

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 March 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 April 30, 1999 was 4,423,566.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	March 31 September 30	
(In Thousands)	1999	1998
ASSETS		
Current assets:		
Cash and short-term investments	\$ 9,881	\$ 10,459
Accounts receivable, less allowances (Mar. 1999--\$737; Sept. 1998--\$565)	4,115	3,639
Total current assets	13,996	14,098

Property and equipment:		
Furniture, fixtures and equipment	3,439	3,089
Accumulated depreciation	(2,500)	(2,391)
Net property and equipment	939	698
Other assets	968	836
Total assets	\$15,903	\$15,632

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accrued compensation and payroll taxes	\$ 3,551	\$ 4,041
Other current liabilities	523	796
Total current liabilities	4,074	4,837
Long-term obligations	473	460
Shareholders' equity:		
Common stock, no-par value; authorized -- 20,000 shares; issued and outstanding -- 4,424 shares	44	44
Capital in excess of stated value of shares	4,576	4,576
Retained earnings	6,736	5,715
Total shareholders' equity	11,356	10,335

Total liabilities and shareholders' equity \$15,903 \$15,632
See notes to consolidated financial statements.

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

	Three Months		Six Months	
	Ended March 31		Ended March 31	
(In Thousands, Except Per Share)	1999	1998	1999	1998

Net revenues:				
Placement services	\$5,818	\$6,047	\$11,561	\$12,696
Contract services	4,173	2,794	7,591	5,623
Net revenues	9,991	8,841	19,152	18,319
Operating expenses:				
Direct costs of contract services	2,784	1,839	5,025	3,636
Selling	3,632	3,754	7,259	7,781
General and administrative	2,588	2,144	5,035	4,510
Total operating expenses	9,004	7,737	17,319	15,927
Income from operations	987	1,104	1,833	2,392
Interest income	108	99	234	198
Income before income taxes	1,095	1,203	2,067	2,590
Provision for income taxes	440	480	825	1,035
Net income	\$ 655	\$ 723	\$ 1,242	\$ 1,555

Net income per share:				
Basic	\$.15	\$.16	\$.28	\$.35
Diluted	\$.15	\$.16	\$.28	\$.34

Average number of shares:				
Basic	4,424	4,424	4,424	4,413
Diluted	4,451	4,656	4,455	4,633

See notes to consolidated financial statements.

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

Six Months
Ended March 31

(In Thousands)	1999	1998
Operating activities:		
Net income	\$1,242	\$1,555
Depreciation and other noncurrent items	109	133
Accounts receivable	(476)	(450)
Accrued compensation and payroll taxes	(490)	371
Other current liabilities	(273)	(376)
Net cash provided by operating activities	112	1,233
Investing activities:		
Acquisition of property and equipment and other noncurrent items	(469)	(299)
Short-term investments	641	657
Net cash provided by investing activities	172	358
Financing activities:		
Exercises of stock options	--	301
Cash dividend declared	(221)	(201)
Net cash provided (used) by financing activities	(221)	100
Increase in cash and cash equivalents	63	1,691
Cash and cash equivalents at beginning of period	4,500	3,188
Cash and cash equivalents at end of period	4,563	4,879
Short-term investments at end of period	5,318	3,902
Cash and short-term investments	\$9,881	\$8,781

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-KSB for the year ended September 30, 1998.

Common Stock

The Company issued a 10% stock dividend on October 30, 1998. All per share amounts for fiscal 1998 have been restated.

The Company declared cash dividends of \$.05 per common share on November 16, 1998 and \$.05 per share on November 17, 1997.

Corporate Strategies and Economic Factors

The Company provides placement and contract staffing services for business and industry, specializing in the placement of professional information technology, engineering and accounting personnel. As of March 31, 1999, the Company operated 48 offices located in major metropolitan and business centers in 16 states.

The strong demand for information technology professionals in recent years has had a favorable impact on the Company's results of operations. This demand has resulted in increased contract hours billed to clients, and the average placement fee has risen as the average base salary of individuals placed has grown. For the five fiscal years ended September 30, 1998, the Company's average annual rate of revenue growth was 28%. To accommodate the demand for its services, the Company opened 25 new branch offices since October 1995, including one new office in fiscal 1999 and nine new offices in fiscal 1998.

