GENERAL EMPLOYMENT ENTERPRISES INC
Form 10KSB
November 21, 2006

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-KSB

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

For the fiscal year ended September 30, 2006

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

Commission File Number 1-05707

GENERAL EMPLOYMENT ENTERPRISES, INC.
(Name of small business issuer in its charter)

| | |
|---|---|
| Illinois | 36-6097429 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |

| | |
|---|---|
| One Tower Lane, Suite 2200, Oakbrook Terrace, IL | 60181 |
| (Address of principal executive offices) | (Zip Code) |

Issuer's telephone number: (630) 954-0400

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

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

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

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. [ ]

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will 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-KSB or any amendment to this Form 10-KSB. [ ]

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

The issuer's revenues for the most recent fiscal year were $20,068,000.

The aggregate market value of the common stock held by non-affiliates computed by reference to the price at which the common stock was sold as of October 31, 2006 was $7,753,000.

The number of shares outstanding of the issuer's common stock as of October 31, 2006 was 5,148,265.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the General Employment Enterprises, Inc. Proxy Statement for the annual meeting of shareholders to be held on February 26, 2007 are incorporated by reference into Part III of this Form 10-KSB.

Transitional small business disclosure format: Yes [ ] No [X]



PART I

Item 1, Description of 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 2200, 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 percentage of revenues derived from these services is as follows:

| | Year Ended September 30 2006 | 2005 |
|---|---|---|
| Contract services | 51% | 58% |
| Placement services | 49% | 42% |

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, 2006, it operated 20 branch offices located in downtown or suburban areas of major U.S. cities in 10 states. The offices were concentrated in Illinois (4) and California (3), with two offices each in Arizona, Indiana, Massachusetts, Ohio and Texas, and one office each in Florida, Georgia and North Carolina.

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 accounted for more than 5% of its revenues during either of the last two fiscal years.



Recruiting

The success of the Company is highly dependent on its ability to obtain qualified candidates. Prospective employment candidates are generally recruited through telephone contact by the Company's employment consultants or through postings on the Internet. For Internet postings, the Company maintains its own 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 applicants who are presented to its clients.

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 the 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, 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 part of its service, the Company provides reference checking, scrutiny of candidates' work experience and optional background checks. In general, pricing is considered to be secondary to quality of service as a competitive factor. During slow hiring periods, however, competition can put pressure on the Company's pricing.

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

Employees

As of September 30, 2006, the Company had approximately 150 regular employees and 170 contract service employees.

4

Item 2, Description of Property.

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 8,200 square feet of space at that location, under a lease that will expire in 2015.

The Company's staffing offices are located in downtown metropolitan and suburban business centers in 10 states. Established offices are operated from leased space ranging from 800 to 2,200 square feet, generally for periods of three to five years, with cancellation clauses after certain periods of occupancy in some cases. 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.

Item 3, Legal Proceedings.

From time to time, the Company is subject to various legal proceedings and claims arising in the ordinary course of business. As of September 30, 2006, there were no material legal proceedings pending against the Company.

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

Not applicable.

PART II

Item 5, Market for Common Equity, Related Stockholder Matters and Small Business Issuer Purchases of Equity Securities.

The Company's common stock is traded on the American Stock Exchange under the trading symbol JOB. The high and low market prices per share of the Company's common stock were as follows:

| | Fourth Quarter | Third Quarter | Second Quarter | First Quarter |
|---|---|---|---|---|
| Fiscal 2006: | | | | |
| High | $ 2.05 | $ 1.72 | $ 2.10 | $ 2.75 |
| Low | 1.43 | 1.41 | 1.46 | 1.86 |
| Fiscal 2005: | | | | |

| | | | | |
|---|---|---|---|---|
| High | $ 2.18 | $ 1.67 | $ 3.00 | $ 3.05 |
| Low | 1.18 | 1.14 | 1.34 | 2.00 |

There were 741 holders of record on October 31, 2006. The Company declared no cash dividends on its common stock during the last two fiscal years.

Information concerning securities authorized for issuance under equity compensation plans is presented in Item 11 of this annual report.

During the three months ended September 30, 2006, no equity securities of the Company were sold by the Company that were not registered under the Securities Act of 1933, and no equity securities of the Company were purchased by the Company.



