Company's business is highly dependent on national employment trends in general and on the demand for professional staff in particular. As an

indicator of employment conditions, the national unemployment rate was 4.4% in March 2007 and 4.7% in March 2006. The change indicates a trend toward fuller employment over the last twelve months.

During the six months ended March 31, 2007, the Company experienced stronger demand for its placement services, compared with the same period of the prior year. Because of the stronger demand, and because placement services have a higher profit margin than contract services, the Company focused its marketing efforts on the placement business this year. As a result, the Company achieved increases in both the number of placements and the average placement fee, while the number of billable contract hours declined.

Consolidated net revenues for the six months ended March 31, 2007 increased 1% compared with the prior year. Placement service revenues were up 25%, while contract service revenues were down 19%. Due to the growth in placement service revenues, income from operations rose 17% from the same period last year.

Because long-term contracts are not a significant part of the Company's business, future results cannot be reliably predicted by considering past trends or by extrapolating past results. While it is difficult to accurately predict future hiring patterns or the demand for staffing services, management believes that the Company is well positioned for growth of its operations. Existing branch offices have the capacity to accommodate additional consulting staff and a higher volume of business.

Results of Operations

A summary of operating data, expressed as a percentage of consolidated net revenues, is presented below.

	Six Months Ended March 31	
	2007	2006
Net revenues:		
Contract services	44.0%	54.8%
Placement services	56.0	45.2
Net revenues	100.0	100.0
Operating expenses:		
Cost of contract services	29.8	38.7
Selling	35.2	27.7
General and administrative	32.5	31.5
Total operating expenses	97.5	97.8
Income from operations	2.5%	2.2%

Net Revenues

Consolidated net revenues for the six months ended March 31, 2007 were up $91,000 (1%) from the prior year. Placement service revenues increased $1,101,000 (25%), while contract service revenues decreased $1,010,000 (19%).

National employment levels during the first six months of this year were higher than for the same period last year, and the Company experienced

6

stronger demand for its placement services. As a result, the number of placements grew by 11% and the average placement fee was up 12% over the same period last year.

Because of a shift in the Company's marketing focus toward the placement business, the contract service business declined. The decrease in contract service revenues reflects a 22% decrease in the number of billable hours, which was partially offset by a 3% increase in the average hourly billing rate.

Operating Expenses
Total operating expenses for the six months ended March 31, 2007 were up $56,000 (1%) compared with the prior year.

The cost of contract services was down $840,000 (22%) as a result of the lower volume of contract business. The gross profit margin on contract business was 32.3% for the six months ended March 31, 2007, which was 2.9 points higher than 29.4% for the prior year. There are no direct costs associated with placement service revenues.

Selling expenses increased $762,000 (28%) for the period. Commission expense was up 28% and recruitment advertising expense was up 43% because of the higher volume of placement business. Selling expenses represented 35.2% of consolidated net revenues, which was up 7.5 points from the prior year because of the change in revenue mix.

General and administrative expenses increased $134,000 (4%) for the six months ended March 31, 2007. They represented 32.5% of consolidated revenues, which was up 1.0 point from the prior year.

There was no provision for income taxes in either year, because of the availability of operating losses carried forward from prior years.

Financial Condition

As of March 31, 2007, the Company had cash and cash equivalents of $5,539,000, which was a decrease of $365,000 from September 30, 2006. Net working capital at March 31, 2007 was $5,821,000, which was a decrease of $230,000 from September 30, 2006, and the current ratio was 3.3 to 1. The Company had no long-term debt. Shareholders' equity as of March 31, 2007 was $6,749,000, which represented 73% of total assets.

During the six months ended March 31, 2007, the net cash provided by operating activities was $390,000. Net income for the period, together with depreciation and other non-cash charges, provided $525,000, while working capital items used $135,000.