Although the Company's contract service division continued to grow during the first six months of the 1999 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, more employer emphasis on retention of new hires by increased scrutiny and screening of full-time employee candidates, therefore lengthening the hiring process time, and lower productivity with inexperienced branch office staff at some of the Company's newer locations.

Management believes that the underlying demand for information technology professionals in the United States will continue in the foreseeable future. The Company has deferred any new branch office openings for fiscal 1999, while it addresses issues related to the changing marketplace, under-performing branch operations and staff development.

Second Quarter Results of Operations

For the three months ended March 31, 1999, consolidated revenues of \$9,991,000 were up \$1,150,000 (13%) from the second quarter last year. Placement service revenues decreased \$229,000 (4%), as a result of a 10% decrease in the number of placements, partially offset by a 6% higher average placement fee. Contract service revenues increased \$1,379,000 (49%) due to a 39% increase in billable hours and a 7% higher average hourly billing rate. Contract service revenues represented 42% of the Company's consolidated revenues for the quarter, while placement service revenues accounted for 58% of the consolidated total.

The direct costs of contract services increased \$945,000 (51%) over last year. The gross profit on contract services was \$1,389,000 this year, compared with \$955,000 last year, and the gross profit margin on contract services was 33.3% this year compared with 34.2% last year. Consistent with staffing industry practices, the direct costs of contract services are considered to be the wages and the related payroll taxes and benefits of contract workers. Selling expenses for the second quarter decreased \$122,000 (3%) from last year's second quarter. Commission expense decreased 4% due to the lower placement revenues, while investment in recruitment advertising increased 7%. General and administrative expenses for the quarter increased \$444,000 (21%) from last year. This was largely associated with the effects of opening new branch offices during the 1998 fiscal year. Branch office salaries and wages increased 37%, occupancy costs increased 21%, and all other general and administrative expenses increased 10%. As a result, total operating expenses increased \$1,267,000 (16%) for the quarter.

The Company had income from operations of \$987,000, which was a \$117,000 (11%) decrease from \$1,104,000 in the prior year's second quarter. The operating profit margin of 9.9% this year decreased 2.6 points from 12.5% last year, due to the effects of lower placement revenues combined with higher general and administrative expenses.

Interest income for the second quarter increased \$9,000 (9%) due to higher investable funds.

The Company had pretax income of \$1,095,000 for the quarter, which was a decrease of \$108,000 (9%) from last year. The effective income tax rate was 40.2% this year and 39.9% last year.

After taxes, net income was \$655,000 for the quarter ended March 31, 1999, which was a \$68,000 (9%) decline compared with net income of \$723,000 last year. Diluted net income per share was \$.15 this year, compared with \$.16 last year.

Six Months Results of Operations

For the six months ended March 31, 1999, consolidated revenues of \$19,152,000 were up \$833,000 (5%) from last year's six month period. Placement service revenues decreased \$1,135,000 (9%), as a result of a 16% decrease in the number of placements, partially offset by a 7% higher average placement fee. Contract service revenues increased \$1,968,000 (35%) due to a 26% increase in billable hours and an 8% higher average hourly billing rate. Contract service revenues represented 40% of consolidated revenues for the six-month period, while placement service revenues represented 60% of the total.

The direct costs of contract services increased \$1,389,000 (38%) over last year. The gross profit on contract services was \$2,566,000 this year, compared with \$1,987,000 last year, and the gross profit margin on contract services was 33.8% this year compared with 35.3% last year. Selling expenses for the six months decreased \$522,000 (7%) from the same period last year. Commission expense decreased 10% due to the lower placement revenues, while investment in recruitment advertising increased 17%. General and administrative expenses for the six months increased \$525,000 (12%) from last year. This was largely associated with the effects of opening new branch offices during the 1998 fiscal year. Branch office salaries and wages increased 30% and occupancy costs increased 19% for the period. Administrative compensation was down 14% due to lower corporate earnings, and all other general and administrative expenses increased 6%. As a result, total operating expenses increased \$1,392,000 (9%) for the six month period.

The Company had income from operations of \$1,833,000, which was a \$559,000 (23%) decrease from \$2,392,000 in the prior year's six month period. The operating profit margin of 9.6% this year decreased 3.5 points from 13.1% last year, due to the effects of lower placement revenues combined with higher general and administrative expenses.

Interest income for the six months increased \$36,000 (18%) due to higher investable funds.

