

Edgar Filing: GENERAL EMPLOYMENT ENTERPRISES INC - Form 10-K

GENERAL EMPLOYMENT ENTERPRISES INC

Form 10-K

November 21, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

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

For the fiscal year ended September 30, 2001

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 (I.R.S. Employer
incorporation or organization) Identification Number)

One Tower Lane, Suite 2100, Oakbrook Terrace, IL 60181
(Address of principal executive offices) (Zip Code)

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

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

Title of each class Common Stock, no par value	Names of each exchange on which registered American Stock Exchange
---	---

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed
all reports required to be filed by Section 13 or 15(d) of the
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 if disclosure of delinquent filers in
response to Item 405 of Regulation S-K 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.

The aggregate market value of the voting and non-voting common
equity held by non-affiliates of the registrant as of October 31,
2001 was \$5,321,000. At that date, there were 5,086,656 shares
of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Edgar Filing: GENERAL EMPLOYMENT ENTERPRISES INC - Form 10-K

Portions of the General Employment Enterprises, Inc. Proxy Statement for the annual meeting of shareholders to be held on February 19, 2002 are incorporated by reference into Part III of this Form 10-K.

1

PART I

Item 1. Business

General

General Employment Enterprises, Inc. (the "Company") was incorporated in the State of Illinois in 1962 and is the successor to employment offices doing business since 1893. In 1987 the Company established Triad Personnel Services, Inc., a wholly-owned subsidiary, incorporated in the State of Illinois. The principal executive office of the Company is located at One Tower Lane, Suite 2100, Oakbrook Terrace, Illinois.

Services Provided

The Company operates in one industry segment, providing professional staffing services. The Company offers its customers both placement and contract staffing services, specializing in the placement of information technology, engineering and accounting professionals.

The Company's placement services include placing candidates into regular, full-time jobs with client-employers. The Company's contract services include placing its professional employees on temporary assignments, under contracts with client companies. Contract workers are employees of the Company, typically working at the client location and at the direction of client personnel for periods of three months to one year. Management believes that the combination of these two services provides a strong marketing opportunity, because it offers customers a variety of staffing alternatives that includes direct hire, temporary staffing and a contract-to-hire approach to hiring.

The amount of revenues derived from these services for each of the last three fiscal years is presented in the Company's consolidated statement of income. In fiscal 2001, the Company derived 52% of its revenues from placement services and 48% from contract services.

Marketing

The Company markets its services using the trade names General Employment Enterprises, Omni One, Business Management Personnel, Triad Personnel Services and Generation Technologies. As of September 30, 2001, it operated 37 branch offices located in downtown or suburban areas of major U.S. cities in 13 states. Thirty of the offices were full-service branches, providing both placement and contract services, and 7 of the offices specialized in contract services only. The offices were concentrated in California (8), Illinois (8), Indiana (3), and Massachusetts (3), with two offices each in Arizona, Florida, Georgia, Ohio,

Edgar Filing: GENERAL EMPLOYMENT ENTERPRISES INC - Form 10-K

Pennsylvania, and Texas, and one office each in Michigan, North Carolina, and Tennessee.

The Company markets its services to prospective clients primarily through telephone marketing by its employment consultants and through mailing of employment bulletins listing candidates available for placement and contract employees available for assignment.

The Company has a diverse customer base, and no single customer accounts for more than 4% of its revenues.

Recruiting

The success of the Company is highly dependent on its ability to obtain qualified candidates. Prospective employment candidates are recruited through telephone contact by the Company's employment consultants, through classified newspaper advertising and through postings on the internet. For this purpose, the Company maintains its own internet web page at www.generalemployment.com and uses other internet job posting bulletin board services. The Company uses a computer program to track applicants' skills and match them with job openings. The Company screens and interviews all applicants who are presented to its clients.

2

Billing Practices

When applicants accept employment, the Company charges its clients a placement fee that is based on a percentage of the applicant's projected annual salary, and the Company provides its clients with a guarantee under which the fee is refundable if the applicant does not remain employed during a guarantee period. Fees for contract services are billed on an hourly basis each week. The Company expects payment by its customers upon receipt of its invoices. Typical of the staffing industry, working capital is required to finance the wages of contract workers before the related customer accounts are collected.

Competition

The staffing industry is highly competitive. There are relatively few barriers to entry by firms offering placement services, while significant amounts of working capital typically are required for firms offering contract services. The Company's competitors include a large number of sole-proprietorship operations, as well as regional and national organizations. Many of them are large corporations with substantially greater resources than the Company.

Because the Company focuses its attention on professional staffing positions, particularly in the highly specialized information technology field, it competes by providing services that are dedicated to quality. This is done by providing highly qualified candidates who are well matched for the position, by responding quickly to client requests, and by establishing offices in convenient locations. As an added service, the Company provides careful reference checking and scrutiny of candidates' work experience and optional background checks.

Edgar Filing: GENERAL EMPLOYMENT ENTERPRISES INC - Form 10-K

Pricing is considered to be secondary to quality of service as a competitive factor.

Geographic diversity helps the Company to balance local or regional business cycles. Multiple offices in the Atlanta, Boston, Chicago, Columbus, Indianapolis, Los Angeles, Phoenix and San Francisco markets help to provide better client services through convenient office locations and the sharing of assignments.

Regulation

Employment agency service companies are regulated by three of the states in which the Company operates. Licenses are issued on a year-to-year basis. As of September 30, 2001, the Company held current licenses for all of the offices that were required to have them.

Employees

As of September 30, 2001, the Company had approximately 430 employees.