Expenditures for the acquisition of property and equipment were $240,000 for the six months ended March 31, 2007. The major expenditures were for computer equipment and software purchased in connection with a program to upgrade the Company's computer systems. During the period the Company paid cash dividends of $515,000.

All of the Company's office facilities are leased. Information about future minimum lease payments and other commitments is presented in the notes to consolidated financial statements on Form 10-KSB for the fiscal year ended September 30, 2006.

The Company's primary source of liquidity is from its operating activities. The Company's philosophy regarding the maintenance of cash balances reflects

management's views on potential future needs for liquidity. Management believes that funds generated by operations, together with existing cash balances, will be adequate to finance current operations and capital expenditures for the foreseeable future.

Off-Balance Sheet Arrangements

As of March 31, 2007, and during the six months then ended, there were no transactions, agreements or other contractual arrangements to which an unconsolidated entity was a party, under which the Company (a) had any direct or contingent obligation under a guarantee contract, derivative instrument or variable interest in the unconsolidated entity, or (b) had a retained or contingent interest in assets transferred to the unconsolidated entity.

Forward-Looking Statements

As a matter of policy, the Company does not provide forecasts of future financial performance. However, the Company and its representatives may from time to time make written or verbal forward-looking statements, including statements contained in press announcements, reports to shareholders and filings with the Securities and Exchange Commission. All statements which address expectations about future operating performance and cash flows, future events and business developments, and future economic conditions are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management's then-current expectations and assumptions. Actual outcomes could differ significantly. The Company and its representatives do not assume any obligation to provide updated information.

Some of the factors that could affect the Company's future performance include, but are not limited to, general business conditions, the demand for the Company's services, competitive market pressures, the ability of the Company to attract and retain qualified personnel for regular full-time placement and contract assignments, the possibility of incurring liability for the Company's business activities, including the activities of its contract employees and events affecting its contract employees on client premises, and the ability to attract and retain qualified corporate and branch management.

Item 3, Controls and Procedures.

As of March 31, 2007, the Company's management evaluated, with the participation of its principal executive officer and its principal financial officer, the effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act"). Based on that evaluation, the Company's principal executive officer and its principal financial officer concluded that the Company's disclosure controls and procedures were adequate as of March 31, 2007 to ensure that information required to be disclosed in reports filed or submitted by the Company under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms.

There was no change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 4, Submission of Matters to a Vote of Security Holders.

At the annual meeting of shareholders on February 26,2007, the shareholders elected all nominees for election as directors and approved the Amended and Restated General Employment Enterprises, Inc. 1997 Stock Option Plan.

The name of each director elected, together with the number of votes cast for election and the number of votes withheld, are presented below:

Nominees	Votes For	Votes Withheld
Dennis W. Baker	4,222,273	342,645
Sheldon Brottman	4,237,450	327,468
Andrew Dailey	5,970,465	163,853
Delain G. Danehey	4,233,106	331,812
Herbert F. Imhoff, Jr.	4,232,368	332,550
Joseph F. Lizzadro	4,263,665	301,253
Kent M. Yauch	4,233,013	331,905

The number of votes cast and the number of broker non-votes on the proposal to approve the Amended and Restated General Employment Enterprises, Inc. 1997 Stock Option Plan were as follows:

For	2,370,260
Against	444,877
Abstain	49,558
Broker non-votes	1,924,423

Item 6, Exhibits.

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

No.	Description of Exhibit
10.01*	Amended and Restated General Employment Enterprises, Inc. 1997 Stock Option Plan.
31.01	Certification of the principal executive officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.
31.02	Certification of the principal financial officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.
32.01	Certifications required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code.

* Management contract or compensatory plan or arrangement.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GENERAL EMPLOYMENT ENTERPRISES, INC.
(Registrant)

Date: May 4, 2007

By: /s/ Kent M. Yauch
Kent M. Yauch
Vice President, Chief Financial Officer and Treasurer (Principal financial and accounting officer and duly authorized officer)