

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2002

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-05707

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, Illinois 60181  
(Address of principal executive offices) (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all  
reports required to be filed by Section 13 or 15(d) of the  
Securities Exchange Act during the preceding 12 months (or for  
such shorter period that the registrant was required to file such  
reports), and (2) has been subject to such filing requirements  
for the past 90 days.

Yes  No

The number of shares outstanding of the issuer's common stock as  
of July 31, 2002 was 5,120,776.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

GENERAL EMPLOYMENT ENTERPRISES, INC.  
CONSOLIDATED BALANCE SHEET

	June 30	September 30
	2002	2001
(In Thousands)		(Unaudited)

ASSETS

Current assets:

Cash and cash equivalents	\$ 5,361	\$ 7,293
Short-term investments	--	495
Accounts receivable, less allowances		

(June 2002 -- \$229; Sept. 2001--\$243)	2,168	2,685
Income tax refunds receivable	1,348	948
Other current assets	779	625
Total current assets	9,656	12,046
Property and equipment:		
Furniture, fixtures and equipment	6,730	6,697
Accumulated depreciation	(4,521)	(3,952)
Net property and equipment	2,209	2,745
Goodwill, net of accumulated amortization	1,076	888
Total assets	\$ 12,941	\$ 15,679

#### LIABILITIES AND SHAREHOLDERS' EQUITY

##### Current liabilities:

Accrued compensation and payroll taxes	\$ 1,210	\$ 1,753
Other current liabilities	874	849
Total current liabilities	2,084	2,602

##### Shareholders' equity:

Common stock, no-par value; authorized -- 20,000 shares; issued and outstanding -- 5,121 shares in June 2002 and 5,087 shares in September 2001	51	51
Capital in excess of stated value of shares	4,604	4,569
Retained earnings	6,202	8,457
Total shareholders' equity	10,857	13,077

Total liabilities and shareholders' equity \$ 12,941 \$ 15,679

See notes to consolidated financial statements.

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

	Three Months		Nine Months	
	Ended June 30		Ended June 30	
(In Thousands, Except Per Share)	2002	2001	2002	2001
Net revenues:				
Placement services	\$1,362	\$3,482	\$ 4,841	\$13,856
Contract services	3,372	3,939	10,556	10,726
Net revenues	4,734	7,421	15,397	24,582
Operating expenses:				
Cost of contract services	2,240	2,568	6,988	6,964
Selling	1,044	2,224	3,555	8,648
General and administrative	2,727	3,340	8,581	10,173
Total operating expenses	6,011	8,132	19,124	25,785
Loss from operations	(1,277)	(711)	(3,727)	(1,203)
Interest income	18	99	97	442
Loss before income taxes	(1,259)	(612)	(3,630)	(761)
Credit for income taxes	(475)	(235)	(1,375)	(280)
Net loss	\$ (784)	\$ (377)	\$ (2,255)	\$ (481)
Net loss per share	\$ (0.15)	\$ (0.07)	\$ (0.44)	\$ (0.09)

Average number of shares      5,121   5,087   5,114   5,087

See notes to consolidated financial statements.

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

(In Thousands)	Nine Months Ended June 30	
	2002	2001
Operating activities:		
Net loss	\$(2,255)	\$ (481)
Depreciation and other noncurrent items	577	627
Accounts receivable	517	1,479
Income tax refunds receivable	(400)	(803)
Accrued compensation and payroll taxes	(543)	(1,097)
Other current items, net	(129)	(345)
Net cash used by operating activities	(2,233)	(620)
Investing activities:		
Acquisition of property and equipment	(27)	(691)
Acquisition of Generation Technologies, Inc.	(207)	(1,523)
Maturities of short-term investments	500	4,000
Net cash provided by investing activities	266	1,786
Financing activities:		
Exercise of stock options	35	--
Cash dividends paid	--	(1,272)
Net cash provided (used) by financing activities	35	(1,272)
Decrease in cash and cash equivalents	(1,932)	(106)
Cash and cash equivalents at beginning of period	7,293	7,236
Cash and cash equivalents at end of period	\$ 5,361	\$ 7,130

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Interim Financial Statements

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. This financial information should be read in conjunction with the financial statements included in the Company's annual report on Form 10-K for the year ended September 30, 2001.

Acquisition

On April 10, 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 purchase price was established as an initial cash payment at the time of closing, and three annual earn out payments to be based on earnings of the business, as defined. In April 2002 the Company made the first annual payment in the amount of \$207,000 and recorded it as additional goodwill.

The results of GenTech's operations are included in the Company's financial statements for periods subsequent to the date of acquisition. The Company's 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)	Nine Months Ended June 30, 2001
Net revenues	\$26,441
Net loss	(371)
Net loss per share	(.07)

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.

