SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended July 1, 2007
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: 1-6081

COMFORCE Corporation

(Exact name of registrant as specified in its charter)

Delaware	**36-2262248**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
415 Crossways Park Drive, P.O. Box 9006, Woodbury, New York	**11797**
(Address of principal executive offices)	(Zip Code)

(516) 437-3300
Registrant's telephone number, including area code

Not Applicable
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 ☒ No ☐

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

Yes ☐ No ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at August 1, 2007
Common stock, $.01 par value	17,385,550 shares

COMFORCE Corporation

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

COMFORCE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)
(unaudited)

	July 1, 2007	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 1,431	3,782
Accounts receivable, less allowance of $195 in 2007 and 2006	116,698	114,079
Funding and service fees receivable, less allowance of $81 in 2007 and 2006	12,721	13,170
Prepaid expenses and other current assets	3,856	3,863
Deferred income taxes, net	837	1,500
Total current assets	135,543	136,394
Deferred income taxes, net	1,030	263
Property and equipment, net	7,217	5,376
Deferred financing costs, net	582	765
Goodwill	32,073	32,073
Other assets, net	242	267
Total assets	$ 176,687	175,138
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	$ 1,631	3,281
Accrued expenses	96,144	100,768
Total current liabilities	97,775	104,049
Long-term debt (including related party debt of $1,581 in 2007 and $1,520 in 2006)	91,257	89,770
Other liabilities	1,027	34
Total liabilities	190,059	193,853
Commitments and contingencies		
Stockholders' deficit:		
Common stock, $.01 par value; 100,000,000 shares authorized; 17,385,550 and 17,370,551 shares issued and outstanding at July 1, 2007 and December 31, 2006, respectively	174	174
Convertible preferred stock, $.01 par value:		
Series 2003A, 6,500 shares authorized; 6,148 shares issued and outstanding at July 1, 2007 and December 31, 2006, with an aggregate liquidation preference of $8,158 at July 1, 2007 and $7,928 at December 31, 2006	4,304	4,304
Series 2003B, 3,500 shares authorized; 513 shares issued and outstanding at July 1, 2007 and December 31, 2006, with an aggregate liquidation preference of $657 at July 1, 2007 and $638 at December 31, 2006	513	513
Series 2004A, 15,000 shares authorized; 6,737 shares issued and outstanding at July 1, 2007 and December 31, 2006, with an aggregate liquidation preference of $8,031 at July 1, 2007 and $7,778 at December 31, 2006	10,264	10,264
Additional paid-in capital	48,339	48,190
Accumulated other comprehensive income	(107)	55
Accumulated deficit	(76,859)	(82,215)
Total stockholders' deficit	(13,372)	(18,715)
Total liabilities and stockholders' deficit	$ 176,687	175,138

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

COMFORCE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(in thousands except per share amounts)
(unaudited)

	Three Months Ended		Six Months Ended	
	July 1, 2007	June 25, 2006 (1)	July 1, 2007	June 25, 2006 (1)
Net sales of services	$ 149,696	$ 143,577	$ 291,299	$ 278,578
Costs and expenses:				
Cost of services	126,442	121,424	245,896	236,264
Selling, general and administrative expenses	18,530	17,086	36,485	33,373
Depreciation and amortization	702	814	1,339	1,550
Total costs and expenses	145,674	139,324	283,720	271,187
Operating income	4,022	4,253	7,579	7,391
Other income (expense):				
Interest expense	(2,015)	(2,484)	(4,049)	(4,930)
Loss on debt extinguishment	(424)	(18)	(424)	(18)
Other income (expense), net	297	218	340	200
	(2,142)	(2,284)	(4,133)	(4,748)
Income before income taxes	1,880	1,969	3,446	2,643
Provision for income taxes	806	962	1,458	1,391
Net income	$ 1,074	$ 1,007	$ 1,988	$ 1,252
Dividends on preferred stock	251	251	502	502
Net income available to common stockholders	$ 823	$ 756	$ 1,486	$ 750
Basic income per common share	$ 0.05	$ 0.04	$ 0.09	$ 0.04
Diluted income per common share	$ 0.03	$ 0.03	$ 0.06	$ 0.04
Weighted average common shares outstanding, basic	17,386	17,335	17,384	17,285
Weighted average common shares outstanding, diluted	32,165	31,319	31,899	26,755

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

(1) Revised for the adoption of SAB 108 effective December 26, 2005.

COMFORCE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(Unaudited)

	Six months Ended	
	July 1, 2007	June 25, 2006
Cash flows from operating activities:		
Net income	$ 1,988	1,252
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization of property and equipment	1,339	1,532
Amortization of intangible assets	-	18
Amortization of deferred financing fees	107	248
Net recoveries of bad debts	(7)	(40)
Deferred income taxes	-	77
Interest expense paid by the issuance of convertible notes	61	57
Loss on repurchase of Senior Notes	424	18
Tax benefit from stock option exercises	(4)	(121)
Share-based payment compensation expense	90	98
Changes in assets and liabilities:		
Accounts, funding and service fees receivable	(2,429)	(2,971)
Prepaid expenses and other assets	497	869
Accounts payable and accrued expenses	(3,435)	7,590
Income tax receivable	378	27
Net cash (used in) provided by operating activities	(991)	8,654
Cash flows from investing activities:		
Purchases of property and equipment	(2,457)	(1,299)
Net cash used in investing activities	(2,457)	(1,299)
Cash flows from financing activities:		
Net repayments under capital lease obligations	(41)	(6)
Net borrowings (repayments) under line of credit agreements	11,426	(5,077)
Repurchases of Senior Notes	(10,300)	(2,005)
Tax benefit from stock option exercises	4	121
Debt financing costs	(13)	-
Proceeds from exercise of stock options	21	169
Net cash provided by (used in) financing activities	1,097	(6,798)
Net (decrease) increase in cash and cash equivalents	(2,351)	557
Cash and cash equivalents at beginning of period	3,782	8,417
Cash and cash equivalents at end of period	$ 1,431	8,974
Supplemental disclosures:		
Cash paid for:		
Interest	$ 3,976	4,738
Income taxes	1,143	1,776
Supplemental schedule of significant non-cash financing activities:		
Capital lease obligations incurred for the purchase of new equipment	723	-

COMFORCE CORPORATION AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

COMFORCE Corporation ("COMFORCE") is a provider of outsourced staffing management services that enable Fortune 1000 companies and other large employers to consolidate, automate and manage staffing, compliance and oversight processes for their contingent workforces. The Company also provides specialty staffing, consulting and other outsourcing services to Fortune 1000 companies and other large employers for their healthcare support services, technical and engineering, information technology, telecommunications and other staffing needs.