Item 6, Management's Discussion and Analysis or Plan of Operation.

Overview

The Company provides contract and placement staffing services for business and industry, specializing in the placement of information technology, engineering and accounting professionals. As of September 30, 2006, the Company operated 20 offices located in 10 states.

The Company's business is highly dependent on national employment trends in general and on the demand for professional staff in particular. As an indicator of employment conditions, the national unemployment rate was 4.6% in September 2006 and 5.1% in September 2005. The change indicates a trend toward fuller employment over the last twelve months.

During the 2006 fiscal year, the Company experienced stronger demand for its placement services, but weaker demand for its contract services, compared with the prior year. These conditions led to an increase in the number of placements, while the number of billable contract hours decreased. Increased emphasis on higher-paid contract positions resulted in a higher average hourly billing rate for contract services this year.

Consolidated net revenues for the year ended September 30, 2006 decreased 1% compared with the prior year. As a result of the changed demand, placement service revenues were up 14%, while contract services revenues were down 13%. Although overall revenues were essentially flat, the change in mix resulted in a 37% increase in income from operations.

Because long-term contracts are not a significant part of the Company's business, future results cannot be reliably predicted by considering past trends or by extrapolating past results. While it is difficult to accurately predict future hiring patterns or the demand for staffing services, management believes that the Company is well positioned for growth of its operations. Existing branch offices have the capacity to accommodate additional consulting staff and a higher volume of business.

The Company had net cash flow of $668,000 for the 2006 fiscal year, and the balance of cash and cash equivalents increased to $5,904,000 as of September 30, 2006.

Results of Operations

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



| | Year Ended September 30 | |
|---|---|---|
| | 2006 | 2005 |
| Net revenues: | | |
| Contract services | 51.1% | 57.8% |
| Placement services | 48.9 | 42.2 |
| Net revenues | 100.0 | 100.0 |
| Operating expenses: | | |
| Cost of contract services | 36.2 | 41.0 |
| Selling | 30.4 | 25.8 |
| General and administrative | 29.5 | 30.4 |
| Total operating expenses | 96.1 | 97.2 |
| Income from operations | 3.9% | 2.8% |

Net Revenues

Consolidated net revenues for the year ended September 30, 2006 were down $280,000 (1%) from the prior year. Placement service revenues increased $1,221,000 (14%), while contract service revenues decreased $1,501,000 (13%).

National employment levels increased during fiscal 2006. As a result of the stronger overall demand for placement services, the Company experienced a 12% increase in the number of placements and a 2% increase in the average placement fee.

The decrease in contract service revenues was due to a 19% decrease in the number of billable hours that was partially offset by a 7% increase in the average hourly billing rate.

Operating Expenses

Total operating expenses for the year ended September 30, 2006 were down $492,000 (2%) compared with the prior year.

The cost of contract services was down $1,079,000 (13%) as a result of the lower volume of contract business. The gross profit margin on contract business was 29.2% for the year ended September 30, 2006, which was slightly higher than 29.1% for the prior year. There are no direct costs associated with placement service revenues.

Selling expenses increased $848,000 (16%) for the year, primarily due to higher commission expense resulting from the higher placement service revenues. Selling expenses represented 30.4% of consolidated net revenues, which was up 4.6 points from the prior year because of the change in revenue mix.

General and administrative expenses decreased $261,000 (4%) for the year ended September 30, 2006. Compensation in the operating divisions decreased 12%, due to lower salaries and lower advance expense resulting from the higher commissions. All other general and administrative expenses were down 1%. General and administrative expenses represented 29.5% of consolidated revenues, and that was down slightly from the prior year.

There was no provision for income taxes in either year, because of the availability of operating losses carried forward from prior years.

Financial Condition

As of September 30, 2006, the Company had cash and cash equivalents of $5,904,000, which was an increase of $668,000 from September 30, 2005. Net working capital at September 30, 2006 was $6,051,000, which was an increase of $833,000 from September 30, 2005, and the current ratio was 3.5 to 1. The Company had no long-term debt. Shareholders' equity as of September 30, 2006 was $6,852,000, which represented 74% of total assets.