Item 2. Properties

The Company's policy is to lease commercial office space for all of its offices. The Company's headquarters are located in a modern 31-story building near Chicago, Illinois. The Company leases 12,900 square feet of space at this location, under a lease that will expire in January 2006.

The Company's staffing offices are located in downtown metropolitan and suburban business centers in 13 states. Generally, the Company enters into six-month leases for new locations, using shared office facilities whenever possible. Established offices are operated from leased space ranging from 1,100 to 4,900 square feet, generally for periods of two to five years, with cancellation clauses after certain periods of occupancy. Management believes that existing facilities are adequate for the Company's current needs and that its leasing strategies provide the Company with sufficient flexibility to open or close offices to accommodate business needs.

3

Item 3. Legal Proceedings

As of September 30, 2001, there were no material legal proceedings pending against the Company.

Item 4. Results of Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of the 2001 fiscal year.

Edgar Filing: GENERAL EMPLOYMENT ENTERPRISES INC - Form 10-K

PART II

Item 5. Market for the Registrant's Common Stock and Related Stockholder Matters

Information regarding this item is contained in "Item 8. Financial Statements and Supplementary Data."

Item 6. Selected Financial Data

(In Thousands, Except Per Share)	Year Ended September 30				
	2001	2000	1999	1998	1997
Operating results:					
Net revenues	\$31,035	\$39,802	\$39,553	36,734	\$29,341
Income (loss) from operations	(2,217)	3,577	4,569	4,710	3,780
Net income (loss)	(1,066)	2,532	3,025	3,090	2,441
Per share data:					
Net income (loss) - basic	\$ (.21)	\$.50	\$.59	\$.61	\$.49
Net income (loss) - diluted	(.21)	.49	.59	.58	.48
Cash dividends declared	--	.30	.04	.04	.03
Balance sheet data:					
Net working capital	\$ 9,444	\$11,300	\$11,391	\$ 9,261	\$ 6,418
Long-term obligations	--	--	484	460	433
Shareholders' equity	13,077	14,143	13,137	10,335	7,149
Total assets	15,679	19,979	18,085	15,632	12,323

Item 7. 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 September 30, 2001, the Company operated 37 offices located in major metropolitan business centers in 13 states.

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

4

	Year Ended September 30		
	2001	2000	1999
Net revenues:			
Placement services	52.3%	59.6%	57.4%
Contract services	47.7	40.4	42.6
Net revenues	100.0	100.0	100.0
Operating expenses:			
Cost of contract services	31.1	26.4	27.4
Selling	32.0	35.3	35.0
General and administrative	44.0	29.3	26.0
Total operating expenses	107.1	91.0	88.4

Edgar Filing: GENERAL EMPLOYMENT ENTERPRISES INC - Form 10-K

Income (loss) from operations	(7.1)%	9.0%	11.6%
-------------------------------	--------	------	-------

Fiscal 2001 Results of Operations

Net Revenues

For the year ended September 30, 2001, consolidated net revenues were down \$8,767,000 (22%) from the prior year. This was due to the combination of a \$7,503,000 (32%) decrease in placement service revenues and a \$1,264,000 (8%) decrease in contract service revenues. Placement services represented 52.3% of consolidated net revenues for the year, and contract services represented 47.7% of the total.

Placement service revenues were down for the year because of a 35% decline in the number of placements, partially offset by a 1% increase in the average placement fee. The decrease in contract service revenues was the result of an 11% decrease in billable hours, while the average hourly billing rate increased 4%. In April 2001, the Company acquired the assets and business operations of Generation Technologies, Inc. ("GenTech"), a staffing business in Pittsburgh, Pennsylvania specializing in information technology professionals. The acquisition added \$1,335,000 to consolidated contract service revenues for the fiscal year.

The Company attributes the decline in revenues to the effects of the slowdown in the U.S. economy that caused customers to delay or reduce their hiring and contract staffing activities, particularly those customers operating in the computer and information technology field. As an indication of the national slowdown, the U.S. Gross Domestic Product grew at an average rate of 0.8% during the year ended September 30, 2001, compared with 4.4% for the year ended September 30, 2000, and the national unemployment rate was 4.9% in September 2001, compared with 3.9% in September 2000. The economic impact of the terrorist attacks on the United States on September 11, 2001 is expected to adversely affect the U.S. economy for the foreseeable future. Management expects that the demand for its placement services will remain at depressed levels until the U.S. economy begins to strengthen and national hiring patterns improve.

Operating Expenses

Total operating expenses for fiscal 2001 were down \$2,973,000 (8%) compared with the prior year.

The cost of contract services was down \$861,000 (8%), as a result of the lower contract service revenues. The gross profit margin on contract services was 34.8% in fiscal 2001, compared with 34.6% the prior year.

Selling expenses decreased \$4,127,000 (29%) in fiscal 2001, and they represented 32.0% of consolidated net revenues, which was down 3.3 points from the prior year. Commission expense was down

Edgar Filing: GENERAL EMPLOYMENT ENTERPRISES INC - Form 10-K

36% due to the lower placement service revenues and lower commissionable profits, while recruitment advertising expense was 4% lower than last year.

General and administrative expenses increased \$2,015,000 (17%) for the year, and they represented 44.0% of consolidated net revenues. This was up 14.7 points from last year. Compensation in the operating division increased 29% for the year, as lower consultant productivity and lower commissions led to higher amounts of base pay. Office rent and occupancy costs were up 21% for the year, including a \$283,000 provision for the cost of closing unprofitable branch offices. Reflecting the weak economy, the Company's bad debt expense doubled, while all other general and administrative expenses were down 6%.

