GENERAL EMPLOYMENT ENTERPRISES INC
Form 10QSB
May 07, 2008

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, 2008

[ ] 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 (1) filed all reports required to be filed by Section 13 or 15(d) of the 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, 2008 was 5,165,265.

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 2008	September 30 2007
(In Thousands)	(Unaudited)	

ASSETS		
Current assets:		
Cash and cash equivalents	$4,755	$6,344
Accounts receivable, less allowances (Mar. 2008--$186; Sept. 2007--$248)	1,655	1,915
Other current assets	294	252
Total current assets	6,704	8,511
Property and equipment, net	871	929
Other assets	427	436
Total assets	$8,002	$9,876
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accrued compensation	$1,113	$1,602
Other current liabilities	363	514
Total current liabilities	1,476	2,116
Other liabilities	427	436
Shareholders' equity:		
Preferred stock, authorized -- 100 shares; issued and outstanding -- none	--	--
Common stock, no-par value; authorized -- 20,000 shares; issued and outstanding -- 5,165 shares in March 2008 and 5,153 shares in September 2007	4,954	4,912
Retained earnings	1,145	2,412
Total shareholders' equity	6,099	7,324
Total liabilities and shareholders' equity	$8,002	$9,876

See notes to consolidated financial statements.

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

	Three Months Ended March 31		Six Months Ended March 31	
(In Thousands, Except Per Share)	2008	2007	2008	2007
Net revenues:				
Contract services	$2,058	$2,113	$3,860	$4,313
Placement services	1,831	2,847	3,993	5,491
Net revenues	3,889	4,960	7,853	9,804
Operating expenses:				
Cost of contract services	1,374	1,442	2,609	2,918
Selling	1,278	1,848	2,653	3,452
General and administrative	1,760	1,639	3,391	3,190
Total operating expenses	4,412	4,929	8,653	9,560
Income (loss) from operations	(523)	31	(800)	244
Investment income	--	59	50	142

Net income (loss)	$ (523)	$ 90	$ (750)	$ 386
Average number of shares:				
Basic	5,165	5,148	5,162	5,148
Diluted	5,165	5,381	5,162	5,358
Net income (loss) per share – basic and diluted	$ (.10)	$ .02	$ (.15)	$ .07
Cash dividends declared per share	$ --	$ --	$ .10	$ .10

See notes to consolidated financial statements.

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

	Six Months Ended March 31	
(In Thousands)	2008	2007
Operating activities:		
Net income (loss)	$ (750)	$ 386
Depreciation and other noncurrent items	160	139
Accounts receivable	260	(125)
Accrued compensation	(489)	268
Other current items, net	(193)	(278)
Net cash provided (used) by operating activities	(1,012)	390
Investing activities:		
Acquisition of property and equipment	(70)	(240)
Financing activities:		
Exercises of stock options	10	--
Cash dividends paid	(517)	(515)
Net cash used by financing activities	(507)	(515)
Decrease in cash and cash equivalents	(1,589)	(365)
Cash and cash equivalents at beginning of period	6,344	5,904
Cash and cash equivalents at end of period	$ 4,755	$5,539

See notes to consolidated financial statements.

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

	Six Months Ended March 31	
(In Thousands)	2008	2007
Common shares outstanding:		
Number at beginning of period	5,153	5,148
Exercises of stock options	12	--

Number at end of period	5,165	5,148
Common stock:		
Balance at beginning of period	$4,912	$4,839
Stock compensation expense	32	26
Exercises of stock options	10	--
Balance at end of period	$4,954	$4,865
Retained earnings:		
Balance at beginning of period	$2,412	$2,013
Net income (loss)	(750)	386
Cash dividends declared	(517)	(515)
Balance at end of period	$1,145	$1,884

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Basis of Presentation

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America and the rules of the United States Securities and Exchange Commission. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the financial statements have been included. Interim results are not necessarily indicative of results for a full year. These financial statements should be read in conjunction with the financial statements included in the Company's annual report on Form 10-KSB for the fiscal year ended September 30, 2007.

Recent Accounting Pronouncements

The Company adopted the requirements of Financial Accounting Standards Board Financial Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," as of October 1, 2007. The interpretation specifies how a position taken on a tax return is to be measured, recognized and disclosed in the financial statements. The adoption of it did not have a material effect on the Company's financial statements.

Income Taxes

There were no credits for income taxes as a result of the pretax losses in the 2008 periods, because there was not sufficient assurance that future tax benefits would be realized. There were no provisions for income taxes in the 2007 periods, because of the availability of losses carried forward from prior years.

Purchase Commitments

As of March 31, 2008, the Company had contractual obligations to purchase approximately $1,200,000 of recruitment advertising through

December 31, 2009.

