SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 1999

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 No. 0-18492

TEAMSTAFF, INC.
(Exact name of registrant as specified in its charter)

New Jersey	22-1899798
State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
300 Atrium Drive, Somerset, NJ	08873
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (732)748-1700
DIGITAL SOLUTIONS, INC.

Former name, former address and former fiscal year, if changed since last report.

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 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 X No

27,930,160 shares of Common Stock, par value $.001 per share, were outstanding as of July 26, 1999.

TEAMSTAFF, INC. AND SUBSIDIARIES
FORM 10-Q

June 30, 1999

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TEAMSTAFF, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	JUNE 30, 1999 (unaudited)	SEPTEMBER 30, 1998
ASSETS		
CURRENT ASSETS		
Cash	$ 1,824,000	$ 1,530,000
Restricted Cash	350,000	--
Accounts receivable, net of allowance	9,260,000	6,891,000
Current deferred tax asset	1,008,000	380,000
Other current assets	595,000	311,000
Total current assets	13,037,000	9,112,000
EQUIPMENT AND IMPROVEMENTS		
Equipment	3,908,000	3,336,000
Leasehold improvements	144,000	47,000
	4,052,000	3,383,000
Accumulated depreciation and amortization	3,298,000	2,591,000
	754,000	792,000
DEFERRED TAX ASSET	714,000	1,782,000
GOODWILL, net of amortization	17,042,000	4,096,000
OTHER ASSETS	623,000	866,000
TOTAL ASSETS	$32,170,000	$16,648,000

The accompanying notes to consolidated financial statements are an integral part of these consolidated balance sheets.

TEAMSTAFF, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	JUNE 30, 1999 (unaudited)	SEPTEMBER 30, 1998
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Current portion of long-term debt	$ 1,037,000	$ 540,000
Accounts payable	2,245,000	1,792,000
Accrued expenses and other current liabilities	7,546,000	3,461,000
Total current liabilities	10,828,000	5,793,000
LONG-TERM DEBT	4,761,000	2,981,000
Total Liabilities	15,589,000	8,774,000
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Common Stock, $.001 par value; authorized 40,000,000 shares; issued and outstanding 27,930,160 at June 30, 1999 and 19,356,833 at September 30, 1998	28,000	19,000
Additional paid-in capital	21,040,000	13,692,000
Accumulated deficit	(4,487,000)	(5,837,000)
Total shareholders' equity	16,581,000	7,874,000
TOTAL LIABILITIES AND EQUITY	$ 32,170,000	$ 16,648,000

The accompanying notes to consolidated financial statements are an integral part of these consolidated balance sheets.

TEAMSTAFF, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	FOR THE THREE MONTHS ENDED JUNE 30, 1999	1998
REVENUES	$ 70,747,000	$ 35,885,000
DIRECT EXPENSES	65,971,000	33,182,000
Gross profit	4,776,000	2,703,000
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	3,227,000	2,059,000
DEPRECIATION AND AMORTIZATION	353,000	163,000
Income from operations	1,196,000	481,000
OTHER INCOME (EXPENSE)		
Interest and other income	84,000	14,000
Interest expense	(340,000)	(173,000)
	(256,000)	(159,000)
Income before tax	940,000	322,000
INCOME TAX (EXPENSE) BENEFIT	(451,000)	1,470,000
NET INCOME	$ 489,000	$ 1,792,000
BASIC EARNINGS PER COMMON SHARE	$ 0.02	$ 0.09
WEIGHTED AVERAGE SHARES OUTSTANDING	27,930,160	19,298,010
DILUTED EARNINGS PER COMMON SHARE	$ 0.02	$ 0.09
DILUTED SHARES OUTSTANDING	28,017,660	19,548,671

The accompanying notes to consolidated financial statements are an integral part of these consolidated statements.