The Company had pretax income of \$2,067,000 for the first six months, which was a decrease of \$523,000 (20%) from last year. The effective income tax rate was 39.9% this year and 40.0% last year.

After taxes, net income was \$1,242,000 for the six month period ended March 31, 1999, which was a \$313,000 (20%) decline compared with net income of \$1,555,000 last year. Diluted net income per share was \$.28 this year, compared with \$.34 last year.

Financial Condition

During the six months ended March 31, 1999, the Company's cash and short-term investments decreased by \$578,000 to a balance of \$9,881,000. Net cash provided by operating activities was \$112,000 for the period. Net income provided \$1,242,000, while an increase in accounts receivable required \$476,000, a reduction of accrued compensation and payroll tax liabilities required \$490,000, and other operating activities required \$164,000. The Company used \$469,000 during the period for investments in property and equipment and other assets, and the payment of a cash dividend required \$221,000.

The Company's net working capital was \$9,922,000 as of March 31, 1999, compared with \$9,261,000 at September 30, 1998, and shareholders' equity was \$11,356,000 at March 31, 1999, compared with \$10,335,000 last September.

During fiscal 1999 the Company initiated a program to spend approximately \$1,000,000 for the acquisition of additional computer equipment, applicant retrieval software and new office furniture. As of March 31, 1999, there was approximately \$580,000 remaining to be spent under this program, of which approximately \$280,000 was committed. Approximately \$330,000 is expected to be spent during the second half of fiscal 1999, and \$250,000 is expected to be spent in fiscal 2000. 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-KSB for the year ended September 30, 1998.

As of March 31, 1999, the Company had no debt outstanding, and it had a \$1,000,000 line of credit available for working capital purposes. 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.

As of October 1998, all of the Company's internal software and computer hardware were compliant with the year 2000, and the Company does not anticipate any difficulty in processing transactions or conducting business in the next millennium.

The Company is in the process of identifying what effect, if any, that the year 2000 will have on the operations of third parties that could materially affect the operations of the Company. Management is in the process of identifying potentially significant third parties, and expects to complete an assessment of their readiness by September 1999. The potential effect on the Company of non-compliance by third parties is not determinable at this time. However, due to the service nature of the Company's business, management believes that it would be able to readily find alternate suppliers in the event that existing providers might fail.

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, and the ability of the Company to attract and retain qualified personnel for regular full-time placement and contract project assignments.

PART II - OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders.

At the annual meeting of shareholders on February 22, 1999, the shareholders approved the Company's 1999 Stock Option Plan. There were 2,276,981 shares voted for the adoption, and there were 1,725,520 share withheld. In addition, the shareholders elected all of the 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
Sheldon Brottman	3,934,259	68,242
Leonard Chavin	3,926,075	76,426
Delain G. Danehey	3,940,132	62,369
Herbert F. Imhoff	3,934,516	67,985
Herbert F. Imhoff, Jr.	3,938,168	64,333
Walter T. Kerwin, Jr.	3,930,668	71,833

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

The following exhibits are filed as part of this report:

No. Description of Exhibit

10 General Employment Enterprises, Inc. 1999 Stock Option Plan.

27 Financial Data Schedule for the six months ended March 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: May 5, 1999 By: /s/ Herbert F. Imhoff
Herbert F. Imhoff
Chairman of the Board
and Chief Executive Officer

Date: May 5, 1999 By: /s/ Kent M. Yauch

Kent M. Yauch
Chief Financial Officer
and Treasurer

Exhibit 10

GENERAL EMPLOYMENT ENTERPRISES, INC. 1999 STOCK OPTION PLAN

Section 1. Purpose.

The purpose of the General Employment Enterprises, Inc. 1999 Stock Option Plan (the "Plan") is to benefit General Employment Enterprises, Inc. (the "Company") and its Subsidiaries (as defined in Section 2) by recognizing the contributions made to the Company by officers and other key employees (including members of the Board of Directors of the Company ("the Directors") who are also employees) of the Company and its Subsidiaries, to provide such persons with additional incentive to devote themselves to the future success of the Company, and to improve the ability of the Company to attract, retain and motivate individuals, by providing such persons with a favorable opportunity to acquire or increase their proprietary interest in the Company. In addition, the Plan is intended as an additional incentive to members of the Board of Directors of the Company who are not employees of the Company ("Non-Employee Directors") to serve on the Board of Directors of the Company (the "Board") and to devote themselves to the future success of the Company by providing them with a favorable opportunity to acquire or increase their proprietary interest in the Company through receipt of options to acquire common stock of the Company.

