

GENERAL EMPLOYMENT ENTERPRISES INC  
Form 10-K  
November 25, 2003

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-K

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

For the fiscal year ended September 30, 2003

or

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

Commission File Number 1-05707

GENERAL EMPLOYMENT ENTERPRISES, INC.  
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

The aggregate market value of the common stock held by non-affiliates of the registrant as of October 31, 2003 was \$5,045,000.

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The number of shares outstanding of the registrant's common stock as of October 31, 2003 was 5,120,776.

## DOCUMENTS INCORPORATED BY REFERENCE

Portions of the General Employment Enterprises, Inc. Proxy Statement for the annual meeting of shareholders to be held on February 23, 2004 are incorporated by reference into Part III of this Form 10-K.

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## PART I

### Item 1. Business.

#### General

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

#### Services Provided

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

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

|                    | Year Ended September 30 |      |      |
|--------------------|-------------------------|------|------|
|                    | 2003                    | 2002 | 2001 |
| Placement services | 29%                     | 32%  | 52%  |
| Contract services  | 71%                     | 68%  | 48%  |

#### 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

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September 30, 2003, it operated 22 branch offices located in downtown or suburban areas of major U.S. cities in 11 states. The offices were concentrated in Illinois (5) and California (3), with two offices each in Arizona, Indiana, Massachusetts, Ohio and Pennsylvania, and one office each in Florida, Georgia, North Carolina and Texas.

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 any of the last three fiscal years.

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### Recruiting

The success of the Company is highly dependent on its ability to obtain qualified candidates. Prospective employment candidates are recruited through telephone contact by the Company's employment consultants, through classified newspaper advertising and through postings on the Internet. For this purpose, the Company maintains its own Internet web page at [www.generalemployment.com](http://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 a guarantee period. Fees for contract services are billed on an hourly basis each week. The Company expects payment by its customers upon receipt of its invoices. Typical of the staffing industry, working capital is required to finance the wages of contract workers before the related customer accounts are collected.

### Competition

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

Because the Company focuses its attention on professional

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staffing positions, particularly in the highly specialized information technology field, it competes by providing services that are dedicated to quality. This is done by providing highly qualified candidates who are well matched for the position, by responding quickly to client requests, and by establishing offices in convenient locations. As an added service, the Company provides 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, 2003, the Company had approximately 140 regular employees and 200 contract service employees.

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### Item 2. Properties.

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

The Company's staffing offices are located in downtown metropolitan and suburban business centers in 11 states. Generally, the Company enters into six-month leases for new locations, using shared office facilities whenever possible. Established offices are operated from leased space ranging from 1,100 to 4,900 square feet, generally for periods of two to five years, with cancellation clauses after certain periods of occupancy. Management believes that existing facilities are adequate for the Company's current needs and that its leasing strategies provide the Company with sufficient flexibility to open or close offices to accommodate business needs.

### 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, 2003, there were no material legal proceedings pending against the Company.

### Item 4. Results of Vote of Security Holders.

No matters were submitted to a vote of security holders during the fourth quarter of the 2003 fiscal year.

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## PART II

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

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

Securities authorized for issuance under equity compensation plans were as follows as of September 30, 2003 (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     | 552   | \$1.10  | 327   |
| Equity compensation plans not approved by security holders | --  | --  | --  |
| <b>Total</b>   | <b>552</b>  | <b>\$1.10</b>   | <b>327</b>  |

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Item 6. Selected Financial Data.

| (In Thousands, Except Per Share) | Year Ended September 30 |          |          |          |          |
|----------------------------------|-------------------------|----------|----------|----------|----------|
|                                  | 2003                    | 2002     | 2001     | 2000     | 1999     |
| <b>Operating results:</b>        |                         |          |          |          |          |
| Net revenues                     | \$18,609                | \$20,318 | \$31,035 | \$39,802 | \$39,553 |
| Income (loss) from operations    | (3,564)                 | (4,652)  | (2,217)  | 3,577    | 4,569    |
| Net income (loss)                | (3,506)                 | (3,214)  | (1,066)  | 2,532    | 3,025    |
| <b>Per share data:</b>           |                         |          |          |          |          |
| Net income (loss) - basic        | \$ (.68)                | \$ (.63) | \$ (.21) | \$ .50   | \$ .59   |
| Net income (loss) - diluted      | (.68)                   | (.63)    | (.21)    | .49      | .59      |
| Cash dividends declared          | --                      | --       | --       | .30      | .04      |
| <b>Balance sheet data:</b>       |                         |          |          |          |          |
| Net working capital              | \$ 4,333                | \$7,038  | \$ 9,444 | \$11,300 | \$11,391 |
| Long-term obligations            | --                      | --       | --       | --       | 484      |
| Shareholders' equity             | 6,524                   | 9,989    | 13,077   | 14,143   | 13,137   |
| Total assets                     | 8,691                   | 11,933   | 15,679   | 19,979   | 18,085   |

Item 7. Management's Discussion and Analysis of Financial

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### Condition and Results of Operations.

The Company provides placement and contract staffing services for business and industry, specializing in the placement of professional information technology, engineering and accounting professionals. As of September 30, 2003, the Company operated 22 offices located in major metropolitan business centers in 11 states.

### Overview of Operations

The U.S. economic recession of 2001 and its lingering after-effects significantly affected the Company's results of operations during the three years ended September 30, 2003. It was a period of growing unemployment, as the national unemployment rate stood at 6.1% in September 2003, compared with 5.6% in September 2002 and 4.9% in September 2001.

The national employment conditions, particularly in the information technology sector, resulted in weak demand for the Company's employment services. That weakness, together with competitive market conditions, led to fewer full-time placements by the Company and to declining average service fees and billing rates.

To control operating costs, the Company closed ten branch offices during fiscal 2003, five branch offices during fiscal 2002 and seven branches during fiscal 2001 due to unprofitable operations. Additional cost reductions were achieved through actions to switch recruitment advertising from print media to the Internet, and to reduce administrative compensation.