TEAMSTAFF, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	FOR THE NINE MONTHS JUNE 30,	
	1999	1998
REVENUES	$ 165,694,000	$ 102,122,000
DIRECT EXPENSES	154,314,000	94,588,000
Gross profit	11,380,000	7,534,000
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	8,245,000	5,677,000
DEPRECIATION AND AMORTIZATION	824,000	502,000
Income from operations	2,311,000	1,355,000
OTHER INCOME (EXPENSE)		
Interest and other income	289,000	37,000
Interest expense	(803,000)	(366,000)
	(514,000)	(329,000)
Income before tax	1,797,000	1,026,000
INCOME TAX (EXPENSE) BENEFIT	(446,000)	1,470,000
NET INCOME	$ 1,351,000	$ 2,496,000
BASIC EARNINGS PER COMMON SHARE	$ 0.06	$ 0.13
WEIGHTED AVERAGE SHARES OUTSTANDING	23,949,375	19,263,097
DILUTED EARNINGS PER COMMON SHARE	$ 0.06	$ 0.13
DILUTED SHARES OUTSTANDING	24,136,281	19,504,058

The accompanying notes to consolidated financial statements are an integral part of these consolidated statements.

TEAMSTAFF, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	FOR THE NINE MONTHS ENDED JUNE 30, 1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,351,000	$ 2,496,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	824,000	502,000
Provision for doubtful accounts	144,000	69,000
Deferred income taxes	440,000	(1,470,000)
Changes in operating assets and liabilities:		
Increase in restricted cash	(350,000)	--
Decrease in accounts receivable	164,000	827,000
Decrease (increase) in other current assets	415,000	(499,000)
Decrease in other assets	173,000	--
Decrease in accounts payable, accrued expenses and other current liabilities	(765,000)	(1,865,000)
Net cash provided by operating activities	2,396,000	60,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of TeamStaff Companies	(4,331,000)	--
Purchase of equipment and improvements	(96,000)	(84,000)
Net cash used in investing activities	(4,427,000)	(84,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long term debt	2,500,000	2,500,000
Proceeds from revolving line of credit	1,015,000	1,100,000
Proceeds from bridge loan	750,000	--
Repayments on long term debt	(541,000)	(42,000)
Repayments on revolving line of credit	(663,000)	(2,697,000)
Repayments on bridge loan	(750,000)	--
Payments under capital lease obligations	(33,000)	(122,000)
Proceeds from issuance of common stock and exercise of common stock options and warrants	47,000	250,000
Net cash provided by financing activities	2,325,000	989,000
Net increase in cash	294,000	965,000
CASH AT BEGINNING OF PERIOD	1,530,000	841,000
CASH AT END OF PERIOD	$ 1,824,000	$ 1,806,000
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	$ 469,000	$ 276,000
Cash paid during the period for taxes	$ 260,000	$ 12,000

The accompanying notes to consolidated financial statements are an integral part of these consolidated statements.

TEAMSTAFF, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) ORGANIZATION AND BUSINESS

TeamStaff, Inc., formerly Digital Solutions, Inc. (the "Company"), a New Jersey Corporation, with its subsidiaries, provides a broad spectrum of human resource services including professional employer services, payroll processing, human resource administration and placement of temporary and permanent employees. The Company has regional offices in Somerset, New Jersey; Houston, Texas; and Tampa and Clearwater, Florida and sales service centers in New York, New York; El Paso and Houston, Texas; Tampa and Clearwater, Florida; and Somerset, New Jersey.

Effective January 25, 1999, the Company acquired the ten entities operating under the trade name, the TeamStaff Companies. In conjunction with the acquisition, the Company changed its name from Digital Solutions, Inc, to TeamStaff, Inc. on February 10, 1999. The financial data and discussions contained in this Form 10-Q reflect the acquisition for the period from January 25 to June 30, 1999.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION-

The consolidated financial statements included herein have been prepared by the registrant, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the registrant believes that the disclosures are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's latest annual report on Form 10-K. This financial information reflects, in the opinion of management, all adjustments necessary to present fairly the results for the interim periods. The results of operations for such interim periods are not necessarily indicative of the results for the full year.

The accompanying consolidated financial statements include those of TeamStaff Inc., a New Jersey Corporation and its wholly-owned subsidiaries; TeamStaff Solutions, Inc., DSI Staff ConnXions - Northeast, Inc., DSI Staff ConnXions Southwest, Inc., TeamStaff Rx., Inc, TeamStaff I, Inc, TeamStaff II, Inc., TeamStaff III, Inc., TeamStaff IV, Inc., TeamStaff V, Inc., TeamStaff VI, Inc., TeamStaff Insurance, Inc., TeamStaff VII, Inc., TeamStaff VIII, Inc. and TeamStaff IX, Inc. The results of operations of acquired companies have been included in the consolidated financial statements from the date of acquisition. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

NEW ACCOUNTING PRONOUNCEMENTS-

In June 1997, the FASB issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"). SFAS 131 establishes standards for the way public enterprises are to report information about operating segments in interim financial statements and requires the reporting of selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas and major customers. SFAS 131 is effective for fiscal periods beginning after December 15, 1997, at which time the Company will adopt the provisions. The Company does not expect SFAS 131 to have a material effect on reported results.

