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**UNITED STATES  
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 December 31, 2009**

- 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**

(State or other jurisdiction of incorporation or organization)

**22-1899798**

(I.R.S. Employer Identification No.)

**1 Executive Drive, Suite 130**

**Somerset, New Jersey**

(Address of principal executive offices)

**08873**

(Zip Code)

**(866) 352-5304**

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  
Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller Reporting Company   
(Do not check if a smaller reporting company)

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:  
4,940,982 shares of Common Stock, par value \$.001 per share, were outstanding as of February 12, 2010.

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TEAMSTAFF, INC.  
FORM 10-Q  
For the Quarter Ended December 31, 2009

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**Part I — FINANCIAL INFORMATION****ITEM 1: FINANCIAL STATEMENTS****TEAMSTAFF, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(AMOUNTS IN THOUSANDS)**

<b>ASSETS</b>	<b>December 31, 2009</b>	<b>September 30, 2009</b>
	(unaudited)	
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 1,661	\$ 2,992
Accounts receivable, net of allowance for doubtful accounts of \$0 as of December 31, 2009 and September 30, 2009	11,646	11,427
Prepaid workers' compensation	497	517
Other current assets	277	257
Assets from discontinued operations	939	1,418
<b>Total current assets</b>	<b>15,020</b>	<b>16,611</b>
<b>EQUIPMENT AND IMPROVEMENTS:</b>		
Furniture and equipment	2,262	2,262
Computer equipment	255	255
Computer software	906	788
Leasehold improvements	9	9
	3,432	3,314
Less accumulated depreciation and amortization	(3,080)	(3,054)
<b>Equipment and improvements, net</b>	<b>352</b>	<b>260</b>
<b>TRADENAME</b>	<b>3,924</b>	<b>3,924</b>
<b>GOODWILL</b>	<b>8,595</b>	<b>8,595</b>
<b>OTHER ASSETS</b>	<b>253</b>	<b>267</b>
<b>TOTAL ASSETS</b>	<b>\$ 28,144</b>	<b>\$ 29,657</b>

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

**TEAMSTAFF, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**(AMOUNTS IN THOUSANDS EXCEPT PAR VALUE OF SHARES)**

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>December 31, 2009</b>	<b>September 30, 2009</b>
	(unaudited)	
<b>CURRENT LIABILITIES:</b>		
Bank line of credit	\$ 40	\$ —
Notes payable	1,500	1,500
Current portion of capital lease obligations	19	20
Accrued payroll	10,256	10,694
Accounts payable	2,022	1,890
Accrued expenses and other current liabilities	1,151	1,241
Liabilities from discontinued operations	826	392
<b>Total current liabilities</b>	<b>15,814</b>	<b>15,737</b>
<b>CAPITAL LEASE OBLIGATIONS, net of current portion</b>	<b>21</b>	<b>27</b>
<b>OTHER LONG TERM LIABILITY, net of current portion</b>	<b>48</b>	<b>13</b>
<b>LONG TERM LIABILITIES FROM DISCONTINUED OPERATION</b>	<b>105</b>	<b>64</b>
<b>Total Liabilities</b>	<b>15,988</b>	<b>15,841</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred stock, \$.10 par value; authorized 5,000 shares; none issued and outstanding	—	—
Common Stock, \$.001 par value; authorized 40,000 shares; issued 4,943 at December 31, 2009 and 4,900 at September 30, 2009, respectively; outstanding 4,941 at December 31, 2009 and 4,898 at September 30, 2009, respectively	5	5
Additional paid-in capital	69,249	69,124
Accumulated deficit	(57,074)	(55,289)
Treasury stock, 2 shares at cost at December 31, 2009 and September 30, 2009	(24)	(24)
<b>Total shareholders' equity</b>	<b>12,156</b>	<b>13,816</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 28,144</b>	<b>\$ 29,657</b>

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

**TEAMSTAFF, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)**  
**(Unaudited)**

	<b>For the Three Months Ended</b>	
	<b>December 31,</b>	<b>December 31,</b>
	<b>2009</b>	<b>2008</b>
<b>REVENUES</b>	\$ 10,793	\$ 12,013
<b>DIRECT EXPENSES</b>	<u>9,431</u>	<u>9,891</u>
<b>GROSS PROFIT</b>	1,362	2,122
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</b>	1,657	1,507
<b>OFFICER SEVERANCE</b>	310	—
<b>DEPRECIATION AND AMORTIZATION</b>	26	28
<b>(Loss) income from operations</b>	<u>(631)</u>	<u>587</u>
<b>OTHER INCOME (EXPENSE)</b>		
Interest income	3	14
Interest expense	(23)	(25)
Other income, net	1	4
Legal expense related to pre-acquisition activity of acquired company	(1)	(7)
	<u>(20)</u>	<u>(14)</u>
<b>(Loss) income from continuing operations before taxes</b>	<u>(651)</u>	<u>573</u>
<b>INCOME TAX BENEFIT</b>	—	(4)
<b>(Loss) income from continuing operations</b>	<u>(651)</u>	<u>569</u>
<b>LOSS FROM DISCONTINUED OPERATIONS</b>		
Loss from operations	(785)	(521)
Loss from disposal	(349)	—
<b>Loss from discontinued operations</b>	<u>(1,134)</u>	<u>(521)</u>
<b>NET (LOSS) INCOME</b>	<u>\$ (1,785)</u>	<u>\$ 48</u>
<b>(LOSS) EARNINGS PER SHARE — BASIC</b>		
(Loss) income from continuing operations	\$ (0.13)	\$ 0.12
Loss from discontinued operations	(0.23)	(0.11)
Net (loss) earnings per share	<u>\$ (0.36)</u>	<u>\$ 0.01</u>
<b>(LOSS) EARNINGS PER SHARE — DILUTED</b>		
(Loss) income from continuing operations	\$ (0.13)	\$ 0.12
Loss from discontinued operations	(0.23)	(0.11)
Net (loss) earnings per share	<u>\$ (0.36)</u>	<u>\$ 0.01</u>
<b>WEIGHTED AVERAGE BASIC SHARES OUTSTANDING</b>	<u>4,931</u>	<u>4,914</u>
<b>WEIGHTED AVERAGE DILUTED SHARES OUTSTANDING</b>	<u>4,931</u>	<u>4,920</u>

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

**TEAMSTAFF, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(AMOUNTS IN THOUSANDS)**  
**(Unaudited)**

	<b>For the Three Months Ended</b>	
	<b>December 31,</b>	<b>December 31,</b>
	<b>2009</b>	<b>2008</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net (loss) income	\$ (1,785)	\$ 48
Adjustments to reconcile net (loss) income to net cash used in operating activities, net of divested businesses:		
Depreciation and amortization	26	28
Compensation expense related to employee stock option grants	14	—
Compensation expense related to director restricted stock grants	57	—
Compensation expense related to employee restricted stock grants	54	21
Changes in operating assets and liabilities, net of divested business:		
Accounts receivable	(219)	192
Other current assets	—	(10)
Other assets	14	15
Accounts payable, accrued payroll, accrued expenses and other current liabilities	(360)	(1,659)
Other long term liabilities	(1)	(1)
Cash flows from discontinued operation	964	(427)
Net cash used in operating activities	<u>(1,236)</u>	<u>(1,793)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of equipment, leasehold improvements and software	(118)	—
Net cash used in investing activities	<u>(118)</u>	<u>—</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net borrowing on revolving line of credit	40	745
Repayments on capital lease obligations	(7)	(7)
Cash flows from discontinued operation	(10)	(10)
Net cash provided by financing activities	<u>23</u>	<u>728</u>
Net decrease in cash and cash equivalents	(1,331)	(1,065)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>2,992</u>	<u>5,213</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 1,661</u>	<u>\$ 4,148</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash paid during the period for interest	<u>\$ 10</u>	<u>\$ 12</u>
Cash paid during the period for income taxes	<u>\$ 13</u>	<u>\$ 61</u>

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

**TEAMSTAFF, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2009 (Unaudited)**

**(1) ORGANIZATION AND BUSINESS:**

TeamStaff, Inc. and its subsidiaries (“TeamStaff” or the “Company”, also referred to as “we,” “us” and “our”), provide staffing services to the United States Department of Veterans Affairs (“DVA”) and other US governmental entities. TeamStaff’s primary operations are located in Loganville, Georgia and its principal executive office is located at 1 Executive Drive, Suite 130, Somerset, New Jersey 08873 where its telephone number is (866) 352-5304. TeamStaff, Inc., a New Jersey corporation, was founded in 1969 as a payroll service company and evolved into a national provider of contract and permanent medical and administrative staffing services. Its principal operations are conducted through its subsidiary, TeamStaff Government Solutions, (“TeamStaff GS”), a wholly-owned subsidiary of TeamStaff, Inc. TeamStaff GS changed its name from RS Staffing Services, Inc on February 12, 2008 to reflect the subsidiary’s expanding service offerings.