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A summary of operating data, expressed as a percentage of consolidated net revenues, is presented below. Percentages may not add due to rounding.

|                            | Year Ended September 30 |         |        |
|----------------------------|-------------------------|---------|--------|
|                            | 2003                    | 2002    | 2001   |
| Net revenues:              |                         |         |        |
| Placement services         | 29.5 %                  | 32.4 %  | 52.3 % |
| Contract services          | 70.5                    | 67.6    | 47.7   |
| Net revenues               | 100.0                   | 100.0   | 100.0  |
| Operating expenses:        |                         |         |        |
| Cost of contract services  | 48.7                    | 44.7    | 31.1   |
| Selling                    | 19.9                    | 22.6    | 32.0   |
| General and administrative | 50.5                    | 55.6    | 44.0   |
| Total operating expenses   | 119.2                   | 122.9   | 107.1  |
| Loss from operations       | (19.2)%                 | (22.9)% | (7.1)% |

### Fiscal 2003 Results of Operations

#### Net Revenues

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Consolidated net revenues for the year ended September 30, 2003 were down \$1,709,000 (8%) from the prior year. That was due to the combination of a \$1,103,000 (17%) decrease in placement service revenues and a \$606,000 (4%) decrease in contract service revenues.

Placement service revenues were down for the year because of a 3% decline in the number of placements, together with a 13% decrease in the average placement fee. The decrease in contract service revenues occurred, despite a 7% increase in the number of billable hours, because of an 11% decrease in the average hourly billing rate.

### Operating Expenses

Total operating expenses for fiscal 2003 were down \$2,797,000 (11%) compared with the prior year.

The cost of contract services was down \$14,000, as a result of the lower contract service revenues and lower profit margins. Due to competitive market conditions, the gross profit margin on contract services declined 2.9 points to 30.9% for fiscal 2003, compared with 33.8% the prior year.

Selling expenses decreased \$874,000 (19%) for the year. Commission expense was down 10% due to the lower placement service revenues, while recruitment advertising expense was 43% lower than the prior year. Selling expenses represented 19.9% of consolidated net revenues, which was down 2.7 points from the prior year.

General and administrative expenses include provisions for office closings and asset impairment losses totaling \$625,000 in 2003 and \$401,000 in 2002. Excluding those charges, general and administrative expenses decreased \$2,133,000 (20%) for the year. Compensation in the operating divisions decreased 24% due to a reduction in the size of the consulting staff, and administrative compensation was reduced by 18% through a combination of lower headcounts and lower executive compensation rates. Overall, the Company

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reduced its in-house consulting and administrative staff by 22% from the prior-year level. Office rent and occupancy costs were down 15% for the year, due to the effect of office closings during the current and prior year, and all other general and administrative expenses were down 19%. General and administrative expenses represented 50.5% of consolidated revenues, and that was down 5.1 points from the prior year because expenses declined more sharply than revenues.

### Other Items

The loss from operations was \$3,564,000 for fiscal 2003, which was \$1,088,000 (23%) better than the prior year's operating loss of \$4,652,000.

Investment income was down \$50,000 (46%) for fiscal 2003, due to a combination of lower average funds available for investment and lower average rates of return.

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There was no credit for income taxes as a result of the pretax losses in 2003, because the losses must be carried forward for income tax purposes and there was not sufficient assurance that a future tax benefit would be realized. There was an income tax credit of \$1,330,000 in fiscal 2002.

As a result, the net loss for the year was \$3,506,000, compared with a net loss of \$3,214,000 the prior year.

### Fiscal 2002 Results of Operations

#### Net Revenues

Consolidated net revenues for the year ended September 30, 2002 were down \$10,717,000 (35%) from the prior year. That was due to the combination of a \$9,626,000 (59%) decrease in placement service revenues and a \$1,091,000 (7%) decrease in contract service revenues.

Placement service revenues were down for the year because of a 53% decline in the number of placements, together with a 13% decrease in the average placement fee. The decrease in contract service revenues was the result of a 9% decrease in billable hours, partially offset by a 2% increase in the average hourly billing rate. In April 2001, the Company acquired the assets and business operations of Generation Technologies, Inc. ("GenTech"), a staffing business in Pittsburgh, Pennsylvania specializing in information technology professionals. The Company's results of operations include GenTech for a full year in fiscal 2002 and for six months in fiscal 2001. Excluding GenTech from both years, the Company's contract service revenues decreased \$2,334,000 (17%).

#### Operating Expenses

Total operating expenses for fiscal 2002 were down \$8,282,000 (25%) compared with the prior year.

The cost of contract services was down \$577,000 (6%), as a result of the lower contract service revenues. Due to competitive market conditions, the gross profit margin on contract services declined 1.0 point to 33.8% for fiscal 2002, compared with 34.8% the prior year.

Selling expenses decreased \$5,334,000 (54%) for the year. Commission expense was down 61% due to the lower placement service revenues and lower commissionable profits, while recruitment advertising expense was 36% lower than the prior year. Selling expenses represented 22.6% of consolidated net

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revenues, which was down 9.4 points from the prior year because of the shift in mix of revenues toward contract services.

General and administrative expenses include provisions for office closings and asset impairment losses totaling \$401,000 in 2002 and \$283,000 in 2001. Excluding those charges, general and administrative expenses decreased \$2,489,000 (19%) for the year. Compensation in the operating divisions decreased 23% due to a reduction in the size of the consulting staff. Office rent and



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occupancy costs were down 12% for the year, due to the effect of office closings during the current and prior year. Other office operating costs declined 36% due to fewer offices, and bad debt expense was 63% lower due to the lower volume of business and improved collection experience in 2002. All other general and administrative expenses were up 3%. General and administrative expenses represented 55.6% of consolidated revenues, and that was up 11.6 points from the prior year because revenues declined more sharply than expenses.

### Other Items

The effect of lower revenues resulted in a loss from operations of \$4,652,000 for the year, compared with a loss from operations of \$2,217,000 for the prior year.

Investment income was down \$423,000 (80%) for fiscal 2002, due to a combination of lower average funds available for investment and lower average interest rates.