EARNINGS PER SHARE-

In February 1997, the FASB issued Statement on Financial Accounting Standards Number 128, "Earnings Per Share" ("SFAS No. 128"), which requires the presentation of basic earnings per share ("Basis EPS") and diluted earnings per share ("Diluted EPS"). Basic EPS is calculated by dividing income available to common shareholders by the weighted average number of shares of common stock outstanding during the period. Diluted EPS is calculated by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period adjusted to reflect potentially dilutive securities.

In accordance with SFAS 128, the following table reconciles net income and share amounts used to calculate basic earnings per share and diluted earnings per share:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	1999	1998	1999	1998
Numerator:				
Net income	$ 489,000	$ 1,792,000	$ 1,351,000	$ 2,496,000
Denominator:				
Weighted average number of common shares outstanding- basic	27,930,160	19,298,010	23,949,375	19,263,097
Incremental shares for assumed conversions of stock options/warrants	87,500	250,661	186,906	240,961
Weighted average number of common and equivalent shares outstanding-diluted	28,017,660	19,548,671	24,136,281	19,504,058
Earnings per share-basic	$ 0.02	$ 0.09	$ 0.06	$ 0.13
Earnings per share-diluted	$ 0.02	$ 0.09	$ 0.06	$ 0.13

Stock options and warrants outstanding at June 30, 1999 to purchase 1,087,879 shares of common stock were not included in the computation of Diluted EPS as they were antidilutive.

(3) INCOME TAXES:

At June 30, 1999, the Company had available operating loss carryforwards of approximately $4,378,000 to reduce future periods' taxable income. The carryforwards expire in various years beginning in 2004 and extending through 2012.

The Company has recorded a $1,722,000 and a $2,162,000 deferred tax asset at June 30, 1999 and September 30, 1998, respectively. This represents management's estimate of the income tax benefits to be realized upon utilization of its net operating losses as well as temporary differences between the financial statement and tax bases of certain assets and liabilities, for which management believes utilization to be more likely than not. Management believes the Company's operations can generate sufficient taxable income to realize this deferred tax asset as a result of recent business developments as well as its ability to meet its operating plan.

(4) DEBT:

On April 29, 1998, the Company was successful in replacing a former credit facility with a new long-term credit facility from FINOVA Capital Corporation totaling $4,500,000. Substantially all assets of the Company secure the credit facility. The facility includes a three-year term loan for $2,500,000, with a five year amortization, and a balloon payment at the end of three years at prime plus 3% (10.75% as of June 30, 1999) and a $2 million revolving line of credit secured by certain accounts receivable of the Company at prime plus 1% (8.75% as of June 30, 1999). The credit facility is also subject to success fees of $200,000, $225,000 and $250,000 due on the anniversary date of the loan. Taking these fees into consideration, and assuming the full continuous utilization of the revolver, the effective rate of interest on the total borrowings is approximately 16.1%. The credit facility is subject to certain covenants including but not limited to a minimum current ratio, debt to net worth ratio, a minimum net worth and a minimum debt service coverage ratio, as defined. On April 27, 1999, the Company remitted the first annual success fee of $200,000.

The Company received an increase of its present lending facility from FINOVA Capital Corporation in order to fund the TeamStaff acquisition. The facility is comprised of (i) a three-year term loan, with a five year amortization, and a balloon payment at the end of three years, in the amount of $2,500,000; (ii) a one year bridge loan in the amount of $750,000 and (iii) an increase in the Company's revolving line of credit from $2,000,000 to $2,500,000. The term loan bears an interest rate of prime plus 3 % (10.75% as of June 30, 1999) and the bridge loan bears an interest rate of 12% at June 30, 1999. In addition, the Company will incur success fees of $200,000, $225,000 and $250,000 due on the anniversary dates of the additional loan. The credit facility is subject to certain covenants including but not limited to a debt to net worth ratio, a minimum net worth and a minimum debt service coverage ratio, as defined. On May 27, 1999 the Company retired the bridge loan by a cash payment of $500,000 and a $250,000 increase in TeamStaff's revolving credit line.

