

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended December 31, 1999

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: 1-5707

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, 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  No

The number of shares outstanding of the issuer's common stock as  
of January 31, 2000 was 5,086,656.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

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

December 31 September 30  
(In Thousands) 1999 1999

ASSETS

Current assets:

Cash and short-term investments	\$11,208	\$ 11,832
Accounts receivable, less allowances (Dec. 1999--\$417; Sept. 1999--\$440)	4,248	4,023

Total current assets	15,456	15,855
Property and equipment:		
Furniture, fixtures and equipment	3,917	3,846
Accumulated depreciation	(2,564)	(2,615)
Net property and equipment	1,353	1,231
Other assets	1,155	999
Total assets	\$17,964	\$18,085

#### LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accrued compensation and payroll taxes	\$ 2,507	\$ 3,606
Other current liabilities	1,462	858
Total current liabilities	3,969	4,464
Long-term obligations	489	484
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	8,886	8,517
Total shareholders' equity	13,506	13,137
Total liabilities and shareholders' equity	\$17,964	\$18,085

See notes to consolidated financial statements.

#### GENERAL EMPLOYMENT ENTERPRISES, INC. CONSOLIDATED STATEMENT OF INCOME (Unaudited) Three Months Ended December 31

(In Thousands, Except Per Share) 1999 1998

Net revenues:		
Placement services	\$5,321	\$5,743
Contract services	4,568	3,418
Net revenues	9,889	9,161
Operating expenses:		
Cost of contract services	2,972	2,241
Selling	3,213	3,627
General and administrative	2,810	2,447
Total operating expenses	8,995	8,315
Income from operations	894	846
Interest income	149	126
Income before income taxes	1,043	972
Provision for income taxes	420	385
Net income	\$ 623	\$ 587

#### Net income per share:

Basic	\$ .12	\$ .12
Diluted	\$ .12	\$ .11

#### Average number of shares:

Basic	5,087	5,087
Diluted	5,122	5,153

See notes to consolidated financial statements.

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

Three Months  
Ended December 31

(In Thousands)                      1999    1998

Operating activities:

Net income	\$ 623	\$ 587
Depreciation and other noncurrent items	153	29
Accounts receivable	(225)	(135)
Accrued compensation and payroll taxes	(1,099)	(1,243)
Other current liabilities	604	403

Net cash provided (used) by operating activities    56    (359)

Investing activities:

Acquisition of property and equipment and other noncurrent items	(426)	(125)
Short-term investments	(484)	1,911

Net cash provided (used) by investing activities    (910)    1,786

Financing activities:

Cash dividend declared	(254)	(221)
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Increase (decrease) in cash and

cash equivalents	(1,108)	1,206
Cash and cash equivalents at beginning of period	5,025	4,500

Cash and cash equivalents at end of period	3,917	5,706
Short-term investments at end of period	7,291	4,048

Cash and short-term investments	\$11,208	\$9,754
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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, 1999.

Common Stock

The Company declared a 15% stock dividend payable on October 29, 1999. All prior per-share amounts have been restated to reflect the dividend.

The Company declared cash dividends of \$.05 per common share on November 15, 1999 and \$ .04 per common share on November 16, 1998.

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, 1999, the Company operated 42 offices located in major metropolitan and business centers in 14 states.

Although the Company's contract service division continued to grow during the first quarter of its 2000 fiscal year, the Company experienced a decline in placement service revenues. Management attributes this decline to several factors, including client employers' decisions for increased utilization of contract employees in lieu of full-time employment staffing, and lower productivity with inexperienced branch office staff at some of the Company's locations. Management also believes that client spending on year 2000 computer issues may have deferred clients' hiring plans during the quarter.

The Company closed six marginally performing branch offices during fiscal 1999, and management expects to open five new branch offices during the year 2000.

#### First Quarter Results of Operations

For the three months ended December 31, 1999, consolidated net revenues of \$9,889,000 were up \$728,000 (8%) from the first quarter of last year. Placement service revenues decreased \$422,000 (7%), as a decrease in the number of placements was partially offset by a 2% higher average placement fee. Contract service revenues increased \$1,150,000 (34%) due to a 17% increase in billable hours and a 14% higher average hourly billing rate. Contract service revenues represented 46% of the Company's consolidated revenues for the quarter, while placement service revenues accounted for 54% of the consolidated total.

The cost of contract services increased \$731,000 (33%) for the quarter. The gross profit on contract services was \$1,596,000 this year, compared with \$1,177,000 last year, and the gross profit margin was 34.9% this year compared with 34.4% last year. Selling expenses for the quarter decreased \$414,000 (11%) from last year. Commission expense decreased 9% due to the lower placement service revenues, while recruitment advertising expense decreased 28% for the quarter. General and administrative expenses for the quarter increased \$363,000 (15%) from last year. Branch office salaries and wages increased 27%, administrative compensation was up 21%, and all other general and administrative expenses increased 6%. As a result, total operating expenses of \$8,995,000 for the quarter were \$680,000 (8%) greater than the \$8,315,000 in the prior-year quarter.