The accompanying unaudited interim condensed consolidated financial statements of COMFORCE and its subsidiaries, including COMFORCE Operating, Inc. ("COI") (collectively, the "Company") have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in annual financial statements have been condensed or omitted pursuant to those rules and regulations. In the opinion of management, all adjustments, consisting of normal recurring adjustments considered necessary for a fair presentation, have been included. Management believes that the disclosures made are adequate to ensure that the information presented is not misleading; however, these financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the fiscal year ended December 31, 2006. The results for the three and six month periods ended July 1, 2007 are not necessarily indicative of the results of operations that might be expected for the entire year.

2. ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Some of the significant estimates involved are the collectibility of receivables, the fair value of goodwill and share-based compensation expense, the recoverability of long-lived assets and deferred tax assets, accrued workers compensation liabilities and the assessment of litigation and contingencies. Actual results could differ from those estimates.

3. SHARE-BASED PAYMENTS

Effective December 26, 2005, the Company adopted the provisions of the FASB Statement of Financial Accounting Standards 123(R), *Share-Based Payments* ("SFAS No. 123(R)"), which establishes the accounting for employee share-based awards. Under the provisions of SFAS No. 123(R), share-based compensation is measured at the grant date, based on the fair value of the award, and is recognized as an expense over the requisite employee service period (generally the vesting period of the grant).

During the second quarter of 2007, the Company recorded $89,600 of compensation expense relating to the awarding of stock option grants, which options immediately vested. The compensation expense has been recorded within selling, general and administrative expenses. In addition, the Company recorded an income tax benefit of $35,000 in the accompanying statements of operations related to these grants. For the six months ended June 25, 2006, $98,000 of compensation expense has been recorded within selling, general and administrative expense and the Company has recorded an income tax benefit of $38,000 in the accompanying statements of operations for options granted during the second quarter of 2006, which options immediately vested.

The Company estimates the fair value of share-based payments using the Black-Scholes option pricing model. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by the employees who receive equity awards.

The per share weighted average fair value of stock options granted were $1.28 during the six months ended July 1, 2007 and $1.40 during the six months ended June 25, 2006. In addition to the exercise and grant date prices of the awards, certain weighted average assumptions that were used to estimate the fair value of stock option grants in the six month periods are listed in the table below:

	Six Months Ended	
	July 1, 2007	June 25, 2006
Expected dividend yield	0.0%	0.0%
Expected volatility	49.0%	55.0%
Risk-free interest rate	5.18%	5.0%
Expected term (years)	5	5

The Company estimates expected volatility based primarily on historical daily price changes of the Company's stock and other known or expected trends. The risk-free interest rate is based on the United States ("U.S.") treasury yield curve in effect at the time of grant. The expected term of these awards was determined using the "simplified method" prescribed in SEC Staff Accounting Bulletin ("SAB") No. 107.

4. DEBT

Long-term debt at July 1, 2007 and December 31, 2006, consisted of (in thousands):

	July 1, 2007	December 31, 2006
12% Senior Notes, due December 1, 2010	$ 12,890	22,890
8% Subordinated Convertible Note, due December 2, 2009	1,581	1,520
Revolving line of credit, due July 24, 2010, with interest payable at prime plus 0.5% and/or LIBOR plus 1.75% with a weighted average rate of 7.31% at July 1, 2007, and 7.25% at December 31, 2006	76,786	65,360
Total long-term debt	$ 91,257	89,770

Contractual maturities of long-term debt are as follows (in thousands):

2009	$ 1,581
2010	89,676
Total	$ 91,257

***Senior Notes*: ** In November 1997, COI issued $110 million original principal amount of its 12% Senior Notes due December 1, 2007, subsequently extended until December 1, 2010 (the "Senior Notes"), principally to fund its acquisition of Uniforce Services, Inc. On June 28, 2007, COI redeemed $10.0 million principal amount of Senior Notes at a redemption price equal to 103% of the principal amount, plus accrued interest. The total redemption price, including accrued interest from June 1, 2007 to the redemption date, was $10.4 million. As a result of this redemption, the Company recognized a loss on debt extinguishment of $424,000 in the second quarter of 2007, including the write-off of $124,000 of deferred financing costs. See also the discussion in this note 4 under "Revolving Line of Credit." The Senior Notes provide for semi-annual payments of interest at the rate of 12% per annum.

The Senior Notes are governed by an indenture (the "Indenture") under which Wilmington Trust Company serves as the trustee. The Indenture contains a number of significant restrictions and covenants (with which COI believes it was in compliance at July 1, 2007) that require COI to ensure among other things that:

- COI does not grant a security interest in its assets or incur indebtedness, except indebtedness incurred in accordance with the Indenture, which permits indebtedness subordinated to and due later than the Senior Notes and that meets other conditions in the Indenture, indebtedness on a parity with the Senior Notes meeting specified conditions in the Indenture, renewals or replacements of any bank credit facility, capital lease obligations, securitization transactions, indebtedness within specified dollar limitations and other exceptions;

- COI does not sell or dispose of its assets except in accordance with the covenants and conditions in the Indenture, or issue shares of its capital stock except in accordance with the covenants and conditions in the Indenture;

- the net proceeds from any permitted sale of COI's capital stock or its assets are applied to repay any bank credit facility, or, if not required by the lender or such net proceeds are not reinvested in other assets, to redeem Senior Notes or be applied for other specified proper purposes;

- COI does not enter into transactions with affiliates other than in accordance with the Indenture; and

- COI does not invest in other businesses or engage in other business activities unless permitted under the Indenture.

Convertible Notes**:** The Company's 8.0% Subordinated Convertible Notes due December 2, 2009 (the "Convertible Note") are convertible into common stock at $1.70 per share.

In December 2004, the Company issued 6,737 shares of its Series 2004A Convertible Preferred Stock in exchange for $6.7 million of its Convertible Note, plus accrued interest of $10,463, in a transaction with the Fanning CPD Assets, LP (the "Fanning Partnership"), a related party, as described below. This exchange eliminated $6.7 million of long-term debt while maintaining, under the terms of the 2004A Series Preferred Stock, the same common stock conversion rights as existed for the Convertible Note. As part of the transaction, the Convertible Note was restated at the principal amount of $1.3 million, and the terms were modified to permit the Company to pay interest in cash or kind, at its election, for the balance of the term of the Convertible Note.

Under the terms of the Convertible Note prior to this amendment, interest was to be payable only in cash beginning with the interest payment due on June 1, 2005. This amendment extended, for the balance of the term, the provision allowing the Company to pay interest either in cash or in kind, and as a result the debt service costs associated with the Convertible Note have been satisfied through additions to principal through June 1, 2007 (the most recent semi-annual interest payment date). Additional principal is convertible into common stock on the same basis as other amounts outstanding under the Convertible Note, which provides for conversion into common stock at the rate of $1.70 per share. As a result of its election to pay interest in kind under the Convertible Note, the Company recognized beneficial conversion features of $35,000 during the first six months of 2007 and $60,000 during fiscal 2006 which resulted in an increase in deferred financing costs and paid-in capital. The Convertible Note may be prepaid in whole or in part, provided that the market value of the Company's common stock exceeds $2.13 for a specified period of time. The holder has 10 days to convert the Convertible Notes following notice of prepayment.