(5) ACQUISITION OF THE TEAMSTAFF COMPANIES

On January 25, 1999 TeamStaff, Inc., formerly Digital Solutions, Inc., completed the acquisition of the Teamstaff Companies through the issuance of 8,233,334 shares of TeamStaff, Inc. common stock and $3.2 million in cash in exchange for all capital stock of the TeamStaff Companies and for the repayment of debt. TeamStaff, Inc. also incurred $1.3 million for certain legal, accounting and investment banking expenses. The acquisition has been accounted for under the purchase method and the results of the operations of the acquired companies have been included in the consolidated financial statements since the date of the acquisition. The purchase price is being allocated based on the estimated fair value at the date of the acquisition. The application of the purchase method of accounting resulted in approximately $13.3 million in excess of purchase price over net tangible assets acquired. Based on a preliminary analysis by TeamStaff, Inc. the excess of the purchase price over the net tangible assets acquired is expected to be allocated to goodwill and other intangible assets which will be amortized up to 25 years.

The following unaudited pro forma information presents a summary of consolidated results of operations of the Company and the acquired companies as if the acquisition had occurred October 1, 1997.

	Nine Months Ended June 30,	
	1999	1998
Net sales	$200,285,000	$181,057,000
Net income	$ 928,000	$ 2,042,000
Earnings per common share - basic	$ 0.03	$ 0.07
Earnings per common share - diluted	$ 0.03	$ 0.07

(6) CONTINGENCIES

As previously discussed, several of the entities operating under the trade name "the TeamStaff Companies" which were acquired by the Company in January, 1999 are part of a class of defendants in a proceeding stemming from the failure of the United States Employer Consumer Self Insurance Fund of Florida ("USEC") in 1995. Several of the TeamStaff Companies had been members of USEC, which was a self insurance fund for workers compensation. USEC was declared insolvent in 1995. The action is entitled In Re: The Receivership of United States Employer Consumer Self Insurance Fund of Florida, Case No. 95-2359 (Fla 2nd Cir Ct), and was brought by the Florida Department of Insurance as the receiver of the Fund against all professional employer organizations and similar companies who have been members of USEC. The class of defendants is comprised of approximately 60 companies, and the Florida Department of Insurance has alleged various assessments against the class, and has recently claimed there are approximately $22,000,000 in unpaid assessments against the class. Several class members, including the TeamStaff Companies, have filed appeals in the matter disputing the methods and calculations put forth by the Department of Insurance, as well as the issue of joint and several liability.

Certain other members of the class of defendants have negotiated settlements with the receiver which settlements have been settled at approximately 40%-50% of the original assessment brought by the receiver against the individual defendants. The original assessment brought by the receiver in 1996 against the TeamStaff Companies was approximately $1,100,000, which the TeamStaff Companies have disputed.

Because of management's knowledge of the USEC proceedings and amount of potential assessments at the time of acquisition, the acquisition agreements governing the Company's acquisition of the TeamStaff Companies provide indemnification by the sellers in favor of the Company for damages of up to approximately $1,222,000. The financial settlements of the TeamStaff Companies at the time of acquisition included a reserve of approximately $390,000, which continues on the Company's consolidated financials.

The Company is currently discussing a settlement with the receiver. The Company and the receiver have not agreed to the terms of any settlement, and there can be no assurance that a settlement will be agreed upon, or that the settlement will be upon terms similar to those previously entered into by the receiver with other class members.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Certain statements contained herein constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "1995 Reform Act"). TeamStaff, Inc. desires to avail itself of certain "safe harbor" provisions of the 1995 Reform Act and is therefore including this special note to enable the Company to do so. Forward-looking statements included in this report involve known and unknown risks, uncertainties, and other factors which could cause the Company's actual results, performance (financial or operating) or achievements to differ from the future results, performance (financial or operating) achievements expressed or implied by such forward-looking statements. Such future results are based upon management's best estimates based upon current conditions and the most recent results of operations. These risks include, but are not limited to, risks associated with the Company's risks of current as well as future acquisitions, effects of competition and technological changes and dependence upon key personnel.