On December 28, 2009, TeamStaff and TeamStaff Rx, Inc. (“TeamStaff Rx”), its wholly-owned subsidiary, entered into a definitive Asset Purchase Agreement with Advantage RN, LLC, an Ohio limited liability company (“Advantage RN”), providing for the sale of substantially all of the operating assets of TeamStaff Rx related to our business of providing travel nurse and allied healthcare professionals for temporary assignments to Advantage RN. The closing of this transaction occurred on January 4, 2010. The Asset Purchase Agreement provides that the purchased assets were acquired by Advantage RN for a purchase price of up to \$425,000, of which: (i) \$350,000 in cash was paid at the closing, and (ii) \$75,000 is subject to an escrowed holdback as described in the Asset Purchase Agreement. The Company and Advantage RN are in the process of determining whether the escrow release conditions have been satisfied and have not yet completed such analysis and reached agreement. Additionally, Advantage RN will make rent subsidy payments to TeamStaff Rx totaling \$125,000, consisting of (i) \$25,000 paid at closing, and (ii) an additional \$100,000 payable in 10 equal monthly installments beginning on March 1, 2010. Under the terms of the Asset Purchase Agreement, Advantage RN did not assume any debts, obligations or liabilities of TeamStaff Rx nor did it purchase any accounts receivable outstanding as of the closing date. As described in note 3 to these consolidated financial statements, the results of operations, cash flows and related assets and liabilities of TeamStaff Rx have been reclassified in the accompanying consolidated financial statements from those of continuing businesses for all periods presented.

Following the disposition of its TeamStaff Rx business, TeamStaff provides specialized medical, nursing, logistics and administrative staffing services by supplying allied healthcare and nursing professionals, logistics and administrative personnel to U.S. government entities through TeamStaff GS. The staffing services offered by TeamStaff are provided through independent Federal Supply Schedule (“FSS”) contracts through the United States General Services Administration (“GSA”). The provision of logistical and administrative personnel is accomplished through the Logistics Worldwide Schedule and medical personnel are supplied through the Professional and Allied Healthcare Staffing Services Schedule. TeamStaff also provides its staffing services to federal government agencies through competitively bid contracts and has a GSA schedule contract to provide information technology professional services. TeamStaff provides these services to the DVA, the US Department of Defense and other US governmental agencies and placed contract employees at approximately 30 facilities during the first quarter of fiscal 2010.

TeamStaff’s other wholly-owned subsidiaries include DSI Staff ConnXions Northeast, Inc., DSI Staff ConnXions Southwest, Inc., TeamStaff Solutions, Inc., TeamStaff I, Inc., TeamStaff II, Inc., TeamStaff III, Inc., TeamStaff IV, Inc., TeamStaff VIII, Inc., TeamStaff IX, Inc., Digital Insurance Services, Inc., HR2, Inc. and BrightLane.com, Inc. As a result of the sale of our Professional Employer Organization business in fiscal year 2004 and other Company business changes, these “other” subsidiaries are not actively operating.

**Basis of Presentation**

The consolidated interim financial statements included herein have been prepared by TeamStaff, without audit, pursuant to the applicable rules and regulations of the Securities and Exchange Commission (“SEC”). 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. TeamStaff 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 TeamStaff’s fiscal 2009 Annual Report on Form 10-K. This interim financial information reflects, in the opinion of management, all adjustments necessary (consisting only of normal recurring adjustments and changes in estimates, where appropriate) to present fairly the results for the interim periods. The results of operations and cash flows for such interim periods are not necessarily indicative of the results for the full year.



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The accompanying consolidated financial statements include the accounts of TeamStaff and its subsidiaries, all of which are wholly owned. All intercompany balances and transactions have been eliminated.

Certain prior period amounts have been reclassified to conform to the current period presentation. The results of operations, cash flows and related assets and liabilities of TeamStaff Rx have been reclassified to discontinued operations in the accompanying consolidated financial statements from those of continuing businesses for all periods presented.

### **(2) SIGNIFICANT ACCOUNTING POLICIES:**

#### **Revenue Recognition**

TeamStaff accounts for its revenues in accordance with ACS 605-45, *Reporting Revenues Gross as a Principal Versus Net as an Agent*, and SAB 104, *Revenue Recognition*. TeamStaff recognizes all amounts billed to its contract staffing customers as gross revenue because, among other things, TeamStaff is the primary obligor in the contract staffing arrangement; TeamStaff has pricing latitude; TeamStaff selects contract employees for a given assignment from a broad pool of individuals; TeamStaff is at risk for the payment of its direct costs; and TeamStaff assumes a significant amount of other risks and liabilities as an employer of its contract employees, and therefore, is deemed to be a principal in regard to these services. TeamStaff also recognizes as gross revenue and as unbilled receivables, on an accrual basis, any such amounts that relate to services performed by contract employees which have not yet been billed to the customer as of the end of the accounting period.

Revenues related to retroactive billings in 2008 (see Note 4) from an agency of the Federal government were recognized when: (1) the Company developed and calculated an amount for such prior period services and had a contractual right to bill for such amounts under its arrangements, (2) there were no remaining unfulfilled conditions for approval of such billings and (3) collectability is reasonably assured based on historical practices with the DVA. The related direct costs, principally comprised of salaries and benefits, are recognized to match the recognized reimbursements from the Federal agency; upon approval, wages will be processed for payment to the employees.

During the year ended September 30, 2008, TeamStaff recognized revenues of \$10.8 million and direct costs of \$10.1 million related to these non-recurring arrangements. At December 31, 2009 and September 30, 2009, the amount of the remaining accounts receivable with the DVA approximated \$9.3 million and accrued liabilities for salaries to employees and related benefits totaled \$8.7 million. The \$9.3 million in accounts receivable was unbilled to the DVA at December 31, 2009 and September 30, 2009. At present, the Company expects to collect such amounts by the end of the second quarter of fiscal 2010 based on current discussions and collection efforts.

Staffing (whether medical or administrative) revenue is recognized as service is rendered. TeamStaff bills its clients based on an hourly rate. The hourly rate is intended to cover TeamStaff's direct labor costs of the contract employees, plus an estimate for overhead expenses and a profit margin. Additionally, commissions from permanent placements (principally TeamStaff Rx) are included in revenue as placements are made. Commissions from permanent placements result from the successful placement of a medical staffing employee to a customer's workforce as a permanent employee. The Company also reviews the status of such placements to assess the Company's future performance obligations under such contracts.

Direct costs of services are reflected in TeamStaff's Consolidated Statements of Operations as "direct expenses" and are reflective of the type of revenue being generated. Direct costs of the contract staffing business include wages, employment related taxes and reimbursable expenses.

#### **Stock-Based Compensation**

Compensation costs for the portion of awards (for which the requisite service has not been rendered) that are outstanding are recognized as the requisite service is rendered. The compensation cost for that portion of awards shall be based on the grant-date fair value of those awards as calculated for recognition purposes under applicable guidance. There was share-based compensation expense for options for the three months ended December 31, 2009 of \$14,000. There was no share-based compensation expense for options for the three months ended December 31, 2008. As of December 31, 2009, there was no remaining unrecognized compensation expense related to non-vested stock option awards to be recognized in future periods.

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During the three months ended December 31, 2009, TeamStaff granted 30,000 options per the terms of an employment agreement with the Company's former Chief Executive Officer and recorded share-based compensation expense of \$14,000. Also during the quarter, 4,500 options expired or were cancelled unexercised and no options were exercised. There were 40,625 options outstanding as of December 31, 2009. During the three months ended December 31, 2008, TeamStaff did not grant any options, no options expired or were cancelled unexercised and no options were exercised. There were 56,750 options outstanding as of December 31, 2008.

During the three months ended December 31, 2009, TeamStaff granted 42,500 shares of restricted stock to non-employee directors under its 2006 Long Term Incentive Plan ("2006 Plan"), at the closing price on the award date of \$1.34. All of these shares vested immediately. Stock compensation expense associated with these grants and all other grants totaled \$0.1 million for the three months ended December 31, 2009.

During the three months ended December 31, 2008, TeamStaff granted an aggregate of 67,353 shares of restricted stock under its 2006 Plan. 30,000 shares were granted to Dale West, President of TeamStaff Rx, in connection with her employment agreement, at the closing price on the award date of \$2.00 and are subject to certain performance based vesting requirements. An additional 7,353 shares were granted to Ms. West in connection with her employment agreement, at the closing price on the award date of \$1.70. These shares vested on January 2, 2009. In addition 30,000 shares were granted to Kevin Wilson, President of TeamStaff GS, in connection with his employment agreement, at the closing price on the award date of \$2.49. 10,000 shares vested immediately and were expensed as of September 30, 2008. The remaining 20,000 shares are subject to certain performance based vesting requirements. As permitted, the Company will not recognize expense on the performance based shares until it is probable that these conditions will be achieved. Such charges could be material in future periods.