The Company may grant stock options that constitute "incentive stock options" ("ISOs") within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), or stock options which do not constitute ISO ("NSOs") (ISOs and NSOs being hereinafter collectively referred to as "Options").

Section 2. Eligibility.

Non-Employee Directors shall participate in the Plan only in accordance with the provisions of Section 5.2 of the Plan. The Committee (as defined in Section 3) shall initially, and from time to time thereafter, select those officers and other key employees (including Directors of the Company who are also employees) (collectively referred to herein as "Key Employees") of the Company or any other entity of which the Company is the direct or indirect beneficial owner of not less than fifty percent (50%) of all issued and outstanding equity interests ("Subsidiaries"), to participate in the Plan on the basis of the special importance of their services in the management, development and operations of the Company or its Subsidiaries (each such Key Employee receiving Options granted under the Plan is referred to herein as an "Optionee").

Section 3. Administration.

3.1. The Committee. The Plan shall be administered by the Stock Option Committee (the "Committee") of the Board of Directors of the Company (the "Board"). The Committee shall be comprised of two (2) or more members of the Board who are "non-employee directors" within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934.

3.2. Authority of the Committee. No person, other than members of the Committee, shall have any authority concerning decisions regarding the Plan. Subject to the express provisions of this Plan, the Committee shall have sole discretion concerning all matters relating to the Plan and Options granted hereunder.

The Committee, in its sole discretion, shall determine the Key Employees of the Company and its Subsidiaries to whom, and the time or times at which Options will be granted, the number of shares to be subject to each Option, the expiration date of each Option, the time or times within which the Option may be exercised, the cancellation of the Option (with the consent of the holder thereof) and the other terms and conditions of the grant of the Option. The terms and conditions of the Options need not be the same with respect to each Optionee or with respect to each Option.

The Committee may, subject to the provisions of the Plan, establish such rules and regulations as it deems necessary or advisable for the proper administration of the Plan, and may make determinations and may take such other action in connection with or in relation to the Plan as it deems necessary or advisable. Each determination or other action made or taken pursuant to the Plan, including interpretation of the Plan and the specific terms and conditions of the Options granted hereunder by the Committee shall be final and conclusive for all purposes and upon all persons including, but without limitation, the Company, its Subsidiaries, the Committee, the Board, officers and the affected employees of the Company and/or its Subsidiaries and their respective successors in interest.

No member of the Committee shall, in the absence of bad faith, be liable for any act or omission with respect to service on the Committee. Service on the Committee shall constitute service as a Director of the Company so that members of the Committee shall be entitled to indemnification pursuant to the Company's Certificate of Incorporation and By-Laws.

Section 4. Shares of Common Stock Subject to Plan.

4.1. The total number of shares of common stock, no par value, of the Company (the "Common Stock"), that may be issued and sold under the Plan within the Applicable Period (as defined below) shall be 250,000. For purposes of the preceding sentence, Applicable Period shall be the ten-year period commencing on February 22, 1999 and ending on February 22, 2009. The aforementioned total number of shares of Common Stock shall be adjusted in accordance with the provisions of Section 4.2 hereof. Notwithstanding the foregoing, the total number of shares of Common Stock that may be subject to ISOs under the Plan shall be 250,000 shares of Common Stock, adjusted in accordance with the provisions of Section 4.2 hereof. Any shares of Common Stock subject to issuance upon exercise of Options but which are not issued because of a surrender (other than pursuant to Sections 7.2 or 7.3 of the Plan), forfeiture, expiration, termination or cancellation of any such Option, to the extent consistent with applicable law, rules and regulations, shall once again be available for issuance pursuant to subsequent Options.

