NATURES SUNSHINE PRODUCTS INC
Form 11-K
July 16, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11-K

(Mark one)

x	**Annual Report Pursuant to Section 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended December 31, 2006

OR

o	**Transition Report Pursuant to Section 15(d) of the Securities Exchange Act of 1934**

For the transition period from to

Commission File No. 0-8707

A. Full title of the Plan and the address of the Plan, if different from that of the issuer named below:

Nature s Sunshine Products, Inc.

Tax Deferred Retirement Plan

B. Name of issuer of the securities held pursuant to the Plan and the address of its principal executive office:

Nature s Sunshine Products, Inc.

75 East 1700 South

P.O. Box 19005

Provo, UT 84605-9005

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

Nature s Sunshine Products, Inc. Tax Deferred Retirement Plan

Date: July 16, 2007

By: /s/ Stephen M. Bunker
Chief Financial Officer, Vice President of Finance and Treasurer of Nature s Sunshine Products, Inc., the Plan Administrator

2

NATURE S SUNSHINE PRODUCTS, INC.

TAX DEFERRED RETIREMENT PLAN

Financial Statements and Supplemental Schedule

As of December 31, 2006 and 2005 and

for the Year Ended December 31, 2006

Together with Report of Independent Registered Public

Accounting Firm

3

NATURE S SUNSHINE PRODUCTS, INC.

TAX DEFERRED RETIREMENT PLAN

Index

Report of Independent Registered Public Accounting Firm

Financial Statements

Statements of Net Assets Available for Benefits.

Statement of Changes in Net Assets Available for Benefits

Notes to Financial Statements

Supplementary Schedules*

Schedule H, Part IV, Item 4a - Delinquent Participant Contributions.

Schedule H, Part IV, Item 4i - Schedule of Assts (Held at End of Year)

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* Other supplementary schedules required by section 2520-103.10 of the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Security Act of 1974 have been omitted because they are not applicable.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Administrator of the

Nature s Sunshine Products, Inc. Tax Deferred Retirement Plan

We have audited the accompanying statements of net assets available for benefits of the Nature s Sunshine Products, Inc. Tax Deferred Retirement Plan (the Plan) as of December 31, 2006 and 2005 and the related statement of changes in net assets available for benefits for the year ended December 31, 2006. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (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 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 Plan s internal control over financial reporting. Accordingly, we express no such opinion. 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 financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Nature s Sunshine Products, Inc. Tax Deferred Retirement Plan as of December 31, 2006 and 2005, and the changes in net assets available for benefits for the year ended December 31, 2006 in conformity with U.S. generally accepted accounting principles.

As described in Note 2, the Plan adopted Financial Accounting Standards Board Staff Position AAG INV-1 and SOP 94-4-1, *Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans*, as of December 31, 2006.

Our audits of the financial statements were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental Schedule of Assets (Held at End of Year) as of December 31, 2006, and Schedule of Delinquent Participant Contributions for the year ended December 31, 2006, are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are supplementary information required by the United States Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental

5

schedules are the responsibility of the Plan s management and have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ Tanner LC

Salt Lake City, Utah
July 13, 2007

6

NATURE S SUNSHINE PRODUCTS, INC.

TAX DEFERRED RETIREMENT PLAN

Statements of Net Assets Available for Benefits

	December 31, 2006	2005 (As Restated)
Assets		
Investments at fair value	$ 31,174,076	$ 33,652,456
Receivables:		
Employee contributions	70,775	64,087
Employer contributions	56,931	51,842
Interest	1,954	1,760
Total receivables	129,660	117,689
Total assets	31,303,736	33,770,145
Liabilities		
Investments purchased in excess of cash balances		71,148
Excess contributions payable	8,020	9,542
Total liabilities	8,020	80,690
Net assets available for benefits at fair value	31,295,716	33,689,455
Adjustment from fair value to contract value for fully benefit-responsive investment contract	109,384	101,001
Net assets available for benefits	$ 31,405,100	$ 33,790,456

See accompanying notes to financial statements.

7

NATURE S SUNSHINE PRODUCTS, INC.