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
Options outstanding, September 30, 2009	15,125	\$ 6.30	1.6	\$ —
Granted	30,000	\$ 1.00		
Exercised	—			
Cancelled	(4,500)	\$ 7.84		
Options outstanding and exercisable, December 31, 2009	<u>40,625</u>	<u>\$ 3.84</u>	<u>4.6</u>	<u>\$ —</u>

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (i.e., the difference between the Company's closing stock price on the last trading day of the period and the exercise price, times the number of shares) that would have been received by the option holders had all option holders exercised their in the money options on those dates. This amount changes based on the fair market value of the Company's stock.

	<u>Number of Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Restricted stock outstanding, September 30, 2009	391,250	\$ 1.96
Granted	42,500	\$ 1.34
Issued	(42,500)	\$ 1.34
Cancelled	(75,000)	\$ 1.82
Restricted stock outstanding, December 31, 2009	<u>316,250</u>	<u>\$ 2.00</u>

At December 31, 2009, there were 316,250 shares of unvested restricted stock outstanding. As of December 31, 2009, approximately \$227,000 of unrecognized compensation costs related to non-vested restricted stock awards is expected to be recognized over the next 12 months. This amount does not include compensation costs, if any, related to conditional, performance based restricted stock awards.

At December 31, 2009, the Company had reserved 976,695 shares of common stock for issuance under various option, shares and warrant plans and arrangements.

## Earnings (loss) Per Share

Basic earnings (loss) per share is calculated by dividing income (loss) available to common shareholders by the weighted average number of common shares outstanding and restricted stock grants that vested or are likely to vest during the period. Diluted earnings per share for the 2008 period is calculated by dividing income available to common shareholders by the weighted average number of basic common shares outstanding, adjusted to reflect potentially dilutive securities.

The respective determination of weighted average shares used in the computation of earnings (loss) per share is as follows (amounts in thousands);

	Three Months Ended December 31,	
	2009	2008
Basic:		
(Loss) income from continuing operations	4,931	4,914
Loss from discontinued operations	4,931	4,914
Diluted:		
(Loss) income from continuing operations	4,931	4,920
Loss from discontinued operations	4,931	4,920

Under guidance for determining earnings (loss) per share, the effects of common stock equivalents of approximately 6,000, are included (even though the shares are anti dilutive) for the three months ended December 31, 2008 in the calculation of loss per share for discontinued operations.

## Income Taxes

TeamStaff accounts for income taxes in accordance with the "liability" method, whereby deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are reflected on the consolidated balance sheet when it is determined that it is more likely than not that the asset will be realized. This guidance also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some or all of the deferred tax asset will not be realized. At December 31, 2009 and September 30, 2009, the Company recorded a 100% valuation allowance against its net deferred tax assets

## Recently Issued Accounting Pronouncements Affecting the Company

In September 2006, the FASB issued a standard which defines fair value, established a framework for measuring fair value in accordance with accounting principles generally accepted in the United States, and expanded disclosures about fair value measurements. This standard was effective for financial statements issued for fiscal years beginning after November 15, 2007, with earlier application encouraged. Any amounts recognized upon adoption as a cumulative effect adjustment will be recorded to the opening balance of retained earnings in the year of adoption. In February 2008, the FASB issued supplemental guidance in the form of a staff position, which delayed the effective date of the initial standard for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The Company adopted this standard on October 1, 2008 with no effect on its financial position, results of operations and cash flows.

In February 2007, the FASB issued a standard that permits entities to choose to measure, on an item-by-item basis, specified financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are required to be reported in earnings at each reporting date. This standard was effective for fiscal years beginning after November 15, 2007, the provisions of which are required to be applied prospectively. The Company adopted this standard on October 1, 2008 with no effect on its financial position, results of operations and cash flows.

In March 2008, the FASB issued a standard which is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable users of the financial statements to better understand the effects on an entity's financial position, financial performance, and cash flows. It is effective for financial statements issued for interim periods beginning after November 15, 2008, with early application encouraged. The adoption of this standard did not have a material effect on our consolidated financial statements.

In June 2009, the FASB issued a standard which stipulated the *FASB Accounting Standards Codification*<sup>TM</sup> is the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. This standard is effective for financial statements issued for interim and annual periods that ended after September 15, 2009. The implementation of this standard did not have a material impact on the Company's financial position, results of operations and cash flows.

**(3) DISCONTINUED OPERATIONS:****Sale of TeamStaff Rx**

Based on an analysis of historical and forecasted results and the Company's strategic initiative to focus on core business, in the fourth quarter of fiscal 2009, the Company approved and committed to a formal plan to divest the operations of TeamStaff Rx, our wholly-owned subsidiary, based at its Clearwater, Florida location. In evaluating the facets of TeamStaff Rx's operations, management concluded that this business component meets the definition of a discontinued operation. Accordingly, the results of operations, cash flows and related assets and liabilities of TeamStaff Rx for all periods presented have been reclassified in the accompanying consolidated financial statements from those of continuing businesses.

Effective December 28, 2009, TeamStaff and TeamStaff Rx entered into a definitive Asset Purchase Agreement with Advantage RN, providing for the sale of substantially all of the operating assets of TeamStaff Rx related to TeamStaff Rx's business of providing travel nurse and allied healthcare professionals for temporary assignments to Advantage RN. The closing of this transaction occurred on January 4, 2010. The Asset Purchase Agreement provides that the purchased assets were acquired by Advantage RN for a purchase price of up to \$425,000, of which (i) \$350,000 in cash was paid at the closing, and (ii) \$75,000 is subject to an escrowed holdback as described in the Asset Purchase Agreement. The Company and Advantage RN are in the process of determining whether the escrow release conditions have been satisfied and have not yet completed such analysis and reached agreement. Additionally, Advantage RN will make rent subsidy payments to TeamStaff Rx totaling \$125,000, consisting of: (i) \$25,000 paid at closing, and (ii) an additional \$100,000 payable in 10 equal monthly installments beginning on March 1, 2010. Under the terms of the Asset Purchase Agreement, Advantage RN will not assume any debts, obligations or liabilities of TeamStaff Rx nor will it purchase any accounts receivable outstanding as of the closing date.

Condensed financial statement information and results of discontinued operations are as follows:

(amounts in thousands)	For the Three Months Ended	
	December 31, 2009	December 31, 2008
Revenues	\$ 1,418	\$ 2,669
Direct expenses	1,255	2,064
Selling, general and administrative expenses	938	1,108
Other expense, net	10	18
Loss from operations	(785)	(521)
Loss from disposal	(349)	—
Net loss	\$ (1,134)	\$ (521)

Included in selling, general and administrative expense from discontinued operations is a charge of \$0.1 million for severance to certain TeamStaff Rx employees, \$0.3 million in various accrued expenses related to the sale and shut down of the business, and a loss on the disposal of TeamStaff Rx approximating \$0.3 million principally from recognition of the remaining unfunded operating lease payments. Although there are certain conditions on the collection of amounts that are held in escrow, the Company expects to settle such matters in the second quarter of the fiscal year ending September 30, 2010. There were no tax benefits associated with the losses from these discontinued operations.