To control operating costs, the Company closed seven unprofitable branch offices during fiscal 2001, including four that were closed at the end of the fiscal year, and reduced its in-house staff by 18% from the year-ago level. These measures are expected to reduce general and administrative expenses in fiscal 2002.

Other Items

The effect of lower revenues combined with higher general and administrative expenses resulted in a loss from operations of \$2,217,000 for the year, which was a decrease of \$5,794,000 compared with income from operations of \$3,577,000 for the prior year.

Interest income was down \$114,000 (18%) in fiscal 2001, due to a lower average amount of funds available for investment.

The effective income tax rate was 36.8% this year and 40.0% last year.

After interest and taxes, the net loss for the year was \$1,066,000, which was a decrease of \$3,598,000, compared with net income of \$2,532,000 last year.

Fiscal 2000 Results of Operations

Net Revenues

Consolidated net revenues for the year ended September 30, 2000 were essentially flat with the prior year - up \$249,000 (1%). Placement services represented 59.6% of consolidated net revenues, and contract services represented 40.4% of the total.

Placement service revenues increased \$1,018,000 (4%) for the year, primarily due to a 5% increase in the average placement fee. The number of placements was essentially unchanged from the prior year.

Contract service revenues decreased \$769,000 (5%) for the year. This was the result of a 12% decline in billable hours that was partially offset by a 7% increase in the average hourly billing rate.

Although the demand for information technology professionals was

Edgar Filing: GENERAL EMPLOYMENT ENTERPRISES INC - Form 10-K

moderately strong during fiscal 2000, the Company's customers were more cautious in their hiring patterns than in previous years. This restrained growth in the number of placements made by the Company, and it resulted in switching by some customers from contract services to placement services. Consolidated revenue growth was also adversely affected by high turnover of branch office managers and consulting staff during the fiscal year, which had the effect of holding back productivity in many of the branch offices.

6

The Company's greatest challenge during fiscal 2000 was attracting and retaining well-qualified personnel consultants. The Company met this challenge by promoting new branch managers, filling empty desks, increasing the training staff, and enhancing compensation and benefit programs. To improve consultant productivity, the Company also completed the installation of a new applicant retrieval system in all offices during the year.

Operating Expenses

Total operating expenses for fiscal 2000 were up \$1,241,000 (4%) over the prior year.

The cost of contract services was down \$323,000 (3%), as a result of the lower contract service revenues. The gross profit margin on contract services was 34.6% in fiscal 2000, compared with 35.7% the prior year. The gross profit on contract services declined \$446,000 (7%), due to the combination of lower contract service revenues and a lower profit margin.

Selling expenses increased \$186,000 (1%) in fiscal 2000, and they represented 35.3% of consolidated net revenues, which was slightly higher than the prior year. Commission expense increased 1%, as the effect of higher placement revenues was largely offset by lower average commission rates. Higher costs associated with employee benefit programs were largely offset by lower advertising and promotion expenses.

General and administrative expenses increased \$1,378,000 (13%), and they represented 29.3% of consolidated revenues. This was up 3.3 points from the prior year. Compensation in the operating division increased 15% for the year, as new consultant compensation arrangements that place greater emphasis on fixed compensation, while reducing commission rates, were introduced in some branch offices. Office occupancy and operating costs increased 12% due to higher depreciation and other costs associated with upgrading the Company's computer systems and office furniture. Administrative compensation increased 12%, and all other general and administrative expenses increased 17%.

Other Items

Because total operating expenses increased at a greater rate than net revenues, the Company's operating margin declined by 2.6 points for the year - to 9.0% in fiscal 2000, compared with 11.6% the prior year. This caused a \$992,000 (22%) decrease in income

Edgar Filing: GENERAL EMPLOYMENT ENTERPRISES INC - Form 10-K

from operations for the year.

Interest income increased \$149,000 (30%) in fiscal 2000, due to a combination of higher funds available for investment and higher average interest rates.

The effective income tax rate was 40.0% in fiscal 2000, about the same as the 40.1% rate the prior year.

As a result, net income for fiscal 2000 was \$493,000 (16%) lower than fiscal 1999.

Financial Condition

As of September 30, 2001, the Company had cash and short-term investments of \$7,788,000. This was a decrease of \$4,918,000 from September 30, 2000. Net working capital at September 30, 2001 was \$9,444,000, which was a decrease of \$1,856,000 compared with last September, and the current ratio was 4.6 to 1.

During the year ended September 30, 2001, net cash used by operating activities was \$1,415,000. The cost to acquire GenTech in April 2001 was \$1,523,000, of which \$624,000 was allocated to the net assets acquired and \$899,000 was allocated to goodwill. The purchase price was established as an initial cash payment to the seller and three annual cash payments to be equal to a

7

multiple of the respective year's earnings, as defined. Future payments under the purchase agreement will be recorded as additional goodwill when the amounts are determined. During the year, the Company spent an additional \$733,000 for the acquisition of property and equipment. A cash dividend on common stock of \$1,272,000 (\$.25 per share) was paid in January 2001.

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.

As of September 30, 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 \$13,077,000, which represented 83% 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

Edgar Filing: GENERAL EMPLOYMENT ENTERPRISES INC - Form 10-K

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.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The primary objective for the Company's investment portfolio is to provide maximum protection of principal and high liquidity. By investing in high-quality securities having relatively short maturity periods, the Company is not exposed to the risk of material interest rate fluctuations.