TAX DEFERRED RETIREMENT PLAN

Statement of Changes in Net Assets Available for Benefits

Year Ended December 31, 2006

Additions to net assets attributed to:	
Investment income:	
Net depreciation in fair value of investments	$ (1,016,161)
Interest and dividends	1,225,229
Total investment income	209,068
Contributions:	
Employee	1,328,305
Employer	1,016,848
Total contributions	2,345,153
Total additions	2,554,221
Deductions from net assets attributed to:	
Benefits paid to participants	4,939,577
Decrease in net assets available for benefits	(2,385,356)
Net assets available for benefits:	
Beginning of year	33,790,456
End of year	$ 31,405,100

See accompanying notes to financial statements.

8

NATURE S SUNSHINE PRODUCTS, INC.

1. Description of the Plan

The following brief description of the Nature s Sunshine Products, Inc. Tax Deferred Retirement Plan (the Plan) provides only general information. Participants should refer to the Plan document and summary plan description for a more complete description of the Plan s provisions.

General

The Plan is a defined contribution plan established to provide retirement benefits to eligible employees of Nature s Sunshine Products, Inc. (the Company) and its domestic subsidiaries. Employees that are 18 years of age or older are eligible to participate in the Plan immediately upon hire. The Plan is intended to be a qualified retirement plan under the Internal Revenue Code (IRC) and is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended.

Contributions

Each year, participating employees may elect to contribute a percentage of their eligible compensation not to exceed 15%. Contributions are limited by the IRC, which established a maximum contribution of $15,000 ($20,000 for participants age 50 and older) for the year ended December 31, 2006 and $14,000 ($18,000 for participants age 50 and older) for the year ended December 31, 2005. Highly compensated employees, as defined in the IRC, may contribute a percentage of their annual compensation, not to exceed 5%.

The Company matches the participants contributions to the Plan at 100% up to a maximum of 5% of their eligible compensation.

For the year ended December 31, 2006, rollovers from other plans were not permitted. Effective February 1, 2007, the Plan was amended to permit rollovers to the Plan from other qualified plans.

Participant Accounts

Individual accounts are maintained for each Plan participant. Each participant s account is credited with the participant s contribution, the Company s matching contribution, and an allocation of investment earnings, and is charged with withdrawals and an allocation of investment losses. Allocations are based on participant account balances. The benefit to which a participant is entitled is the benefit that can be provided from the participant s vested account.

Participant-Directed Options for Investments

Participants direct the investment of their contributions and the Company matching contributions into various investments offered by the Plan. Investment options include mutual funds and a common collective trust fund.Participants may change their election or transfer monies between funds at any time. Participants with common stock of the Company in their accounts may direct the sale of the stock and the investment of the resulting monies in other investments offered by the Plan.

Vesting

Participants are immediately vested in their contributions to the Plan plus actual earnings thereon. A participant is 100% vested in the employer contributions and related earnings after three years of qualifying service, or upon attaining the Plan s normal retirement age of 59 ½, or upon death or certain types of disability while an employee.

Payment of Benefits

The Plan provides for benefit distributions (either as an annuity, installment or lump sum) to Plan participants or their beneficiaries of their vested account balance upon termination of employment (including death), certain types of disability or attainment of age 59 ½ (retirement age) while employed by the Company. Vested benefits may also be rolled over into another retirement plan.

If the value of a vested account is not greater than $1,000 when employment is terminated, the benefit will be distributed to the participant following the date of termination.

If the value of a vested account is greater than $1,000 but not more than $5,000 and the participant does not elect to receive the distribution or roll it over to an eligible retirement plan, the Plan Administrator will automatically initiate a distribution to a Merrill Lynch Individual Retirement Rollover Account when employment is terminated.

Hardship Withdrawals

Participants may withdraw all or part of their vested account balances, including voluntary contributions (but none of the income earned on such contributions), upon demonstration of a financial hardship subject to the requirements of the Plan. Hardship withdrawals are permitted based on the safe harbor rules.

Forfeitures

Forfeitures are used first to fund future employer contributions, then to offset Plan administrative costs, and finally by allocation to the participant s accounts. During the years ended December 31, 2006 and 2005, the forfeiture account earned $1,824 and $1,022, respectively, and forfeitures utilized to reduce Company contributions totaled $79,211 and $44,799, respectively. Additional forfeitures that became available for general use for the years ended December 31, 2006 and 2005 totaled $73,735 and $44,482, respectively. As of December 31, 2006 and 2005, the balance in the forfeiture account was $15 and $3,667, respectively.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Plan are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

11

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires the Plan Administrator to make estimates and assumptions that affect certain reported amounts of net assets available for benefits at the date of the financial statements, the changes in net assets available for benefits during the reporting period and, when applicable, the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results may differ from those estimates.