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The following chart details assets and liabilities from all discontinued operations (amounts in thousands):

	December 31, 2009	September 30, 2009
<b>ASSETS</b>		
Cash	\$ —	\$ 245
Accounts receivable	533	674
Other current assets	31	124
Total current assets	564	1,043
Fixed assets	1,878	1,878
Accumulated depreciation	(1,602)	(1,602)
Net fixed assets	276	276
Goodwill and intangibles	99	99
Other assets	—	—
Total assets	<u>\$ 939</u>	<u>\$ 1,418</u>
<b>Liabilities</b>		
Current portion capital leases	\$ 45	\$ 44
Accrued payroll	212	237
Accrued expenses and other current liabilities	636	111
Total current liabilities	893	392
Long term capital leases	28	39
Other long term liabilities	10	25
Total liabilities	<u>\$ 931</u>	<u>\$ 456</u>

Activity in the liabilities of discontinued operations is as follows:

	September 30, 2009 Balance	Expensed This Period	Paid This Period	December 31, 2009 Balance
Current portion capital leases	\$ 44	\$ 1		\$ 45
Accrued payroll	237	0	(25)	212
Accrued expenses and other current liabilities	111	525	—	636
Capital leases	39	—	(11)	28
Other long term liabilities	25	—	(15)	10
Total	<u>\$ 456</u>	<u>\$ 526</u>	<u>\$ (51)</u>	<u>\$ 931</u>

#### **(4) COMMITMENTS AND CONTINGENCIES:**

##### **Payroll Taxes**

TeamStaff has received notices from the Internal Revenue Service (“IRS”) claiming taxes, interest and penalties due related to payroll taxes predominantly from its former PEO operations which were sold in fiscal 2003. TeamStaff has also received notices from the IRS reporting overpayments of taxes. Management believes that these notices are predominantly the result of misapplication of payroll tax payments between its legal entities. If not resolved favorably, the Company may incur interest and penalties. Until the sale of certain assets related to the former PEO operations, TeamStaff operated through 17 subsidiaries, and management believes that the IRS has not correctly identified payments made through certain of the different entities, therefore leading to the notices. To date, TeamStaff has been working with the IRS to resolve these discrepancies and has had certain interest and penalty claims abated. TeamStaff has also received notices from the Social Security Administration claiming variances in wage reporting compared to IRS transcripts. TeamStaff believes the notices from the Social Security Administration are directly related to the IRS notices received. TeamStaff had retained the services of Ernst & Young LLP as a consultant to assist in resolving certain of these matters with the IRS and Social Security Administration. TeamStaff believes that after the IRS applies all the funds correctly, any significant interest and penalties will be abated; however, there can be no assurance that each of these matters will be resolved favorably. In settling various years for specific subsidiaries with the IRS, the Company has received refunds for those specific periods; however, as the process of settling and concluding on other periods and subsidiaries is not yet completed, the potential exists for related penalties and interest. In fiscal 2009, the Company paid \$1.1 million, related to this matter. Management believes that the ultimate resolution of these remaining payroll tax matters will not have a significant adverse effect on its financial position or future results of operations.

## **Legal Proceedings**

### **RS Staffing Services, Inc.**

On April 17, 2007, a Federal Grand Jury subpoena was issued by the Northern District of Illinois to the Company's wholly-owned subsidiary, TeamStaff GS, formerly known as RS Staffing Services, requesting production of certain documents dating back to 1997, prior to the time the Company acquired RS Staffing Services. The subpoena stated that it was issued in connection with an investigation of possible violations of Federal criminal laws and related crimes concerning procurement at the DVA. According to the cover letter accompanying the subpoena, the U.S. Department of Justice, Antitrust Division ("DOJ"), along with the DVA, Office of the Inspector General, are responsible for the current criminal investigation. RS Staffing Services provided contract staffing at certain DVA hospitals that may be part of the investigation. The return date for documents called for by the subpoena was May 17, 2007. In connection with the same investigation, agents with the DVA, Office of Inspector General, executed a search warrant at the Monroe, Georgia offices of RS Staffing Services.

The government has advised TeamStaff that the DOJ has no intent to charge TeamStaff or any of its subsidiaries or employees in connection with the Federal investigation of contract practices at various government owned/contractor operated facilities. TeamStaff remains committed to cooperate with the DOJ's continued investigation of other parties.

The Company originally acquired RS Staffing Services in June 2005. As part of the purchase price of the acquisition, the Company issued to the former owners of RS Staffing Services a \$3.0 million promissory note, of which \$1.5 million and interest of \$150,000 was paid in June 2006. On May 31, 2007, the Company sent a notice of indemnification claim to the former owners for costs that have been incurred in connection with the investigation. Effective June 1, 2007, the Company and former owners of RS Staffing Services reached an agreement to extend the due date from June 8, 2007 to December 31, 2008 with respect to the remaining \$1.5 million note payable and accrued interest payable. Such agreement has been extended to February 28, 2010. As of December 31, 2009, the amount has not been settled. The Company recognized expenses related to legal representation and costs incurred in connection with the investigation in the amount of \$1,000 and \$7,000 in the three months ended December 31, 2009 and 2008, respectively, as a component of other income (expense). Cumulative costs related to this matter approximate \$1.7 million. Pursuant to the acquisition agreement with RS Staffing Services, the Company has notified the former owners of RS Staffing Services that it is the Company's intention to exercise its right to setoff the payment of such expenses against the remaining principal and accrued interest due to the former owners of RS Staffing Services.

The Company will pursue the recovery as a right of offset in future periods. Management has a good faith belief that the Company will recover such amounts; however, generally accepted accounting principles preclude the Company from recording an offset to the note payable to the former owners of RS Staffing Services until the final amount of the claim is settled and determinable. At present, no assurances can be given that the former owners of RS Staffing Services would not pursue action against us or that the Company will be successful in the offset of such amounts against the outstanding debt and accrued interest from notice date forward, if any. Accordingly, the Company has expensed costs incurred related to the investigation through December 31, 2009.

### **Other Matters**

As a commercial enterprise and employer, we are subject to various claims and legal actions in the ordinary course of business. These matters can include professional liability, employment-relations issues, workers' compensation, tax, payroll and employee-related matters and inquiries and investigations by governmental agencies regarding our employment practices. We are not aware of any pending or threatened litigation that we believe is reasonably likely to have a material adverse effect on our results of operations, financial position or cash flows.

## **Potential Contractual Billing Adjustments**

At December 31, 2009, TeamStaff GS is seeking approval from the Federal government for gross profit on retroactive billing rate increases associated with certain government contracts at which it has employees staffed on contract assignments. These adjustments are due to changes in the contracted wage determination rates for these contract employees. A wage determination is the listing of wage rates and fringe benefit rates for each classification of laborers whom the Administrator of the Wage and Hour Division of the U.S. Department of Labor ("DOL") has determined to be prevailing in a given locality. Contractors performing services for the Federal government under certain contracts are required to pay service employees in various classes no less than the wage rates and fringe benefits found prevailing in these localities. An audit by the DOL at one of the facilities revealed that notification, as required by contract, was not provided to TeamStaff GS in order to effectuate the wage increases in a timely manner. Wages for contract employees currently on assignment have been adjusted prospectively to the prevailing rate and hourly billing rates to the DVA have been increased accordingly. During the fiscal year ended September 30, 2008, TeamStaff recognized nonrecurring revenues of \$10.8 million and direct costs of \$10.1 million, based on amounts that are contractually due under its arrangements with the Federal agencies. At December 31, 2009 and September 30, 2009, the amount of the remaining accounts receivable with the DVA approximates \$9.3 million. The Company has been and continues to be in discussions with representatives of the DVA regarding the matter and anticipates resolution during fiscal 2010. TeamStaff is currently in the process of negotiating a final amount related to gross profit on these adjustments. As such, there may be additional revenues recognized in future periods once the approval for such additional amounts is obtained. The ranges of additional revenue and gross profit are estimated to be between \$0.4 million and \$0.6 million. At present, the Company expects to collect such amounts during fiscal 2010. Because these amounts are subject to government review, no assurances can be given that we will receive any additional billings from our government contracts or that if additional amounts are received, that the amount will be within the range specified above.

### **(5) PREPAID WORKERS' COMPENSATION:**

From November 17, 2003 through April 14, 2009, inclusive, TeamStaff's workers' compensation insurance program was provided by Zurich American Insurance Company ("Zurich"). This program covered TeamStaff's temporary, contract and corporate employees. This program was a fully insured, guaranteed cost program that contained no deductible or retention feature. The premium for the program was paid monthly based upon actual payroll and is subject to a policy year-end audit. Effective April 15, 2009, TeamStaff entered into a partially self-funded workers' compensation insurance program with a national insurance carrier for the premium year April 15, 2009 through April 14, 2010. The Company will pay a base premium plus actual losses incurred, not to exceed certain stop-loss limits. The Company is insured for losses above these limits, both per occurrence and in the aggregate. The Company accrues for estimated claims incurred based on data provided by its insurance carrier.

As part of the Company's discontinued PEO operations, TeamStaff had a workers' compensation program with Zurich, which covered the period from March 22, 2002 through November 16, 2003, inclusive. Payments for the policy were made to the trust monthly based on projected claims for the policy period. Interest on all assets held in the trust is credited to TeamStaff. Payments for claims and claims expenses are made from the trust. From time-to-time, trust assets have been refunded to the Company based on Zurich's and management's overall assessment of claims experience and historical and projected settlements. In June 2009 and March 2008, Zurich reduced the collateral requirements on outstanding workers' compensation claims and released \$114,000 and \$350,000, respectively, in trust account funds back to the Company. The final amount of trust funds that could be refunded to the Company is subject to a number of uncertainties (e.g. claim settlements and experience, health care costs, the extended statutory filing periods for such claims); however, based on a third party's study of claims experience, TeamStaff estimates that at December 31, 2009, the remaining prepaid asset of \$0.3 million will be received within the next twelve months. A portion of this is reflected on TeamStaff's balance sheet as of December 31, 2009 as a current asset, in addition to approximately \$0.2 million related to current policy deposits.