8

Item 8. Financial Statements and Supplementary Data

GENERAL EMPLOYMENT ENTERPRISES, INC. CONSOLIDATED BALANCE SHEET

	As of September 30	
(In Thousands)	2001	2000
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,293	\$ 7,236
Short-term investments	495	5,470
Accounts receivable, less allowances (2001 -- \$243; 2000 -- \$512)	2,685	4,084
Income tax refunds receivable	948	--
Other current assets	625	346
Total current assets	12,046	17,136
Property and equipment:		
Furniture, fixtures and equipment	6,697	6,058
Accumulated depreciation and amortization	(3,952)	(3,215)
Net property and equipment	2,745	2,843
Goodwill, net of accumulated amortization	888	--

Edgar Filing: GENERAL EMPLOYMENT ENTERPRISES INC - Form 10-K

Total assets	\$15,679	\$19,979
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 551	\$ 655
Dividends payable	--	1,272
Accrued compensation and payroll taxes	1,753	3,769
Other current liabilities	298	140
Total current liabilities	2,602	5,836
Shareholders' equity:		
Common stock, no-par value; authorized -- 20,000 shares; issued and outstanding -- 5,087 shares		
	51	51
Capital in excess of stated value of shares	4,569	4,569
Retained earnings	8,457	9,523
Total shareholders' equity	13,077	14,143
Total liabilities and shareholders' equity	\$15,679	\$19,979

See notes to consolidated financial statements.

9

GENERAL EMPLOYMENT ENTERPRISES, INC.
CONSOLIDATED STATEMENT OF OPERATIONS

(In Thousands, Except Per Share)	Year Ended September 30		
	2001	2000	1999
Net revenues:			
Placement services	\$16,217	\$23,720	\$22,702
Contract services	14,818	16,082	16,851
Net revenues	31,035	39,802	39,553
Operating expenses:			
Cost of contract services	9,659	10,520	10,843
Selling	9,918	14,045	13,859
General and administrative	13,675	11,660	10,282
Total operating expenses	33,252	36,225	34,984
Income (loss) from operations	(2,217)	3,577	4,569
Interest income	531	645	496
Income (loss) before income taxes	(1,686)	4,222	5,065
Provision (credit) for income taxes	(620)	1,690	2,040
Net income (loss)	\$ (1,066)	\$ 2,532	\$ 3,025
Net income (loss) per share:			
Basic	\$ (.21)	\$.50	\$.59
Diluted	\$ (.21)	\$.49	\$.59
Average number of shares:			
Basic	5,087	5,087	5,087

Edgar Filing: GENERAL EMPLOYMENT ENTERPRISES INC - Form 10-K

Diluted 5,087 5,117 5,122

See notes to consolidated financial statements.

10

GENERAL EMPLOYMENT ENTERPRISES, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS

(In Thousands)	Year Ended September 30		
	2001	2000	1999
Operating activities:			
Net income (loss)	\$ (1,066)	\$2,532	\$3,025
Depreciation and amortization	857	597	361
Reduction of long-term obligations	--	(516)	--
Other noncurrent items	22	403	107
Changes in current assets and current liabilities, net of effects from acquisition:			
Accounts receivable	1,989	(213)	(300)
Income tax refunds receivable	(948)	--	--
Accrued compensation and payroll taxes	(2,038)	163	(435)
Other, net	(231)	(257)	(22)
Net cash provided (used) by operating activities	(1,415)	2,709	2,736
Investing activities:			
Acquisition of property and equipment	(733)	(1,583)	(1,101)
Acquisition of Generation Technologies, Inc.	(1,523)	--	--
Purchases of short-term investments	--	(3,461)	(7,849)
Maturities of short-term investments	5,000	4,800	6,960
Net cash provided (used) by investing activities	2,744	(244)	(1,990)
Financing activities:			
Cash dividends paid	(1,272)	(254)	(221)
Increase in cash and cash equivalents	57	2,211	525
Cash and cash equivalents at beginning of year	7,236	5,025	4,500
Cash and cash equivalents at end of year	\$7,293	\$7,236	\$5,025

See notes to consolidated financial statements.

11

GENERAL EMPLOYMENT ENTERPRISES, INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(In Thousands, Except Per Share)	Year Ended September 30		
	2001	2000	1999

Common shares outstanding:

Edgar Filing: GENERAL EMPLOYMENT ENTERPRISES INC - Form 10-K

Number at beginning of year	5,087	5,087	4,424
Stock dividend declared	--	--	663
Number at end of year	5,087	5,087	5,087
Common stock:			
Balance at beginning of year	\$ 51	\$ 51	\$ 44
Stock dividend declared	--	--	7
Balance at end of year	\$ 51	\$ 51	\$ 51
Capital in excess of stated value:			
Balance at beginning of year	\$4,569	\$4,569	\$4,576
Stock dividend declared	--	--	(7)
Balance at end of year	\$4,569	\$4,569	\$4,569
Retained earnings:			
Balance at beginning of year	\$9,523	\$8,517	\$5,715
Net income (loss)	(1,066)	2,532	3,025
Cash dividends declared on common stock -			
\$.30 per share in 2000,			
and \$.04 per share in 1999	--	(1,526)	(221)
Stock dividend declared	--	--	(2)
Balance at end of year	\$8,457	\$9,523	\$8,517

See notes to consolidated financial statements.

