GENERAL EMPLOYMENT ENTERPRISES INC
Form 10-Q
May 13, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2010

or

o 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 registrant 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
(Registrant’s telephone number, including area code)

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 x No o

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 (Section 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 o No o

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	o	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	x

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

The number of shares outstanding of the registrant's common stock as of March 31, 2010 was 13,380,265.

PART I – FINANCIAL INFORMATION

Item 1, Financial Statements

GENERAL EMPLOYMENT ENTERPRISES, INC.
CONSOLIDATED BALANCE SHEETS

(In Thousands)	March 31 2010 (Unaudited)	September 30 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$1,433	$2,810
Accounts receivable, less allowances (March 2010 - $115; September 2009 - $76)	864	1,038
Other current assets	283	249
Total current assets	2,580	4,097
Property and equipment, net	470	570
Total assets	$3,050	$4,667
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$211	$348
Accrued compensation	540	666
Other current liabilities	428	474
Total current liabilities	1,179	1,488
Long-term obligations	504	575
Shareholders' equity:		
Preferred stock; authorized - 100 shares; issued and outstanding - none	—	—
Common stock, no-par value; authorized - 20,000 shares; issued and outstanding - 13,380 shares	6,795	6,743
Accumulated deficit	(5,428)	(4,139)
Total shareholders' equity	1,367	2,604
Total liabilities and shareholders' equity	$3,050	$4,667

See notes to consolidated financial statements.

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

(In Thousands, Except Per Share Amounts)	Three Months Ended March 31 2010	Three Months Ended March 31 2009	Six Months Ended March 31 2010	Six Months Ended March 31 2009
Net revenues:				
Contract services	$1,456	$1,398	$2,858	$2,943
Placement services	572	1,074	1,142	2,416
Net revenues	2,028	2,472	4,000	5,359
Cost of contract services	1,059	1,017	2,055	2,053
Selling, general and administrative expenses	1,660	2,530	3,207	5,086
Loss from operations	(691)	(1,075)	(1,262)	(1,780)
Other expense, net	(9)	(13)	(27)	(84)
Net loss	$(700)	$(1,088)	$(1,289)	$(1,864)
Average number of shares - basic and diluted	13,380	5,165	13,380	5,165
Net loss per share - basic and diluted	$(.05)	$(.21)	$(.10)	$(.36)

See notes to consolidated financial statements.

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

(In Thousands)	Six Months Ended March 31 2010	2009
Cash Flows From Operating Activities:		
Net loss	$(1,289)	$(1,864)
Depreciation and other noncurrent items	81	148
Changes in current assets and current liabilities -		
Accounts receivable	174	584
Accounts payable	(137)	113
Accrued compensation	(126)	(157)
Other current items, net	(80)	(331)
Net cash used in operating activities	(1,377)	(1,507)
Cash Flows From Financing Activities:		
Deferred stock issuance costs	—	(194)
Net cash used in financing activities	—	(194)
Decrease in cash and cash equivalents	(1,377)	(1,701)
Cash and cash equivalents at beginning of period	2,810	4,165
Cash and cash equivalents at end of period	$1,433	$2,464

See notes to consolidated financial statements.

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

(In Thousands)	Six Months Ended March 31 2010	2009
Common shares outstanding:		
Number at beginning of period	13,380	5,165
Number at end of period	13,380	5,165
Common stock:		
Balance at beginning of period	$6,743	$4,987
Stock compensation expense	6	28
Administrative compensation paid by principal stockholder	46	—
Balance at end of period	$6,795	$5,015
Retained earnings (accumulated deficit):		
Balance at beginning of period	$(4,139)	$89
Net loss	(1,289)	(1,864)
Balance at end of period	$(5,428)	$(1,775)

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-K for the year ended September 30, 2009.

The accompanying consolidated financial statements have been prepared on the going concern basis which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Due to the effects of the U.S. economic downturn, the Company incurred losses during the first six months of fiscal 2010, and as a result the Company’s cash position was reduced to $1,433,000 as of March 31, 2010. The Company’s ability to continue as a going concern is ultimately dependent on its ability to obtain additional funding and increase sales to a level that will allow it to operate profitably and sustain positive operating cash flows. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the possible inability of the Company to continue as a going concern.

Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board issued guidance on business combinations. Under the FASB guidance, an entity is required to recognize the assets acquired, liabilities assumed, contractual contingencies, and contingent consideration at their fair value on the acquisition date. It further requires that acquisition-related costs be recognized separately from the acquisition and expensed as incurred, restructuring costs generally be expensed in periods subsequent to the acquisition date, and changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period impact income tax expense. The Company adopted the guidance on business combinations on a prospective basis as of October 1, 2009, and it will be applied to any future acquisitions.

Placement Service Revenues

The provision for falloffs and refunds, reflected in the consolidated statement of operations as a reduction of placement service revenues, was $138,000 for the six-month period ended March 31, 2010 and $182,000 for the six-month period ended March 31, 2009.

Other Expense, Net

The components of other expense, net are as follows:

	Three Months Ended March 31		Six Months Ended March 31	
(In Thousands)	2010	2009	2010	2009
Interest expense	$(9)	$—	$(19)	$—
Interest income	—	6	3	28
Loss on investments	—	(19)	(11)	(112)
Other expense, net	$(9)	$(13)	$(27)	$(84)

The loss on investments includes realized and unrealized holding gains and losses on trading securities.

Cash and Cash Equivalents

A summary of cash and cash equivalents is as follows:

(In Thousands)	March 31 2010	September 30 2009
Cash	$1,433	$510
Certificate of deposit	—	2,300
Total cash and cash equivalents	$1,433	$2,810

Income Taxes

There were no credits for income taxes as a result of the pretax losses during the periods, because there was not sufficient assurance that a future tax benefit would be realized.

Property and Equipment

Property and equipment consisted of the following:

(In Thousands)	2010	2009
Property and equipment, at cost	$3,464	$3,466
Accumulated depreciation and amortization	(2,994)	(2,896)
Property and equipment, net	$470	$570

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Commitments

As of March 31, 2010, the Company had contractual obligations to purchase approximately $630,000 of recruitment advertising through December 31, 2011.

Line of Credit

The Company has a loan and security agreement with Crestmark Bank for financing of its accounts receivable. Under the terms, the Company may borrow up to 85% of its eligible accounts receivable, not to exceed $3,500,000. The loan is secured by accounts receivable and other property of the Company. Interest is charged at the rate of 1.00 percentage point above the prime rate. The term is for three years (thirty one months remaining) or earlier upon demand by Crestmark, and will be renewed automatically for consecutive two year terms unless terminated by either party. As of March 31, 2010, there were no outstanding borrowings under the line of credit.

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, 2010, the Company operated ten branch offices located in eight 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 9.7% in March 2010 and 8.5% in March 2009. The change indicates a trend toward a lower level of employment in the United States during the last twelve months.

During the six months ended March 31, 2010, the U.S. labor market experienced a period of uncertainty stemming from general weakness in the economy. Management believes that employers continue to remain extremely cautious about hiring during the period. As a result, the Company experienced sharp declines in both the number of billable contract hours and the number of placements.

To better position the Company in the face of these economic conditions, the Company took action to reduce its cost structure. The Company implemented a restructuring of its corporate and field operations during the third quarter of fiscal 2009. Sales, recruiting and administrative positions were eliminated, five branch offices were closed and the payroll for executive officers was reduced. As a result of this restructuring, together with other actions taken, the sales, recruiting and administrative staff as of March 31, 2010 was 47% below the staff level a year earlier, and the salaries and benefits of its three executive officers in the aggregate had been reduced by $637,000 on an annual basis. Although the restructuring was successful in reducing costs, it also had the effect of reducing the Company's sales capacity.

Results of Operations – Six Months

Net Revenues

Consolidated net revenues for the six months ended March 31, 2010 were down $1,359,000 (25%) from the prior year. Contract service revenues decreased $85,000 (3%) and placement service revenues decreased $1,274,000 (53%). As a result of weaker economic conditions that prevailed during the six months ended March 31, 2010, the Company experienced less demand for its services. The decline in consolidated net revenues was the result of a 20% decrease in the number of billable contract hours and 45% fewer placements.

Cost of Contract Services
The cost of contract services includes wages and the related payroll taxes and employee benefits of the Company's employees while they work on contract assignments. There are no direct costs associated with placement service revenues. The cost of contract services for the six months ended March 31, 2010 was up $2,000 as a result of the relatively flat volume of contract business. The gross profit margin on contract business was 28%, which was 2 points less than the 30% margin achieved in the prior year due to competitive pricing pressures during the period.