Adoption of New Standard

In December 2005, the Financial Accounting Standards Board (FASB) issued a Staff Position (FSP), Reporting of Fully Benefit Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans. This FSP amends the guidance in AICPA Statement of Position 94-4, Reporting of Investment Contracts Held by Health and Welfare Benefit Plans and Defined-Contribution Pension Plans. The FSP requires investment contracts held by a defined-contribution pension plan to be reported at fair value. However, contract value is the relevant measurement attribute for that portion of the net assets available for benefits of a defined-contribution plan attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the Plan. The Plan invests in fully benefit-responsive investment contracts through a collective trust. As required by the FSP, investments in fully benefit-responsive collective trusts are presented at fair value in the statement of net assets available for benefits and the amount representing the difference between fair value and contract value of these investments is also presented on the face of the statement of net assets available for benefits. The FSP is effective for financial statements for annual periods ending after December 15, 2006, and must be applied retroactively to all prior periods presented. Accordingly, the Plan has adopted the financial statement presentation and disclosure requirements effective December 31, 2006, and has restated the 2005 Statement of Net Assets Available for Benefits to present all investments at fair value, with the adjustment to contract value

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separately disclosed. The effect of adopting the FSP had no impact on the Plan s net assets available for benefits as of December 31, 2006 and 2005 or changes in net assets available for benefits for the year ended 2006, as such investments have historically been presented at contract value.

Recent Accounting Pronouncements

In September 2006, the FASB issued Statement No. 157, Fair Value Measurement (FAS 157), which establishes a framework for measuring fair value under U.S. generally accepted accounting principles and expands disclosure about fair value measurements. FAS 157 is effective for financial statements issued with fiscal years beginning after November 15, 2007. The Plan s management does not believe that the adoption of FAS 157 will have a material impact on the Plan s financial statements.

In February 2007, the FASB issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (FAS 159). The fair value option established by FAS 159 permits entities to choose to measure eligible items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. FAS 159 is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. The Plan s management does not believe that the adoption of FAS 159 will have a material impact on the Plan s financial statements.

Investment Valuation and Income Recognition

The Plan s investments are stated at fair value. Shares of the Company s common stock are valued at quoted market price. Shares of mutual funds are valued at quoted market prices, which represent the net asset value of units held by the Plan at year-end. The Plan s interest in the collective trust is valued based on information reported by the investment advisor using the audited financial statements of the collective trust at year-end.

Net appreciation (depreciation) in the market value of investments includes both realized and unrealized gains and losses.

Purchases and sales of securities are recorded on a trade-date basis. Dividend income is recorded on the ex-dividend date. Investment earnings are automatically reinvested into the fund from which they were derived.

Payment of Benefits

Benefits are recorded when paid by the Plan.

Administrative Costs

The Company pays the majority of the costs incurred in administering the Plan.

3. Risks and Uncertainties

The Plan invests in various investment securities that are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes would materially aTOM: black 2px solid">

Net cash used by operating activities	(563)	(1,008)
Decrease in cash and cash equivalents	(563)	(1,008)
Cash and cash equivalents at beginning of period	2,810	4,165
Cash and cash equivalents at end of period	$2,247	$3,157

See notes to consolidated financial statements.

4

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

(In Thousands)	Three Months Ended December 31 2009	2008
Common shares outstanding:		
Number at beginning of period	13,380	5,165
Number at end of period	13,380	5,165
Common stock:		
Balance at beginning of period	$6,743	$4,987
Stock compensation expense	3	9
Balance at end of period	$6,746	$4,996
Retained earnings (accumulated deficit):		
Balance at beginning of period	$(4,139)	$89
Net loss	(589)	(776)
Balance at end of period	$(4,728)	$(687)

See notes to consolidated financial statements.

5

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Basis of Presentation

The consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America and the rules of the United States Securities and Exchange Commission. In the opinion of management, all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the financial statements have been included. We have evaluated events occurring between the end of our most recent fiscal year and February 3, 2010, which is the date that these financial statements were issued. Interim results are not necessarily indicative of results for a full year. These financial statements should be read in conjunction with the financial statements included in the Company's annual report on Form 10-K for the year ended September 30, 2009.

Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board issued guidance on business combinations. Under the FASB guidance, an entity is required to recognize the assets acquired, liabilities assumed, contractual contingencies, and contingent consideration at their fair value on the acquisition date. It further requires that acquisition-related costs be recognized separately from the acquisition and expensed as incurred, restructuring costs generally be expensed in periods subsequent to the acquisition date, and changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period impact income tax expense. The Company adopted the guidance on business combinations on a prospective basis as of October 1, 2009, and it will be applied to any future acquisitions.

Placement Service Revenues

The provision for falloffs and refunds, reflected in the consolidated statement of operations as a reduction of placement service revenues, was $67,000 for the three-month period ended December 31, 2009 and $81,000 for the three-month period ended December 31, 2008.

Other Expense, Net

The components of other expense, net are as follows:

	Three Months Ended December 31	
(In Thousands)	2009	2008
Interest expense	$10	$—
Interest income	(3)	(22)
Loss on investments	11	93
Other expense, net	$18	$71

The loss on investments includes realized and unrealized holding gains and losses on trading securities.

6

Cash and Cash Equivalents

A summary of cash and cash equivalents is as follows:

(In Thousands)	December 31 2009	September 30 2009
Cash	$2,247	$510
Certificate of deposit	—	2,300
Total cash and cash equivalents	$2,247	$2,810

In November 2009, the Company discovered that it did not receive the proceeds from a bank for a $2,300,000 certificate of deposit that was scheduled to mature in October 2009. Although the Company made a formal inquiry of the bank, it did not receive an adequate explanation for the bank's non-performance related to the deposit. In December 2009, the Company entered into an agreement to assign its interests in the certificate of deposit, without recourse, to an unrelated party that has other business interests with the bank, and the Company was reimbursed for the face value of the deposit.

Income Taxes

There were no credits for income taxes as a result of the pretax losses during the periods, because there was not sufficient assurance that a future tax benefit would be realized.

Property and Equipment

Property and equipment consisted of the following:

(In Thousands)	December 31 2009	September 30 2009
Property and equipment, at cost	$3,466	$3,466
Accumulated depreciation and amortization	(2,946)	(2,896)
Property and equipment, net	$520	$570

Commitments

As of December 31, 2009, the Company had contractual obligations to purchase approximately $710,000 of recruitment advertising through December 31, 2011.

Line of Credit

On November 20, 2009, the Company completed the execution of a loan and security agreement with Crestmark Bank. Under the agreement, the bank will make advances to the Company upon the request of the Company, subject to certain limitations. Advances with respect to the loan are always discretionary with Crestmark. The aggregate loan amount outstanding at any one time may not exceed the lesser of $3,500,000 or 85% of eligible accounts receivable, as defined in the agreement, and the Company granted the bank a security interest in all of its accounts receivable and other property. In addition, the agreement requires the Company to comply with certain financial covenants. Advances will be charged interest at the rate of 1.00 percentage point above the prime rate and are payable on demand. The loan agreement will continue in effect until demand, but if not sooner demanded then for three years from the date of the agreement, and it will be automatically renewed for consecutive two year terms unless terminated by either party. Certain officers of the Company have provided the bank with a guaranty of validity for certain representations and covenants made by the Company. As of December 31, 2009, there were no outstanding borrowings under the line of credit, the Company was in compliance with its financial covenants, and the amount available for borrowing was $538,000.

7

Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations.

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 December 31, 2009, the Company operated ten branch offices located in eight 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 10.0% in December 2009 and 7.2% in December 2008. The change indicates a trend toward a lower level of employment in the United States during the last twelve months.

During the twelve months ended December 31, 2009, the U.S. economy experienced a period of uncertainty stemming from problems in the housing and credit markets. According to the U.S. Department of Labor, the national employment level declined by approximately 4.2 million jobs during the period. Management believes that employers became extremely cautious about hiring during the period. As a result, the Company experienced sharp declines in both the number of billable contract hours and the number of placements.