The effective income tax rate was 29% for the year, compared with 37% for the prior year. The lower effective tax rate in fiscal 2002 resulted from recording a \$386,000 valuation allowance to reduce net deferred tax assets to zero. The valuation allowance will be reversed in future periods, as a reduction of the provision for income taxes, if it is determined that the deferred tax assets will be realized, based on future taxable income.

As a result, the net loss for the year was \$3,214,000, compared with a net loss of \$1,066,000 the prior year.

### Outlook

The Company's business is highly dependent on national employment trends in general and on the demand for information technology and other professional staff in particular. The demand for the Company's employment services has been adversely affected by the lingering weakness in the employment market caused by economic and political uncertainties that followed the U.S. economic recession and terrorist attacks in 2001.

The Company's current priority is to minimize the impact of the weak labor market, to return the Company to profitability as soon as possible, and to be positioned for growth when the demand for its services improves. Returning the Company to profitability will require a combination of both increasing revenues and reducing costs.

It is not known how long the weakness in the U. S. labor market will continue to have an adverse effect on the Company's operations. Management believes that the Company's placement service revenues will continue at depressed levels until there is an increase in national business spending on computer equipment and software, leading to a rebound in hiring in the technology sector of the economy. The reduced number of branch offices and consulting staff could inhibit the Company's rate of revenue growth when the demand for its services improves in the future.

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During the last three fiscal years, management took steps to lower the Company's infrastructure costs, including closing 22 unprofitable branch offices and reducing the in-house consulting and administrative staff by 58%. As a result, the general and administrative expenses for fiscal 2003 were at their lowest level in five years. Moreover, the consolidated statement of operations reflects \$509,000 of operating losses of closed branch offices in fiscal 2003, which will not be incurred in future years. Management believes that it has taken all appropriate actions within its control to reduce costs to date, consistent with positioning the Company for the future, and it will continue to evaluate the Company's operations and take appropriate actions to meet the economic challenges ahead.

### Liquidity and Capital Resources

As of September 30, 2003, the Company had cash and cash equivalents of \$3,905,000, which was a decrease of \$854,000 from the prior year. Net working capital at September 30, 2003 was \$4,333,000, which was a decrease of \$2,705,000 from the prior year, and the current ratio was 3.0 to 1. The Company had no long-term debt. Shareholders' equity as of September 30, 2003 was \$6,524,000, which represented 75% of total assets.

During the year ended September 30, 2003, the net cash used by operating activities was \$728,000, as the \$3,506,000 net loss for the year was partially offset by depreciation and other non-cash expenses of \$927,000. Income tax refunds provided \$1,483,000, and all other working capital items provided \$368,000. As part of the Company's cash conservation measures, capital expenditures were limited to \$107,000 for the year, and there were no cash dividends paid.

As of September 30, 2002, the Company had recorded the income tax benefit of all available loss carrybacks. As of September 30, 2003, there were approximately \$2,900,000 of losses available to reduce federal taxable income in future years through 2023, and there were approximately \$5,800,000 of losses available to reduce state and local taxable income in future years, expiring from 2005 through 2023.

The Company's primary source of liquidity is normally from its operating activities. Despite recent losses, management believes that existing cash and securities will be adequate to finance current operations for the foreseeable future. Nevertheless, if operating losses were to continue indefinitely, or if the Company's business were to deteriorate further, such losses would have a material, adverse effect on the Company's financial condition. External sources of funding are not likely to be available to support continuing losses.

### Contractual Obligations

As of September 30, 2003, the Company's contractual obligations were as follows:

| (In Thousands)              | 2004    | 2005    | 2006  |
|-----------------------------|---------|---------|-------|
| Payments due by period:     |         |         |       |
| Operating lease obligations | \$1,524 | \$1,273 | \$395 |

The above amounts include operating lease obligations for closed offices. The Company had no long-term debt, capital lease obligations, purchase commitments or other long-term liabilities as of September 30, 2003.

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#### Off-Balance Sheet Arrangements

As of September 30, 2003, and during the three years 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 following accounting policies are considered by management to be "critical" because of the judgments and uncertainties affecting the application of these policies and because of the likelihood that materially 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.

#### 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

Furniture, fixtures and equipment are stated at cost. The Company provides for depreciation 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.

As of October 1, 2002, the Company adopted the provisions of Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement establishes accounting standards for the recognition and measurement of the impairment of long-lived assets. The adoption of this new statement did not have a significant effect on the Company's financial position as of September 30, 2003 or on the results of operations for the year then ended.

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#### Business Combinations and Goodwill

Business combinations are recorded by using the purchase method of accounting, whereby the excess of the cost over the identifiable net assets acquired is allocated to goodwill.

The Company adopted the provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," as of October 1, 2002. In accordance with the statement, the Company performed a transitional impairment test and determined that there was no impairment of goodwill as of October 1, 2002. Pursuant to Statement No. 142, an annual impairment test is performed, under which the estimated fair value of goodwill is compared with its carrying value.

For years ended on and before September 30, 2002, goodwill was being amortized on a straight-line basis over forty years.

#### 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 project assignments, and the ability to attract and retain qualified corporate and branch management.

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Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

The Company was not exposed to material market risks as of September 30, 2003.

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Item 8. Financial Statements and Supplementary Data.