12

GENERAL EMPLOYMENT ENTERPRISES, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company

General Employment Enterprises, Inc. (the "Company") and its wholly-owned subsidiary, Triad Personnel Services, Inc., operate in one industry segment, providing staffing services through a network of branch offices located in major metropolitan areas throughout the United States. The Company specializes in providing information technology, engineering and accounting professionals to clients on either a regular placement basis or a temporary contract basis. The Company has a diverse customer base, and no single customer accounts for more than 4% of its revenues.

Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts and transactions of the Company and its wholly-owned subsidiary. All significant intercompany accounts and transactions are eliminated in consolidation.

Estimates and Assumptions

Preparing financial statements in accordance with generally accepted accounting principles requires management to make

Edgar Filing: GENERAL EMPLOYMENT ENTERPRISES INC - Form 10-K

estimates and assumptions that affect the amounts reported. Management believes that its estimates are reasonable and proper, however, actual results could ultimately differ from those estimates.

Revenues from Services

Placement fees are recognized as income at the time applicants accept employment. Provision is made for estimated losses in realization, principally due to applicants not remaining in employment for a guarantee period. Contract service revenues are recognized when work is performed.

Cost of Contract Services

The cost of contract services includes the wages and the related payroll taxes and benefits of contract workers.

Income Taxes

Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and are measured using the enacted tax rates and laws that are expected to be in effect when the differences reverse.

Net Income Per Share

Basic net income per share is based on the average number of common shares outstanding. Diluted net income per share is based on the average number of common shares and the dilutive effect of stock options.

Cash Equivalents and Short-term Investments

Highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents. The Company classifies its cash equivalents and short-term investments individually when purchased as either available-for-sale or held-to-maturity securities.

13

Property and Equipment

Furniture, fixtures and equipment are stated at cost. The Company provides for depreciation on a straight-line basis over estimated useful lives of two to ten years. The Company capitalizes computer software purchased or developed for internal use, and amortizes it over an estimated useful life of five years.

Goodwill

A business combination completed in April 2001 was recorded as a purchase transaction, and the excess of the cost over the fair values of the identifiable net assets acquired was allocated to goodwill. Goodwill is being amortized on a straight-line basis over forty years. The carrying amount of goodwill is reviewed whenever events or changes in circumstances indicate that it may not be recoverable. The carrying value would be written down if

Edgar Filing: GENERAL EMPLOYMENT ENTERPRISES INC - Form 10-K

it were determined to exceed the estimated future undiscounted cash flows of the acquired business.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141, "Business Combinations" and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets." Statement No. 141 requires that business combinations completed after June 30, 2001 be accounted for using the purchase method of accounting and specifies the types of intangible assets to be recognized in such transactions. The accounting for the Company's April 2001 business combination was not affected by the adoption of Statement No. 141.

Statement No. 142 requires goodwill to be tested periodically for impairment in value, rather than being amortized as previous standards required. The Company is required to adopt Statement No. 142 effective for its fiscal year beginning October 1, 2002. The discontinuance of goodwill amortization is not expected to have a significant effect on net income. The Company has not determined what effect, if any, the initial impairment test will have on its financial position or results of operations.

Stock Options

The Company accounts for stock options in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, there is no compensation expense to the Company when stock options are granted at prices equal to the fair market value at the date of grant. Proceeds on exercises of stock options and the associated income tax benefits are credited to shareholders' equity when received.

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 assets acquired include the business operations, company name, customer lists, interests in office space and equipment, accounts receivable and goodwill.

The purchase price was established as an initial cash payment to the seller and three annual cash payments to be equal to a multiple of the respective year's annual earnings, as defined. The initial cost of the acquisition was \$1,523,000, of which \$624,000 was allocated to the net assets acquired and \$899,000 was allocated to goodwill. Future payments under the purchase agreement will be recorded as additional goodwill when the amounts are determined.

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 2000:

Edgar Filing: GENERAL EMPLOYMENT ENTERPRISES INC - Form 10-K

(In Thousands, Except per Share)	2001	2000
Net revenues	\$32,894	\$42,232
Net income (loss)	(936)	2,658
Net income (loss) per share - diluted	(.18)	.52

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 2000 or of future results of operations.

Cash, Cash Equivalents and Short-term Investments

The Company's primary objective for its investment portfolio is to provide maximum protection of principal and high liquidity. By investing in high-quality securities having relatively short maturity periods, the Company reduces its exposure to the risks associated with interest rate fluctuations. Investments in securities of corporate issuers are rated A2 and P2 or better. A summary of cash, cash equivalents and short-term investments as of September 30 is as follows:

(In Thousands)	2001	2000
Cash	\$1,410	\$ 671
Certificates of deposit	--	1,000
Commercial paper	5,583	6,565
U.S. federal agency notes	300	2,000
Corporate notes	495	2,470
Total cash, cash equivalents and short-term investments	\$7,788	\$12,706

All cash equivalents and short-term investments held as of September 30, 2001 were classified as available-for-sale securities and had maturities of one year or less. Amortized cost approximated market value for all investments, and unrealized gains and losses were not significant.

