GENERAL EMPLOYMENT ENTERPRISES INC
Form 10-Q
February 01, 2002

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 December 31, 2001

or

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

For the transition period from __________ to __________

Commission File Number: 001-05707

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 2100, Oakbrook Terrace, Illinois	60181
(Address of principal executive offices)	(Zip Code)

(630) 954-0400
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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 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 __

The number of shares outstanding of the issuer's common stock as of January 31, 2002 was 5,120,776.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

GENERAL EMPLOYMENT ENTERPRISES, INC.
CONSOLIDATED BALANCE SHEET (Unaudited)

(In Thousands)	December 31 2001	September 30 2001
ASSETS		
Current assets:		
Cash and equivalents	$ 6,244	$ 7,293
Short-term investments	497	495
Accounts receivable, less allowances (Dec. 2001 --$178; Sept. 2001 --$243)	2,335	2,685
Income tax refunds receivable	1,307	948
Other current assets	555	625
Total current assets	10,938	12,046
Property and equipment:		
Furniture, fixtures and equipment	6,689	6,697
Accumulated depreciation	(4,137)	(3,952)
Net property and equipment	2,552	2,745
Goodwill, net of accumulated amortization	882	888
Total assets	$14,372	$15,679
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accrued compensation and payroll taxes	$ 1,105	$ 1,753
Other current liabilities	705	849
Total current liabilities	1,810	2,602
Shareholders' equity:		
Common stock, no-par value; authorized -- 20,000 shares; issued and outstanding -- 5,121 shares in December 2001 and 5,087 shares in September 2001	51	51
Capital in excess of stated value of shares	4,604	4,569
Retained earnings	7,907	8,457
Total shareholders' equity	12,562	13,077
Total liabilities and shareholders' equity	$14,372	$15,679

See notes to consolidated financial statements.

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

(In Thousands, Except Per Share)	Three Months Ended December 31 2001	2000
Net revenues:		
Placement services	$1,882	$5,564
Contract services	3,627	3,348
Net revenues	5,509	8,912

Operating expenses:		
Cost of contract services	2,398	2,148
Selling	1,304	3,458
General and administrative	2,735	3,247
Total operating expenses	6,437	8,853
Income (loss) from operations	(928)	59
Interest income	48	194
Income (loss) before income taxes	(880)	253
Provision (credit) for income taxes	(330)	105
Net income (loss)	$ (550)	$ 148
Net income (loss) per share	$ (.11)	$ .03
Average number of shares	5,104	5,087

See notes to consolidated financial statements.

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

	Three Months Ended December 31	
(In Thousands)	2001	2000
Operating activities:		
Net income (loss)	$ (550)	$ 148
Depreciation and other noncurrent items	197	196
Accounts receivable	350	20
Income tax refunds receivable	(359)	--
Accrued compensation and payroll taxes	(648)	(1,077)
Other current items, net	(74)	(91)
Net cash used by operating activities	(1,084)	(804)
Investing activities:		
Acquisition of property and equipment	--	(336)
Maturities of short-term investments	--	2,000
Net cash provided by investing activities	--	1,664
Financing activities:		
Exercise of stock options	35	--
Increase (decrease) in cash and cash equivalents	(1,049)	860
Cash and cash equivalents at beginning of period	7,293	7,236
Cash and cash equivalents at end of period	$ 6,244	$ 8,096

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Interim Financial Statements

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-Q. 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-K for the year ended September 30, 2001.

Acquisition

On April 10, 2001, the Company completed a transaction to purchase substantially all of the assets and business operations of Generation Technologies, Inc. ("GenTech"), a staffing business in Pittsburgh, Pennsylvania, specializing in information technology professionals.

The results of GenTech's operations are included in the Company's financial statements for periods subsequent to the date of acquisition. The unaudited pro forma results of operations presented below assume that the acquisition had occurred at the beginning of fiscal 2001:

(In Thousands, Except per Share)	Three Months Ended December 31, 2000
Net revenues	$9,852
Net income	192
Net income per share	.04

This information is presented for informational purposes only. It is not necessarily indicative of the results that would have been achieved had the acquisition taken place at the beginning of fiscal 2001 or of future results of operations.

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

The Company provides placement and contract staffing services for business and industry, specializing in the placement of professional information technology, engineering and accounting professionals. As of December 31, 2001, the Company operated 35 offices located in major metropolitan business centers in 12 states.

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

	Three Months Ended December 31 2001	2000
Net revenues:		
Placement services	34.2%	62.4%

Contract services	65.8	37.6
Net revenues	100.0	100.0
Operating expenses:		
Cost of contract services	43.5	24.1
Selling	23.7	38.8
General and administrative	49.6	36.4
Total operating expenses	116.8	99.3
Income (loss) from operations	(16.8)%	0.7%

First Quarter Results of Operations

Net Revenues

For the three months ended December 31, 2001, consolidated net revenues were down $3,403,000 (38%) from the same period last year. This was due to the combination of a $3,682,000 (66%) decrease in placement service revenues and a $279,000 (8%) increase in contract service revenues. As a result, the Company's revenue mix changed significantly, as the ratio of consolidated revenues was 34% placement to 66% contract this year, compared with a ratio of 62% placement to 38% contract last year.

