

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

FORM 10-QSB

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

For the quarterly period ended June 30, 2006

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 small business issuer 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 2200, Oakbrook Terrace, Illinois 60181  
(Address of principal executive offices)

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

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

Note - Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

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

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

The number of shares outstanding of the issuer's common stock as of June 30, 2006 was 5,148,265.

Transitional small business disclosure format: Yes  No

PART I - FINANCIAL INFORMATION

Item 1, Financial Statements.

GENERAL EMPLOYMENT ENTERPRISES, INC.  
CONSOLIDATED BALANCE SHEET

	June 30 2006	September 30 2005
(In Thousands)	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$5,544	\$5,236
Accounts receivable, less allowances		

(Jun. 2006--\$359; Sept. 2005--\$270)	2,068	2,028
Other current assets	565	468
Total current assets	8,177	7,732
Property and equipment, net	735	632
Total assets	\$8,912	\$8,364

#### LIABILITIES AND SHAREHOLDERS' EQUITY

##### Current liabilities:

Accrued compensation	\$1,796	\$1,834
Other current liabilities	563	680
Total current liabilities	2,359	2,514

##### Shareholders' equity:

Preferred stock, authorized -- 100 shares; issued and outstanding -- none	--	--
Common stock, no-par value; authorized -- 20,000 shares; issued and outstanding -- 5,148 shares	4,839	4,839
Retained earnings	1,714	1,011
Total shareholders' equity	6,553	5,850
Total liabilities and shareholders' equity	\$8,912	\$8,364

See notes to consolidated financial statements.

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

	Three Months		Nine Months	
	Ended June 30		Ended June 30	
(In Thousands, Except Per Share)	2006	2005	2006	2005
Net revenues:				
Contract services	\$2,566	\$3,011	\$ 7,889	\$ 8,741
Placement services	2,755	2,308	7,145	6,212
Net revenues	5,321	5,319	15,034	14,953
Operating expenses:				
Cost of contract services	1,848	2,133	5,606	6,193
Selling	1,664	1,403	4,354	3,814
General and administrative	1,453	1,548	4,509	4,604
Total operating expenses	4,965	5,084	14,469	14,611
Income from operations	356	235	565	342
Investment income	44	24	138	57
Net income	\$ 400	\$ 259	\$ 703	\$ 399
Average number of shares:				
Basic	5,148	5,143	5,148	5,140
Diluted	5,313	5,283	5,340	5,361
Net income per share:				
Basic	\$ .08	\$ .05	\$ .14	\$ .08

Diluted \$ .08 \$ .05 \$ .13 \$ .07

See notes to consolidated financial statements.

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

(In Thousands)	Nine Months Ended June 30	
	2006	2005
Operating activities:		
Net income	\$ 703	\$ 399
Depreciation and other noncurrent items	120	200
Accounts receivable	(40)	(88)
Accrued compensation and payroll taxes	(38)	460
Other current items, net	(214)	(521)
Net cash provided by operating activities	531	450
Investing activities:		
Acquisition of property and equipment	(223)	(51)
Financing activities:		
Exercises of stock options	--	9
Increase in cash and cash equivalents	308	408
Cash and cash equivalents at beginning of period	5,236	4,437
Cash and cash equivalents at end of period	\$5,544	\$4,845

See notes to consolidated financial statements.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

### Basis of Presentation

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-QSB. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. This financial information should be read in conjunction with the financial statements included in the Company's annual report on Form 10-KSB for the year ended September 30, 2005.

### Income Taxes

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

### Commitments

As of June 30, 2006, the Company had contractual obligations to purchase approximately \$620,000 of recruitment advertising through December 2007.

## 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 June 30, 2006, the Company operated 20 branch offices located in 10 states.

The Company's business is highly dependent on national employment trends in general and on the demand for professional staff in particular. As an indicator of employment conditions, the national unemployment rate was 4.6% in June 2006 and 5.0% in June 2005. The change indicates a trend toward fuller employment over the last twelve months.

During the nine months ended June 30, 2006, the Company experienced stronger demand for its placement services, but weaker demand for its contract services, compared with the same period last year. These conditions led to an increase in the number of placements, while billable contract hours decreased. Increased emphasis on higher-paid contract positions resulted in a higher average hourly billing rate for contract services this year.

Consolidated net revenues for the nine months ended June 30, 2006 were up 1% compared with the prior year. Contract service revenues were down 10%, while placement service revenues were up 15%. As a result of the change in mix of revenues, the Company achieved a 76% increase in consolidated net income, which was \$703,000 this year compared with \$399,000 the prior year.

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

The Company had net cash flow of \$308,000 for the nine-month period, and the balance of cash and cash equivalents increased to \$5,544,000 as of June 30, 2006.