Selling, General and Administrative Expenses
Selling, general and administrative expenses include the following categories:

- Compensation in the operating divisions, which includes commissions earned by the Company's employment consultants and branch managers on permanent and temporary placements. It also includes salaries, wages, unrecovered advances against commissions, payroll taxes and employee benefits associated with the management and operation of the Company's staffing offices.
- Administrative compensation, which includes salaries, wages, payroll taxes and employee benefits associated with general management and the operation of the finance, legal, human resources and information technology functions.
- Occupancy costs, which includes office rent, depreciation and amortization, and other office operating expenses.
- Recruitment advertising, which includes the cost of identifying job applicants.
- Other selling, general and administrative expenses, which includes travel, bad debt expense, fees for outside professional services and other corporate-level expenses such as business insurance and taxes.

The Company's largest selling, general and administrative expense is for compensation in the operating divisions. Most of the Company's employment consultants are paid on a commission basis and receive advances against future commissions. Advances are expensed when paid. When commissions are earned, prior advances are applied against them and the consultant is paid the net amount. At that time, the Company recognizes the full amount as commission expense, and advance expense is reduced by the amount recovered. Thus, the Company's advance expense represents the net amount of advances paid, less amounts applied against commissions.

Selling, general and administrative expenses for the six months ended March 31, 2010 decreased $1,879,000 (37%). Compensation in the operating divisions was down 50%, reflecting lower commission expense on the lower volume of business and staff reductions during the last year. Administrative compensation was down 34%, reflecting executive pay reductions. Occupancy costs were down 33% for the period because of operating fewer branch offices than last year. Recruitment advertising decreased 69% due to lower utilization of job board posting services. All other selling, general and administrative expenses together were up 56%, primarily due to $196,000 of additional professional fees sustained with respect to the negotiations and due diligence performed in connection with a Memorandum of Agreement with GT Systems Inc. As of March 22, 2010 the Memorandum of Agreement has been terminated and there will be no consummation of the transaction to purchase GT Systems Inc.

Other
Other expense, net, for the six months ended March 31, 2010 was down 68% from the same period last year due to a reduction in investment losses from the executive retirement plan. The executive retirement plan was terminated in fiscal year 2009.

There were no credits for income taxes as a result of the pretax losses during the periods, because there was not sufficient assurance that future tax benefits would be realized.

Results of Operations – Three Months

Net Revenues

Consolidated net revenues for the three months ended March 31, 2010 were down $444,000 (18%) from the prior year. Contract service revenues were up $58,000 (4%), on a 30% increase in the average hourly billing rate and a 20% decrease in billable hours. Placement service revenues decreased $502,000 (47%) due to a 43% decrease in the number of placements. As a result of weaker economic conditions that prevailed during the three months ended March 31, 2010, the Company experienced less demand for its services. The decline in consolidated net revenues was the result of a 20% decrease in the number of billable contract hours and 43% fewer placements.

Cost of Contract Services
The cost of contract services for the three months ended March 31, 2010 increased $42,000 (4%) as a result of a slight increase in the volume of contract business. The gross profit margin on contract business was 27%, which was the same as last year.

Selling, General and Administrative Expenses
Selling, general and administrative expenses for the three months ended March 31, 2010 decreased $870,000 (34%). Compensation in the operating divisions was down 48%, reflecting lower commission expense on the lower volume of business and staff reductions during the last year. Administrative compensation was down 33%, reflecting executive pay reductions. Occupancy costs were down 33% for the period because of operating fewer branch offices than last year. Recruitment advertising decreased 67% due to lower utilization of job board posting services. All other selling, general and administrative expenses together were up 49%, primarily due to $196,000 of additional professional fees sustained with respect to the negotiations and due diligence performed in connection with Memorandum of Agreement with GT Systems.

Other
Other expense, net for the three months ended March 31, 2010 was down 31% from the same period last year due to a reduction in investment losses from the executive retirement plan. The executive retirement plan was terminated in fiscal year 2009.