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, 2008, 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 5.1% in March 2008 and 4.4% in March 2007. The change indicates a trend toward a lower level of employment in the United States during the last twelve months.

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During the six months ended March 31, 2008, the U.S. economy experienced a period of uncertainty stemming from problems in the housing and credit markets, and the rate of growth in national payroll employment turned negative. Management believes that employers became very cautious about hiring during the period. As a result, the Company experienced sharp declines in both the number of placements and the number of billable contract hours.

Consolidated net revenues for the six months ended March 31, 2008 decreased 20% compared with the prior year. Placement service revenues were down 27%, and contract service revenues were down 11%. The effects of lower consolidated net revenues resulted in an $800,000 loss from operations this year, compared with $244,000 of income from operations 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.

Results of Operations

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

	Six Months Ended March 31 2008	Six Months Ended March 31 2007
Net revenues:		
Contract services	49.2%	44.0%
Placement services	50.8	56.0
Net revenues	100.0	100.0
Operating expenses:		
Cost of contract services	33.2	29.8
Selling	33.8	35.2

General and administrative	43.2	32.5
Total operating expenses	110.2	97.5
Income (loss) from operations	(10.2)%	2.5%

Net Revenues
Consolidated net revenues for the six months ended March 31, 2008 were down $1,951,000 (20%) from the prior year. Placement service revenues decreased $1,498,000 (27%), and contract service revenues decreased $453,000 (11%).

As a result of the weaker economic conditions that prevailed during the six months ended March 31, 2008, the Company experienced less demand for its services. The decline in consolidated net revenues was the result of 28% fewer placements and a 14% decrease in the number of billable contract hours.

Operating Expenses
Total operating expenses for the six months ended March 31, 2008 were down $907,000 (9%) compared with the prior year.

The cost of contract services was down $309,000 (11%) as a result of the lower volume of contract business. The gross profit margin on contract business was 32.4% for the six months ended March 31, 2008, which was about the same as the prior year. There are no direct costs associated with placement service revenues.

Selling expenses decreased $799,000 (23%) for the period. Commission expense was down 29% because of the lower volume of placement business, while recruitment advertising expense remained about the same as last year. Selling expenses represented 33.8% of consolidated net revenues, which was down 1.4 points from the prior year.

General and administrative expenses increased $201,000 (6%) for the six months ended March 31, 2008. The change was primarily due to a 21% increase in compensation costs in the operating divisions. Advances against commissions increased during the period because commissions decreased. All other general and administrative expenses together remained about the same as last year. As a result, general and administrative expenses represented 43.2% of consolidated net revenues, which was up 10.7 points from the prior year.

Other
Investment income for the six months ended March 31, 2008 was down $92,000 (65%), primarily due to a lower average rate of return on investments.

There were no credits for income taxes as a result of the pretax losses in the 2008 periods, because there was not sufficient assurance that future tax benefits would be realized. There were no provisions for income taxes in the 2007 periods, because of the availability of losses carried forward from prior years.

Financial Condition

As of March 31, 2008, the Company had cash and cash equivalents of $4,755,000,
which was a decrease of $1,589,000 from September 30, 2007. Net working

capital at March 31, 2008 was $5,228,000, which was a decrease of $1,167,000 from September 30, 2007, and the current ratio was 4.5 to 1. Shareholders' equity as of March 31, 2008 was $6,099,000, which represented 76% of total assets.

During the six months ended March 31, 2008, the net cash used by operating activities was $1,012,000. The net loss for the period, adjusted for depreciation and other non-cash charges, used $590,000. A reduction of payroll liabilities required the use of $489,000, while all other working capital items provided $67,000.

Expenditures for the acquisition of property and equipment during the period were $70,000.

In November 2007, the Company's board of directors declared a cash dividend in
the amount of $.10 per common share, which resulted in a total payment of $517,000 in January 2008.

All of the Company's office facilities are leased. Information about future minimum lease payments is presented in the Notes to Consolidated Financial Statements on Form 10-KSB for the fiscal year ended September 30, 2007. Information about purchase commitments is contained in the Notes to Consolidated Financial Statements in this quarterly report on Form 10-QSB.

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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 existing cash balances will be adequate to finance current operations for the foreseeable future.

Off-Balance Sheet Arrangements

As of March 31, 2008, 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, 2008, 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, 2008 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 25, 2008, the shareholders elected all nominees for election as directors.

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	4,481,017	222,988
Sheldon Brottman	4,470,258	233,747
Andrew Dailey	4,622,604	81,401
Delain G. Danehey	4,475,849	228,156
Herbert F. Imhoff, Jr.	4,077,314	626,691
Kent M. Yauch	4,464,943	239,062

Item 6, Exhibits.

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

No. Description of Exhibit

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.

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 7, 2008

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