During the fiscal year ended September 30, 2006, the net cash provided by operating activities was $1,002,000. Net income for the period, together with depreciation and other non-cash charges, provided $1,167,000, while working capital items used $165,000.

Expenditures for the acquisition of property and equipment were $334,000 in fiscal 2006. The major expenditures were for computer equipment and software purchased in connection with a program to upgrade the Company's operational and administrative computer systems. Additional expenditures of approximately $300,000 are expected to be incurred during fiscal 2007 to complete the project.

In November 2006, the Company's board of directors declared a special year end cash dividend in the amount of $.10 per common share, payable in January 2007, which is expected to result in a total payout of $515,000.

All of the Company's office facilities are leased. Information about future minimum lease payments and other commitments is presented in the notes to consolidated financial statements.

The Company's primary source of liquidity is from its operating activities. The Company's philosophy regarding the maintenance of cash balances reflects management's views on potential future needs for liquidity. Management believes that funds generated by operations, together with existing cash balances, will be adequate to finance current operations and capital expenditures for the foreseeable future.

As of September 30, 2006 there were approximately $3,000,000 of losses available to reduce federal taxable income in future years through 2024, and there were approximately $5,800,000 of losses available to reduce state and local taxable income in future years, expiring from 2007 through 2024.

Off-Balance Sheet Arrangements

As of September 30, 2006, and during the year then ended, there were no transactions, agreements or other contractual arrangements to which an unconsolidated entity was a party, under which the Company (a) had any direct or contingent obligation under a guarantee contract, derivative instrument or variable interest in the unconsolidated entity, or (b) had a retained or contingent interest in assets transferred to the unconsolidated entity.

Critical Accounting Policies

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States.



Management makes estimates and assumptions that can affect the amounts of assets and liabilities reported as of the date of the financial statements, as well as the amounts of reported revenues and expenses during the periods presented. Those estimates and assumptions typically involve expectations about events to occur subsequent to the balance sheet date, and it is possible that actual results could ultimately differ from the estimates. If differences were to occur in a subsequent period, the Company would recognize those differences when they became known. Significant matters requiring the use of estimates and assumptions include deferred income tax valuation allowances, accounts receivable allowances, and valuations of property and equipment. Management believes that its estimates and assumptions are reasonable, based on information that is available at the time they are made.

The following accounting policies are considered by management to be "critical" because of the judgments and uncertainties involved, and because different amounts would be reported under different conditions or using different assumptions.

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. A valuation allowance is recorded to reduce deferred tax assets to the amount that is more likely than not to be realized as a tax benefit in the future. Judgment is required in assessing the likelihood that tax assets will be realized. These judgments are based on estimates about future taxable income, which is inherently uncertain. The Company maintained a full valuation allowance as of September 30, 2006, because there was not sufficient assurance that future tax benefits would be realized.

Accounts Receivable Allowances
An allowance for placement falloffs is recorded, as a reduction of revenues, for estimated losses due to applicants not remaining employed for the Company's guarantee period. An allowance for doubtful accounts is recorded, as a charge to bad debt expense, where collection is considered to be doubtful due to credit issues. These allowances reflect management's estimate of potential losses inherent in the accounts receivable balances, based on historical loss statistics.

Property and Equipment
Property and equipment are recorded at cost. Depreciation expense is calculated on a straight-line basis over estimated useful lives of five years for computer equipment and two to ten years for office equipment, furniture and fixtures. The Company capitalizes computer software purchased or developed for internal use, and amortizes it over an estimated useful life of five years. The carrying value of property and equipment is reviewed for impairment whenever events or changes in circumstances indicate that it may not be recoverable. If the carrying amount of an asset group is greater than its estimated future undiscounted cash flows, the carrying value is written down to the estimated fair value. These processes require the use of estimates and assumptions about the future.

Forward-Looking Statements

As a matter of policy, the Company does not provide forecasts of future financial performance. However, the Company and its representatives may from time to time make written or verbal forward-looking statements, including statements contained in press announcements, reports to shareholders and



filings with the Securities and Exchange Commission. All statements which address expectations about future operating performance and cash flows, future events and business developments, and future economic conditions are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. 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 assignments, the possibility of incurring liability for the Company's business activities, including the activities of its contract employees and events affecting its contract employees on client premises, and the ability to attract and retain qualified corporate and branch management.