The Fanning Partnership is a limited partnership in which John C. Fanning, the Company's chairman and chief executive officer, holds the principal economic interest. Rosemary Maniscalco, a director and vice chairman of the Company, is the general partner of the Fanning Partnership, but holds no pecuniary interest therein. The Company obtained the opinion of an independent investment banking firm that the terms of the exchange transaction with the Fanning Partnership were fair to the Company from a financial point of view, and the Company's independent directors approved the terms of the transaction.

Revolving Line of Credit**:** At July 1, 2007, COMFORCE, COI and various of their operating subsidiaries, as co-borrowers and guarantors, were parties to a $110.0 million Revolving Credit and Security Agreement (the "PNC Credit Facility") with PNC Bank, National Association, as a lender and administrative agent ("PNC"), and other financial institutions participating as lenders to provide for a revolving line of credit with available borrowings based, generally, on 87.0% of the Company's accounts receivable aged 90 days or less, subject to specified limitations and exceptions.

Borrowings under the PNC Credit Facility bear interest, at the Company's option, at a per annum rate equal to either (i) the greater of the federal funds rate plus 0.5% or the base commercial lending rate of PNC as announced from time to time, or (ii) LIBOR plus a specified margin, determined as follows:

*Fixed charge coverage ratio**	*Margin (%)*
greater than 1.75:1.00	1.50
greater than 1.50:1.00 to 1.75:1.00	1.75
greater than 1.30:1.00 to 1.50:1.00	2.00
greater than 1.05:1.00 to 1.30:1.00	2.25
equal to or less than 1.05:1.00	2.50

*as defined in the PNC Credit Facility loan documents

The PNC Credit Facility also provides for a commitment fee of 0.25% of the unused portion of the facility. The obligations under the PNC Credit Facility are collateralized by a pledge of the capital stock of certain key operating subsidiaries of the Company and by security interests in substantially all of the assets of the Company. The PNC Credit Facility contains various financial and other covenants and conditions, including, but not limited to, a prohibition on paying cash dividends and limitations on engaging in affiliate transactions, making acquisitions and incurring additional indebtedness.

The PNC Credit Facility generally permits the Company to use up to $15.0 million in loan proceeds annually to repurchase its Senior Notes so long as the remaining availability under the facility, as defined in the agreement, is at least $7.5 million for the specified measurement period. To enable the Company to effect the redemption of its Senior Notes in 2006, PNC permitted the Company to use (and it did use) $25.0 million of loan proceeds to pay the redemption price of the Senior Notes, subject to a reduction of the maximum funds available to repurchase or redeem Senior Notes in 2007. The PNC Credit Facility permits the Company to carryover from any prior calendar year any unused portion of this amount, so long as the other criteria for borrowing are then satisfied. As described above in this note 4 under "Senior Notes," on June 28, 2007, COI redeemed $10.0 million principal amount of Senior Notes at a redemption price equal to 103% of the principal amount, plus accrued interest. The Company used loan proceeds under its bank credit facility to pay the entire redemption price of $10.4 million.

At July 1, 2007, the Company had remaining availability, as defined in the agreement, under the PNC Credit Facility of up to $10.1 million. As of July 1, 2007, the Company had outstanding $5.0 million of standby letters of credit under this facility. The Company was in compliance with all financial covenants under the PNC Credit Facility at July 1, 2007.

5. INCOME PER SHARE

Basic income per common share is computed by dividing net income available to common stockholders by the weighted average number of shares of common stock outstanding during each period. Diluted income per share is computed assuming the conversion of stock options and warrants with exercise prices less than the average market value of the Company's common stock during the period, and the conversion of convertible debt and preferred stock into common stock to the extent such conversion assumption is dilutive. The following represents a reconciliation of the numerators and denominators for basic and diluted income per share computations (in thousands):

	Three Months Ended		Six Months Ended	
	July 1, 2007	June 25, 2006	July 1, 2007	June 25, 2006
Basic income per common share:				
Net income	$ 1,074	$ 1,007	$ 1,988	$ 1,252
Deduct dividends on preferred stock:				
Series 2003A	115	115	230	231
Series 2003B	10	10	19	19
Series 2004A	126	126	253	252
	251	251	502	502
Income available to common stockholders	$ 823	$ 756	$ 1,486	$ 750
Weighted average common shares outstanding	17,386	17,335	17,384	17,285
Basic income per common share	$ 0.05	$ 0.04	$ 0.09	$ 0.04
Diluted income per common share:				
Income available to common stockholders	$ 823	$ 756	$ 1,486	$ 750
Add dividends on preferred stock:				
Series 2003A	115	115	230	231
Series 2003B	10	10	19	19
Series 2004A	126	126	253	--
	251	251	502	250
Add after tax equivalent of interest expense on 8% Subordinated Convertible Note	19	17	37	35
Income for purposes of computing diluted income per common share	$ 1,093	$ 1,024	$ 2,025	$ 1,035
Weighted average common shares outstanding	17,386	17,335	17,384	17,285
Dilutive stock options	351	434	307	415
Assumed conversion of 8% Subordinated Convertible Note	918	847	900	833
Assumed conversion of Preferred Stock:				
Series 2003A	7,660	7,221	7,550	7,111
Series 2003B	1,200	1,129	1,182	1,111
Series 2004A	4,650	4,353	4,576	--
Weighted average common shares outstanding for purposes of computing diluted income per share	32,165	31,319	31,899	26,755
Diluted income per common share	$ 0.03	$ 0.03	$ 0.06	$ 0.04

As of June 25, 2006, 4.3 million shares issuable upon the conversion of the Series 2004A Preferred Stock were excluded from the above calculations as their effect would have been anti-dilutive.

In addition, options and warrants to purchase 1.4 million and 1.2 million shares of common stock were outstanding as of July 1, 2007 and June 25, 2006, respectively, but were not included in the computation of diluted income per share because their effect would be anti-dilutive.

6. INDUSTRY SEGMENT INFORMATION

COMFORCE has determined that its reportable segments are distinguished principally by the types of services offered to the Company's clients. The Company manages its operations and reports its results through three operating segments -- Human Capital Management Services, Staff Augmentation and Financial Outsourcing Services. The Human Capital Management Services segment primarily provides contingent workforce management services. The Staff Augmentation segment provides healthcare support services, technical and engineering, information technology, telecommunications and other staffing services. The Financial Outsourcing Services segment provides funding and back office support services to independent consulting and staffing companies.

COMFORCE evaluates the performance of its segments and allocates resources to them based on operating contribution, which represents segment revenues less direct costs of operations, excluding the allocation of corporate general and administrative expenses. Assets of the operating segments reflect primarily net accounts receivable and goodwill associated with segment activities; all other assets are included as corporate assets. The Company does not evaluate or account for expenditures for long-lived assets on a segment basis.