To better position the Company in the face of these economic conditions, the Company took action to reduce its cost structure. The Company implemented a restructuring of its corporate and field operations during the third quarter of fiscal 2009. Sales, recruiting and administrative positions were eliminated, five branch offices were closed and the payroll for executive officers was reduced. As a result of this restructuring, together with other actions taken, the sales, recruiting and administrative staff as of December 31, 2009 was 56% below the staff level a year earlier, and the salaries and benefits of its three executive officers in the aggregate had been reduced by $637,000 on an annual basis. Although the restructuring was successful in reducing costs, it also had the effect of reducing the Company's sales capacity.

Results of Operations

Net Revenues
Consolidated net revenues for the three months ended December 31, 2009 were down $915,000 (32%) from the prior year. Contract service revenues decreased $143,000 (9%) and placement service revenues decreased $772,000 (58%). As a result of the weaker economic conditions that prevailed during the three months ended December 31, 2009, the Company experienced less demand for its services. The decline in consolidated net revenues was the result of a 20% decrease in the number of billable contract hours and 47% fewer placements.

Cost of Contract Services
The cost of contract services includes wages and the related payroll taxes and employee benefits of the Company's employees while they work on contract assignments. There are no direct costs associated with placement service revenues. The cost of contract services for the three months ended December 31, 2009 was down $40,000 (4%) as a result of the lower volume of contract business. The gross profit margin on contract business was 29.0%, which was 3.9 points less than 32.9% for the prior year due to competitive pricing pressures during the period.

Selling, General and Administrative Expenses

Selling, general and administrative expenses include the following categories:

- Compensation in the operating divisions, which includes commissions earned by the Company's employment consultants and branch managers on permanent and temporary placements. It also includes salaries, wages, unrecovered advances against commissions, payroll taxes and employee benefits associated with the management and operation of the Company's staffing offices.
- Administrative compensation, which includes salaries, wages, payroll taxes and employee benefits associated with general management and the operation of the finance, legal, human resources and information technology functions.
- Occupancy costs, which includes office rent, depreciation and amortization, and other office operating expenses.
- Recruitment advertising, which includes the cost of identifying job applicants.
- Other selling, general and administrative expenses, which includes travel, bad debt expense, fees for outside professional services and other corporate-level expenses such as business insurance and taxes.

The Company's largest selling, general and administrative expense is for compensation in the operating divisions. Most of the Company's employment consultants are paid on a commission basis and receive advances against future commissions. Advances are expensed when paid. When commissions are earned, prior advances are applied against them and the consultant is paid the net amount. At that time, the Company recognizes the full amount as commission expense, and advance expense is reduced by the amount recovered. Thus, the Company's advance expense represents the net amount of advances paid, less amounts applied against commissions.

Selling, general and administrative expenses for the three months ended December 31, 2009 decreased $1,009,000 (39%). Compensation in the operating divisions was down 53%, reflecting lower commission expense on the lower volume of business and staff reductions during the last year. Administrative compensation was down 36%, reflecting executive pay reductions. Occupancy costs were down 33% for the period because of operating fewer branch offices than last year. Recruitment advertising decreased 70% due to lower utilization of job board posting services. All other selling, general and administrative expenses together were up 65%, primarily due to additional professional fees.

Other

Other expense, net, for the three months ended December 31, 2009 was down 75% from the same period last year due to a reduction in investment losses.

There were no credits for income taxes as a result of the pretax losses during the periods, because there was not sufficient assurance that future tax benefits would be realized.

Liquidity and Capital Recourses

As of December 31, 2009, the Company had cash and cash equivalents of $2,247,000, which was a decrease of $563,000 from September 30, 2009. Net working capital at December 31, 2009 was $2,038,000, which was a decrease of $571,000 from September 30, 2009, and the current ratio was 2.7 to 1. Shareholders' equity as of December 31, 2009 was $2,018,000 which represented 53% of total assets.

During the three months ended December 31, 2009, the net cash used by operating activities was $563,000. The net loss for the period, adjusted for depreciation and other non-cash charges, used $571,000. A reduction of accounts receivable provided $237,000, a reduction of payroll liabilities used $205,000, and all other working capital items used an additional $24,000.

Information about future minimum lease payments, purchase commitments and long-term obligations is presented in the notes to consolidated financial statements contained in the Company's annual report on Form 10-K for the fiscal year ended September 30, 2009.