Item 7, Financial Statements.

GENERAL EMPLOYMENT ENTERPRISES, INC.
CONSOLIDATED BALANCE SHEET

| | As of September 30 | |
|---|---|---|
| (In Thousands) | 2006 | 2005 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $5,904 | $5,236 |
| Accounts receivable, less allowances | | |
| (2006 -- $280; 2005 -- $270) | 1,978 | 2,028 |
| Other current assets | 592 | 468 |
| Total current assets | 8,474 | 7,732 |
| Property and equipment, net | 801 | 632 |
| Total assets | $9,275 | $8,364 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accrued compensation | $1,791 | $1,834 |
| Other current liabilities | 632 | 680 |
| Total current liabilities | 2,423 | 2,514 |
| Shareholders' equity: | | |
| Preferred stock; authorized -- 100 shares; | | |

| | | |
|---|---|---|
| issued and outstanding -- none | -- | -- |
| Common stock, no-par value; authorized -- 20,000 shares; issued and outstanding - 5,148 shares | 4,839 | 4,839 |
| Retained earnings | 2,013 | 1,011 |
| Total shareholders' equity | 6,852 | 5,850 |
| Total liabilities and shareholders' equity | $9,275 | $8,364 |

See notes to consolidated financial statements.



GENERAL EMPLOYMENT ENTERPRISES, INC.
CONSOLIDATED STATEMENT OF INCOME

| | Year Ended September 30 | |
|---|---|---|
| (In Thousands, Except Per Share) | 2006 | 2005 |
| Net revenues: | | |
| Contract services | $10,253 | $11,754 |
| Placement services | 9,815 | 8,594 |
| Net revenues | 20,068 | 20,348 |
| Operating expenses: | | |
| Cost of contract services | 7,256 | 8,335 |
| Selling | 6,098 | 5,250 |
| General and administrative | 5,925 | 6,186 |
| Total operating expenses | 19,279 | 19,771 |
| Income from operations | 789 | 577 |
| Investment income | 213 | 94 |
| Net income | $ 1,002 | $ 671 |
| Average number of shares: | | |
| Basic | 5,148 | 5,142 |
| Diluted | 5,338 | 5,355 |
| Net income per share - basic and diluted | $ .19 | $ .13 |

See notes to consolidated financial statements.



GENERAL EMPLOYMENT ENTERPRISES, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS

| | Year Ended September 30 | |
|---|---|---|
| (In Thousands) | 2006 | 2005 |
| Operating activities: | | |
| Net income | $1,002 | $ 671 |
| Depreciation and amortization | 165 | 238 |
| Accounts receivable | 50 | (195) |
| Accrued compensation | (43) | 590 |
| Other current items, net | (172) | (447) |

| | | |
|---|---|---|
| Net cash provided by operating activities | 1,002 | 857 |
| Investing activities: | | |
| Acquisition of property and equipment | (334) | (69) |
| Financing activities: | | |
| Exercises of stock options | -- | 11 |
| Increase in cash and cash equivalents | 668 | 799 |
| Cash and cash equivalents at beginning of year | 5,236 | 4,437 |
| Cash and cash equivalents at end of year | $5,904 | $ 5,236 |

See notes to consolidated financial statements.



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

| | Year Ended September 30 | |
|---|---|---|
| (In Thousands) | 2006 | 2005 |
| Common shares outstanding: | | |
| Number at beginning of year | 5,148 | 5,136 |
| Exercises of stock options | -- | 12 |
| Number at end of year | 5,148 | 5,148 |
| Common stock: | | |
| Balance at beginning of year | $4,839 | $4,828 |
| Exercises of stock options | -- | 11 |
| Balance at end of year | $4,839 | $4,839 |
| Retained earnings: | | |
| Balance at beginning of year | $1,011 | $ 340 |
| Net income | 1,002 | 671 |
| Balance at end of year | $2,013 | $1,011 |

See notes to consolidated financial statements.



GENERAL EMPLOYMENT ENTERPRISES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company

General Employment Enterprises, Inc. (the "Company") operates 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 accounted for more than 5% of its revenues during either of the last two fiscal years.