As of December 31, 2009 the adequacy of the workers' compensation reserves (which are offset against the trust fund balances in prepaid assets) was determined, in management's opinion, to be reasonable. In determining our reserves we rely in part upon information regarding loss data received from our workers' compensation insurance carriers that may include loss data for claims incurred during prior policy periods. In addition, these reserves are for claims that have not been sufficiently developed and such variables as timing of payments and investment returns thereon are uncertain or unknown, therefore actual results may vary from current estimates. TeamStaff will continue to monitor the development of these reserves, the actual payments made against the claims incurred, the timing of these payments, the interest accumulated in TeamStaff's prepayments and adjust the related reserves as deemed appropriate.

**(6) DEBT:**

On March 28, 2008, we entered into an Amended and Restated Loan and Security Agreement dated as of March 28, 2008 (the "Loan Agreement") with Business Alliance Capital Company ("BACC"), a division of Sovereign Bank ("Sovereign" or "Lender"). Effective April 1, 2008, BACC changed its name to Sovereign Business Capital. Under the Loan Agreement, the Lender agreed to provide a revolving credit facility to the Company in an aggregate amount of up to \$3,000,000, subject to the further terms and conditions of the Loan Agreement. The loan is secured by a first priority lien on all of the Company's assets. Previously in 2005, the Company and PNC Bank, National Association ("PNC") had entered into an \$8,000,000 revolving credit facility ("PNC Loan Facility"). Pursuant to the Loan Agreement, the Lender (i) acquired by assignment from PNC all right, title and interest of PNC under the PNC Loan Facility, the PNC note and related loan documentation, and (ii) restructured the PNC Loan Facility into a \$3,000,000 revolving credit facility with a 3 year term. The Company's ability to request loan advances under the Loan Agreement is subject to computation of the Company's advance limit and compliance with the covenants and conditions of the loan. The facility is for a term of 36 months and matures on March 31, 2011. Interest on amounts due accrue on the daily unpaid balance of the loan advances at a per annum rate of 0.25% percentage point above the Prime Rate in effect from time to time, but not less than 5.5% per annum.

The facility is subject to certain restrictive covenants, including minimum debt service coverage ratio and restrictions on the Company's ability to, among other things, dispose of certain assets, engage in certain transactions, incur indebtedness and pay dividends. The Loan Agreement also provides for customary events of default following which, the Lender may, at its option, accelerate the amounts outstanding under the Loan Agreement.

In connection with the disposition of the assets of our TeamStaff Rx subsidiary, we were required to obtain the consent of Sovereign. On January 12, 2010 we were granted such consent. As a condition to such consent, however, Sovereign reduced the maximum amount available under such loan facility from \$3.0 million to \$2.0 million. At December 31, 2009 there was \$40,000 of debt outstanding under the Loan Agreement. As of September 30, 2009, there was no debt outstanding. Unused availability (as defined) totaled \$1.6 million and \$1.7 million, at December 31, 2009 and September 30, 2009, respectively, net of required collateral reserves per the Loan Agreement for certain payroll and tax liabilities.

In addition, on February 12, 2010, we determined that as of December 31, 2009, we were not in compliance with the debt service coverage ratio covenant of the Loan Agreement. The Loan Agreement provides that following an event of default, Sovereign may, among other remedies provided for in the Loan Agreement, accelerate the amounts outstanding under the Loan Agreement, take such actions as it deems necessary to protect its security interest in the collateral, and terminate the Loan Agreement. We are in discussions with Sovereign regarding obtaining a waiver of our default under the debt service coverage ratio. However, no assurances can be given that Sovereign will grant any waiver or otherwise decline to exercise their rights under the Loan Agreement.

**Promissory Note (see Note (4) Commitments and Contingencies: "Legal Proceedings")**

In connection with the acquisition of RS Staffing Services, TeamStaff issued two promissory notes to the former owners of RS Staffing Services as part of the acquisition price, in the aggregate principal amount of \$3.0 million. The notes bear interest at 5% per annum, and are subordinate to the financing provided by Sovereign described above. One half of the principal (\$1.5 million) and interest (\$150,000) was due and paid on June 8, 2006. The remaining principal and interest was due in June 2007. As described in Note (4) above, effective June 1, 2007, the Company and former owners of RS Staffing Services reached an agreement to extend the due date of the \$1.5 million note payable and accrued interest to February 28, 2010.

Based on contractual terms of the initial agreement and the status of the parties' discussions, this debt at December 31, 2009 and September 30, 2009 is classified as a current liability.

**(7) STOCK WARRANTS:**

The Company had no outstanding warrants during the three months ended December 31, 2009 and 2008.

**(8) SUBSEQUENT EVENTS:**

Management evaluated subsequent events through February 16, 2010, the date the Company's financial statements were issued. Based on this evaluation, the Company has determined except for the matters described below, that no subsequent events have occurred which require disclosure through February 16, 2010, which is the date that these financial statements are issued.



## **Nasdaq Compliance**

On February 2, 2010, the Company received a letter from The Nasdaq Stock Market, indicating that the Company has regained compliance with the \$1.00 per share minimum closing bid price requirement for continued listing on the Nasdaq Capital Market, pursuant to the Nasdaq Marketplace Rules. In the letter, Nasdaq advised the Company that this matter is now closed.

## **Management Transition and New Chief Executive Officer**

On February 9, 2010, the Company entered into an employment agreement with Mr. Zachary C. Parker pursuant to which he will become Chief Executive Officer and President of TeamStaff commencing on February 22, 2010. Mr. Parker's employment agreement also provides for his election to the Company's Board of Directors effective on February 22, 2010. Mr. Parker succeeds Rick J. Filippelli, who served as the Company's Chief Executive Officer and President and a member of its Board of Directors. As previously reported, in the first quarter of fiscal 2010, Mr. Filippelli resigned from his positions with TeamStaff effective February 5, 2010. Also, on February 5, 2010, the Board of Directors named Cheryl Presuto, the Company's Chief Financial Officer, as the Company's Acting President until Mr. Parker commences employment as TeamStaff's Chief Executive Officer and President.

The following is a description of the Company's employment agreement with Mr. Parker, which is qualified in its entirety by reference to the full text of such agreement.

The employment agreement is for an initial term expiring September 30, 2013. Under the employment agreement, Mr. Parker will receive a base salary of \$288,000. Upon any termination of the Employee's employment on or after the expiration date, other than cause (as defined in the employment agreement), Mr. Parker will be entitled to a severance payment equal to 12 months of his then-current base salary.

Mr. Parker may receive a bonus in the sole discretion of the Management Resources and Compensation Committee of the Board of Directors of up to 70% of his base salary for each fiscal year of employment. The bonus will be based on performance targets and other key objectives established by the committee at the commencement of each fiscal year. For the period commencing on the effective date of the employment agreement to September 30, 2010, Mr. Parker shall be guaranteed a bonus of \$45,000. The committee will establish performance targets for the balance of fiscal 2010 in consultation with Mr. Parker within 30 days of the commencement date to enable him to earn an additional bonus for fiscal 2010, not to exceed in the aggregate 70% of the portion of the base salary actually paid in fiscal 2010.

The Company granted Mr. Parker options to purchase 500,000 shares of common stock under the 2006 Plan. The options shall vest as follows: 50,000 options vest on the commencement of his employment; 150,000 options shall vest if the closing price of the Company's common stock equals or exceeds \$3.00 per share for ten consecutive trading days; an additional 50,000 options shall vest if the closing price of the Company's common stock equals or exceeds \$4.00 per share for ten consecutive trading days; an additional 50,000 options shall vest if the closing price of the Company's common stock equals or exceeds \$5.00 per share for ten consecutive trading days; an additional 50,000 options shall vest if the closing price of the Company's common stock equals or exceeds \$6.00 per share for ten consecutive trading days; an additional 50,000 options shall vest if the closing price of the Company's common stock equals or exceeds \$7.00 per share for ten consecutive trading days; and the remaining 100,000 options shall vest if the closing price of the Company's common stock equals or exceeds \$9.00 per share for ten consecutive trading days. The options, to the extent vested, shall be exercisable for a period of ten years at the per share exercise price of \$1.03, which was the closing price of the Company's common stock on the date of execution of the employment agreement. As used in the employment agreement, closing price shall mean the closing price of the Company's common stock as reported on the principle exchange on which they are listed; provided, however, that in the event of a Change in Control, the closing price shall be equal to the "Change in Control Price", as defined in the 2006 Plan.