GENERAL EMPLOYMENT ENTERPRISES, INC.  
CONSOLIDATED BALANCE SHEET

| (In Thousands)  | As of September 30 |                 |
|---|--------------------|-----------------|
|   | 2003               | 2002            |
| <b>ASSETS</b>   |                    |                 |
| Current assets:   |                    |                 |
| Cash and cash equivalents   | \$ 3,905           | \$ 4,759        |
| Accounts receivable, less allowances<br>(2003 -- \$238; 2002 -- \$312)                                | 2,095              | 2,255           |
| Income tax refunds receivable   | 57                 | 1,540           |
| Other current assets  | 443                | 428             |
| <b>Total current assets</b>   | <b>6,500</b>       | <b>8,982</b>    |
| Property and equipment:   |                    |                 |
| Furniture, fixtures and equipment   | 5,037              | 6,575           |
| Accumulated depreciation and amortization   | (3,934)            | (4,693)         |
| <b>Net property and equipment</b>   | <b>1,103</b>       | <b>1,882</b>    |
| Goodwill  | 1,088              | 1,069           |
| <b>Total assets</b>   | <b>\$ 8,691</b>    | <b>\$11,933</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                    |                 |
| Current liabilities:  |                    |                 |
| Accounts payable  | \$ 237             | \$ 235          |
| Accrued compensation and payroll taxes  | 1,054              | 1,030           |
| Other current liabilities   | 876                | 679             |
| <b>Total current liabilities</b>  | <b>2,167</b>       | <b>1,944</b>    |
| Shareholders' equity:   |                    |                 |
| Preferred stock; authorized -- 100 shares;<br>issued and outstanding -- none                          | --                 | --              |
| Common stock, no-par value; authorized --<br>20,000 shares; issued and outstanding --<br>5,121 shares | 51                 | 51              |
| Capital in excess of stated value of shares   | 4,736              | 4,695           |
| Retained earnings   | 1,737              | 5,243           |
| <b>Total shareholders' equity</b>   | <b>6,524</b>       | <b>9,989</b>    |
| <b>Total liabilities and shareholders' equity</b>   | <b>\$ 8,691</b>    | <b>\$11,933</b> |

See notes to consolidated financial statements.

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GENERAL EMPLOYMENT ENTERPRISES, INC.

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### CONSOLIDATED STATEMENT OF OPERATIONS

| (In Thousands, Except Per Share)             | Year Ended September 30 |            |            |
|--|-------------------------|------------|------------|
|  | 2003                    | 2002       | 2001       |
| Net revenues:                                |                         |            |            |
| Placement services                           | \$ 5,488                | \$6,591    | \$16,217   |
| Contract services                            | 13,121                  | 13,727     | 14,818     |
| Net revenues                                 | 18,609                  | 20,318     | 31,035     |
| Operating expenses:                          |                         |            |            |
| Cost of contract services                    | 9,068                   | 9,082      | 9,659      |
| Selling                                      | 3,710                   | 4,584      | 9,918      |
| General and administrative                   | 9,395                   | 11,304     | 13,675     |
| Total operating expenses                     | 22,173                  | 24,970     | 33,252     |
| Loss from operations                         | (3,564)                 | (4,652)    | (2,217)    |
| Investment income                            | 58                      | 108        | 531        |
| Loss before income taxes                     | (3,506)                 | (4,544)    | (1,686)    |
| Credit for income taxes                      | --                      | (1,330)    | (620)      |
| Net loss                                     | \$ (3,506)              | \$ (3,214) | \$ (1,066) |
| Net loss per share - basic and diluted       | \$ (.68)                | \$ (.63)   | \$ (.21)   |
| Average number of shares - basic and diluted | 5,121                   | 5,116      | 5,087      |

See notes to consolidated financial statements.

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### GENERAL EMPLOYMENT ENTERPRISES, INC. CONSOLIDATED STATEMENT OF CASH FLOWS

| (In Thousands)  | Year Ended September 30 |            |            |
|---|-------------------------|------------|------------|
|   | 2003                    | 2002       | 2001       |
| Operating activities:   |                         |            |            |
| Net loss  | \$ (3,506)              | \$ (3,214) | \$ (1,066) |
| Depreciation and amortization   | 850                     | 854        | 857        |
| Other noncurrent items  | 77                      | 138        | 22         |
| Changes in current assets and current liabilities, net of effects from acquisition in 2001: |                         |            |            |
| Accounts receivable   | 160                     | 430        | 1,989      |
| Income tax refunds receivable   | 1,483                   | (592)      | (948)      |
| Accrued compensation and payroll taxes  | 24                      | (723)      | (2,038)    |
| Other, net  | 184                     | 262        | (231)      |
| Net cash used by operating activities   | (728)                   | (2,845)    | (1,415)    |
| Investing activities:   |                         |            |            |
| Acquisition of property and equipment   | (107)                   | (17)       | (733)      |
| Acquisition of Generation Technologies, Inc.  | (19)                    | (207)      | (1,523)    |
| Maturities of short-term investments  | --                      | 500        | 5,000      |
| Net cash provided (used) by investing activities  | (126)                   | 276        | 2,744      |
| Financing activities:   |                         |            |            |
| Exercises of stock options  | --                      | 35         | --         |

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|  |          |          |          |
|--|----------|----------|----------|
| Cash dividends paid                              | --       | --       | (1,272)  |
| Net cash provided (used) by financing activities | --       | 35       | (1,272)  |
| Increase (decrease) in cash and cash equivalents | (854)    | (2,534)  | 57       |
| Cash and cash equivalents at beginning of year   | 4,759    | 7,293    | 7,236    |
| Cash and cash equivalents at end of year         | \$ 3,905 | \$ 4,759 | \$ 7,293 |

See notes to consolidated financial statements.

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

| (In Thousands, Except Per Share)     | Year Ended September 30 |          |          |
|--------------------------------------|-------------------------|----------|----------|
|                                      | 2003                    | 2002     | 2001     |
| Common shares outstanding:           |                         |          |          |
| Number at beginning of year          | 5,121                   | 5,087    | 5,087    |
| Exercises of stock options           | --                      | 34       | --       |
| Number at end of year                | 5,121                   | 5,121    | 5,087    |
| Common stock:                        |                         |          |          |
| Balance at beginning and end of year | \$ 51                   | \$ 51    | \$ 51    |
| Capital in excess of stated value:   |                         |          |          |
| Balance at beginning of year         | \$ 4,695                | \$ 4,569 | \$ 4,569 |
| Stock option expense                 | 41                      | 91       | --       |
| Exercises of stock options           | --                      | 35       | --       |
| Balance at end of year               | \$ 4,736                | \$ 4,695 | \$ 4,569 |
| Retained earnings:                   |                         |          |          |
| Balance at beginning of year         | \$ 5,243                | \$ 8,457 | \$ 9,523 |
| Net loss                             | (3,506)                 | (3,214)  | (1,066)  |
| Balance at end of year               | \$ 1,737                | \$ 5,243 | \$ 8,457 |

See notes to consolidated financial statements.