4.2. The number of shares of Common Stock subject to the Plan and to Options granted under the plan shall be adjusted as follows: (a) in the event that the number of outstanding shares of Common Stock is changed by any stock dividend, stock split or combination of shares, the number of shares subject to the Plan and to Options previously granted thereunder shall be proportionately adjusted; (b) in the event of any merger, consolidation or reorganization of the Company with any other corporation or corporations, there shall be substituted on an equitable basis as determined by the Board, in its sole discretion, for each share of Common Stock then subject to the Plan and for each share of Common Stock then subject to an Option granted under the Plan, the number and kind of shares of stock, other securities, cash or other property to which the holders of Common Stock of the Company are entitled pursuant to the transaction; and (c) in the event of any other change in the capitalization of the Company, the Committee, in its sole discretion, shall provide for an equitable adjustment in the number of shares of Common Stock then subject to the Plan and to

each share of Common Stock then subject to an Option granted under the Plan. In the event of any such adjustment, the exercise price per share shall be proportionately adjusted.

Section 5. Grants of Options.

5.1. Grants of Options to Key Employees. Subject to the terms of the Plan, the Committee may from time to time grant Options, which may be ISOs or NSOs, to Key Employees of the Company or any of its Subsidiaries. Unless otherwise expressly provided at the time of the grant, Options granted under the Plan to Key Employees will be ISOs.

5.2. Grants of Options to Non-Employee Directors. All grants of Options to Non-Employee Directors shall be automatic and non-discretionary. Each individual who is a Non-Employee Director on the effective date of the Plan shall be granted automatically a NSO to purchase 5,000 shares of Common Stock on the effective date of the Plan. Each individual who becomes a Non-Employee Director (other than a Non-Employee Director who was previously an employee Director) after the effective date of the Plan shall be granted automatically a NSO to purchase 5,000 shares of Common stock on the date he or she becomes a Non-Employee Director.

5.3. Option Agreement. Each Option shall be evidenced by a written Option Agreement specifying the type of Option granted, the Option exercise price, the terms for payment of the exercise price, the expiration date of the Option, the number of shares of Common Stock to be subject to each Option and such other terms and conditions established by the Committee, in its sole discretion, not inconsistent with the Plan.

5.4. Expiration. Except to the extent otherwise provided in or pursuant to Section 6, each Option shall expire, and all rights to purchase shares of Common Stock shall expire, on the tenth anniversary of the date on which the Option was granted.

5.5. Exercise Period. Except to the extent otherwise provided in or pursuant to Section 6, or in the proviso to this sentence, Options shall become exercisable pursuant to the following schedule: with respect to one-fifth of the total number of shares of Common Stock subject to Option on the date twelve months after the date of its grant and with respect to an additional one-fifth of the total number of shares of Common Stock subject to the Option at the end of each twelve-month period thereafter during the succeeding four years; provided, however, that the Committee, in its sole discretion, shall have the authority to shorten or lengthen the exercise schedule with respect to any or all Options, or any part thereof, granted under the Plan.

5.6. Required Terms and Conditions of ISOs. Each ISO granted to a Key Employee shall be in such form and subject to such restrictions and other terms and conditions as the Committee may determine, in its sole discretion, at the time of grant, subject to the general provisions of the Plan, the applicable Option Agreement, and the following specific rules:

(a) Except as provided in Section 5.6(d), the per share exercise price of each ISO shall be the Fair Market Value of the shares of Common Stock on the date such ISO is granted.

(b) The aggregate Fair Market Value (determined with respect to each ISO at the time such Option is granted) of the shares of Common Stock with respect to which ISOs are exercisable for the first time by an individual during any calendar year (under all incentive stock option plans of the Company and its parent and subsidiary corporations) shall not exceed \$100,000. If the aggregate Fair Market Value (determined at the time of grant) of the Common Stock subject to an Option that first becomes exercisable in any

calendar year exceeds the limitation of this Section 5.6(b), so much of the Option that does not exceed the applicable dollar limit shall be an ISO and the remainder shall be a NSO; but in all other respects, the original Option Agreement shall remain in full force and effect.

(c) As used in this Section 5, the words "parent" and "subsidiary" shall have the meanings given to them in Section 424(e) and 424(f) of the Code.

(d) Notwithstanding anything herein to the contrary, if an ISO is granted to an individual who owns stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or of its parent or subsidiary corporations, within the meaning of Section 422(b)(6) of the Code: (i) the purchase price of each share of Common Stock subject to the ISO shall be not less than one hundred ten percent (110%) of the Fair Market Value of the Common Stock on the date the ISO is granted; and (ii) the ISO shall expire and all rights to purchase shares thereunder shall cease no later than the fifth anniversary of the date the ISO was granted.

(e) No ISOs may be granted under the Plan after February 22, 2009.