The Company's revenues for the three months ended June 30, 1999 and 1998 were $70,747,000 and $35,885,000, respectively, which represents an increase of $34,862,000 or 97.1%. For the nine months ended June 30, 1999 and 1998, the Company's revenues were $165,694,000 and $102,122,000, respectively, which represents an increase of $63,572,000 or 62.3%. Of this increase, $51,431,000 was due to the acquisition of the TeamStaff Companies with the balance due to internal growth.

Direct expenses were $65,971,000 for the three months ended June 30, 1999 and $33,182,000 for the comparable period last year, representing an increase of $32,789,000 or 98.8%. As a percentage of revenue, direct expenses for the three months ended June 30, 1999 and 1998 were 93.3% and 92.5%. For the nine months ended June 30, 1999 and 1998, direct expenses increased $59,726,000 or 63.1%, from $94,588,000 to $154,314,000, respectively. These increases represent the increase in revenue associated with the acquisition. As a percentage of revenue, direct expenses for the nine months ended June 30, 1999 and 1998 were 93.1% and 92.6%.

Gross profits were $4,776,000 and $2,703,000 for the quarters ended June 30, 1999 and 1998, respectively, an increase of $2,073,000 or 76.7%. Gross profits, as a percentage of revenue, were 6.8% and 7.5% for the quarters ended June 30, 1999 and 1998, respectively, reflecting the increase in the PEO business due to the acquisition. Gross profits were $11,380,000 and $7,534,000 for the nine months ended June 30, 1999 and 1998, respectively, representing an increase of $3,846,000 or 51.0%. Gross profits, as a percentage of revenue, were 6.9% and 7.4% for the nine months ended June 30, 1999 and 1998. Although a substantial portion of our revenue growth occurred in the PEO line of business, which has lower margins, the gross profit as a percentage of revenue declined only marginally because of improved performance and increases in the other business lines.

Selling, general and administrative "SG&A" expenses for the quarters ended June 30, 1999 and 1998 were $3,227,000 and $2,059,000, respectively, representing an increase of $1,168,000 or 56.7%. This increase is primarily attributed to the TeamStaff Companies acquisition. SG&A expenses as a percentage of revenue, were 4.6% and 5.7% for the quarters ended June 30, 1999 and 1998, respectively. SG&A expenses for the nine months ended June 30, 1999 and 1998 were $8,245,000 and $5,677,000, respectively, representing an increase of $2,568,000 or 45.2%. This increase is similarly attributed to the TeamStaff Companies acquisition. SG&A expenses as a percentage of revenue, were 5.0% and 5.6% for the nine months ended June 30, 1999 and 1998, respectively.

Depreciation and amortization for the quarters ended June 30, 1999 and 1998 increased to $353,000 from $163,000, respectively, or $190,000. The increase is reflective of the amortization of the goodwill related to the acquisition of the TeamStaff Companies. Depreciation and amortization for the nine months ended June 30, 1999 and 1998 increased to $824,000 from $502,000, respectively, or $322,000. The increase is primarily attributed to the additional amortization expense related to the acquisition of the TeamStaff Companies.

Interest expense for the quarter ended June 30, 1999 increased $167,000 to $340,000 from $173,000 in the corresponding period in 1998 due to an increase in debt financing and in the effective borrowing rate associated with the Company's new financing arrangements, effective in April, 1998, as well as the additional debt associated with the TeamStaff acquisition. Interest expense for the nine months ended June 30, 1999 increased $437,000 to $803,000 from $366,000 in the nine months ended June 30, 1998. This increase is due to the same reason as the increase in the three month period.

Income taxes for the quarter ended June 30, 1999 reflected a tax expense of $451,000 versus a tax benefit of $1,470,000 in the same quarter last year, relating to a reduction in the Company's valuation allowance. For the nine months ended June 30, 1999, the tax expense was $446,000 versus a tax benefit of $1,470,000 in the nine months of the same period of last year. Included in the second quarter of fiscal 1999 is a $400,000 net tax benefit reflecting the elimination of a deferred tax valuation allowance. Management has determined that is more likely than not that all the deferred tax asset will be realized in the future. Management has considered the consistent nine quarters of profitability as well as the current integration of the TeamStaff Companies. In fiscal 1998, the Company reduced the valuation allowance, leaving a balance at September 30, 1998 of $400,000.