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### GENERAL EMPLOYMENT ENTERPRISES, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### The Company

General Employment Enterprises, Inc. (the "Company") and its wholly-owned subsidiary, Triad Personnel Services, Inc., operate in one industry segment, providing staffing services through a network of branch offices located in major metropolitan areas throughout the United States. The Company specializes in providing information technology, engineering and accounting professionals to clients on either a regular placement basis or a temporary contract basis. The Company has a diverse customer

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base, and no single customer accounted for more than 5% of its revenues during any of the last three 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. These 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 those estimates. If significant 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, impairment of property and equipment, and impairment of goodwill. 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 contract workers.

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#### 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.



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### Net Income Per Share

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

### Cash Equivalents

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

### 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

Furniture, fixtures and equipment are stated at cost. The Company provides for depreciation 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.

As of October 1, 2002, the Company adopted the provisions of Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement establishes accounting standards for the recognition and measurement of the impairment of long-lived assets. The adoption of this new statement did not have a significant effect on the Company's financial position as of September 30, 2003 or on the results of operations for the year then ended.

### Business Combinations and Goodwill

Business combinations are recorded by using the purchase method of accounting, whereby the excess of the cost over the identifiable net assets acquired is allocated to goodwill.

The Company adopted the provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible

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Assets," as of October 1, 2002. In accordance with the statement, the Company performed a transitional impairment test and determined that there was no impairment of goodwill as of October 1, 2002. Pursuant to Statement No. 142, an annual impairment test is performed, under which the estimated fair value of goodwill is compared with its carrying value.

For years ended on and before September 30, 2002, goodwill was being amortized on a straight-line basis over forty years.

### Disposal Activities

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

### Stock Options

As of October 1, 2001, the Company adopted the policy of recording compensation expense for the fair value of stock options issued to employees, under the provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation." Compensation expense under this statement is measured as the estimated fair value of the stock options on the date of grant, and the expense is amortized over the vesting periods. Prior years have not been restated to reflect this method of accounting.

For years ended on and before September 30, 2001, the Company did not record compensation expense when stock options were granted with exercise prices equal to the fair market value of the Company's common stock on the date of grant, in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees."

Had the Company recorded compensation expense for stock options granted in previous years, and allocated the expense over their vesting periods, the effect on the 2003 and 2002 results of operations would have been insignificant, and the Company's pro forma results of operations in fiscal 2001 would have been as follows:

| (In Thousands)                               | 2001      |
|--|-----------|
| Net loss, as reported                        | \$(1,066) |
| Stock-based compensation expense, net of tax | 62        |
| Net loss, pro forma                          | \$(1,128) |
| Net loss per share - basic and diluted:      |           |
| As reported                                  | \$ (.21)  |
| Pro forma                                    | \$ (.22)  |

### Acquisition

In 2001, the Company completed a transaction to purchase substantially all of the assets and business operations of Generation Technologies, Inc. ("GenTech"), a staffing business in Pittsburgh, Pennsylvania, specializing in information technology professionals. The assets acquired include the business operations, company name, customer lists, interests in office space and equipment, accounts receivable and goodwill.

The purchase price was established as an initial cash payment to the seller and three annual cash payments to be equal to a multiple of the respective year's annual earnings, as defined. The initial cost of the acquisition was \$1,523,000, of which \$624,000 was allocated to the net assets acquired and \$899,000 was allocated to goodwill. In 2002, the Company made the first annual payment in the amount of \$207,000 and recorded it as additional goodwill. In 2003, the Company made the second annual payment in the amount of \$19,000 and recorded it as additional goodwill.

Based on tests performed using discounted cash flow analysis and multiple of earnings techniques, there was no impairment of goodwill during 2003.

Goodwill amortization expense was \$25,000 for the year ended September 30, 2002 and \$11,000 for the year ended September 30, 2001. Accumulated amortization of goodwill was \$36,000 as of September 30, 2002.

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

| (In Thousands, Except Per Share)       | 2001     |
|--|----------|
| Net revenues                           | \$32,894 |
| Net loss                               | (936)    |
| Net loss per share - basic and diluted | (.18)    |

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

#### Cash and Cash Equivalents

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

| (In Thousands)                  | 2003    | 2002    |
|---------------------------------|---------|---------|
| Cash                            | \$1,176 | \$1,180 |
| Money market funds              | 2,729   | 408     |
| Commercial paper                | --      | 3,171   |
| Total cash and cash equivalents | \$3,905 | \$4,759 |

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All cash equivalents held as of September 30, 2003 were classified as available-for-sale securities. Amortized cost approximated market value for all investments, and unrealized gains and losses were not significant.

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### Income Taxes

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

| (In Thousands)                              | 2003    | 2002       | 2001     |
|---|---------|------------|----------|
| Current tax credit:                         |         |            |          |
| U.S. federal                                | \$ --   | \$ (1,382) | \$ (491) |
| State and local                             | --      | (58)       | (101)    |
| Total current tax credit                    | --      | (1,440)    | (592)    |
| Deferred tax provision (credit) related to: |         |            |          |
| Temporary differences                       | (217)   | (144)      | 39       |
| Loss carryforwards                          | (1,063) | (132)      | (67)     |
| Valuation allowances                        | 1,280   | 386        | --       |
| Total deferred tax provision (credit)       | --      | 110        | (28)     |
| Credit for income taxes                     | \$ --   | \$ (1,330) | \$ (620) |

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

| (In Thousands)   | 2003       | 2002       | 2001     |
|--|------------|------------|----------|
| Income tax credit at statutory federal tax rate                              | \$ (1,192) | \$ (1,545) | \$ (573) |
| Federal valuation allowance  | 1,186      | 166        | --       |
| State income taxes, including state valuation allowance, less federal effect | --         | 33         | (69)     |
| Other  | 6          | 16         | 22       |
| Credit for income taxes  | \$ --      | \$ (1,330) | \$ (620) |

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

| (In Thousands)                   | 2003    | 2002   |
|----------------------------------|---------|--------|
| Accrued and deferred rent        | \$ 276  | \$ 188 |
| Accrued compensation             | 156     | 124    |
| Depreciation and amortization    | (84)    | (196)  |
| Other expenses                   | 56      | 71     |
| Net operating loss carryforwards | 1,262   | 199    |
| Valuation allowances             | (1,666) | (386)  |
| Net deferred income tax asset    | \$ --   | \$ --  |

The Company received income tax refunds of \$1,467,000 in 2003 and \$950,000 in 2002. The Company made income tax payments of

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\$26,000 in 2003, \$57,000 in 2002 and \$423,000 in 2001.