5.7. Required Terms and Conditions of NSOs. Each NSO granted shall be in such form and subject to such restrictions and other terms and conditions as the Committee may determine, in its sole discretion, at the time of grant, subject to the general provisions of the Plan, the applicable Option Agreement, and the following specific rule: in no event may the exercise price be less than the par value of the shares of Common Stock subject to such NSO.

Section 6. Effect of Termination.

6.1. Key Employee Termination Generally. Except as provided in Sections 6.2, 6.3 and 11, or by the Committee in its sole discretion, any Option shall terminate on the date of the Key Employee's termination of employment with the Company and its Subsidiaries: (i) for Good Cause (as defined in the Option Agreement); or (ii) voluntarily, for any other reason other than retirement, death, or disability. A Key Employee's transfer of employment from the Company to a Subsidiary, or from a Subsidiary to the Company, or from a Subsidiary to another Subsidiary, shall not constitute a termination of employment for purposes of the Plan. Options granted under the Plan shall not be affected by any change of duties in connection with the employment of the Key Employee or by leave of absence authorized by the Company or a Subsidiary.

6.2. Death and Disability. In the event of an Optionee's death or Disability (as defined below) during employment or service with the Company or any of its Subsidiaries, all Options held by the Optionee shall become fully exercisable on such date of death or Disability. Each of the Options held by such an Optionee shall expire on the earlier of: (a) the first anniversary of the date of the Optionee's death or Disability; and (b) the date that such Option expires in accordance with its terms. For purposes of this Section 6.2, "Disability" shall mean the inability of an individual to engage in any substantial gainful activity by reason of any medical determinable physical or mental impairment which is expected to result in death or which has lasted or can be expected to last for a continuous period of not less than twelve (12) months. The Committee, in its sole discretion, shall determine the date of any Disability.

6.3. Retirement of Key Employees. In the event the employment of a Key Employee with the Company and/or its Subsidiaries shall be terminated by reason of Employee

Retirement, all Options held by the Key Employee shall become fully exercisable. Each of the Options held by such a Key Employee shall expire on the earlier of: (i) the first anniversary of the date of the Employee Retirement; and (ii) the date that such Option expires in accordance with its terms. For purposes of this Section 6.3, "Employee Retirement" shall mean retirement of a Key Employee after attaining age 55. In the event the employment of a Key Employee with the Company and/or its Subsidiaries shall be terminated by reason of a retirement that is not an Employee Retirement as herein defined, the Committee may, in its sole discretion, determine that the exercisability and exercise periods set forth in this Section 6.3(a) shall be applicable to Options held by such Key Employee. Notwithstanding the foregoing, in the event the employment of a Key Employee who is also a Director of the Company is terminated by reason of Employee Retirement, all Options held by the Key Employee shall become fully exercisable, but each of the Options held by such a Key Employee shall expire on the earlier of: (i) the first anniversary of the date of the Key Employee's termination of service on the Board for any reason; and (ii) the date that such Option expires in accordance with its terms.

6.4. Retirement of Non-Employee Directors. In the event the service of a Non-Employee Director on the Board shall be terminated by reason of the retirement of such Non-Employee Director of the Company in accordance with the Company's retirement policy for Directors, any Option or Options granted to such Non-Employee Director shall continue to vest and remain exercisable pursuant to Section 5, in the same manner and to the same extent as if such Director had continued his or her service on the Board during such period.

Section 7. Exercise of Options.

7.1. Notice. A person entitled to exercise an Option may do so by delivery of a written notice to that effect specifying the number of shares of Common Stock with respect to which the Option is being exercised and any other information the Committee may prescribe. The notice shall be accompanied by payment as described in Section 7.2. The notice of exercise shall be accompanied by the Optionee's copy of the writing or writings evidencing the grant of the Option. All notices or requests provided for herein shall be delivered to the Secretary of the Company.