Income Taxes

The components of the provision (credit) for income taxes are as follows:

(In Thousands)	2001	2000	1999
Current tax provision (credit):			
U.S. federal	\$(491)	\$1,168	\$1,577
State and local	(101)	296	430
Total current tax provision (credit)	(592)	1,464	2,007
Deferred tax provision (credit)	(28)	226	33
Provision (credit) for income taxes	\$(620)	\$1,690	\$2,040

The differences between income taxes calculated at the 34% statutory U.S. federal income tax rate and the Company's

Edgar Filing: GENERAL EMPLOYMENT ENTERPRISES INC - Form 10-K

provision (credit) for income taxes are as follows:

15

(In Thousands)	2001	2000	1999
Income tax (credit) at statutory federal tax rate	\$(573)	\$1,435	\$1,722
State income taxes, less federal effect	(69)	228	287
Other	22	27	31
Provision (credit) for income taxes	\$(620)	\$1,690	\$2,040

The net deferred income tax asset balance as of September 30 related to the following:

(In Thousands)	2001	2000
Accrued compensation	\$119	\$119
Depreciation and amortization	(193)	(149)
Other expenses	117	45
Net operating loss carryforwards	67	--
Net deferred income tax asset	\$110	\$ 15

The Company made income tax payments of \$423,000 in 2001, \$1,596,000 in 2000 and \$2,171,000 in 1999.

Line of Credit

The Company has a loan agreement with a bank, renewable annually, that makes a \$1,000,000 unsecured line of credit available to the Company at the prime rate. There were no borrowings outstanding under the line of credit as of September 30, 2001 and 2000.

Lease Obligations

The Company leases space for all of its branch offices, which are located either in downtown or suburban metropolitan business centers, and space for its corporate headquarters. Established branch offices are generally leased over periods from two to five years, and the corporate headquarters lease expires in 2006. Certain lease agreements provide for increased rental payments contingent upon future increases in real estate taxes, building maintenance costs and the cost of living index.

Rent expense was \$1,997,000 in 2001, \$1,783,000 in 2000 and \$1,781,000 in 1999. In addition, the Company recorded a \$283,000 provision for office closings in 2001, covering the lease obligations of five branch offices that were closed. As of September 30, 2001 future minimum lease payments under lease agreements having initial terms in excess of one year, including the closed offices, were: 2002 - \$1,777,000, 2003 - \$1,543,000, 2004 - \$1,385,000, 2005 - \$1,107,000, and 2006 - \$312,000.

Edgar Filing: GENERAL EMPLOYMENT ENTERPRISES INC - Form 10-K

Retirement Benefits

The Company has a 401(k) retirement plan in which all full-time employees may participate after one year of service. Under the plan, eligible participants may contribute a portion of their earnings to a trust, and the Company makes matching contributions, subject to certain limitations. During the year ended September 30, 2000, the Company fulfilled its obligation under an agreement to provide retirement benefits to an officer

16

by paying out a lump sum of \$400,000. The total cost of both retirement plans was \$101,000 in 2001, \$123,000 in 2000 and \$131,000 in 1999.

Preferred Stock

As of September 30, 2001 there were 100,000 shares of preferred stock authorized, none of which have been issued.

Stock Options

The Company has stock option plans for directors, officers and employees. As of September 30, 2001, there were stock options outstanding under the Company's 1999 Stock Option Plan, 1997 Stock Option Plan, 1995 Stock Option Plan and 1992 Stock Option Plan. Under these plans, incentive or non-statutory stock options may be granted to officers and employees, and they may be exercisable for up to ten years. Outside directors were automatically granted non-statutory options to purchase specified numbers of shares on the effective dates of the plans. The Stock Option Committee of the Board of Directors, which has the authority to select the employees and to determine the terms of each option granted, administers the plans.

A summary of stock option activity is as follows:

(Number of Shares in Thousands)	2001	2000	1999
Number of shares outstanding:			
Beginning of year	719	721	554
Granted	215	32	167
Terminated	(57)	(34)	--
End of year	877	719	721
Number of shares exercisable			
at end of year	776	651	650
Number of shares available for grant			
at end of year	36	194	192
Weighted average option prices per share:			
Granted during the year	\$3.03	\$4.73	\$4.68
Outstanding at end of year	4.86	5.39	5.45
Exercisable at end of year	5.04	5.41	5.47

Edgar Filing: GENERAL EMPLOYMENT ENTERPRISES INC - Form 10-K

Information about stock options outstanding as of September 30, 2001 is as follows (number of shares in thousands):

Range of Exercise Prices	Number Outstanding	Number Exercisable	Weighted Average Price	Average Remaining Life (Years)
Under \$4.00	246	161	\$2.74	8
\$4.00 to \$6.00	552	536	5.28	6
Over \$6.00	79	79	8.46	6

The issuance of stock options under the Company's plans does not result in any present or future cash outlay by the Company. Moreover, the Company benefits financially through the receipt of cash proceeds and income tax benefits when options are exercised. In accordance with generally accepted accounting principles, there was no compensation expense resulting from the issuance of stock options because the option exercise prices were equal to the market prices of the underlying stock on the dates of grant.

17

Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," requires companies to calculate a hypothetical value of stock options on their dates of grant. The Company has calculated the following weighted average option values using the assumptions indicated and the Black-Scholes option pricing model:

	2001	2000	1999
Weighted average estimated fair value per share of stock options granted	\$.99	\$1.48	\$1.88
Expected option life (years)	3.00	3.00	3.00
Stock price volatility	40%	53%	57%
Risk-free interest rate	5.1%	5.4%	5.3%
Dividend yield	--%	1.0%	1.0%

Assuming that stock options granted during 2001, 2000 and 1999 were valued using these assumptions and the values were reflected as compensation expense over their vesting periods, the Company would have had a pro forma net loss of \$1,128,000 (\$.22 per share) in 2001, and pro forma net income of \$2,477,000 (\$.49 per share) in 2000 and \$2,793,000 (\$.55 per share) in 1999.

Shareholder Rights Plan

On February 4, 2000 the Company adopted a shareholder rights plan, and the Board of Directors declared a dividend of one share purchase right for each share of outstanding common stock, payable to shareholders of record on February 22, 2000.