The table below presents information on the revenues and operating contribution for each segment for the three and six month periods ended July 1, 2007 and June 25, 2006, and items which reconcile segment operating contribution to COMFORCE's reported income before income taxes (in thousands):

	Three Months Ended		Six Months Ended	
	July 1, 2007	June 25, 2006	July 1,2007	June 25, 2006
Net sales of services:				
Human Capital Management Services	$ 94,011	$ 85,362	$ 180,998	$ 164,181
Staff Augmentation	54,859	57,216	108,642	112,564
Financial Outsourcing Services	826	999	1,659	1,833
	$ 149,696	$ 143,577	$ 291,299	$ 278,578
Operating contribution:				
Human Capital Management Services	$ 4,321	$ 4,131	$ 8,181	$ 7,027
Staff Augmentation	4,593	4,886	8,915	9,519
Financial Outsourcing Services	676	757	1,375	1,375
	9,590	9,774	18,471	17,921
Consolidated expenses:				
Corporate general and administrative expenses	4,866	4,707	9,553	8,980
Depreciation and amortization	702	814	1,339	1,550
Interest and other, net	1,718	2,266	3,709	4,730
Loss on debt extinguishment	424	18	424	18
	7,710	7,805	15,025	15,278
Income before income taxes	$ 1,880	$ 1,969	$ 3,446	$ 2,643

Total assets:

	At July 1, 2007	At December 31, 2006
Human Capital Management Services	$ 91,872	91,836
Staff Augmentation	56,899	54,316
Financial Outsourcing Services	12,721	13,170
Corporate	15,195	15,816
	$ 176,687	175,138

7. NEW ACCOUNTING STANDARDS

In June 2006, the Emerging Issues Task Force issued EITF 06-03, *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)* ("EITF 06-03") to clarify diversity in practice on the presentation of different types of taxes in the financial statements. The Task Force concluded that, for taxes within the scope of this issue, a company may adopt a policy of presenting taxes either gross within revenue or net. That is, it may include charges to customers for taxes within revenues and the charge for the taxes from the taxing authority within cost of sales, or, alternatively, it may net the charge to the customer and the charge from the taxing authority. If taxes subject to this issue are significant, a company is required to disclose its accounting policy for presenting taxes and the amounts of such taxes that are recognized on a gross basis. The guidance in this consensus is effective for the first interim reporting period beginning after December 15, 2006. The Company's historical and future practice is to present these taxes on a net basis and, therefore, there was no impact on its financial position or results of operations upon its adoption of EITF 06-03 in fiscal 2007.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 provides guidance for using fair value to measure assets and liabilities. It also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, and does not expand the use of fair value in any new circumstances. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company has early adopted SFAS 157 effective January 1, 2007, which adoption did not have an impact on its financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115* ("SFAS 159"). SFAS 159 permits companies to elect, at specified election dates, to measure eligible financial instruments and certain other items at fair value. A company must report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date, and recognize upfront costs and fees related to those items in earnings as incurred. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company has early adopted SFAS 159 effective January 1, 2007, which adoption did not have an impact on its financial position or results of operations.

8. ACCOUNTING FOR UNCERTAINTY IN INCOME TAXES

In June 2006, the FASB issued FIN 48, *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109, Accounting for Income Taxes ("FIN 48").* The interpretation addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the tax position. The tax benefits recognized in the financial statements from such tax position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. FIN 48 also provides guidance on derecognition, classification, interest and penalties on income taxes, accounting in interim periods, and requires increased disclosures.

The Company adopted the provisions of FIN 48 on January 1, 2007. The impact upon adoption was to increase retained earnings by approximately $3.4 million and to decrease the accruals for uncertain tax positions and related penalties and interest by a corresponding amount.

The Company will continue its historical practice of recognizing accrued interest and penalties related to income tax matters in income tax expense in the consolidated financial statements. As of January 1, 2007, the Company has no liability accrued for uncertain tax positions, interest and penalties.

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of multiple state and foreign jurisdictions. The Company has concluded all U.S. federal and state income tax matters for years through 2002.

9. COMPREHENSIVE INCOME

The components of comprehensive income are as follows (in thousands):

	Three Months Ended		Six Months Ended	
	July 1, 2007	June 25, 2006	July 1, 2007	June 25, 2006
Net income	$ 1,074	$ 1,007	$ 1,988	$ 1, 252
Foreign currency translation adjustment, net of tax	(133)	(39)	(162)	(130)
Total comprehensive income	$ 941	$ 968	$ 1,826	$ 1,122

10. ACCRUED EXPENSES

Accrued expenses as of July 1, 2007 and December 31, 2006 consisted (in thousands):

	July 1, 2007	December 31, 2006
Payroll, payroll taxes and sub-vendor payments	$ 86,601	88,966
Vacation/retirement plans	3,945	2,948
Income taxes payable	-	2,525
Commissions	1,620	1,678
Interest	554	558
Other	3,424	4,093
	$ 96,144	100,768

11. LITIGATION AND CONTINGENCIES

In November 2003, the Company received a general notice letter from the United States Environmental Protection Agency (the "U.S. EPA") that it is a potentially responsible party at Chicago's Lake Calumet Cluster Site, which for decades beginning in the late 19^{th}/early 20^{th} centuries had served as a waste disposal site. In December 2004, the U.S. EPA sent the Company and numerous other companies special notice letters requiring the recipients to make an offer by a date certain to perform a remedial investigation and feasibility study (RI/FS) to select a remedy to clean up the site. The Company's predecessor, Apeco Corporation ("Apeco"), a manufacturer of photocopiers, allegedly sent waste material to this site. The State of Illinois and the U.S. EPA have proposed that the site be designated as a Superfund site. The Company is one of over 400 potentially responsible parties (many of which may no longer be in operation or viable) to which notices were sent, and the Company has joined a working group of more than 100 members representing over 120 potentially responsible parties for the purpose of responding to the United States and Illinois environmental protection agencies.

Until the United States and Illinois environmental protection and other agencies agree upon remedies, accurate estimates of clean-up costs cannot be made and site studies cannot be completed. Consequently, no assessment can be made as to any potential liability to the Company. Furthermore, the Company is initiating inquiries of the insurance carriers for Apeco to determine if it has coverage under old insurance policies. Although another company had agreed to indemnify the Company against environmental liabilities, this indemnitor is currently in bankruptcy and the Company does not expect to pursue its indemnity claims since obtaining any recovery against this indemnitor appears to be unlikely.

In July 2005, the Company's subsidiary, COMFORCE Technical Services, Inc. ("CTS") was served with an amended complaint in the suit titled *Reyes V. East Bay Municipal Utility District, et al,* filed in the Superior Court of California, Alameda County, in connection with a gas pipeline explosion in November 2004 that killed five workers and injured four others. As part of a construction project to lay a water transmission line, a backhoe operator employed by a construction contractor unaffiliated with CTS allegedly struck and breached a gas pipeline and an explosion occurred when leaking gas ignited. The complaint names various persons involved in the construction project as defendants, including CTS. The complaint alleges, among other things, that CTS was negligent in failing to properly mark the location of the pipeline. The complaint did not specify specific monetary damages.