There was no credit for income taxes as a result of the pretax losses in fiscal 2003, because the losses must be carried forward for income tax purposes and there was not sufficient assurance that a future tax benefit

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would be realized. For federal income tax purposes, and for certain states, the tax losses incurred in fiscal 2002 and fiscal 2001 were carried back, and the Company recorded the benefit of the resulting tax refunds. As of September 30, 2002, the Company had recorded the tax benefit of all available loss carrybacks. As of September 30, 2003, there were approximately \$2,900,000 of losses available to reduce federal taxable income in future years through 2023, and there were approximately \$5,800,000 of losses available to reduce state and local taxable income in future years, expiring from 2005 through 2023.

### Property and Equipment

Property and equipment, at cost, comprised the following as of September 30:

| (In Thousands)                               | 2003           | 2002           |
|--|----------------|----------------|
| Computer equipment and software              | \$3,014        | \$3,830        |
| Office equipment, furniture and fixtures     | 2,023          | 2,745          |
| <b>Total property and equipment, at cost</b> | <b>\$5,037</b> | <b>\$6,575</b> |

Due to the closing of branch offices in recent years, the Company identified certain idle office furniture and equipment that were not likely to be returned to service before the end of their estimated useful lives. Based on the estimated fair value of that furniture and equipment, the Company recorded an impairment loss, included in general and administrative expenses, of \$177,000 in 2003 and \$56,000 in 2002.

### Office Closings

The Company closed ten branch offices during fiscal 2003, five branch offices during fiscal 2002 and seven branch offices during fiscal 2001 due to unprofitable operations, and recorded a provision, included in general and administrative expenses, of \$448,000 in 2003, \$345,000 in 2002 and \$283,000 in 2001 covering the future lease obligations of those offices. The rent liability, included in other current liabilities, was as follows as of September 30:

| (In Thousands)                | 2003          | 2002         | 2001          |
|-------------------------------|---------------|--------------|---------------|
| Balance at beginning of year  | \$ 388        | \$120        | \$ --         |
| Provision for office closings | 448           | 345          | 283           |
| Payments                      | (179)         | (77)         | (163)         |
| <b>Balance at end of year</b> | <b>\$ 657</b> | <b>\$388</b> | <b>\$ 120</b> |

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The combined net revenues and the combined loss from operations of all offices that were closed as of September 30, 2003, included in the consolidated statement of operations, were as follows:

| (In Thousands)       | 2003     | 2002     | 2001     |
|----------------------|----------|----------|----------|
| Net revenues         | \$ 1,080 | \$ 2,085 | \$ 5,971 |
| Loss from operations | (509)    | (1,105)  | (1,535)  |

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### Lease Obligations

The Company leases space for all of its branch offices, which are located either in downtown or suburban metropolitan business centers, and space for its corporate headquarters. Established branch offices are generally leased over periods from two to five years, and the corporate headquarters lease expires in 2006. Certain lease agreements provide for increased rental payments contingent upon future increases in real estate taxes, building maintenance costs and the cost of living index. Rent expense was \$1,623,000 in 2003, \$1,848,000 in 2002 and \$1,997,000 in 2001.

As of September 30, 2003, future minimum lease payments under lease agreements having initial terms in excess of one year, including the closed offices, were: 2004 - \$1,524,000, 2005 - \$1,273,000 and 2006 - \$395,000.

### Retirement Plan

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. As of January 1, 2002, the Company adopted 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 total cost of retirement plans was \$134,000 in 2003, \$108,000 in 2002 and \$101,000 in 2001.

### Stock Options

The Company has stock option plans that were approved by the shareholders for directors, officers and employees. As of September 30, 2003, there were stock options outstanding under the Company's 1999 Stock Option Plan, 1997 Stock Option Plan and 1995 Stock Option Plan. Under these plans, incentive or non-statutory stock options may be granted to officers and employees, and they may be exercisable for up to ten years. Outside directors were automatically granted non-statutory options to purchase specified numbers of shares under the terms of the

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plans. The Compensation and Stock Option Committee of the Board of Directors, which has the authority to select the employees and to determine the terms of each option granted, administers the plans.

In 2002, the Company completed a tender offer to exchange outstanding stock options having an exercise price of \$3.00 per share or more for new options having an exercise price equal to the fair market value on the date of grant. Options to purchase 581,000 shares of the Company's common stock were tendered and were accepted by the Company for cancellation, and options to purchase 432,000 shares were issued.