#### Income Taxes

Under current federal income tax regulations, net operating losses for the fiscal years ending in 2001 and 2002 may be carried back five years, and if not used, may be carried forward 20 years. Losses incurred after 2002 are scheduled to revert to a two-year carry back and 20-year carry forward period. The Company recorded the tax benefit of its losses as of June 30, 2002 and 2001 based on its ability to carry them back.

The Company received federal income tax refunds of \$840,000 during the nine months ended June 30, 2002 and made federal income tax payments of \$325,000 during the nine months ended June 30, 2001.

#### Lease Obligations

The Company recorded a \$253,000 expense for the cost of closing a branch office during the nine months ended June 30, 2002, covering the future lease obligation of the office.

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

The Company provides placement and contract staffing services for business and industry, specializing in the placement of information technology, engineering and accounting professionals. As of June 30, 2002, the Company operated 33 offices located in major metropolitan business centers in 12 states.

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

Three Months		Nine Months	
Ended June 30		Ended June 30	
2002	2001	2002	2001

Net revenues:

Placement services	28.8%	46.9%	31.4%	56.4%
Contract services	71.2	53.1	68.6	43.6
Net revenues	100.0	100.0	100.0	100.0
Operating expenses:				
Cost of contract services	47.3	34.6	45.4	28.3
Selling	22.1	30.0	23.1	35.2
General and administrative	57.6	45.0	55.7	41.4
Total operating expenses	127.0	109.6	124.2	104.9
Loss from operations	(27.0)%	(9.6)%	(24.2)%	(4.9)%

### Third Quarter Results of Operations

#### Net Revenues

For the three months ended June 30, 2002, consolidated net revenues were down \$2,687,000 (36%) from the same period last year. This was due to the combination of a \$2,120,000 (61%) decrease in placement service revenues and a \$567,000 (14%) decrease in contract service revenues. Placement services represented 29% of consolidated net revenues for the period, and contract services represented 71% of the total.

Placement service revenues were down for the quarter because of a 57% decline in the number of placements, together with a 9% decrease in the average placement fee. The decrease in contract service revenues was the result of a 12% decrease in billable hours, while the average hourly billing rate declined 2%.

The Company attributes the decline in revenues to the weak demand for employment placement services, particularly in the information technology sector. As a result of the national economic slowdown, hiring activity in 2002 to date was considerably lower than the prior year. The national unemployment rate was at 5.9% in June 2002, compared with 4.6% in June 2001.

#### Operating Expenses

Total operating expenses for the quarter were down \$2,121,000 (26%) compared with the same quarter last year.

The cost of contract services was down \$328,000 (13%) as a result of the lower contract service revenues. The gross profit margin on contract services was 33.6% this quarter, compared with 34.8% the prior year.

Selling expenses decreased \$1,180,000 (53%) this quarter, and they represented 22.1% of consolidated net revenues, which was down 7.9 points from the prior year. Commission expense was down 61% due to the lower placement service revenues and lower commissionable profits, while recruitment advertising expense was 27% lower than last year.

General and administrative expenses decreased \$613,000 (18%) for the quarter, and they represented 57.6% of consolidated net revenues. This was up 12.6 points from the same quarter last year. Compensation in the operating divisions decreased 21% due to a reduction in the size of the consulting staff, occupancy costs declined 18% due to fewer offices, and bad debt expense was 71% lower due to the lower volume of business this year. All other general and administrative expenses were down 4%.

To control operating costs, the Company closed eight unprofitable branch offices during the last twelve months. As a result of these and other actions, the Company reduced its in-house consulting and administrative staff by 31% from the year-ago level.

## Other Items

The effect of lower revenues resulted in a loss from operations of \$1,277,000 for the quarter, compared with a loss from operations of \$711,000 for the same quarter last year.

Interest income was down \$81,000 (82%) in the quarter, due to a combination of lower average funds available for investment and lower average interest rates.

The effective income tax rate was 38% this quarter, the same as last year.

After interest and taxes, the net loss for the quarter was \$784,000, compared with a net loss of \$377,000 the prior year.

## Nine Months Results of Operations

### Net Revenues

For the nine months ended June 30, 2002, consolidated net revenues were adversely affected by the same U.S. economic conditions that affected the third quarter, and they were down \$9,185,000 (37%) from the same period last year. This was due to the combination of a \$9,015,000 (65%) decrease in placement service revenues and a \$170,000 (2%) decrease in contract service revenues. Placement services represented 31% of consolidated net revenues for the period, and contract services represented 69% of the total.