CTS was subsequently named as a defendant in 15 other lawsuits concerning this accident in the Superior Court of California which have been consolidated with the *Reyes* case in a single coordinated action styled as the *Gas Pipeline Explosion Cases* in the Superior Court of California, Contra Costa County. Two co-defendants brought cross-claims against CTS. In addition, a company that provided insurance coverage to a private home and property damaged by the explosion brought a subrogation action against CTS. CTS denies any culpability for this accident. Following an investigation of the accident, Cal-OSHA issued citations to four unrelated contractors on the project, but declined to issue any citations against CTS. Although Cal-OSHA did not issue a citation against CTS, it will not be determinative in the pending civil cases.

CTS requested that its insurance carriers defend it in these actions, and the carrier under the primary policy appointed counsel and has defended CTS in these actions. As of June, 2007, CTS has settled with 17 of the 19 plaintiffs, in each case within the limits of its primary policy, except as described below. With the most recent settlements, the limits under the primary policy have been reached. The umbrella insurance carrier for CTS had previously denied the claims of CTS for coverage, claiming that the matter was within the policy exclusions. This carrier also initiated a declaratory action in Contra Costa County, California in which it asked the court to determine whether the claims against CTS were within the policy exclusions. In March 2007, CTS and this carrier reached a tentative settlement under which the carrier agreed to dismiss CTS from the declaratory action and defend and insure CTS in the remaining cases when the primary coverage limits have been reached, subject to an agreed upon contribution by CTS and the carrier's reservation of rights to seek recovery against CTS for the claims of Mountain Cascade, Inc., a co-defendant not related to CTS that served as a contractor for East Bay Municipal Utility District. Management of CTS (and the Company) believes that any losses in respect of Mountain Cascade should be covered under the umbrella policy. However, the carrier has declined to release its reservation of rights as to this unresolved Mountain Cascade claim, and the amount that CTS will be required to contribute to any settlement of or judgment on the remaining plaintiffs' cases is not determinable. Accordingly, management of CTS (and the Company) cannot estimate the amount of losses that CTS may ultimately incur in connection with these cases, if any, other than to estimate that any losses will be less than $1.5 million. No assurance can be given that the costs to CTS to resolve all remaining claims will be within management's estimates.

Except as described above, there are no other pending matters, individually or in the aggregate, if adversely determined, are believed by management to be material to the business or financial condition of the Company. The Company expenses legal costs associated with contingencies when incurred. The Company maintains general liability insurance, property insurance, automobile insurance, fidelity insurance, errors and omissions insurance, professional and medical malpractice insurance, fiduciary insurance, and directors' and officers' liability insurance for domestic and foreign operations as management deems appropriate and prudent. The Company is generally self-insured with respect to workers compensation, but maintains excess workers compensation coverage to limit its maximum exposure to such claims.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The discussion set forth below supplements the information found in the audited consolidated financial statements and notes thereto included in the annual report on Form 10-K for the fiscal year ended December 31, 2006 of COMFORCE Corporation ("COMFORCE") and its wholly-owned subsidiaries, including COMFORCE Operating, Inc. ("COI") (collectively, the "Company").

Overview and Recent Developments

Staffing personnel placed by the Company are employees of the Company. The Company is responsible for employment related expenses for its employees, including workers compensation, unemployment compensation insurance, Medicare and Social Security taxes and general payroll expenses. The Company offers health, dental, 401(k), disability and life insurance to its eligible employees. Staffing and consulting companies, including the Company, typically pay their billable employees for their services before receiving payment from their customers, resulting in significant outstanding receivables. To the extent the Company grows, these receivables will increase and there will be greater need for borrowing availability under the PNC Credit Facility. At July 22, 2007, the Company had outstanding $76.1 million principal amount under the PNC Credit Facility with remaining availability of up to $12.8 million, as defined in the loan agreement, to fund operations.

The Company reports its results through three operating segments -- Human Capital Management Services, Staff Augmentation and Financial Outsourcing Services. The Human Capital Management Services segment primarily provides staffing management services that enable Fortune 1000 companies and other large employers to consolidate, automate and manage staffing, compliance and oversight processes for their contingent workforces. The Staff Augmentation segment provides healthcare support services, technical and engineering, information technology, telecommunications and other staffing needs. The Financial Outsourcing Services segment provides funding and back office support services to independent consulting and staffing companies.

On June 28, 2007, COI redeemed $10.0 million principal amount of Senior Notes at a redemption price equal to 103% of the principal amount, plus accrued interest. The total redemption price, including accrued interest from June 1, 2007 to the redemption date, was $10.4 million. The Company used loan proceeds under its bank credit facility to pay the entire redemption price.

Management of the Company has observed improvement in the business environment for staffing companies beginning in the first quarter of 2003. Industry statistics have generally supported management's observations including, since the beginning of 2004, continued job creation in the United States; however management is unsure how long these trends will continue in the future.

Critical Accounting Policies and Estimates

As disclosed in the annual report on Form 10-K for the fiscal year ended December 31, 2006, the discussion and analysis of our financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in those financial statements. These judgments can be subjective and complex, and consequently actual results could differ from those estimates. Our most critical accounting policies relate to allowance for doubtful accounts, accrued workers compensation liability, goodwill impairment, and income taxes. Since December 31, 2006, there have been no changes in our critical accounting policies and no other significant changes to the methods used in the assumptions and estimates related to them.

Results of Operations

Three Months Ended July 1, 2007 compared to June 25, 2006

Net sales of services for the three months ended July 1, 2007 were $149.7 million, which represents a 4.3% increase from the $143.6 million in net sales of services recorded for the three months ended June 25, 2006. Net sales of services in the Human Capital Management Services segment increased by $8.6 million, or 10.1%, due to an increase in services provided to new and existing clients. Management believes such increase is reflective of a trend for companies to rely increasingly on providers of human capital management services, such as those provided by the Company's PrO Unlimited subsidiary. In the Staff Augmentation segment, the decrease of $2.4 million, or 4.1%, is principally attributable to the decrease of services provided to technical and telecom customers, partially offset by an increase in services provided to information technology customers. The reduction in net sales of services in the telecom sector was due to a reduction in demand from our largest telecom client.

Cost of services for the three months ended July 1, 2007 was 84.5% of net sales of services as compared to cost of services of 84.6% of net sales of services for the three months ended June 25, 2006. The cost of services as a percentage of net sales for the second quarter of 2007 slightly decreased from the year ago quarter principally due to higher gross margins as a result of increased consultant consolidation services provided by the Human Capital Management Services segment and lower state unemployment rates, partially offset by lower gross margins for telecom services.