The rights will become exercisable if any person or affiliated group (other than certain "grandfathered" shareholders) acquires, or offers to acquire, 10% or more of the Company's outstanding common shares. Each exercisable right entitles the holder (other than the acquiring person or group) to purchase, at a price of \$21.50 per share, common stock of the Company having a market

Edgar Filing: GENERAL EMPLOYMENT ENTERPRISES INC - Form 10-K

value equal to two times the purchase price.

The purchase price and the number of common shares issuable on exercise of the rights are subject to adjustment in accordance with customary anti-dilution provisions.

The Board of Directors may authorize the Company to redeem the rights at a price of \$.01 per right at any time before they become exercisable. After the rights become exercisable, the Board of Directors may authorize the Company to exchange any unexercised rights at the rate of one share of common stock for each right. The rights are nonvoting, and they will expire on February 22, 2010.

Severance Arrangements

The Company has an employment agreement with an officer that provides for the continuation of salary and benefits for a period of three years following the officer's termination of employment by the Company for any reason other than "cause." The Company also has a plan covering key employees that would become effective if their employment terminated under certain conditions following a change in control of the Company. Under these circumstances, the Company would be obligated to make lump sum payments to covered employees ranging from \$20,000 to \$50,000, and to provide continued welfare plan benefits for two years.

18

GENERAL EMPLOYMENT ENTERPRISES, INC. SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

(In Thousands)	Year Ended September 30		
	2001	2000	1999
Reserve for falloffs and doubtful accounts:			
Balance at beginning of year	\$512	\$440	\$565
Additions charged to operating expenses	884	411	287
Adjustments charged (credited) to revenues	(314)	74	(74)
Deductions for bad debt write-offs	(839)	(413)	(338)
Balance at end of year	\$243	\$512	\$440

19

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders
General Employment Enterprises, Inc.
Oakbrook Terrace, Illinois

Edgar Filing: GENERAL EMPLOYMENT ENTERPRISES INC - Form 10-K

We have audited the accompanying consolidated balance sheet of General Employment Enterprises, Inc. and subsidiary as of September 30, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended September 30, 2001. Our audits also included the financial statement schedule listed in the Index at Item 14. These financial statements and the schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of General Employment Enterprises, Inc. and subsidiary at September 30, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended September 30, 2001, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material aspects the information set forth therein.

/s/ Ernst & Young LLP

November 9, 2001

20

GENERAL EMPLOYMENT ENTERPRISES, INC.
SELECTED QUARTERLY FINANCIAL DATA AND MARKET INFORMATION

(In Thousands, Except Per Share)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2001:				
Net revenues	\$8,912	\$ 8,249	\$7,421	\$6,453
Operating expenses(1)	8,853	8,800	8,132	7,467
Income (loss) from operations	59	(551)	(711)	(1,014)
Interest income	194	149	99	89
Income (loss) before income taxes	253	(402)	(612)	(925)

Edgar Filing: GENERAL EMPLOYMENT ENTERPRISES INC - Form 10-K

Provision (credit) for income Taxes	105	(150)	(235)	(340)
Net income (loss)	\$ 148	\$ (252)	\$ (377)	\$ (585)
Net income (loss) per share	\$.03	\$ (.05)	\$ (.07)	\$ (.12)
Market price per share:				
High	3.75	3.38	2.74	2.73
Low	2.50	2.30	2.30	1.13
Fiscal 2000:				
Net revenues	\$9,889	\$10,022	\$9,908	\$9,983
Operating expenses	8,995	9,231	8,841	9,158
Income from operations	894	791	1,067	825
Interest income	149	140	171	185
Income before income taxes	1,043	931	1,238	1,010
Provision for income taxes	420	375	495	400
Net income	\$ 623	\$ 556	\$ 743	\$ 610
Net income per share	\$.12	\$.11	\$.15	\$.12
Market price per share:				
High	5.13	5.06	4.50	3.88
Low	3.94	4.13	3.50	3.25

(1) Operating expenses for the fourth quarter of fiscal 2001 include a \$283,000 provision for office closings.

The Company's common stock is traded on the American Stock Exchange under the trading symbol JOB. There were 928 holders of record on October 31, 2001.

The Company declared annual cash dividends on its common stock of \$.25 per share in September 2000 and \$.05 per share in November 1999.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

There have been no changes in or disagreements with the Company's independent accountants during the two most recent fiscal years.

21

PART III

Item 10. Directors, Executive Officers, Promoters and Control Persons of the Registrant

Information concerning directors and the executive officers of the registrant is set forth in the registrant's Proxy Statement for the annual meeting of shareholders and is incorporated herein by reference.

Edgar Filing: GENERAL EMPLOYMENT ENTERPRISES INC - Form 10-K

Item 11. Executive Compensation

Information concerning executive compensation is set forth in the registrant's Proxy Statement for the annual meeting of shareholders and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

Information concerning security ownership of certain beneficial owners and management is set forth in the registrant's Proxy Statement for the annual meeting of shareholders and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

Information concerning certain relationships and related transactions is set forth in the registrant's Proxy Statement for the annual meeting of shareholders and is incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

Financial Statements and Financial Statement Schedules

The following financial statements and financial statement schedules are filed as a part of this report:

	Page
Consolidated Balance Sheet as of September 30, 2001 and 2000	9
Consolidated Statement of Operations for the years ended September 30, 2001, 2000 and 1999	10
Consolidated Statement of Cash Flows for the years ended September 30, 2001, 2000 and 1999	11
Consolidated Statement of Shareholders' Equity for the years ended September 30, 2001, 2000 and 1999	12
Notes to Consolidated Financial Statements	13
Schedule II - Valuation and qualifying accounts for the years ended September 30, 2001, 2000 and 1999	19
Report of independent auditors	20

All other financial statement schedules are omitted because they are not applicable.