Net income for the quarter ended June 30, 1999 was $489,000 versus a net income of $1,792,000 for the similar period in 1998. This decrease in net income of $1,303,000 reflects a tax benefit of $1,470,000 in the 1998 period as compared to $451,000 tax expense in the same period of 1999 as discussed above. In addition, there was an increase in the Company's pre-tax income for the quarter of $618,000 which reflects the improved performance in all of the Company's business lines. Net income for the nine months ended June 30, 1999 was $1,351,000 as compared to $2,496,000, a decrease of $1,145,000 which can be attributed to the income tax benefit of $1,470,000 in the 1998 period as compared to $446,000 tax expense in the same period of 1999 as discussed above. There was an increase in the Company's pre-tax income of $771,000 which reflects the improved performance in all of the Company's business lines.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities improved in the first nine months of fiscal 1999 to $2,397,000 from net cash provided of $60,000 in the same period of fiscal 1998. The increase in cash flows from operations is attributable to the continued earnings improvement of the Company. The net cash provided by financing activities increased in the nine months ended June 30, 1999, compared to the nine months ended June 30, 1998 due to the increase in financing for the TeamStaff Companies acquisition. Cash outflow for the purchases of equipment and improvements was $96,000 in the nine months ended June 30, 1999 compared to $84,000 in the nine months ended June 30, 1998. Capital expenditures have been relatively stable over the last three fiscal years. At June 30, 1999, the Company had cash of $1,824,000, restricted cash of $350,000 and net accounts receivable of $9,260,000.

On April 29, 1998, the Company was successful in replacing the former credit facility with a new long-term credit facility from FINOVA Capital Corporation totaling $4.5 million. The credit facility includes a three-year term loan for $2.5 million, with a five-year amortization, at prime + 3% (10.75% at June 30, 1999) and a $2 million revolving line of credit secured by certain accounts receivable of the Company at prime + 1% (8.75% at June 30, 1999). The credit facility is also subject to success fees of $200,000, $225,000 and $250,000 due on the anniversary date of the loan beginning in April, 1999. Taking these fees into consideration and assuming the full continuous utilization of the revolver, the effective rate of interest on the total borrowings is approximately 16.1%. . On April 27, 1999, the Company remitted the first annual success fee of $200,000.

The Company received an increase of its lending facility from FINOVA Capital Corporation in order to fund the TeamStaff Companies acquisition. The facility is comprised of (i) a three-year term loan, with a five year amortization, and a balloon payment at the end of three years, in the amount of $2,500,000; (ii) a one year bridge loan in the amount of $750,000 and (iii) an increase in the Company's revolving line of credit from $2,000,000 to $2,500,000. The term loan bears an interest rate of prime + 3 %, the bridge loan bears a interest rate of prime + 1%. In addition, the Company will incur "success" fees of $200,000, $225,000 and $250,000 due on the anniversary dates of the loan. On May 27, 1999 the Company retired the bridge loan by a cash payment of $500,000 and a $250,000 increase in TeamStaff's revolving credit line. As a result of the early payment, the Company saved approximately $75,000 in fees and eliminated a 12 % debt instrument.

Management of the Company believes that its existing cash and available borrowing capacity will be sufficient to support cash needs through March 31, 2000.

Inflation and changing prices have not had a material effect on the Company's net revenues and results of operations in the last three fiscal years, as the Company has been able to modify its prices and cost structure to respond to inflation and changing prices.

YEAR 2000 ISSUE

The year 2000 issue is the programming of computer systems to recognize the values "00" in a date field as the year 2000 and not the year 1900. The Company began steps in 1997 to reasonably ensure that the software it utilizes will be year 2000 compliant. The Company has evaluated the Year 2000 readiness of the hardware and software products used by the Company. The Company's assessment covered the following phases: (1) identification of all Products, IT Systems, and non-IT Systems, such as building security and voice mail; (2) assessment of repair or replacement requirements; (3) testing and (4) implementation. The assessment and the first phases of testing and implementation were completed in fiscal 1998. The replacement, final testing and implementation were completed in June of 1999. The costs of these modifications have not had any material impact on the Company's financial position. However, the assessment of whether a complete system or device will operate correctly depends in large part on the Year 2000 compliance of the product or system's other components, many of which are supplied by parties other than the Company. The supplier of the Company's current financial and accounting software has informed the Company that such software is Year 2000 compliant. Further, the Company relies on various vendors, utility companies, telecommunication service companies, delivery service companies and other service providers who are outside of the Company's control. There is no assurance that such parties will not suffer Year 2000 business disruption, which could impact the Company's financial condition and results of operations.