There were no credits for income taxes as a result of the pretax losses during the periods, because there was not sufficient assurance that future tax benefits would be realized

Liquidity and Capital Recourses

As of March 31, 2010, the Company had cash and cash equivalents of $1,433,000, which was a decrease of $1,377,000 from September 30, 2009. Net working capital at March 31, 2010 was $1,401,000, which was a decrease of $1,208,000 from September 30, 2009, and the current ratio was 2.2 to 1. Shareholders' equity as of March 31, 2010 was $1,367,000 which represented 45% of total assets.

During the six months ended March 31, 2010, the net cash used by operating activities was $1,377,000. The net loss for the period, adjusted for depreciation and other non-cash charges, used $1,208,000. A reduction of accounts receivable provided $174,000, a reduction of payroll liabilities used $126,000, and all other working capital items used an additional $217,000.

Information about future minimum lease payments, purchase commitments and long-term obligations is presented in the notes to consolidated financial statements contained in the Company's annual report on Form 10-K for the fiscal year ended September 30, 2009.

The Company has a loan and security agreement with Crestmark Bank for financing of its accounts receivable. Under the terms, the Company may borrow up to 85% of its eligible accounts receivable, not to exceed $3,500,000. The loan is secured by accounts receivable and other property of the Company. Interest is charged at the rate of 1.00 percentage point above the prime rate. The term is for three years (thirty one months remaining) or earlier upon demand by Crestmark, and will be renewed automatically for consecutive two year terms unless terminated by either party. As of March 31, 2010, there were no outstanding borrowings under the line of credit.

Management's current objective is to return the Company to a breakeven level of cash flow as soon as possible and to provide a stable platform for future growth. Due to the effects of the U.S. economic downturn, the Company incurred losses during the first six months of fiscal 2010, and as a result the Company’s cash position was reduced to $1,433,000 as of March 31, 2010. The Company’s ability to continue as a going concern is ultimately dependent on its ability to obtain additional funding and increase sales to a level that will allow it to operate profitably and sustain positive operating cash flows. Management intends to grow the Company through business acquisitions that are expected to be accretive to revenues, earnings and cash flows. In the near term, management plans to finance acquisitions through a combination of notes, the issuance of stock, and earn out agreements.

The Company is in negotiations to purchase On-Site Services, Inc., a temporary staffing company with annual revenues of approximately $10 million. It is anticipated that the purchase would be financed through the issuance of a note payable and shares of Company's common stock. The final terms of the purchase are currently being negotiated.

On December 21, 2009, the Company entered into a Memorandum of Agreement to purchase the core business and business assets of GT Systems, Inc. The anticipated closing of the transaction was subject to the approval by both parties on the final definitive transaction documents memorializing the Agreement. As of March 22, 2010, the Company has concluded that the Agreement should be terminated and that there will be no consummation of the contemplated transaction with GT Systems, Inc.

Off-Balance Sheet Arrangements

As of March 31, 2010, 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. The statements made in this Form 10-Q Quarterly Report which are not historical facts are forward-looking statements. Such forward-looking statements often contain or are prefaced by words such as "will" and "expect." As a result of a number of factors, our actual results could differ materially from those set forth in the forward-looking statements. Certain factors that might cause our actual results to differ materially from those in the forward-looking statements include, without limitation, 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. The Company is under no obligation to (and expressly disclaims any such obligation to) and does not intend to update or alter its forward-looking statements whether as a result of new information, future events or otherwise.

Item 4, Controls and Procedures.

As of March 31, 2010, 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, 2010 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 were no changes 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 March 22, 2010, 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	11,205,171	184,941
Herbert F. Imhoff, Jr.	11,236,081	154,031
Stephen B. Pence	11,268,468	121,644
Charles W, B. Wardell III	11,306,879	83,233
Thomas C. Williams	11,299,379	90,733
Salvatore J. Zizza	11,269,418	120,694

Item 6, Exhibits.

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

No.	Description of Exhibit
31.01	Certifications of the principal executive officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.
31.02	Certifications of the principal financial officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.
32.01	Certifications of the principal executive officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act and Section 1350 of Title 18 of the United States Code.
32.02	Certifications of the principal financial officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act and Section 1350 of Title 18 of the United States Code..

SIGNATURES

Pursuant to the requirements 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.

GENERAL EMPLOYMENT ENTERPRISES, INC.
(Registrant)

Date: May 11, 2010

By: /s/ Salvatore J. Zizza
Salvatore J. Zizza
Chief Executive Officer (Principal executive officer and duly authorized officer)