Reports on Form 8-K

During the fourth quarter, the Company filed a Form 8-K Current Report dated July 30, 2001 to report that its board of directors elected Herbert F. Imhoff, Jr. as Chairman of the Board and Chief Executive Officer.

Exhibits

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

No. Description of Exhibit

- 2.01 Asset Purchase Agreement Among Triad Personnel Services, Inc., Generation Technologies, Inc. and Michael P. Verona dated April 10, 2001. Incorporated by reference to Exhibit 2.01 to the Registrant's Form 8-K Current Report dated April 10, 2001. Commission File No. 001-05707.
- 3.01 Articles of Incorporation and amendments thereto. Incorporated by reference to Exhibit 3 to the Registrant's Quarterly Report on Form 10-QSB for the quarter ended March 31, 1996, Commission File No. 001-05707.
- 3.02 By-Laws. Incorporated by reference to Exhibit 3(b) of the Registrant's Annual Report on Form 10-KSB for the fiscal year ended September 30, 1997, Commission File No. 001-05707.
- 4.01 Rights Agreement dated as of February 4, 2000, between General Employment Enterprises, Inc. and Continental Stock Transfer and Trust Company, as Rights Agent. Incorporated by reference to Exhibit 1 to the Registrant's Registration Statement on Form 8-A filed with the Securities and Exchange Commission on February 7, 2000.
- 10.01 Senior Executive Agreement with Herbert F. Imhoff, Jr. dated May 22, 1990. Incorporated by reference to exhibit 10(f) to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1990, Commission File No. 001-05707.
- 10.02 Key Manager Plan, adopted May 22, 1990. Incorporated by reference to Exhibit 10(h) to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30 1990, Commission File No. 001-05707.
- 10.03 Agreement with Sheldon Brotzman dated October 3, 1991. Incorporated by reference to Exhibit 10(l) to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 1991, Commission File No. 001-05707.
- 10.04 General Employment Enterprises, Inc. Stock Option Plan. Incorporated by reference to Exhibit 4.1 to the Registrant's Form S-8 Registration Statement dated March 3, 1992, Registration No. 33-46124.
- 10.05 General Employment Enterprises, Inc. 1995 Stock Option Plan. Incorporated by reference to Exhibit 4.1 to the Registrant's Form S-8 Registration Statement dated April 25, 1995, Registration No. 33-91550.
- 10.06 General Employment Enterprises, Inc. 1997 Stock Option

Edgar Filing: GENERAL EMPLOYMENT ENTERPRISES INC - Form 10-K

Plan. Incorporated by reference to Exhibit 10(n) to the Registrant's Annual Report on Form 10-KSB for the fiscal year ended September 30,1998, Commission File No. 001-05707.

- 10.07 Resolution of the Board of Directors adopted September 28, 1998, amending the General Employment Enterprises, Inc. 1997 Stock Option Plan. Incorporated by reference to Exhibit 10(o) to the Registrant's Annual Report on Form 10-KSB for the fiscal year ended September 30,1998, Commission File No. 001-05707.

23

- 10.08 General Employment Enterprises, Inc. 1999 Stock Option Plan. Incorporated by reference to Exhibit 10 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999, Commission File No. 001-05707.
- 10.09 Resolution of the Board of Directors, adopted November 20, 2000, establishing a Senior Executive Bonus Pool for fiscal 2001. Incorporated by reference to Exhibit 10 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 2000, Commission File No. 001-05707.
- 10.10 Employment Agreement with Herbert F. Imhoff, Jr. effective as of August 1, 2001.
- 10.11 Chief Executive Officer Bonus Plan, adopted September 24, 2001.
- 10.12 The Corporate Plan for Retirement Select Plan Basic Plan Document.
- 10.13 The Corporate Plan for Retirement Select Plan Adoption Agreement dated September 27, 2001.
- 10.14 First Amendment to the General Employment Enterprises, Inc. Executive Retirement Plan dated September 27, 2001.
- 23 Consent of Independent Auditors.

24

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.

GENERAL EMPLOYMENT ENTERPRISES, INC.
(Registrant)

Date: November 19, 2001 By: /s/ Herbert F. Imhoff, Jr.
Herbert F. Imhoff, Jr.

Edgar Filing: GENERAL EMPLOYMENT ENTERPRISES INC - Form 10-K

Chairman of the Board and
Chief Executive 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.

Date: November 19, 2001 By: /s/ Herbert F. Imhoff, Jr.
Herbert F. Imhoff, Jr., Director
Chairman of the Board and
Chief Executive Officer
(Principal executive officer)

Date: November 19, 2001 By: /s/ Kent M. Yauch
Kent M. Yauch, Director
Vice President, Chief Financial Officer
and Treasurer
(Principal financial and accounting officer)

Date: By: _____
Dennis W. Baker, Director

Date: November 19, 2001 By: /s/ Sheldon Brottman
Sheldon Brottman, Director

Date: November 19, 2001 By: /s/ Delain G. Danehey
Delain G. Danehey, Director

Date: November 19, 2001 By: /s/ Joseph F. Lizzadro
Joseph F. Lizzadro, Director