Placement service revenues were down for the period because of a 60% decline in the number of placements, together with an 11% decrease in the average placement fee. The decrease in contract service revenues was the result of a 6% decrease in billable hours, partially offset by a 5% increase in the average hourly billing rate.

### Operating Expenses

Total operating expenses for the year to date were down \$6,661,000 (26%) compared with the same period last year.

The cost of contract services was up \$24,000, and the gross profit margin on contract services declined to 33.8% for the year to date, compared with 35.1% the prior year.

Selling expenses decreased \$5,093,000 (59%) for the nine-month period, and they represented 23.1% of consolidated net revenues, which was down 12.1 points from the prior year. Commission expense was down 65% due to the lower placement service revenues and lower commissionable profits, while recruitment advertising expense was 44% lower than last year. Selling expenses were a lower percentage of consolidated net revenues because of the shift in mix of revenues toward contract services.

General and administrative expenses decreased \$1,592,000 (16%) for the year to date, and they represented 55.7% of consolidated net revenues. This was up 14.3 points from the same period last year. Compensation in the operating divisions decreased 20% due to a reduction in the size of the consulting staff, office operating costs declined 35% due to fewer offices, and bad debt expense was 60% lower due to the lower volume of business this year. All other general and administrative expenses were down 2%.

## Other Items

The effect of lower revenues resulted in a loss from operations

of \$3,727,000 for the year to date, compared with a loss from operations of \$1,203,000 for the same period last year.

Interest income was down \$345,000 (78%) for the period, due to a combination of lower average funds available for investment and lower average interest rates.

The effective income tax rate was 38% for the year to date, compared with 37% for the same period last year.

After interest and taxes, the net loss for the year to date was \$2,255,000, compared with a net loss of \$481,000 the prior year.

#### Financial Condition

Although the first nine months of fiscal 2002 was a difficult period, the Company's financial condition remained strong. As of June 30, 2002, the Company had cash and short-term investments of \$5,361,000. This was a decrease of \$2,427,000 from September 30, 2001. Net working capital at June 30, 2002 was \$7,572,000, which was a decrease of \$1,872,000 compared with last September, and the current ratio was 4.6 to 1.

During the nine months ended June 30, 2002, the net cash used by operating activities was \$2,233,000, which was primarily due to the \$2,255,000 net loss. The Company paid \$207,000 for the first of three annual earn out payments under the agreement to purchase GenTech. As part of the Company's cash conservation measures, capital expenditures were limited to \$27,000 for the period, and there were no cash dividends paid.

All of the Company's office facilities are leased through operating leases that are not included on the balance sheet. Information about future minimum lease payments is presented in the notes to the consolidated financial statements contained in the Company's annual report on Form 10-K for the year ended September 30, 2001.

As of June 30, 2002, the Company had no debt outstanding, and there were no off-balance sheet arrangements, commitments or guarantees of other parties, except as disclosed in the notes to the consolidated financial statements. Shareholders' equity at that date was \$10,857,000, which represented 84% of total assets.

#### 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 slowdown in the U.S. economy throughout the 2001 calendar year had an adverse effect on the Company's results of operations. Although the U.S. economy showed some improvement during the nine months ended June 30, 2002, the Company experienced continued weakness in the demand for its placement services.

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 business spending on computer equipment and software, leading to a rebound in the technology sector of the economy.

On a sequential basis, the Company's consolidated net revenues in the third quarter of fiscal 2002 declined 8% from the second quarter and management believes that the Company's revenues may be near the bottom of the business cycle. The Company's current priority is to minimize the impact of the economy, to return the Company to profitability as soon as possible, and to be positioned for growth when the demand for its services returns.

The Company's primary source of liquidity is its operating activities. Despite recent losses, management believes that existing cash and securities will be adequate to finance current operations for the foreseeable future.

#### Forward-Looking Statements

As a matter of policy, the Company does not provide forecasts of future financial performance. However, the Company and its representatives may from time to time make written or verbal forward-looking statements, including statements contained in press announcements, reports to shareholders and filings with the Securities and Exchange Commission. All statements which address expectations about future operating performance and cash flows, future events and business developments, and future economic conditions are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. This includes statements relating to business expansion plans, expectations about revenue and earnings, and general assessments about the future. 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.

## PART II - OTHER INFORMATION

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

The Company filed no reports on Form 8-K during the quarter.

## SIGNATURES

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

GENERAL EMPLOYMENT ENTERPRISES, INC.  
(Registrant)

Date: August 2, 2002 By: /s/ Kent M. Yauch  
Kent M. Yauch  
Vice President, Chief Financial Officer  
and Treasurer  
(Principal financial and accounting officer)