7.2. Exercise Price. Except as otherwise provided in the Plan or in any Option Agreement, the Optionee shall pay the purchase price of the shares of Common Stock upon exercise of any Option: (a) in cash; (b) in cash received from a broker-dealer to whom the Optionee has submitted an exercise notice consisting of a fully endorsed Option (however, in the case of an Optionee subject to Section 16 of the 1934 Act, this payment option shall only be available to the extent such insider complies with Regulation T issued by the Federal Reserve Board); (c) by delivering shares of Common Stock having an aggregate Fair Market Value on the date of exercise equal to the Option exercise price; (d) by directing the Company to withhold such number of shares of Common Stock otherwise issuable upon exercise of such Option having an aggregate Fair Market Value on the date of exercise equal to the Option exercise price; (e) in the case of a Key Employee, by such other medium of payment as the Committee, in its discretion, shall authorize at the time of grant; or (f) by any combination of (a), (b), (c), (d) and (e). In the case of an election pursuant to (a) or (b) above, cash shall mean cash or a check issued by a federally insured bank or savings and loan, and made payable to the Company. In the case of payment pursuant to (b), (c) or (d) above, the Optionee's election must be made on or prior to the date of exercise and shall be irrevocable. In lieu of a separate election governing each exercise of an Option, an Optionee may file a blanket election with the Committee which shall govern all future exercises of Options until revoked by the Optionee. The Company shall issue, in the name of the Optionee,

stock certificates representing the total number of shares of Common Stock issuable pursuant to the exercise of any Option as soon as reasonably practicable after such exercise, provided that any shares of Common Stock purchased by an Optionee through a broker-dealer pursuant to clause (b) above shall be delivered to such broker-dealer in accordance with 12 C.F.R. 220.3(e)(4) or other applicable provision of law.

7.3. Taxes Generally. At the time of the exercise of any Option, as a condition of the exercise of such Option, the Company may require the Optionee to pay the Company an amount equal to the amount of the tax the Company or any Subsidiary may be required to withhold to obtain a deduction for federal and state income tax purposes as a result of the exercise of such Option by the Optionee or to comply with applicable law.

7.4. Payment of Taxes. At any time when an Optionee is required to pay an amount required to be withheld under applicable income tax or other laws in connection with the exercise of an Option, the Optionee may satisfy this obligation in whole or in part by: (a) directing the Company to withhold such number of shares of Common Stock otherwise issuable upon exercise of such Option having an aggregate Fair Market Value on the date of exercise equal to the amount of tax required to be withheld; or (b) delivering shares of Common Stock of the Company having an aggregate Fair Market Value equal to the amount required to be withheld. In the case of payment of taxes pursuant to (a) or (b) above, the Optionee's election must be made on or prior to the date of exercise and shall be irrevocable. The Committee may disapprove any election or delivery or may suspend or terminate the right to make elections or deliveries. In lieu of a separate election governing each exercise of an Option, an Optionee may file a blanket election with the Committee which shall govern all future exercises of Options until revoked by the Optionee.

Section 8. Transferability of Options.

No Option granted pursuant to the Plan shall be transferable otherwise than by will or by the laws of descent and distribution or pursuant to a qualified domestic relations order as defined by the Code. Notwithstanding the preceding sentence, an Optionee, at any time prior to his death, may assign all or any portion of an Option granted to him (other than an ISO) to (i) his spouse or lineal descendant, (ii) the trustee of a trust for the primary benefit of his spouse or lineal descendant, (iii) a partnership of which his spouse and lineal descendants are the only partners, or (iv) a tax exempt organization as described in Code Section 501 (c)(3). In such event, the spouse, lineal descendant, trustee, partnership or tax exempt organization will be entitled to all of the rights of the Optionee with respect to the assigned portion of such Option, and such portion of the Option will continue to be subject to all of the terms, conditions and restrictions applicable to the Option, as set forth herein and in the related Option Agreement immediately prior to the effective date of the assignment. Any such assignment will be permitted only if: (i) the Optionee does not receive any consideration therefore; and (ii) the assignment is expressly permitted by the applicable Agreement as approved by the Committee. Any such assignment shall be evidenced by an appropriate written document executed by the Optionee, and a copy thereof shall be delivered to the Company on or prior to the effective date of the assignment.

Section 9. Rights as Shareholder.

An Optionee or a transferee of an Optionee pursuant to Section 8 shall have no rights as a shareholder with respect to any Common Stock covered by an Option or receivable upon the exercise of an Option until the Optionee or transferee shall have become the holder of record of such Common Stock, and no

adjustments shall be made for dividends in cash or other property or other distributions or rights in respect to such Common Stock for which the record date is prior to the date on which the Optionee shall have in fact become the holder of record of the shares of Common Stock acquired pursuant to the Option.

Section 10. Change in Control.