The Company had income from operations of \$894,000, which was a \$48,000 (6%) increase from \$846,000 in the prior year's first quarter. The operating profit margin for the quarter decreased slightly - to 9.0% this year compared with 9.2% last year.

Interest income for the first quarter increased \$23,000 (18%) due to higher investable funds.

The Company had pretax income of \$1,043,000 for the quarter, which was an increase of \$71,000 (7%) from last year. The effective income tax rate was 40% this year, the same as last year.

After taxes, net income was \$623,000 for the quarter ended December 31, 1999, which was a \$36,000 (6%) increase compared with net income of \$587,000 last year. Diluted net income per share was \$ .12 this year, compared with \$ .11 last year.

#### Financial Condition

During the three months ended December 31, 1999, the Company's cash and short-term investments decreased by \$624,000 to a balance of \$11,208,000. Net cash provided by operating activities was \$56,000 for the period. Net income provided \$623,000, while a seasonal reduction of accrued compensation and payroll tax liabilities required \$1,099,000, and other operating activities provided \$532,000. The Company used \$426,000 during the period for investments in property and equipment and other assets, and the payment of a cash dividend required \$254,000.

The Company's net working capital was \$11,487,000 as of December 31, 1999, compared with \$11,391,000 at September 30, 1999, and shareholders' equity was \$13,506,000 at December 31, 1999, compared with \$13,137,000 last September.

As of December 31, 1999, the Company had no debt outstanding, and it had a \$1,000,000 line of credit available for working capital purposes. All of the Company's facilities are leased, and information about future minimum lease payments is presented in the notes to consolidated financial statements contained in the Company's annual report on Form 10-K for the year ended September 30, 1999. Management believes that existing resources are adequate to meet the Company's anticipated operating needs.

#### Year 2000 Issues

Issues surrounding the year 2000 are the result of older computer programs being written using two digits rather than four digits to define a year. As a result, date-sensitive computer software or hardware containing this defect could be susceptible to miscalculations or system failures if not corrected or replaced.

During fiscal 1999 the Company reviewed all of its critical computer hardware installations and software applications and determined that they were compliant with the year 2000. It also identified outside third parties that play a critical role in its operations and monitored the status of those parties through December 31, 1999. As expected, the Company has not had any difficulty processing transactions or conducting business in the year 2000.

The Company has not pursued year 2000 remediation projects in its staffing operations. As a result, consolidated revenues from such sources are insignificant. The sources of the Company's staffing revenues are generally from more traditional information technology development projects. Management believes that clients that diverted their spending from traditional projects to year 2000 remediation projects may have adversely affected the Company's business, particularly placement services, during the quarter ended December 31, 1999. Management believes that this trend is likely to continue into the first calendar quarter of 2000. Because client spending on traditional projects has been deferred, however, the Company expects that the demand for its services will be particularly strong when clients return to spending on these projects in 2000.

#### Forward Looking Statements

The Company's business, particularly placement services, can be volatile and may fluctuate from quarter to quarter. Operating results for interim periods are not necessarily indicative of results that may be expected for the entire year.

This report contains certain forward looking information that is based on management's current expectations and is subject to risks and uncertainties. Actual results could differ significantly. 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.

The following exhibits are filed as part of this report:

No. Description of Exhibit

10 Resolution of the Board of Directors adopted November 15, 1999, establishing a Senior Executive Bonus Pool for fiscal 2000.

27 Financial Data Schedule for the three months ended December 31, 1999.

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, 2000 By: /s/ Herbert F. Imhoff  
Herbert F. Imhoff  
Chairman of the Board  
and Chief Executive Officer

Date: February 1, 2000 By: /s/ Kent M. Yauch  
Kent M. Yauch  
Chief Financial Officer  
and Treasurer

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Exhibit 10

RESOLUTION OF THE BOARD OF DIRECTORS  
GENERAL EMPLOYMENT ENTERPRISES, INC.  
ADOPTED NOVEMBER 15, 1999

RESOLVED, that effective October 1, 1999, the Company establish a Senior Executive Bonus Pool for fiscal 2000 payable to Herbert F. Imhoff, the Company's Chairman of the Board and Chief Executive Officer, and to Herbert F. Imhoff, Jr., the Company's President and Chief Operating Officer, with the total sum of the pool to be divided between the two executives, with 60% of the bonus pool to be paid to Herbert F. Imhoff, Sr. and the remaining 40% of the bonus pool to be paid to Herbert F. Imhoff, Jr.

The Executive Bonus Pool will be equal to a total amount based upon the following contingency formula:

If consolidated pretax earnings before executive bonuses equal or exceed \$5,000,000 but are less than \$5,500,000, a bonus amount equal to 2% of the Company's pretax earnings before executive bonuses will be accrued and added to the Executive Bonus Pool.

If consolidated pretax earnings before executive bonuses exceed \$5,500,000, a bonus amount equal to 4% of the Company's pretax earnings before executive bonuses will be accrued and added to the Executive Bonus Pool.

The contingency terms of this Executive Bonus Pool formula merely establishes the year-end bonus percentage rate and are not cumulative -- one rate (2%) or the other (4%) will determine the total amount of the bonus pool.