Selling, general and administrative expenses as a percentage of net sales of services were 12.4% for the three months ended July 1, 2007, compared to 11.9% for the three months ended June 25, 2006. The $1.4 million increase in selling, general and administrative expenses is primarily due to higher personnel costs incurred to support the increase in consultant consolidation services provided in the Human Capital Management Services segment discussed above.

Operating income for the three months ended July 1, 2007 was $4.0 million, or 2.7% of net sales, as compared to operating income of $4.3 million, or 3.0% of net sales, for the three months ended June 25, 2006. The Company's lower operating income for the second quarter of 2007 is principally due to an increase in selling, general, and administrative expenses discussed above, partially offset by an increase in net sales of services and higher gross margins, primarily in the Human Capital Management Services segment.

The Company's interest expense for the three months ended July 1, 2007 was principally attributable to interest recorded on the PNC Credit Facility, the Convertible Note and the Senior Notes. The interest expense of $2.0 million for the second quarter of 2007 was lower as compared to the interest expense of $2.5 million for the second quarter of 2006. This reduction was principally due to the repurchase and redemption of $23.4 million of Senior Notes during 2006. These decreases were partially offset by increased interest expense on the Company's revolving line of credit due to higher average interest rates and borrowings in the second quarter of 2007 as compared to the year ago period. The Company also expects further interest expense reductions in future periods due to the redemption of $10.0 million principal amount of its Senior Notes on June 28, 2007 (see note "Overview and Recent Developments" in this Item 2). As a result of this redemption, the Company recognized a loss on debt extinguishment of $424,000, including a reduction of $124,000 of deferred financing costs.

The income tax provision for the three months ended July 1, 2007 was $806,000 (a rate of 42.9%) on income before income taxes of $1.9 million. The income tax provision for the three months ended June 25, 2006 was $1.0 million (a rate of 48.8%) on income before income taxes of $2.0 million. The difference between income taxes at the federal statutory income tax rate and the Company's tax provision for the respective periods relates primarily to state income taxes and a disallowance for non-deductible expenses, as well as adjustments to tax contingencies during 2006.

Six Months Ended July 1, 2007 compared to June 25, 2006

Net sales of services for the six months ended July 1, 2007 were $291.3 million, which represents a 4.6% increase from the $278.6 million in net sales of services recorded for the six months ended June 25, 2006. Net sales of services in the Human Capital Management Services segment increased by $16.8 million, or 10.2%, due to an increase in services provided to new and existing clients. Management believes such increase is reflective of a trend for companies to rely increasingly on providers of human capital management services, such as those provided by the Company's PrO Unlimited subsidiary. In the Staff Augmentation segment, the decrease of $3.9 million, or 3.5%, is principally attributable to the decrease of services provided to technical and telecom customers, partially offset by an increase in services provided to information technology customers. The reduction in net sales of services in the telecom sector was due to a reduction in demand from our largest telecom client, in addition to the completion of a major project in the first quarter of 2006 in technical services.

Cost of services for the six months ended July 1, 2007 was 84.4% of net sales of services as compared to cost of services of 84.8% of net sales of services for the six months ended June 25, 2006. The cost of services as a percentage of net sales for the six months ended July 1, 2007 decreased from a,year ago principally due to higher gross margins as a result of increased consultant consolidation services provided by the Human Capital Management Services segment and lower state unemployment rates and favorable workers compensation claims experience, partially offset by lower gross margins for telecom services.

Selling, general and administrative expenses as a percentage of net sales of services were 12.5% for the six months ended July 1, 2007, compared to 12.0% for the six months ended June 25, 2006. The $3.1 million increase in selling, general and administrative expenses is primarily due to higher personnel costs incurred to support the increase in consultant consolidation services provided in the Human Capital Management Services segment discussed above.

Operating income for the six months ended July 1, 2007 was $7.6 million, or 2.6% of net sales, as compared to operating income of $7.4 million, or 2.6% of net sales, for the six months ended June 25, 2006. The Company's operating income for the first six months of 2007 is comparable to 2006 principally due to an increase in net sales of services and higher gross margins in the Human Capital Management Services segment, which were offset by an increase in selling, general, and administrative expenses discussed above.

The Company's interest expense for the six months ended July 1, 2007 was principally attributable to interest recorded on the PNC Credit Facility, the Convertible Note and the Senior Notes. The interest expense of $4.0 million for the first six months of 2007 was lower as compared to the interest expense of $4.9 million for the first six months of 2006. This reduction was principally due to the repurchase and redemption of $23.4 million of Senior Notes during 2006. These decreases were partially offset by increased interest expense on the Company's revolving line of credit due to higher average interest rates and borrowings in the first six months of 2007 as compared to the first six months of 2006. The Company also expects further interest expense reductions in future periods due to the redemption of $10.0 million principal amount of its Senior Notes on June 28, 2007 (see "Overview and Recent Developments" in this Item 2). As a result of this redemption, the Company recognized a loss on debt extinguishment of $424,000, including a reduction of $124,000 of deferred financing costs.

The income tax provision for the six months ended July 1, 2007 was $1.5 million (a rate of 42.3%) on income before income taxes of $3.4 million. The income tax provision for the six months ended June 25, 2006 was $1.4 million (a rate of 52.6%) on income before income taxes of $2.6 million. The difference between income taxes at the federal statutory income tax rate and the Company's tax provision for the respective periods relates primarily to state income taxes, as well as a disallowance for non-deductible expenses and adjustments to tax contingencies during 2006.

Financial Condition, Liquidity and Capital Resources

The Company generally pays its billable employees weekly or bi-weekly for their services, and remits certain statutory payroll and related taxes as well as other fringe benefits. Invoices are generated to reflect these costs plus the Company's markup. These invoices are typically paid within 45 days. Increases in the Company's net sales of services, resulting from expansion of existing offices or establishment of new offices, will require additional cash resources.

Off-Balance Sheet and Contractual Obligations: As of July 1, 2007, we had no off-balance sheet arrangements other than operating leases entered into in the normal course of business, as indicated in the table below. The following table represents contractual commitments associated with operating lease agreements, employment agreements and principal repayments on debt obligations (excluding interest):

	Payments due by fiscal year (in thousands)				
	2007	2008	2009	2010	Thereafter
Operating Leases	$ 1,307	$ 2,189	$ 1,923	$ 978	$ 696
Employment Agreements	481	1,012	-	-	-
PNC Credit Facility- principal repayments	-	-	-	76,786	-
Senior Notes - principal repayments	-	-	-	12,890	-
Convertible Note - principal repayments	-	-	1,581	-	-
Total	$ 1,788	$ 3,201	$ 3,504	$ 90,654	$ 696

COMFORCE, COI and various of their operating subsidiaries, as co-borrowers and guarantors, are parties to the $110.0 million PNC Credit Facility with PNC, as a lender and administrative agent, and other financial institutions participating as lenders to provide for a revolving line of credit with available borrowings based, generally, on 87.0% of the Company's accounts receivable aged 90 days or less, subject to specified limitations and exceptions. The Company entered into the PNC Credit Facility in June 2003 and it has been subject to seven amendments.