In the event of the termination of his employment, the options granted under the employment agreement will be treated as follows: (i) in the event his employment is terminated for cause, options granted and not exercised as of the termination date shall terminate immediately and be null and void; (ii) in the event Mr. Parker's employment with the Company is terminated due to death, or disability, his (or his estate's or legal representative's) right to purchase shares of common stock pursuant to any stock option or stock option plan to the extent vested as of the date of termination shall remain exercisable for a period of 12 months, but in no event after the expiration of the option; (iii) in the event of a termination of his employment other than for good reason, such options, to the extent vested as of the date of termination, shall remain exercisable for a period of three months following such termination date, but in no event after the expiration of option; (iv) in the event Mr. Parker's employment is terminated by the Company without cause, or by him for good reason, as such terms are defined in the employment agreement, vested options shall remain exercisable in accordance with the 2006 Plan; and (v) in the event of a Change of Control, as defined in the employment agreement, vested options shall remain exercisable in accordance with the 2006 Plan.

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In the event of the termination of employment by us without “cause” or by Mr. Parker for “good reason,” as those terms are defined in the employment agreement, or in the event his employment is terminated due to his disability, he would be entitled to: (a) a severance payment of 12 months of base salary; (b) continued participation in our health and welfare plans for a period not to exceed 18 months from the termination date; and (c) all compensation accrued but not paid as of the termination date.

In the event of the termination of his employment due to his death, Mr. Parker’s estate would be entitled to receive: (a) all compensation accrued but not paid as of the termination date; (b) continued participation in our health and welfare plans for a period not to exceed 18 months from the termination date; and (c) payment of a “Pro Rata Bonus”, which is defined as an amount equal to the maximum bonus Mr. Parker had an opportunity to earn multiplied by a fraction, the numerator of which shall be the number of days from the commencement of the fiscal year to the termination date, and the denominator of which shall be the number of days in the fiscal year in which he was terminated.

If Mr. Parker’s employment is terminated by us for “cause” or by him without “good reason,” he is not entitled to any additional compensation or benefits other than his accrued and unpaid compensation.

In the event that within 90 days of a “Change of Control” as defined in the employment agreement, (a) Mr. Parker is terminated, or (b) his status, title, position or responsibilities are materially reduced and he terminates his employment, the Company shall pay and/or provide to him, the following compensation and benefits: (i) the accrued compensation; (ii) the continuation benefits; and (iii) a lump sum payment equal to 150% of his base salary in effect on the effective date of the change of control. If the payments due in the event of a change in control would constitute an “excess parachute payment” as defined in Section 280G of the Internal Revenue Code of 1986, as amended (the “Code”), the aggregate of such credits or payments under the employment agreement and other agreements shall be reduced to the largest amount as will result in no portion of such aggregate payments being subject to the excise tax imposed by Section 4999 of the Code. The priority of the reduction of excess parachute payments shall be in the discretion of Mr. Parker.

Pursuant to the employment agreement, Mr. Parker is subject to customary confidentiality, non-solicitation of employees and non-competition obligations that survive the termination of such agreements.

### **Separation Agreement**

On February 11, 2010, the Company entered into a separation agreement with its former Chief Executive Officer, Rick J. Filippelli, which memorializes the terms of his departure from the Company. As previously reported, Mr. Filippelli resigned from all positions with Company effective as of February 5, 2010. Consistent with the employment agreement the Company entered into with Mr. Filippelli in November 2009, pursuant to the separation agreement and in consideration of the general release granted by Mr. Filippelli to the Company, the Company agreed to provide Mr. Filippelli with the following: (a) a severance payment of \$290,000; (b) the provision of health benefits through February 5, 2011; and (c) all unvested stock options and restricted stock awards shall be deemed vested as of the termination date of his employment and all outstanding options shall remain exercisable for their original exercise period. Mr. Filippelli also agreed that he will not sell the 35,000 restricted shares of the Company’s Common Stock originally scheduled to vest in January 2011, and the 30,000 shares of Common Stock underlying the option granted pursuant to the November 2009 employment agreement until the earlier of a change of control of the Company, as defined in such employment agreement, or January 31, 2011.

### **Sale of TeamStaff Rx (See Note (3) Discontinued Operations)**

## **ITEM 2: MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **Forward Looking and Cautionary Statements**

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 (the “1995 Reform Act”), Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). TeamStaff desires to avail itself of certain “safe harbor” provisions of the 1995 Reform Act and is therefore including this special note to enable TeamStaff to do so. Forward-looking statements are identified by words such as “believe,” “anticipate,” “expect,” “intend,” “plan,” “will,” “may” and other similar expressions. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. Forward-looking statements included in this Quarterly Report involve known and unknown risks, uncertainties and other factors which could cause TeamStaff’s actual results, performance (financial or operating) or achievements to differ from the future results, performance (financial or operating) or achievements expressed or implied by such forward-looking statements. We based these forward-looking statements on our current expectations and best estimates and projections about future events. Our actual results could differ materially from those discussed in, or implied by, these forward-looking statements. The following factors (among others) could cause our actual results to differ materially from those implied by the forward-looking statements in this Quarterly Report: our ability to continue to recruit and retain qualified temporary and permanent healthcare professionals and administrative staff at reasonable costs; our ability to attract and retain sales and operational personnel; our ability to enter into contracts with United States Government facilities on terms attractive to us and to secure orders related to those contracts; changes in the timing of orders for and our placement of contract and permanent healthcare professionals and administrative staff; the overall level of demand for services offered by contract and permanent healthcare staffing providers; the variation in pricing of the healthcare facility contracts under which we place contract and permanent healthcare professionals; our ability to manage growth effectively; the performance of our management information and communication systems; the effect of existing or future government legislation and regulation; the impact of medical malpractice and other claims asserted against us; the disruption or adverse impact to our business as a result of a terrorist attack; our ability to carry out our business strategy; the loss of key officers, and management personnel that could adversely affect our ability to remain competitive; the effect of recognition by us of an impairment to goodwill and intangible assets; other tax and regulatory issues and developments; and the effect of adjustments by us to accruals for self-insured retentions.



Other factors that could cause actual results to differ from those implied by the forward-looking statements in this Quarterly Report on Form 10-Q are set forth in our Annual Report on Form 10-K for the year ended September 30, 2009 and our other reports filed with the SEC. We undertake no obligation to update any forward-looking statement or statements in this filing to reflect events or circumstances that occur after the date on which the statement is made or to reflect the occurrence of unanticipated events.

### **Critical Accounting Policies and Estimates**

TeamStaff believes the accounting policies below represent its critical accounting policies due to the significance or estimation process involved in each. See Note 2 of TeamStaff's 2009 Annual Report on Form 10-K as well as "Critical Accounting Policies" contained therein for a detailed discussion on the application of these and other accounting policies.

#### **Revenue Recognition**

TeamStaff accounts for its revenues in accordance with ACS 605-45, *Reporting Revenues Gross as a Principal Versus Net as an Agent*, and SAB 104, *Revenue Recognition*. TeamStaff recognizes all amounts billed to its contract staffing customers as gross revenue because, among other things, TeamStaff is the primary obligor in the contract staffing arrangement; TeamStaff has pricing latitude; TeamStaff selects contract employees for a given assignment from a broad pool of individuals; TeamStaff is at risk for the payment of its direct costs; and TeamStaff assumes a significant amount of other risks and liabilities as an employer of its contract employees, and therefore, is deemed to be a principal in regard to these services. TeamStaff also recognizes as gross revenue and as unbilled receivables, on an accrual basis, any such amounts that relate to services performed by contract employees which have not yet been billed to the customer as of the end of the accounting period.

Revenues related to retroactive billings in 2008 (see Note 4 of Notes to Consolidated Financial Statements) from an agency of the Federal government were recognized when: (1) the Company developed and calculated an amount for such prior period services and had a contractual right to bill for such amounts under its arrangements, (2) there were no remaining unfulfilled conditions for approval of such billings and (3) collectability is reasonably assured based on historical practices with the DVA. The related direct costs, principally comprised of salaries and benefits, are recognized to match the recognized reimbursements from the Federal agency; upon approval, wages will be processed for payment to the employees.

During the year ended September 30, 2008, TeamStaff recognized revenues of \$10.8 million and direct costs of \$10.1 million related to these non-recurring arrangements. At December 31, 2009 and September 30, 2009, the amount of the remaining accounts receivable with the DVA approximated \$9.3 million and accrued liabilities for salaries to employees and related benefits totaled \$8.7 million. The \$9.3 million in accounts receivable was unbilled to the DVA at December 31, 2009 and September 30, 2009. At present, the Company expects to collect such amounts by the end of the second quarter of fiscal 2010 based on current discussions and collection efforts.