9

On November 20, 2009, the Company completed the execution of a loan and security agreement with Crestmark Bank. Under the agreement, the bank will make advances to the Company upon the request of the Company, subject to certain limitations. Advances with respect to the loan are always discretionary with Crestmark. The aggregate loan amount outstanding at any one time may not exceed the lesser of $3,500,000 or 85% of eligible accounts receivable, as defined in the agreement, and the Company granted the bank a security interest in all of its accounts receivable and other property. In addition, the agreement requires the Company to comply with certain financial covenants. Advances will be charged interest at the rate of 1.00 percentage point above the prime rate and are payable on demand. The loan agreement will continue in effect until demand, but if not sooner demanded then for three years from the date of the agreement, and it will be automatically renewed for consecutive two year terms unless terminated by either party. Certain officers of the Company have provided the bank with a guaranty of validity for certain representations and covenants made by the Company. Borrowings available under the line of credit could be used for working capital purposes. As of December 31, 2009, there were no outstanding borrowings under the line of credit, the Company was in compliance with its financial covenants, and the amount available for borrowing was $538,000.

Management's current objective is to return the Company to a breakeven level of cash flow as soon as possible and to provide a stable platform for future growth. The Company's ability to continue as a going concern is ultimately dependent on its ability to reduce costs and increase revenues to a level that will allow it to operate profitably and sustain positive operating cash flows. Despite recent losses, management believes that existing cash resources will be adequate to finance current operations for at least the next twelve months. Management intends to grow the Company through business acquisitions that are expected to be accretive to revenues, earnings and cash flow.

The Company is in negotiations to purchase On-Site Services, Inc., a temporary staffing and payroll services company with annual revenues of approximately $10 million. It is anticipated that the purchase would be financed through the issuance of a note payable and shares of Company's common stock.

On December 21, 2009, the Company entered into a memorandum agreement to purchase the core business and business assets of GT Systems, Inc. Among other things, the agreement requires the Company to obtain an accounts receivable financing line of credit of $9,000,000. The purchase price is to be paid by the issuance of no more than 2,000,000 shares of the Company's common stock. The closing of the transaction is subject to the approval and execution by both parties of definitive transaction documents.

Off-Balance Sheet Arrangements

As of December 31, 2009, and during the three months 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.

Forward-Looking Statements

As a matter of policy, the Company does not provide forecasts of future financial performance. The statements made in this Form 10-Q Quarterly Report which are not historical facts are forward-looking statements. Such forward-looking statements often contain or are prefaced by words such as "will" and "expect." As a result of a number of factors, our actual results could differ materially from those set forth in the forward-looking statements. Certain factors that might cause our actual results to differ materially from those in the forward-looking statements include, without limitation, 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. The Company is under no obligation to (and expressly disclaims any such obligation to) and does not intend to update or alter its forward-looking statements whether as a result of new information, future events or otherwise.

Item 4, Controls and Procedures.

As of December 31, 2009, 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 December 31, 2009 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.

As noted in our Form 10-K for the year ended September 30, 2009, management identified material weaknesses in internal control during the fourth quarter of fiscal 2009. A certificate of deposit was purchased without adequate documentation and this investment also violated the Company's established investment policy. In addition, management identified that during part of fiscal 2009, an individual that was neither an employee nor a director was included as an authorized signor on one of the Company's bank accounts.

During the quarter ended December 31, 2009, the Company has taken remedial actions to address these material weaknesses. The Company transferred the funds originally invested in the certificate of deposit ("CD") to a financial institution that meets the criteria of the Company's established investment policy. In addition, the Chief Executive Officer, Ron Heineman, who authorized the purchase of the CD, voluntarily resigned effective December 23, 2009 and Salvatore Zizza was appointed by the Board of Directors as the Chief Executive Officer of the Company effective December 23, 2009. We believe these actions have resulted in the remediation of the material weaknesses previously disclosed in our Form 10-K for the year ended September 30, 2009.

Except as discussed above, there were no changes 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 II – OTHER INFORMATION

Item 6, Exhibits.

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

No.	Description of Exhibit
31.01	Certifications of the principal executive officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.
31.02	Certifications of the principal financial officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.
32.01	Certifications of the principal executive officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act and Section 1350 of Title 18 of the United States Code.
32.02	

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

11

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GENERAL EMPLOYMENT ENTERPRISES, INC.
(Registrant)

Date: February 3, 2010

By: /s/ Kent M. Yauch
Kent M. Yauch
Vice President, Chief Financial Officer and Treasurer
(Principal financial and accounting officer and duly authorized officer)

12