The obligations under the PNC Credit Facility are collateralized by a pledge of the capital stock of certain key operating subsidiaries of the Company and by security interests in substantially all of the assets of the Company. The PNC Credit Facility contains various financial and other covenants and conditions, including, but not limited to, a prohibition on paying cash dividends and limitations on engaging in affiliate transactions, making acquisitions and incurring additional indebtedness. The maturity date of the PNC Credit Facility is July 24, 2010. The Company was in compliance with all financial covenants under the PNC Credit Facility at July 1, 2007.

The Company also had standby letters of credit outstanding under the PNC Credit Facility at July 1, 2007 in the aggregate amount of $5.0 million.

During the six months ended July 1, 2007, the Company used cash of $991,000 from its operating activities, which was principally due to an increase in working capital related to the Human Capital Management Services segment. The Company also used cash of $2.5 million in investing activities due to the purchases of property and equipment. In addition, the cash provided by financing activities of $1.1 million is primarily a result of increased borrowings of $11.4 million under the PNC Credit Facility, partially offset by $10.3 million for the redemption of Senior Notes.

At July 1, 2007, the Company also had outstanding (i) $12.9 million principal amount of Senior Notes bearing interest at 12% per annum and (ii) $1.6 million principal amount of Convertible Notes bearing interest at 8% per annum. As described above in this Item 2 under "Overview and Recent Developments," on June 28, 2007, COI redeemed $10.0 million principal amount of Senior Notes at a redemption price of $10.4 million (including accrued interest). The Company used loan proceeds under the PNC Credit Facility to pay the entire redemption price. At July 1, 2007, the Company had outstanding $76.8 million principal amount under the PNC Credit Facility bearing interest at a weighted average rate of 7.3% per annum. At such date, the Company had remaining availability of up to $10.1 million, as defined in the agreement, under the PNC Credit Facility.

The Company has made significant progress in improving its capital structure through the elimination of long-term debt through the repurchase, redemption or exchange of Senior Notes, Convertible Notes and other instruments. Since June 2000, the Company has reduced its public debt from $138.8 million to $12.9 million and its total long-term debt from $195.3 million to $91.3 million during the same period. The Company has reduced its annualized interest expense by borrowing at the lower rates available under the PNC Credit Facility to effectuate the repurchase or redemption of long-term debt and by exchanging preferred stock and lower interest rate Convertible Notes for public debt.

Substantially all of the consolidated net assets of the Company are assets of COI and all of the net income that had been generated by the Company was attributable to the operations of COI. Except for permitted distributions, these assets and any cumulated net income are restricted as to their use by COMFORCE. The Indenture imposes restrictions on COI making specified payments, which are referred to as "restricted payments," including making distributions or paying dividends (referred to as upstreaming funds) to COMFORCE. Under the Indenture, COI is not permitted to make cash distributions to COMFORCE other than to upstream $2.0 million annually to pay public company expenses, and to upstream funds to the extent COI meets the restricted payments test under the Indenture, the most significant component of which is based upon 50% of net income generated by COI since January 1, 1998 on a cumulative basis, less prior distributions made in reliance on this provision. In calculating net income for this purpose, under the terms of the Indenture, the Company must apply generally accepted accounting principles as in effect at the time the Indenture was entered into in 1997. Principally as a result of distributions made, and losses incurred by COI in prior years, COI can make no distributions to COMFORCE based upon the cumulative net income provisions of the Indenture until COI generates additional net income of approximately $8.1 million. However, COMFORCE has approximately $2.0 million available at July 1, 2007 from proceeds it has generated from the sale of stock, principally upon the exercise of options and warrants. This $2.0 million may be used by COMFORCE to pay interest and principal on the Convertible Notes or for other business purposes.

The Company's Series 2003A, 2003B and 2004A Preferred Stock provide for dividends of 7.5% per annum and, at July 1, 2007 there were cumulated, unpaid and undeclared dividends of $2.0 million on the Series 2003A Preferred Stock, $144,000 on the Series 2003B Preferred Stock and $1.3 million on the Series 2004A Preferred Stock. If such dividends and underlying instruments were converted to voting or non-voting common stock, the aggregate amount would equal 13.7 million shares.

Management of the Company believes that cash flow from operations and funds anticipated to be available under the PNC Credit Facility will be sufficient to service the Company's indebtedness and to meet currently anticipated working capital requirements for the next 12 months. The Company was in compliance with all financial covenants under the PNC Credit Facility at July 1, 2007 and expects to remain in compliance for the next 12 months.

The Company is currently undergoing audits for certain state and local tax returns. The results of these audits are not expected to have a material effect upon the results of operations.

Impact of Recently Issued Accounting Standards

In June 2006, the Emerging Issues Task Force issued EITF 06-03, How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation) ("EITF 06-03") to clarify diversity in practice on the presentation of different types of taxes in the financial statements. The Task Force concluded that, for taxes within the scope of this issue, a company may adopt a policy of presenting taxes either gross within revenue or net. That is, it may include charges to customers for taxes within revenues and the charge for the taxes from the taxing authority within cost of sales, or, alternatively, it may net the charge to the customer and the charge from the taxing authority. If taxes subject to this issue are significant, a company is required to disclose its accounting policy for presenting taxes and the amounts of such taxes that are recognized on a gross basis. The guidance in this consensus is effective for the first interim reporting period beginning after December 15, 2006. The Company's historical and future practice is to present these taxes on a net basis and, therefore, there was no impact on its financial position or results of operations upon its adoption of EITF 06-03 in fiscal 2007.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 provides guidance for using fair value to measure assets and liabilities. It also responds to investors' requests for expanded information about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS 157 applies whenever other standards require (or permit) assets or liabilities to be measured at fair value, and does not expand the use of fair value in any new circumstances. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company has early adopted SFAS 157 effective January 1, 2007, which adoption did not have an impact on its financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115* ("SFAS 159"). SFAS 159 permits companies to elect, at specified election dates, to measure eligible financial instruments and certain other items at fair value. A company must report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date, and recognize upfront costs and fees related to those items in earnings as incurred. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company has early adopted SFAS 159 effective January 1, 20077, which adoption did not have an impact on its financial position or results of operations.

Seasonality

The Company's quarterly operating results are affected primarily by the number of billing days in the quarter and the seasonality of its customers' businesses. Demand for technical and engineering services and IT services has historically been lower during the second half of the fourth quarter through the following second quarter, and, generally shows gradual improvement until the second half of the fourth quarter.