Significant Accounting Policies and Estimates

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States. The more significant accounting policies that are followed by the Company are summarized below.

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
Management makes estimates and assumptions that can affect the amounts of assets and liabilities reported as of the date of the financial statements, as well as the amounts of reported revenues and expenses during the periods presented. Those estimates and assumptions typically involve expectations about events to occur subsequent to the balance sheet date, and it is possible that actual results could ultimately differ from the estimates. If differences were to occur in a subsequent period, the Company would recognize those differences when they became known. Significant matters requiring the use of estimates and assumptions include deferred income tax valuation allowances, accounts receivable allowances, and valuations of property and equipment. Management believes that its estimates and assumptions are reasonable, based on information that is available at the time they are made.

Revenue Recognition
Placement service revenues are recognized when applicants accept offers of employment, less a provision for estimated losses due to applicants not remaining employed for the Company's guarantee period. Contract service revenues are recognized when services are rendered.

Cost of Contract Services
The cost of contract services includes the wages and the related payroll taxes and benefits of the Company's employees while they work on contract assignments.

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. A valuation allowance is recorded to reduce deferred tax assets to the amount that is more likely than not to be realized as a tax benefit in the future.



Income Per Share
Basic income per share is based on the average number of common shares outstanding. Diluted income per share is based on the average number of common shares and the dilutive effect of stock options. Diluted income per share does not include the effect of 50,000 stock options in fiscal 2006 and 2005, because the exercise price of those options was greater than the average market value of the common stock during the year and including them would have had an anti-dilutive effect on income per share.

Cash Equivalents
Highly liquid investments with a maturity of three months or less when purchased are considered to be cash equivalents.

Accounts Receivable Allowances
An allowance for placement falloffs is recorded, as a reduction of revenues, for estimated losses due to applicants not remaining employed for the Company's guarantee period. An allowance for doubtful accounts is recorded, as a charge to bad debt expense, where collection is considered to be doubtful due to credit issues. These allowances together reflect management's estimate of the potential losses inherent in the accounts receivable balances, based on historical loss statistics.

Property and Equipment
Property and equipment are recorded at cost. Depreciation expense is calculated on a straight-line basis over estimated useful lives of five years for computer equipment and two to ten years for office equipment, furniture and fixtures. The Company capitalizes computer software purchased or developed for internal use, and amortizes it over an estimated useful life of five years. The carrying value of property and equipment is reviewed for impairment whenever events or changes in circumstances indicate that it may not be recoverable. If the carrying amount of an asset group is greater than its estimated future undiscounted cash flows, the carrying value is written down to the estimated fair value.

Disposal Activities
A liability is recorded for the cost of exit or disposal activities in the period when the liability is incurred.

Stock Options
Compensation expense is recorded for the fair value of stock options issued to employees. The expense is measured as the estimated fair value of the stock options on the date of grant and is amortized over the vesting periods.

Income Taxes

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

| (In Thousands) | 2006 | 2005 |
|---|---|---|
| Current tax provision | $ -- | $ -- |
| Deferred tax provision (credit) related to: | | |
| Temporary differences | 17 | 143 |
| Loss carryforwards | 378 | 81 |
| Valuation allowance | (395) | (224) |
| Provision for income taxes | $ -- | $ -- |

16

The differences between income taxes calculated at the 34% statutory U.S. federal income tax rate and the Company's provision for income taxes are as follows:

| (In Thousands) | 2006 | 2005 |
|---|---|---|
| Income tax provision at statutory federal tax rate | $ 341 | $ 228 |

| | | |
|---|---|---|
| Federal valuation allowance | (333) | (217) |
| Other | (8) | (11) |
| Provision for income taxes | $ -- | $ -- |

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

| (In Thousands) | 2006 | 2005 |
|---|---|---|
| Temporary differences | $ 249 | $ 266 |
| Net operating loss carryforwards | 1,349 | 1,727 |
| Valuation allowance | (1,598) | (1,993) |
| Net deferred income tax asset | $ -- | $ -- |

As of September 30, 2006, there were approximately $3,000,000 of losses available to reduce federal taxable income in future years through 2024, and there were approximately $5,800,000 of losses available to reduce state and local taxable income in future years, expiring from 2007 through 2024.