## Results of Operations

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

	Nine Months Ended June 30	
	2006	2005
Net revenues:		
Contract services	52.5%	58.5%
Placement services	47.5	41.5
Net revenues	100.0	100.0
Operating expenses:		
Cost of contract services	37.3	41.4
Selling	29.0	25.5
General and administrative	30.0	30.8
Total operating expenses	96.2	97.7
Income from operations	3.8%	2.3%

## Net Revenues

Consolidated net revenues for the nine months ended June 30, 2006 were up \$81,000 (1%) from the prior year. Contract service revenues decreased \$852,000 (10%) during the period, while placement service revenues increased \$933,000 (15%).

The decrease in contract service revenues was due to a 17% decrease in the number of billable hours, which was partially offset by an 8% increase in the average hourly billing rate. Placement service revenues were up for the period because of a 14% increase in the number of placements.

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## Operating Expenses

Total operating expenses for the nine months ended June 30, 2006 were down \$142,000 (1%) compared with the prior year.

The cost of contract services was down \$587,000 (9%), as a result of the lower volume of contract business. The gross profit margin on contract business was 28.9% for the period, which was slightly lower than 29.1% for the prior year. There are no direct costs associated with placement service revenues.

Selling expenses increased \$540,000 (14%) for the period, due to higher commission expense resulting from the higher placement service revenues. Selling expenses represented 29.0% of consolidated net revenues, which was up 3.5 points from the prior year because of the change in revenue mix.

General and administrative expenses decreased \$95,000 (2%) for the nine months ended June 30, 2006. Compensation in the operating divisions decreased 9% for the period, due to lower advances resulting from the higher commission expense, and all other general and administrative expenses were up 1%. General and administrative expenses represented 30.0% of consolidated revenues, about the same as the prior year.

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

#### Financial Condition

As of June 30, 2006, the Company had cash and cash equivalents of \$5,544,000, which was an increase of \$308,000 from September 30, 2005. Net working capital at June 30, 2006 was \$5,818,000, which was an increase of \$600,000 from September 30, 2005, and the current ratio was 3.5 to 1. The Company had no long-term debt. Shareholders' equity as of June 30, 2006 was \$6,553,000, which represented 74% of total assets.

During the nine months ended June 30, 2006, the net cash provided by operating activities was \$531,000. Net income for the period, together with depreciation and other non-cash charges, provided \$823,000, while working capital items used \$292,000. Cash used for the acquisition of property and equipment during the period was \$223,000.

During fiscal 2006, the Company initiated a program to upgrade its operational and administrative computer systems. Capital expenditures for the year to date consisted primarily of computer equipment and software purchased in connection with this program. As of June 30, 2006, the Company expected to spend approximately \$400,000 through September 2007 for additional computer equipment and related costs to complete this program.

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

#### Off-Balance Sheet Arrangements

As of June 30, 2006, and during the nine 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. 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 qualified personnel for regular full-time placement and contract assignments, the possibility of incurring liability for the Company's business activities, including the activities of its contract employees and events affecting its contract employees on client premises, and the ability to attract and retain qualified corporate and branch management.

#### Item 3, Controls and Procedures.

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

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

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## 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 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.

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GENERAL EMPLOYMENT ENTERPRISES, INC.  
(Registrant)

Date: August 4, 2006

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



CERTIFICATION

I, Herbert F. Imhoff, Jr., certify that:

1. I have reviewed this Form 10-QSB quarterly report for the period ended June 30, 2006 of General Employment Enterprises, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: August 4, 2006                      /s/ Herbert F. Imhoff, Jr.  
Herbert F. Imhoff, Jr.  
Chairman of the Board, Chief

Executive Officer, and President  
(Principal executive officer)

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CERTIFICATION

I, Kent M. Yauch, certify that:

1. I have reviewed this Form 10-QSB quarterly report for the period ended June 30, 2006 of General Employment Enterprises, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the small business issuer as of, and for, the periods presented in this report;
4. The small business issuer's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the small business issuer and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the small business issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the small business issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the small business issuer's internal control over financial reporting that occurred during the small business issuer's most recent fiscal quarter (the small business issuer's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the small business issuer's internal control over financial reporting; and

5. The small business issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the small business issuer's auditors and the audit committee of the small business issuer's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the small business issuer's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the small business issuer's internal control over financial reporting.

Date: August 4, 2006

/s/ Kent M. Yauch  
Kent M. Yauch  
Vice President, Chief Financial

Officer and Treasurer  
(Principal financial officer)

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CERTIFICATIONS PURSUANT TO SECTION 1350  
OF CHAPTER 63 OF TITLE 18 OF THE UNITED STATES CODE

In connection with the Quarterly Report of General Employment Enterprises, Inc. (the "Company") on Form 10-QSB for the quarter ended June 30, 2006 filed with the Securities and Exchange Commission (the "Report"), each of the undersigned hereby certifies, in his capacity as an officer of the Company, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of the operations of the Company.

Date: August 4, 2006                      By: /s/ Herbert F. Imhoff, Jr.  
Herbert F. Imhoff, Jr.  
Chairman of the Board, Chief  
Executive Officer and President  
(Chief executive officer)

Date: August 4, 2006                      By: /s/ Kent M. Yauch  
Kent M. Yauch  
Vice President, Chief Financial  
Officer and Treasurer  
(Chief financial officer)