Placement service revenues were down for the quarter because of a 63% decline in the number of placements, together with an 8% decrease in the average placement fee. The increase in contract service revenues was the result of a 14% increase in the average hourly billing rate, while billable hours declined 3%.

The Company attributes the decline in revenues to the effects of the slowdown in the U.S. economy that has caused customers to delay or reduce their hiring and contract staffing activities, particularly those customers operating in the computer and information technology field. Preliminary government numbers indicate that the U.S. Gross Domestic Product increased at an annual rate of 0.2% in the quarter ended December 31, 2001. This compares with a decline of 1.3% in the quarter ended September 30, 2001 and a growth rate of 1.9% in the December 2000 quarter. These statistics suggest that the economic slowdown might have bottomed in the latest quarter. However, the national unemployment rate was 5.8% in December 2001, well above the 4.0% rate in December 2000.

Management believes that the Company is well positioned to benefit when national hiring patterns improve. Typically when this happens, the demand for contract staffing services is expected to strengthen first, and the demand for full-time placement services is expected to recover three to six months later.

Operating Expenses

Total operating expenses for the quarter were down $2,416,000 (27%) compared with the same quarter last year.

The cost of contract services was up $250,000 (12%), as a result of the higher contract service revenues. The gross profit margin on contract services was 33.9% this quarter, compared with 35.8% the prior year.

Selling expenses decreased $2,154,000 (62%) this quarter, and they represented 23.7% of consolidated net revenues, which was down 15.1 points from the prior year. Commission expense was down 67% due to the lower placement service revenues and lower commissionable profits, while recruitment advertising expense was 59% lower than last year.

General and administrative expenses decreased $512,000 (16%) for the quarter, and they represented 49.6% of consolidated net revenues. This was up 13.2 points from the same quarter last year. Compensation in the operating divisions decreased 18% for the quarter, due to reductions in the size of the consulting staff, while all other general and administrative expenses were down 14%. To control operating costs, the Company closed seven unprofitable branch offices during fiscal 2001, including four that were closed at the end of the year, and closed two branch offices during the first quarter of fiscal 2002. As a result of these and other actions, the Company reduced its in-house staff by 31% from the year-ago level.

Other Items

The effect of lower revenues resulted in a loss from operations of $928,000 for the quarter, which was a decrease of $987,000 compared with income from operations of $59,000 for the same quarter last year.

Interest income was down $146,000 (75%) in the quarter, due to a combination of lower average funds available for investment and lower average interest rates.

The effective income tax rate was 38% this quarter, down slightly from the 42% rate the prior year.

After interest and taxes, the net loss for the quarter was $550,000, which was a decrease of $698,000, compared with net income of $148,000 the prior year.

Financial Condition

As of December 31, 2001, the Company had cash and short-term investments of $6,741,000. This was a decrease of $1,047,000 from September 30, 2001. Net working capital at December 31, 2001 was $9,128,000, which was a decrease of $316,000 compared with last September, and the current ratio was 6.0 to 1.

During the three months ended December 31, 2001, net cash used by operating activities was $1,084,000. This was primarily due to the $550,000 net loss and a $648,000 seasonal reduction of accrued compensation and payroll taxes. As part of the Company's cash conservation measures, there were no expenditures during the quarter for property and equipment, and no cash dividends were paid.

All of the Company's office facilities are leased, and information about future minimum lease payments is presented in the notes to the consolidated financial statements contained in the Company's annual report on Form 10-K for the year ended

September 30, 2001.

As of December 31, 2001, the Company had no debt outstanding, and it had a $1,000,000 unused line of credit available. Shareholders' equity at that date was $12,562,000, which represented 87% of total assets.

It is not known how long the slowdown in the U.S. economy will last or how long it will continue to have an adverse effect on the Company's operations. The Company's short-term priority is to minimize the impact of the economy and to be positioned for growth when it recovers. Management believes that existing cash and short-term investments will be adequate to meet the Company's anticipated needs.

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. This includes statements relating to business expansion plans, expectations about revenue and earnings growth, and general statements of optimism about the future. 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 project assignments, and the ability to attract and retain qualified corporate and branch management.

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K.

Exhibits

The following exhibits are filed as part of this report:

No.	Description of Exhibit
10.01	Form of employment agreement with executive officers.
10.02	Regional Vice President Bonus Plan effective for fiscal years beginning on or after October 1, 2001.

Reports on Form 8-K

The Company filed no reports on Form 8-K during the quarter.

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: February 1, 2002

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