Staffing (whether medical or administrative) revenue is recognized as service is rendered. TeamStaff bills its clients based on an hourly rate. The hourly rate is intended to cover TeamStaff's direct labor costs of the contract employees, plus an estimate for overhead expenses and a profit margin. Additionally, commissions from permanent placements (principally TeamStaff Rx) are included in revenue as placements are made. Commissions from permanent placements result from the successful placement of a medical staffing employee to a customer's workforce as a permanent employee. The Company also reviews the status of such placements to assess the Company's future performance obligations under such contracts.

Direct costs of services are reflected in TeamStaff's Consolidated Statements of Operations as "direct expenses" and are reflective of the type of revenue being generated. Direct costs of the contract staffing business include wages, employment related taxes and reimbursable expenses.

## **Prepaid Workers' Compensation**

From November 17, 2003 through April 14, 2009, inclusive, TeamStaff's workers' compensation insurance program was provided by Zurich American Insurance Company ("Zurich"). This program covered TeamStaff's temporary, contract and corporate employees. This program was a fully insured, guaranteed cost program that contained no deductible or retention feature. The premium for the program was paid monthly based upon actual payroll and is subject to a policy year-end audit. Effective April 15, 2009, TeamStaff entered into a partially self-funded workers' compensation insurance program with a national insurance carrier for the premium year April 15, 2009 through April 14, 2010. The Company will pay a base premium plus actual losses incurred, not to exceed certain stop-loss limits. The Company is insured for losses above these limits, both per occurrence and in the aggregate. The Company accrues for estimated claims incurred based on data provided by its insurance carrier.

As part of the Company's discontinued PEO operations, TeamStaff had a workers' compensation program with Zurich, which covered the period from March 22, 2002 through November 16, 2003, inclusive. Payments for the policy were made to the trust monthly based on projected claims for the policy period. Interest on all assets held in the trust is credited to TeamStaff. Payments for claims and claims expenses are made from the trust. From time-to-time, trust assets have been refunded to the Company based on Zurich's and management's overall assessment of claims experience and historical and projected settlements. In June 2009 and March 2008, Zurich reduced the collateral requirements on outstanding workers' compensation claims and released \$114,000 and \$350,000, respectively, in trust account funds back to the Company. The final amount of trust funds that could be refunded to the Company is subject to a number of uncertainties (e.g. claim settlements and experience, health care costs, the extended statutory filing periods for such claims); however, based on a third party's study of claims experience, TeamStaff estimates that at December 31, 2009, the remaining prepaid asset of \$0.3 million will be received within the next twelve months. A portion of this is reflected on TeamStaff's balance sheet as of December 31, 2009 as a current asset, in addition to approximately \$0.2 million related to current policy deposits.

As of December 31, 2009 the adequacy of the workers' compensation reserves (which are offset against the trust fund balances in prepaid assets) was determined, in management's opinion, to be reasonable. In determining our reserves we rely in part upon information regarding loss data received from our workers' compensation insurance carriers that may include loss data for claims incurred during prior policy periods. In addition, these reserves are for claims that have not been sufficiently developed and such variables as timing of payments and investment returns thereon are uncertain or unknown, therefore actual results may vary from current estimates. TeamStaff will continue to monitor the development of these reserves, the actual payments made against the claims incurred, the timing of these payments, the interest accumulated in TeamStaff's prepayments and adjust the related reserves as deemed appropriate.

## **Income Taxes**

TeamStaff accounts for income taxes in accordance with the "liability" method, whereby deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are reflected on the consolidated balance sheet when it is determined that it is more likely than not that the asset will be realized. This guidance also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some or all of the deferred tax asset will not be realized. At December 31, 2009, the Company provided a 100% deferred tax valuation allowance of approximately \$13.8 million.

## **Recently Issued Accounting Pronouncements Affecting the Company**

In September 2006, the FASB issued a standard which defines fair value, established a framework for measuring fair value in accordance with accounting principles generally accepted in the United States, and expanded disclosures about fair value measurements. This standard was effective for financial statements issued for fiscal years beginning after November 15, 2007, with earlier application encouraged. Any amounts recognized upon adoption as a cumulative effect adjustment will be recorded to the opening balance of retained earnings in the year of adoption. In February 2008, the FASB issued supplemental guidance in the form of a staff position, which delayed the effective date of the initial standard for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The Company adopted this standard on October 1, 2008 with no effect on its financial position, results of operations and cash flows.

In February 2007, the FASB issued a standard that permits entities to choose to measure, on an item-by-item basis, specified financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are required to be reported in earnings at each reporting date. This standard was effective for fiscal years beginning after November 15, 2007, the provisions of which are required to be applied prospectively. The Company adopted this standard on October 1, 2008 with no effect on its financial position, results of operations and cash flows.

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In March 2008, the FASB issued a standard which is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable users of the financial statements to better understand the effects on an entity's financial position, financial performance, and cash flows. It is effective for financial statements issued for interim periods beginning after November 15, 2008, with early application encouraged. The adoption of this standard did not have a material effect on our consolidated financial statements.

In June 2009, the FASB issued a standard which stipulated the *FASB Accounting Standards Codification*<sup>TM</sup> is the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. This standard is effective for financial statements issued for interim and annual periods that ended after September 15, 2009. The implementation of this standard did not have a material impact on the Company's financial position, results of operations and cash flows.

### **Overview**

#### Business Description

TeamStaff, through its TeamStaff GS subsidiary, is a healthcare, logistical, information technology and office administration staffing provider which has been serving the Federal Government for over a decade. TeamStaff GS's primary client has been the United States Government and its various agencies. TeamStaff GS is committed to providing on-time delivery of multi-disciplined employees who possess the necessary experience, expertise, and dedication required to meet contract specifications. The staffing services offered by TeamStaff GS are provided through independent FSS contracts through the GSA. The provision of logistical and administrative personnel is accomplished through the Logistics Worldwide Schedule and medical personnel are supplied through the Professional and Allied Healthcare Staffing Services Schedule. TeamStaff also provides its staffing services to federal government agencies through competitively bid contracts and has a GSA schedule contract to provide information technology professional services. TeamStaff provides these services to the DVA, the US Department of Defense and other US governmental agencies and placed contract employees at approximately 30 facilities during the three months ended December 31, 2009.

As described in greater detail below, on December 28, 2009, TeamStaff and TeamStaff Rx entered into a definitive Asset Purchase Agreement with Advantage RN, LLC, an Ohio limited liability company, providing for the sale of substantially all of the operating assets of TeamStaff Rx related to TeamStaff Rx's business of providing travel nurse and allied healthcare professionals for temporary assignments to Advantage RN. The closing of this transaction occurred on January 4, 2010. The Asset Purchase Agreement provides that the purchased assets were acquired by Advantage RN for a purchase price of up to \$425,000, of which (i) \$350,000 in cash was paid at the closing, and (ii) \$75,000 is subject to an escrowed holdback as described in the Asset Purchase Agreement. The Company and Advantage RN are in the process of determining whether the escrow release conditions have been satisfied and have not yet completed such analysis and reached agreement. Additionally, Advantage RN will make rent subsidy payments to TeamStaff Rx totaling \$125,000, consisting of (i) \$25,000 payable at closing, and (ii) an additional \$100,000 payable in 10 equal monthly installments beginning on March 1, 2010.

Following the disposition of our TeamStaff Rx business, TeamStaff provides staffing services through TeamStaff GS.

As described in greater detail in Note 3 to our consolidated financial statements, the results of operations, cash flows and related assets and liabilities of our TeamStaff Rx business was reclassified in the accompanying consolidated financial statements from those of our continuing businesses to discontinued operations.

#### Management Transition

On February 9, 2010, we entered into an employment agreement with Mr. Zachary C. Parker pursuant to which he will become Chief Executive Officer and President of TeamStaff commencing on February 22, 2010. Mr. Parker's employment agreement also provides for his election to the Company's Board of Directors effective on February 22, 2010. Mr. Parker succeeds Rick J. Filippelli, who served as the Company's Chief Executive Officer and President and a member of its Board of Directors. As previously reported, in the first quarter of 2010, Mr. Filippelli resigned from his positions with TeamStaff effective February 5, 2010. Also, on February 5, 2010, the Board of Directors named Cheryl Presuto, the Company's Chief Financial Officer, as the Company's Acting President until Mr. Parker commences employment as TeamStaff's Chief Executive Officer and President.

### Recent Business Trends

TeamStaff GS is expanding its reach within the government sector beyond DVA opportunities by bidding on Department of Defense staffing contracts afforded to large businesses and GSA's *e-Buy* portal, an electronic Request for Quote (RFQ) / Request for Proposal (RFP) system designed to allow Federal buyers to request information, find sources, and prepare RFQs/RFPs, online, for various services offered through GSA's Multiple Award Schedule. Effective April 6, 2009, TeamStaff GS was awarded an Information Technology ("IT") Schedule Contract for professional services by the GSA As an IT schedule holder, TeamStaff GS is also now eligible, along with a select number of companies, to participate in bid opportunities and requests for quotes for the Federal government's IT staffing needs. Additionally, TeamStaff GS is evaluating opportunities to satisfy the staffing needs of other government agencies in addition to the DVA and DOD as a means of horizontal expansion of its client base. TeamStaff GS is also seeking to develop and maintain a nationwide network of teaming partners, including small businesses, Service Disabled Veteran Owned Small Businesses and other small-businesses certified under Section 8(a) of the Small Business Administration in order to expand and diversify its service offerings.