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company's subsidiary, DSI Staff Connxions-Southwest, Inc., is the defendant in a suit (Frederico Farias v. Thomson Consumer Electronics and DSI Staff Connxions-Southwest, Inc.; 327th Judicial District Case No. 96-3036; District Court of El Paso County, Texas) whereby a former leased employee of a client obtained a judgment against the Company during August, 1998 in the amount of $315,000 including interest. The judgment includes approximately $115,000 in compensatory damages and $200,000 in punitive damages. The Company has posted a bond for the full amount of the judgment and is appealing the judgment. Management of the Company, after consultation with counsel, believes that there is no basis for the awarding of punitive damages, and that the award of compensatory damages was based on insufficient evidence. Although there can be no assurances the Company will be successful in prosecuting the appeal, the management of the Company, after consultation with counsel, believes it will obtain a reversal of the judgment. If the Company is not successful with the appeal, the Company would record expense of $315,000.

The Company is also a defendant in a lawsuit (ASI Group, Inc. and Terri Munkirs v. Digital Solutions, Inc., George Eklund and Miriam H. Silverman; Superior Court of New Jersey, Law Division, Middlesex County, Docket No. 8906-97) which is currently pending in the Superior Court of New Jersey. This action was brought by a competitor of the Company in connection with the transfer of several former clients of the competitor to the Company. The parties recently agreed in principle to settle the suit. The Company will pay ASI approximately $22,000 to avoid ongoing litigation costs. The plaintiffs had submitted a calculation of damages of $300,000. Although there can be no assurances the Company will be successful in defending the claim, management of the Company, after consultation with counsel, believes it has meritorious defenses against the claim.

As previously disclosed, several of the entities operating under the trade name "the TeamStaff Companies" which were acquired by the Company in January, 1999 are part of a class of defendants in a proceeding stemming from the failure of the United States Employer Consumer Self Insurance Fund of Florida ("USEC") in 1995. Several of the TeamStaff Companies had been members of USEC, which was a self insurance fund for workers compensation. USEC was declared insolvent in 1995. The action is entitled Case No. 95-2359 (Fla 2nd Cir Ct), and was brought by the Florida Department of Insurance as the receiver of the Fund against all the professional employer organizations and similar companies who had been members of USEC. The class of defendants is comprised of approximately 60 companies, and the Florida Department of Insurance has alleged various assessments against the class, and has recently claimed there are approximately $22,000,000 in unpaid assessments against the class.

Several class members, including the TeamStaff Companies, have filed appeals in the matter disputing the methods and calculations put forth by the Department of Insurance, as well as the issue of joint and several liability.

Certain other members of the class of defendants have negotiated settlements with the receiver which settlements have been settled at approximately 40% - 50% of the original assessment brought by the receiver against the individual defendants. The original assessment by the receiver in 1996 against the TeamStaff Companies was approximately $1,100,000, which the TeamStaff Companies have disputed.

Because of management's knowledge of the USEC proceedings and amount of potential assessments at the time of acquisition, the acquisition agreements governing the Company's acquisition of the TeamStaff Companies provide indemnification by the sellers in favor of the Company for damages of up to approximately $1,222,000. The financial statements of the TeamStaff Companies at the time of acquisition included a reserve of approximately $390,000, which continues on the Company's consolidated financials.

The Company is currently discussing a settlement with the receiver. The Company and the receiver have not agreed to the terms of any settlement, and there can be no assurance that a settlement will be agreed upon, or that the settlement will be upon terms similar to those previously entered into by the receiver with other class members.

The Company is engaged in no other litigation, the effect of which would be anticipated to have a material adverse impact on the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

None

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.

TEAMSTAFF, INC.
(Registrant)

/s/ Donald W. Kappauf

Donald W. Kappauf
Chief Executive Officer

/s/ Donald T. Kelly

Donald T. Kelly
Chief Financial Officer

Date: August 11, 1999

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9-MOS
SEP-30-1999
OCT-01-1998
JUN-30-1999
1,824,000
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9,666,000
406,000
0
13,037,000
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(3,298,000)
32,170,000
10,828,000
0
(28,000)
0
0
(16,553,000)
32,170,000
0
165,699,000
0
154,314,000
0
(144,000)
803,000
1,797,000
446,000
1,351,000
0
0
0
1,351,000
.06
.06