Forward Looking Statements

We have made statements under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations” under this Item 2, as well as in other sections of this report that are forward-looking statements. In some cases, you can identify these statements by forward-looking words such as “may,” “might,” “will,” “should,” “could,” “expects,” “plans,” “anticipates,” “believes,” “estimates,” “forecasts,” “projects,” “predicts,” “intends,” “potential,” “continue,” the negative of these terms and other comparable terminology. These forward-looking statements, which are subject to risks, uncertainties and assumptions about us, may include projections of our future financial performance, our anticipated growth strategies and anticipated trends in our business and industry. These statements are only predictions based on our current expectations and projections about future events.

Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee our future results, level of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of any of these forward-looking statements. We undertake no obligation to update any of these forward-looking statements after the date of this report to conform our prior statements to actual results or revised expectations.

Factors which may cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements include the following:

- unfavorable global, national or local economic conditions that cause our customers to defer hiring contingent workers or reduce spending on the human capital management services and staffing that we provide;
- significant increases in the effective rates of any payroll-related costs that we are unable to pass on to our customers;
- increases in the costs of complying with the complex federal, state and foreign laws and regulations in which we operate, or our inability to comply with these laws and regulations;
- our inability to collect fees due to the bankruptcy of our customers, including the amount of any wages we have paid to our employees for work performed for these customers;
- our inability to keep pace with rapid changes in technology in our industry;
- potential losses relating to the placement of our employees in other workplaces, including our employees’ misuse of customer proprietary information, misappropriation of funds, discrimination, harassment, theft of property, accidents, torts or other claims;
- increases in interest rates, which could significantly increase our interest expense under the PNC Credit Facility;
- our inability to successfully develop new services or enhance our existing services as the markets in which we compete grow more competitive;
- unfavorable development in our business may result in the necessity of writing off goodwill in future periods;
- as a result of covenants and restrictions in the agreements governing the Senior Notes, the PNC Credit Facility or any future debt instruments, our inability to use available cash in the manner management believes will maximize stockholder value; or

- any of the other factors described under “Risk Factors” in Item 1A of our annual report on Form 10-K for the year ended December 31, 2006.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by Item 3 has been disclosed in Item 7A of the Company’s annual report on Form 10-K for the year ended December 31, 2006. There has been no material change in the disclosure regarding market risk.

ITEM 4. CONTROLS AND PROCEDURES

The Company’s management evaluated, with the participation of the chief executive officer and chief financial officer, the effectiveness of the Company’s disclosure controls and procedures as of the end of the period covered by this Report. Based on that evaluation, the chief executive officer and chief financial officer have concluded that the Company’s disclosure controls and procedures were effective as of the end of the period covered by this Report. There has been no change in the Company’s internal controls over financial reporting that occurred during the quarter covered by this Report that has materially affected, or is reasonably likely to materially affect, the Company’s internal controls over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

Since the date of the filing of the Company's annual report on Form 10-K for the year ended December 31, 2006, there have been no material new legal proceedings involving the Company or any material developments to the proceedings described in such Form 10-K.

ITEM 1A. RISK FACTORS.

Since the date of the filing of the Company's annual report on Form 10-K for the year ended December 31, 2006, there have been no material changes to the risk factors described under Item 1A in such Form 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

Not applicable.

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

On June 12, 2007, the annual meeting of the stockholders of the Company was held. At this meeting, the stockholders voted (1) to elect directors for a term of one year, and (2) to ratify the appointment of KPMG LLP as the Company's independent registered public accounting firm for the fiscal year ending December 30, 2007.

In the election of directors, the following individuals were elected to the board of directors upon the vote shown below.

Nominee	*For*	*Withheld*
John C. Fanning	15,637,922	42,858
Harry V. Maccarrone	15,614,939	65,841
Rosemary Maniscalco	15,614,492	66,288
Kenneth J. Daley	15,644,029	36,751
Daniel Raynor	15,644,103	36,677
Gordon Robinett	15,613,249	67,531
Pierce J. Flynn	15,643,195	37,585

The proposal to ratify the appointment of KPMG LLP as the Company's independent registered public accounting firm was approved. The votes were cast as follows:

For	*Against*	*Abstentions*
15,640,604	*18,362*	*22,812*

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

10.1 Amendment No. 7 to Revolving Credit and Security Agreement dated as of May 24, 2007 among the Company and certain of its operating subsidiaries, as borrowers, and PNC Bank, National Association, as agent and lender, and other participating lenders.

31.1 Rule 13a-14(a) certification of chief executive officer in accordance with section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Rule 13a-14(a) certification of chief financial officer in accordance with section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Section 1350 certification of chief executive officer in accordance with section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Section 1350 certification of chief financial officer in accordance with section 906 of the Sarbanes-Oxley Act of 2002.

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.

COMFORCE Corporation

/s/ Harry V. Maccarrone

Harry V. Maccarrone
Executive Vice President and Chief Financial Officer
Date: August 7, 2007

Exhibit 31.1

Rule 13a-14(a)
CERTIFICATION

I, John C. Fanning, Chairman and Chief Executive Officer of COMFORCE Corporation, hereby certify that:

1. I have reviewed this quarterly report on Form 10-Q of COMFORCE Corporation;

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 registrant as of, and for, the periods presented in this report;

4. The registrant'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 registrant 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 registrant, 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 registrant'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 registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: August 7, 2007

/s/ John C. Fanning
John C. Fanning,
Chairman and Chief Executive Officer

Exhibit 31.2

Rule 13a-14(a)
CERTIFICATION

I, Harry V. Maccarrone, Executive Vice President and Chief Financial Officer of COMFORCE Corporation, hereby certify that:

1. I have reviewed this quarterly report on Form 10-Q of COMFORCE Corporation;

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 registrant as of, and for, the periods presented in this report;

4. The registrant'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 registrant 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 registrant, 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 registrant'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 registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant'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 registrant'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 registrant's internal control over financial reporting.

Date: August 7, 2007

/s/ Harry V. Maccarrone

Harry V. Maccarrone
Executive Vice President and Chief Financial Officer

Exhibit 32.1

Section 1350
CERTIFICATION

The undersigned officer hereby certifies that, to his knowledge, (1) the Quarterly Report on Form 10-Q of COMFORCE Corporation for the quarter ended July 1, 2007 as to which this Certification is an exhibit fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)) and (2) the information contained in such Report fairly presents, in all material respects, the financial condition and results of operations of COMFORCE Corporation.

Signed August 7, 2007.

/s/ John C. Fanning
John C. Fanning,
Chairman and Chief Executive Officer

Exhibit 32.2

Section 1350
CERTIFICATION

The undersigned officer hereby certifies that, to his knowledge, (1) the Quarterly Report on Form 10-Q of COMFORCE Corporation for the quarter ended July 1, 2007 as to which this Certification is an exhibit fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)) and (2) the information contained in such Report fairly presents, in all material respects, the financial condition and results of operations of COMFORCE Corporation.

Signed August 7, 2007.

/s/ Harry V. Maccarrone
Harry V. Maccarrone
Executive Vice President and Chief Financial
Officer

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