10.1 Effect of Change in Control. Notwithstanding any of the provisions of the Plan or any Option Agreement evidencing Options granted hereunder, upon a Change in Control of the Company (as defined in Section 10.2) all outstanding Options shall become fully exercisable and all restrictions thereon shall terminate in order that Optionees may fully realize the benefits thereunder. Further, in addition to the Committee's authority set forth in Section 3, the Committee, as constituted before such Change in Control, is authorized, and has sole discretion, as to any Option, either at the time such Option is granted hereunder or any time thereafter, to take any one or more of the following actions: (a) provide for the purchase of any such Option, upon the Optionee's request, for an amount of cash equal to the difference between the exercise price and the then Fair Market Value of the Common Stock covered thereby had such Option been currently exercisable; (b) make such adjustment to any such Option then outstanding as the Committee deems appropriate to reflect such Change in Control; and (c) cause any such Option then outstanding to be assumed, by the acquiring or surviving corporation, after such Change in Control.

10.2. Definition of Change in Control. A "Change in Control of the Company" is deemed to occur upon:

- (a) The receipt by the Company of a Schedule 13D or other statement filed under Section 13(d) of the 1934 Act, indicating that any entity, person, or group has acquired beneficial ownership, as that term is defined in Rule 13d-3 under the 1934 Act, of more than 30% of the outstanding capital stock of the Company entitled to vote for the election of directors ("voting stock");
- (b) The commencement by an entity, person, or group (other than the Company or a Subsidiary) of a tender offer or an exchange offer for more than 20% of the outstanding voting stock of the Company;
- (c) The effective time of: (i) a merger or consolidation of the Company with one or more other corporations as a result of which the holders of the outstanding voting stock of the Company immediately prior to such merger or consolidation hold less than 80% of the voting stock of the surviving or resulting corporation; or (ii) a transfer of substantially all of the property of the Company other than to an entity of which the Company owns at least 80% of the voting stock; or
- (d) The election to the Board, without the recommendation or approval of the incumbent Board, of the lesser of: (i) three directors or (ii) directors constituting a majority of the number of directors of the Company then in office.

Section 11. Postponement of Exercise.

The Committee may postpone any exercise of an Option for such time as the Committee in its sole discretion may deem necessary in order to permit the Company: (a) to effect, amend or maintain any necessary registration of the Plan or the shares of Common Stock issuable upon the exercise of an Option under the Securities Act of 1933, as amended, or the securities laws of any applicable jurisdiction; (b) to permit any action to be taken in order to (i) list such shares of Common Stock on a stock exchange if shares of Common Stock are then listed on such exchange or

(ii) comply with restrictions or regulations incident to the maintenance of a public market for its shares of Common Stock, including any rules or regulations of any stock exchange on which the shares of Common Stock are listed; or (c) to determine that such shares of Common Stock and the Plan are exempt from such registration or that no action of the kind referred to in (b)(ii) above needs to be taken; and the Company shall not be obligated by virtue of any terms and conditions of any Option or any provision of the Plan to recognize the exercise of an Option or to sell or issue shares of Common Stock in violation of the Securities Act of 1933 or the law of any government having jurisdiction thereof. Any such postponement shall not extend the term of an Option and neither the Company nor its directors or officers shall have any obligation or liability to an Optionee, to the Optionee's successor or to any other person with respect to any shares of Common Stock as to which the Option shall lapse because of such postponement.

Section 12. Termination or Amendment of Plan.

The Board or the Committee may terminate, suspend, or amend the Plan, in whole or in part, from time to time, without the approval of the shareholders of the Company to the extent allowed by law.

The Committee may correct any defect or supply an omission or reconcile any inconsistency in the Plan or in any Option granted hereunder in the manner and to the extent it shall deem desirable, in its sole discretion, to effectuate the Plan.

No amendment or termination of the Plan shall in any manner affect any Option theretofore granted without the consent of the Optionee, except that the Committee may amend the Plan in a manner that does affect Options theretofore granted upon a finding by the Committee that such amendment is in the best interest of holders of outstanding Options affected thereby.

Section 13. Effective Date.

The Plan has been adopted and authorized by the Board of Directors for submission to the shareholders of the Company. If the Plan is approved by the affirmative vote of a majority of the shares of the voting stock entitled to be voted by the holders of stock represented at a duly held shareholders' meeting, it shall be deemed to have become effective as of such date, February 22, 1999.

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