In fiscal 2006 and 2005, the Company reduced the valuation allowance to the extent that net income tax benefits were realized. As of September 30, 2006, an evaluation was performed to determine whether the remaining deferred tax assets were likely to be realized in the future, considering such factors as profits and losses in recent years, the market environment in which the Company operates, and projected future taxable income. It was determined that there was not sufficient assurance that future tax benefits would be realized, and a full valuation allowance was maintained.

Property and Equipment

Property and equipment consisted of the following as of September 30:

| (In Thousands) | 2006 | 2005 |
|---|---|---|
| Computer equipment and software | $ 2,427 | $ 2,266 |
| Office equipment, furniture and fixtures | 1,596 | 1,684 |
| Total property and equipment, at cost | 4,023 | 3,950 |
| Accumulated depreciation and amortization | (3,222) | (3,318) |
| Property and equipment, net | $ 801 | $ 632 |

During fiscal 2005, the Company disposed of leasehold improvements, furniture and equipment having an original cost of $1,194,000 and negligible book value.



Other Current Liabilities

Other current liabilities consisted of the following as of September 30:

| (In Thousands) | 2006 | 2005 |
|---|---|---|
| Accounts payable | $151 | $ 89 |
| Accrued expenses | 252 | 329 |

| | | |
|---|---|---|
| Deferred rent | 229 | 262 |
| Total other current liabilities | $632 | $680 |

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. Branch offices are generally leased over periods from three to five years. The corporate office lease expires in 2015, and it may be cancelled by the Company in 2012 under certain conditions. The leases generally provide for payment of basic rent plus building real estate taxes, maintenance costs and utilities.

Rent expense was $985,000 in fiscal 2006 and $964,000 in fiscal 2005. As of September 30, 2006, future minimum lease payments under lease agreements having initial terms in excess of one year totaled $3,148,000, as follows: fiscal 2007 - $894,000, fiscal 2008 - $773,000, fiscal 2009 - $571,000, fiscal 2010 - $447,000, fiscal 2011 - $325,000 and thereafter - $138,000.

Commitments

As of September 30, 2006, the Company had contractual obligations to purchase approximately $460,000 of recruitment advertising through December 2007.

Retirement Plans

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. In addition, the Company has a deferred compensation plan for certain officers. Under the plan, the Company contributes a percentage of each participant's earnings to a trust under a defined contribution arrangement. The participants direct the investments of the trust, and the Company does not guarantee investment performance. Participant account balances are payable upon retirement or termination from the Company, subject to certain vesting requirements. The investments in the trust are included in other current assets on the consolidated balance sheet, and an offsetting obligation is included in accrued compensation. The cost of retirement plans was $170,000 in fiscal 2006 and $129,000 in fiscal 2005.

18

Stock Options

As of September 30, 2006, there were stock options outstanding under the Company's 1995 Stock Option Plan, 1997 Stock Option Plan and 1999 Stock Option Plan. All three plans were approved by the shareholders. The 1995 Stock Option Plan expired during fiscal 2006, and no further options may be granted under that plan. The plans granted specified numbers of options to non-employee directors, and they authorized the Compensation and Stock Option Committee of the Board of Directors to grant either incentive or non-statutory stock options to employees. All stock options outstanding as of September 30, 2006 were non-statutory stock options, had exercise prices equal to the market price on the date of grant, and had expiration dates ten years after the date of grant.

A summary of stock option activity is as follows:

| (Number of Options in Thousands) | 2006 | 2005 |
|---|---|---|
| Number of options outstanding: | | |
| Beginning of year | 435 | 458 |
| Granted | 80 | -- |
| Exercised | -- | (12) |
| Terminated | -- | (11) |
| End of year | 515 | 435 |
| Number of options exercisable at end of year | 435 | 435 |
| Number of options available for grant at end of year | 203 | 416 |
| Weighted average option prices per share: | | |
| Granted during the year | $1.63 | $ -- |
| Exercised during the year | -- | .86 |
| Terminated during the year | -- | 1.42 |
| Outstanding at end of year | 1.16 | 1.07 |
| Exercisable at end of year | 1.07 | 1.07 |

The average fair value of stock options granted was estimated to be $0.75 per share in fiscal 2006. This estimate was made using the Black-Scholes option pricing model and the following weighted average assumptions: expected option life of four years, stock price volatility of 54%, risk-free interest rate of 4.5% and no stock dividends. There was no stock option expense in fiscal 2006 because the options were granted at the end of the year. They vest ratably over two years.