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A summary of stock option activity is as follows:

| (Number of Shares in Thousands)           | 2003  | 2002   | 2001   |
|---|-------|--------|--------|
| Number of shares outstanding:             |       |        |        |
| Beginning of year                         | 574   | 877    | 719    |
| Granted                                   | --    | 485    | 215    |
| Exercised                                 | --    | (34)   | --     |
| Terminated                                | (22)  | (754)  | (57)   |
| End of year                               | 552   | 574    | 877    |
| Number of shares exercisable              |       |        |        |
| at end of year                            | 304   | 312    | 776    |
| Number of shares available for grant      |       |        |        |
| at end of year                            | 327   | 305    | 36     |
| Weighted average option prices per share: |       |        |        |
| Granted during the year                   | \$ -- | \$ .91 | \$3.03 |
| Exercised during the year                 | --    | .78    | --     |
| Terminated during the year                | 6.15  | 5.21   | 4.68   |
| Outstanding at end of year                | 1.10  | 1.29   | 4.86   |
| Exercisable at end of year                | 1.20  | 1.47   | 5.04   |

Stock options outstanding as of September 30, 2003 had exercise prices ranging from \$.86 per share to \$2.46 per share, as follows (number of shares in thousands):

| Range of Exercise Prices | Number Outstanding | Number Exercisable | Weighted Average Price | Average Remaining Life (Years) |
|--------------------------|--------------------|--------------------|------------------------|--------------------------------|
| Under \$1.00             | 431                | 228                | \$ .86                 | 9                              |
| \$1.00 to \$3.00         | 121                | 76                 | 1.94                   | 8                              |

The Company adopted the policy of expensing the fair value of stock option awards as of October 1, 2001, applicable to all awards granted on or after that date. Stock option expense was \$41,000 in 2003 and \$91,000 in 2002.

Stock option expense was calculated using the Black-Scholes option-pricing model to determine the estimated fair value of options granted, and using the following assumptions:

|  | 2002   | 2001   |
|--|--------|--------|
| Weighted average estimated fair value per share of stock options granted | \$ .33 | \$ .99 |
| Expected option life (years)   | 4.00   | 3.00   |
| Stock price volatility   | 42%    | 40%    |
| Risk-free interest rate  | 2.6%   | 5.1%   |
| Dividend yield   | -- %   | -- %   |

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#### 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.

#### 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 two years. As of September 30, 2003, the potential, aggregate obligation under these arrangements, if all such officers and employees were terminated, was approximately \$2,800,000.

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### SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

| (In Thousands)                                       | Year Ended September 30 |            |            |
|--|-------------------------|------------|------------|
|  | 2003                    | 2002       | 2001       |
| <b>Allowance for falloffs and doubtful accounts:</b> |                         |            |            |
| Balance at beginning of year                         | \$ 312                  | \$ 243     | \$ 512     |
| Additions charged to operating expenses              | 307                     | 323        | 884        |
| Adjustments charged (credited) to revenues           | (35)                    | 22         | (314)      |
| Deductions for bad debt write-offs                   | (346)                   | (276)      | (839)      |
| <br>Balance at end of year                           | <br>\$ 238              | <br>\$ 312 | <br>\$ 243 |
| <br><b>Deferred income tax valuation allowances:</b> |                         |            |            |
| Balance at beginning of year                         | \$ 386                  | \$ --      | \$ --      |
| Additions charged to provision for income taxes      | 1,280                   | 386        | --         |
| <br>Balance at end of year                           | <br>\$1,666             | <br>\$ 386 | <br>\$ --  |

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### REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated balance sheet of General Employment Enterprises, Inc. and subsidiary as of September 30, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended September 30, 2003. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and the schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of General Employment Enterprises, Inc. and subsidiary at September 30, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended September 30, 2003, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial

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statements taken as a whole, presents fairly in all material aspects the information set forth therein.

/s/ Ernst & Young LLP

Chicago, Illinois  
November 7, 2003

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### GENERAL EMPLOYMENT ENTERPRISES, INC.

#### SELECTED QUARTERLY FINANCIAL DATA AND MARKET INFORMATION

| (In Thousands, Except Per Share)       | Fourth<br>Quarter | Third<br>Quarter | Second<br>Quarter | First<br>Quarter |
|--|-------------------|------------------|-------------------|------------------|
| Fiscal 2003:                           |                   |                  |                   |                  |
| Net revenues                           | \$4,582           | \$4,597          | \$4,530           | \$4,900          |
| Operating expenses(1)                  | 5,505             | 5,470            | 5,636             | 5,562            |
| Loss from operations                   | (923)             | (873)            | (1,106)           | (662)            |
| Investment income                      | 13                | 21               | 6                 | 18               |
| Loss before income taxes               | (910)             | (852)            | (1,100)           | (644)            |
| Credit for income taxes (2)            | --                | --               | --                | --               |
| Net loss                               | \$ (910)          | \$ (852)         | \$ (1,100)        | \$ (644)         |
| Net loss per share                     | \$ (.18)          | \$ (.17)         | \$ (.21)          | \$ (.13)         |
| Market price per share:                |                   |                  |                   |                  |
| High                                   | .90               | .82              | .74               | .69              |
| Low                                    | .61               | .46              | .44               | .41              |
| Fiscal 2002:                           |                   |                  |                   |                  |
| Net revenues                           | \$4,921           | \$4,734          | \$5,154           | \$5,509          |
| Operating expenses(1)                  | 5,846             | 6,011            | 6,676             | 6,437            |
| Loss from operations                   | (925)             | (1,277)          | (1,522)           | (928)            |
| Investment income                      | 11                | 18               | 31                | 48               |
| Loss before income taxes               | (914)             | (1,259)          | (1,491)           | (880)            |
| Provision (credit) for income taxes(2) | 45                | (475)            | (570)             | (330)            |
| Net loss                               | \$ (959)          | \$ (784)         | \$ (921)          | \$ (550)         |
| Net loss per share                     | \$ (.19)          | \$ (.15)         | \$ (.18)          | \$ (.11)         |
| Market price per share:                |                   |                  |                   |                  |
| High                                   | 1.29              | 1.99             | 1.79              | 1.70             |
| Low                                    | .62               | 1.20             | 1.20              | 1.04             |

(1) Operating expenses include provisions for office closings and asset impairment losses totaling \$410,000 in the 2003 fourth quarter, \$178,000 in the 2003 third quarter, \$37,000 in the 2003 second quarter, \$148,000 in the 2002 fourth quarter and \$253,000 in the 2002 second quarter.

(2) There were no credits for income taxes as a result of the

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pretax losses in fiscal 2003, because the losses must be carried forward for income tax purposes and there was not sufficient assurance that a future tax benefit would be realized. The provision (credit) for income taxes for the 2002 fourth quarter includes a deferred tax valuation allowance of \$386,000.