Stock options outstanding as of September 30, 2006 were as follows (number of shares in thousands):

| Range of Exercise Prices | Number Outstanding | Weighted Average Price | Number Exercisable | Weighted Average Price | Average Remaining Life (Years) |
|---|---|---|---|---|---|
| At $.86 | 353 | $ .86 | 353 | $ .86 | 6 |
| $1.25 to $2.45 | 162 | 1.81 | 82 | 2.00 | 7 |



Severance Arrangements

The Company has an employment agreement with the chief executive 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 arrangements covering certain other officers and 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 continue salary for a period of one year in certain cases, to make lump sum payments ranging from $20,000 to $50,000 in other cases, and to provide continued welfare plan benefits for up to one year. As of September 30, 2006, the potential, aggregate obligation under these arrangements, if all such officers and employees were terminated, was approximately $2,700,000.

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.

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 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 will expire on February 22, 2010.



## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of General Employment Enterprises, Inc. and subsidiary as of September 30, 2006 and 2005 and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO Seidman, LLP

Chicago, Illinois
November 9, 2006



Item 8, Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not applicable.

Item 8A, Controls and Procedures.

As of September 30, 2006, the Company's management evaluated, with the participation of its principal executive officer and its principal financial officer, the effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act"). Based on that evaluation, the Company's principal executive officer and its principal financial officer concluded that the Company's disclosure controls and procedures were adequate as of September 30, 2006 to ensure that information required to be disclosed in reports filed or submitted by the Company under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms.

There was no change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 8B, Other Information.

Not applicable.

PART III

Item 9, Directors and Executive Officers of the Registrant.

Information concerning directors and executive officers is set forth in the Company's Proxy Statement for the annual meeting of shareholders under the headings "Election of Directors" and "Directors and Officers." That information is incorporated herein by reference.

The Company has adopted a code of ethics that applies to all of its directors and employees, including it principal executive officer, principal financial officer and principal accounting officer. A copy of the code of ethics is filed as an exhibit to this annual report.

Item 10, Executive Compensation.

Information concerning executive compensation is set forth in the Company's Proxy Statement for the annual meeting of shareholders under the heading "Compensation of Directors and Executive Officers." That information is incorporated herein by reference.



Item 11, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Securities authorized for issuance under equity compensation plans were as follows as of September 30, 2006 (number of shares in thousands):

| Plan category | Number of securities to be issued upon exercise of outstanding options, warrants and rights | Weighted-average exercise price of outstanding options, warrants and rights | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first column) |
|---|---|---|---|
| Equity compensation plans approved by security holders | 515 | $1.16 | 203 |
| Equity compensation plans not approved by security holders | -- | -- | -- |
| Total | 515 | $1.16 | 203 |

Information concerning security ownership of certain beneficial owners and management is set forth in the Company's Proxy Statement for the annual meeting of shareholders under the heading "Security Ownership of Certain Beneficial Owners and Management." That information is incorporated herein by reference.

Item 12, Certain Relationships and Related Transactions.

Not applicable.

Item 13, Exhibits.

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

No. Description of Exhibit

3.01 Articles of Incorporation and amendments thereto. Incorporated by reference to Exhibit 3 to the Company's Quarterly Report on Form 10-QSB for the quarter ended March 31, 1996, Commission File No. 1-05707.

3.02 By-Laws. Incorporated by reference to Exhibit 3(b) of the Company's Annual Report on Form 10-KSB for the fiscal year ended September 30, 1997, Commission File No. 1-05707.



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 Company's Registration Statement on Form 8-A filed with the Securities and Exchange Commission on February 7, 2000, Commission File No. 1-05707.

10.01* Key Manager Plan, adopted May 22, 1990. Incorporated by reference to Exhibit 10(h) to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1990, Commission File No. 1-05707.