The Company's common stock is traded on the American Stock Exchange under the trading symbol JOB. There were 809 holders of record on October 31, 2003. The Company has declared no cash dividends on its common stock during the last two fiscal years, and there are no intentions to do so in the foreseeable future.

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

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

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

As of September 30, 2003, 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, 2003 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.

Internal Control over Financial Reporting

Under Rules 13a-15 and 15d-15 of the Exchange Act, companies are required to maintain internal control over financial reporting, as defined, and company managements are required to evaluate and report on internal control over financial reporting. Under an extended compliance period for these rules, the Company must begin to comply with the evaluation and disclosure requirements with its annual report for the fiscal year ending September 30, 2005, and the Company must begin to comply with a requirement to perform a quarterly evaluation of changes to internal control over financial reporting that occur thereafter.

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.

PART III

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

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

Item 11. Executive Compensation.

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

Item 12. Security Ownership of Certain Beneficial Owners and Management.

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

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Item 13. Certain Relationships and Related Transactions.

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

Item 14. Principal Accountant Fees and Services.

Information concerning principal accountant fees and services is set forth in the registrant's Proxy Statement for the annual meeting of shareholders and is incorporated herein by reference.

### PART IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

Financial Statements and Financial Statement Schedules

The following financial statements and financial statement schedules are presented in "Item 8. Financial Statements and Supplementary Data."

|  | Page |
|--|------|
| Consolidated Balance Sheet as of September 30, 2003 and 2002                               | 12   |
| Consolidated Statement of Operations for the years ended September 30, 2003, 2002 and 2001 | 13   |

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|   |    |
|---|----|
| Consolidated Statement of Cash Flows for the years ended September 30, 2003, 2002 and 2001            | 14 |
| Consolidated Statement of Shareholders' Equity for the years ended September 30, 2003, 2002 and 2001  | 15 |
| Notes to Consolidated Financial Statements  | 16 |
| Schedule II - Valuation and Qualifying Accounts for the years ended September 30, 2003, 2002 and 2001 | 25 |
| Report of Independent Auditors  | 26 |

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

### Reports on Form 8-K

The Company filed the following report on Form 8-K during the quarter ended September 30, 2003:

The Company reported that it issued a press release on July 24, 2003 containing information regarding its results of operations and financial condition for the quarterly period ended June 30, 2003.

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### Exhibits

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

| No.  | Description of Exhibit   |
|------|--|
| 2.01 | Asset Purchase Agreement Among Triad Personnel Services, Inc., Generation Technologies, Inc. and Michael P. Verona dated April 10, 2001. Incorporated by reference to Exhibit 2.01 to the registrant's Form 8-K Current Report dated April 10, 2001. Commission File No. 1-05707.          |
| 3.01 | Articles of Incorporation and amendments thereto. Incorporated by reference to Exhibit 3 to the registrant's Quarterly Report on Form 10-QSB for the quarter ended March 31, 1996, Commission File No. 1-05707.  |
| 3.02 | By-Laws. Incorporated by reference to Exhibit 3(b) of the registrant's Annual Report on Form 10-KSB for the fiscal year ended September 30, 1997, Commission File No. 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 registrant's Registration Statement on Form 8-A filed with the Securities and |

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Exchange Commission on February 7, 2000.

- 10.01\* Key Manager Plan, adopted May 22, 1990. Incorporated by reference to Exhibit 10(h) to the registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 1990, Commission File No. 1-05707.
- 10.02 Agreement with Sheldon Brottman dated October 3, 1991. Incorporated by reference to Exhibit 10(l) to the registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 1991, Commission File No. 1-05707.
- 10.03\* General Employment Enterprises, Inc. 1995 Stock Option Plan. Incorporated by reference to Exhibit 4.1 to the registrant's Form S-8 Registration Statement dated April 25, 1995, Registration No. 33-91550.
- 10.04\* General Employment Enterprises, Inc. 1997 Stock Option Plan. Incorporated by reference to Exhibit 10(n) to the registrant's Annual Report on Form 10-KSB for the fiscal year ended September 30, 1998, Commission File No. 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 registrant'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 registrant'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 registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2001, Commission File No. 1-05707.

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

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- 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 registrant'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 registrant's Quarterly Report of Form 10-Q for the quarterly period ended December 31, 2001, Commission File No. 1-05707.
- 10.13\* Regional Vice President Bonus Plan effective for fiscal years beginning on or after October 1, 2001. Incorporated by reference to Exhibit 10.02 to the registrant's Quarterly Report of Form 10-Q for the quarterly period ended December 31, 2001, Commission File No. 1-05707.
- 10.14\* Agreement with Herbert F. Imhoff, Jr., effective August 1, 2002. Incorporated by reference to Exhibit 10.14 to the registrant's Annual Report on Form 10-K for the fiscal year ended September 30, 2002, Commission File No. 1-05707.
- 14.01 General Employment Enterprises, Inc. Code of Ethics for Financial Officers adopted as of October 1, 2003.
- 23.01 Consent of Independent Auditors.
- 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.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GENERAL EMPLOYMENT ENTERPRISES, INC.  
(Registrant)

Date: November 24, 2003

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

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Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: November 24, 2003                      By: /s/ Herbert F. Imhoff, Jr.  
Herbert F. Imhoff, Jr., Director  
Chairman of the Board, Chief  
Executive Officer and President  
(Principal executive officer)

Date: November 24, 2003                      By: /s/ Kent M. Yauch  
Kent M. Yauch, Director  
Vice President, Chief Financial  
Officer and Treasurer (Principal  
financial and accounting officer)

Date: November 24, 2003                      By: /s/ Dennis W. Baker  
Dennis W. Baker, Director

Date: November 24, 2003                      By: /s/ Sheldon Brottman  
Sheldon Brottman, Director

Date: November 24, 2003                      By: /s/ Delain G. Danehey  
Delain G. Danehey, Director

Date: November 24, 2003                      By: /s/ Joseph F. Lizzadro  
Joseph F. Lizzadro, Director