10.02 Agreement with Sheldon Brottman dated October 3, 1991. Incorporated by reference to Exhibit 10(l) to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 1991, Commission File No. 1-05707.

10.03* General Employment Enterprises, Inc. 1995 Stock Option Plan. Incorporated by reference to Exhibit 4.1 to the Company's Form S-8 Registration Statement dated April 25, 1995, Registration No. 33-91550.

10.04* General Employment Enterprises, Inc. 1997 Stock Option Plan. Incorporated by reference to Exhibit 10(n) to the Company's Annual Report on Form 10-KSB for the fiscal year ended September 30, 1998, Commission File No. 1-05707.

10.05* 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 Company's Annual Report on Form 10-KSB for the fiscal year ended September 30, 1998, Commission File No. 1-05707.

10.06* General Employment Enterprises, Inc. 1999 Stock Option Plan. Incorporated by reference to Exhibit 10 of the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1999, Commission File No. 1-05707.

10.07* Employment Agreement with Herbert F. Imhoff, Jr. effective as of August 1, 2001. Incorporated by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2001, Commission File No. 1-05707.

10.08* Chief Executive Officer Bonus Plan, adopted September 24, 2001. Incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2001, Commission File No. 1-05707.

10.09* The Corporate Plan for Retirement Select Plan Basic Plan Document. Incorporated by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2001, Commission File No. 1-05707.

10.10* The Corporate Plan for Retirement Select Plan Adoption Agreement dated September 27, 2001. Incorporated by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K for the fiscal year ended

September 30, 2001, Commission File No. 1-05707.



10.11* First Amendment to the General Employment Enterprises, Inc. Executive Retirement Plan dated September 27, 2001. Incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2001, Commission File No. 1-05707.

10.12* Form of employment agreement with executive officers. Incorporated by reference to Exhibit 10.01 to the Company's Quarterly Report of Form 10-Q for the quarterly period ended December 31, 2001, Commission File No. 1-05707.

10.13* Operational Vice President Bonus Plan effective for fiscal years beginning on or after October 1, 2004. Incorporated by reference to Exhibit 10.01 to the Company's Quarterly Report of Form 10-QSB for the quarterly period ended December 31, 2004, Commission File No. 1-05707.

14.01 General Employment Enterprises, Inc. Code of Ethics for Directors, Officers and Employees, adopted as of August 16, 2004. Incorporated by reference to Exhibit 14.01 to the Company's Form 8-K Current Report dated August 16, 2004, Commission File No. 1-05707.

23.01 Consent of Independent Registered Public Accounting Firm.

31.01 Certification of the principal executive officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.

31.02 Certification of the principal financial officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.

32.01 Certifications required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code.

* Management contract or compensatory plan or arrangement.

Item 14, Principal Accountant Fees and Services.

Information concerning principal accountant fees and services is set forth in the Company's Proxy Statement for the annual meeting of shareholders under the heading "Relationship with Independent Auditors." That information is incorporated herein by reference.



## SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant has caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GENERAL EMPLOYMENT ENTERPRISES, INC.
(Registrant)

| | |
|---|---|
| Date: November 20, 2006 | By: /s/ Herbert F. Imhoff, Jr.<br>Herbert F. Imhoff, Jr.<br>Chairman of the Board, Chief<br>Executive Officer and President |

In accordance with the Exchange Act, 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 20, 2006 | By: /s/ Herbert F. Imhoff, Jr.<br>Herbert F. Imhoff, Jr., Director<br>Chairman of the Board, Chief<br>Executive Officer and President<br>(Principal executive officer) |
| Date: November 20, 2006 | By: /s/ Kent M. Yauch<br>Kent M. Yauch, Director<br>Vice President, Chief Financial<br>Officer and Treasurer (Principal<br>financial and accounting officer) |
| Date: November 20, 2006 | By: /s/ Dennis W. Baker<br>Dennis W. Baker, Director |
| Date: November 20, 2006 | By:<br>Sheldon Brottman, Director |
| Date: November 20, 2006 | By: /s/ Delain G. Danehey<br>Delain G. Danehey, Director |
| Date: November 20, 2006 | By: /s/ Joseph F. Lizzadro<br>Joseph F. Lizzadro, Director |