We believe demand will be strong in fiscal 2010 and beyond as the government maintains or improves social services provided to our returning veterans, as well as funding to other federal agencies that TeamStaff GS provides services to. In addition, we believe the government staffing business is stable in an economic downturn due to the longer term duration of its contracts. Management believes that, under the current administration, there will not be a reduction in government spending supporting social programs that benefit military personnel and veterans.

### Results of Operations

The following table summarizes, for the periods indicated, selected consolidated statements of operations data expressed as a percentage of revenue:

	<b>Three Months Ended</b>	
	<b>December 31, 2009</b>	<b>December 31, 2008</b>
<b>Condensed Consolidated Statement of Operations:</b>		
Revenues	100.0%	100.0%
Direct Expenses	87.4%	82.3%
Gross Profit	12.6%	17.7%
Selling, general and administrative	18.2%	12.6%
Depreciation and amortization expense	0.2%	0.2%
(Loss) income from operations	-5.8%	4.9%
Other income (expense)	-0.2%	-0.1%
(Loss) income from continuing operations before tax	-6.0%	4.8%
Income tax expense	0.0%	0.0%
(Loss) income from continuing operations	-6.0%	4.7%
Loss from discontinued operations	-10.5%	-4.3%
Net (loss) income	-16.5%	0.4%

Revenues from TeamStaff's continuing operations for the three months ended December 31, 2009 and 2008 were \$10.8 million and \$12.0 million, respectively, which represents a decrease of \$1.2 million or 10.2% over the prior fiscal year period. The decrease in revenues from continuing operations is due primarily to the impact of reduced overtime of \$0.5 million and net reductions in headcount at certain Government facilities of \$0.7 million.

TeamStaff GS is seeking approval from the Federal government for gross profit on retroactive billing rate increases associated with certain government contracts at which it has employees staffed on contract assignments. These adjustments are due to changes in the contracted wage determination rates for these contract employees. A wage determination is the listing of wage rates and fringe benefit rates for each classification of laborers whom the Administrator of the Wage and Hour Division of the U.S. Department of Labor ("DOL") has determined to be prevailing in a given locality. Contractors performing services for the Federal government under certain contracts are required to pay service employees in various classes no less than the wage rates and fringe benefits found prevailing in these localities. An audit by the DOL at one of the facilities revealed that notification, as required by contract, was not provided to TeamStaff GS in order to effectuate the wage increases in a timely manner. Wages for contract employees currently on assignment have been adjusted prospectively to the prevailing rate and hourly billing rates to the DVA have been increased accordingly. During the fiscal year ended September 30, 2008, TeamStaff recognized nonrecurring revenues of \$10.8 million and direct costs of \$10.1 million, based on amounts that are contractually due under its arrangements with the Federal agencies. At December 31, 2009 and September 30, 2009, the amount of the remaining accounts receivable with the DVA approximates \$9.3 million. The Company has been and continues to be in discussions with representatives of the DVA regarding the matter and anticipates resolution during fiscal 2010. In addition, TeamStaff is in the process of negotiating a final amount related to gross profit on these adjustments. As such, there may be additional revenues recognized in future periods once the approval for such additional amounts is obtained. The ranges of additional revenue and gross profit are estimated to be between \$0.4 million and \$0.6 million. At present, the Company expects to collect such amounts during fiscal 2010 based on current discussions and collection efforts. Because these amounts are subject to government review, no assurances can be given that we will receive any additional billings from our government contracts or that if additional amounts are received, that the amount will be within the range specified above.

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Direct expenses from continuing operations for the three months ended December 31, 2009 and 2008 were \$9.4 million and \$9.9 million, respectively which represents a decrease of \$0.5 million or 4.7% over the prior fiscal year period. As a percentage of revenue from continuing operations, direct expenses were 87.4% and 82.3%, respectively, for the three months ended December 31, 2009 and 2008. See the discussion on gross profit directly below for an explanation of the increase in direct expenses as a percentage of revenue.

Gross profit from continuing operations for the three months ended December 31, 2009 and 2008 were \$1.4 million and \$2.1 million, respectively which represents a decrease of \$0.7 million or 35.8% over the prior fiscal year period. Gross profit from continuing operations, as a percentage of revenue, was 12.6% and 17.7%, for the three months ended December 31, 2009 and 2008, respectively. Gross profit is lower as compared to the prior year due to lower overtime at certain government facilities which earn a higher gross profit margin, as well as increased health and welfare expense and increased vacation accruals as a result of lower employee turnover rates. TeamStaff Government Solutions also experienced poor workers' compensation claims experience in the first quarter of fiscal 2010, resulting in increased workers' compensation expense of approximately \$0.25 million over the prior fiscal year period. The adverse workers' compensation experience accounts for 45%, or 230 basis points, of the reduction in gross profit. The Company has retained a risk control consultant to evaluate practices at the relevant government facilities to recommend improvements in an effort to mitigate this exposure in the future.

Selling, general and administrative ("SG&A") expenses and officer severance for the three months ended December 31, 2009 and 2008 were \$2.0 million and \$1.5 million, respectively, which represents an increase of \$0.5 million, or 10.0%. Included in the three months ended December 31, 2009 is \$0.3 million in severance for the Company's former Chief Executive Officer, \$0.07 million in fees related to the Company's search for a new CEO, and \$0.06 million in restricted stock grants to non-employee members of the board of directors. TeamStaff GS SG&A expenses for the three months ended December 31, 2009 include \$0.03 million in management consulting fees related to the strategic business review of the division and \$0.1 million in increased new business expense for additional sales related headcount and marketing expense. The Company continues with its cost saving initiatives, which have resulted in reduced headcount in non-revenue generating departments and lower G&A costs. The Company seeks continued elimination of overhead costs deemed to be non-essential to growth or infrastructure.

Depreciation and amortization expense was relatively unchanged and approximated \$26,000 and \$28,000 for the three months ended December 31, 2009 and 2008, respectively.

Loss from operations for the three months ended December 31, 2009 was \$0.6 million as compared to income from operations for the three months ended December 31, 2008 of \$0.6 million. This represents a decline of \$1.2 million in results from operations from the prior fiscal year period. The decrease is due to lower operating gross profit earned in the fiscal period of 2009 as described above, as well as increased SG&A expense for officer severance and the investment into TeamStaff GS's revised government staffing strategy.

Interest income and other income was negligible for the three months ended December 31, 2009 and 2008. The comparative reduction was driven by lower cash and equivalents available for investment.

Interest expense for the three months ended December 31, 2009 and 2008 was each approximately \$0.02 million as a result of the minimal required borrowings on the Company's credit facility.

The Company recorded other expense of \$1,000 and \$7,000, for the three months ended December 31, 2009 and 2008, respectively related to legal representation and investigation costs incurred in connection with the Federal Grand Jury subpoena issued to our subsidiary formerly known as RS Staffing Services on April 17, 2007. The subpoena requested production of certain documents dating back to 1997. The Company acquired RS Staffing effective as of June 2005. These expenses are classified as non-operating expenses because the subpoena relates to activity prior to the acquisition.



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Beginning in fiscal 2006, the Company provided a 100% deferred tax valuation allowance because it believes that it cannot be considered more likely than not that it will be able to realize the full benefit of the deferred tax asset. The Company determined that negative evidence, including historic and current taxable losses, as well as uncertainties related to the ability to utilize certain Federal and state net loss carry forwards, outweighed any objectively verifiable positive factors, and as such, concluded that a valuation allowance was necessary. In assessing the need for a valuation allowance, the Company historically has considered all positive and negative evidence, including scheduled reversals of deferred tax liabilities, prudent and feasible tax planning strategies and recent financial performance. The Company did not record a Federal tax benefit for the three months ended December 31, 2009 and recorded tax expense of \$4,000 for state tax provision for the three months ended December 31, 2008.

Loss from continuing operations for the three months ended December 31, 2009 was \$0.7 million, or \$0.13 per basic and diluted share, as compared to income from continuing operations of \$0.6 million, or \$0.12 per basic and diluted share, for the three months ended December 31, 2008.

Loss from discontinued operations for the three months ended December 31, 2009 was \$1.1 million, or \$0.23 per basic and diluted share. Loss from operations of the TeamStaff Rx discontinued business was \$0.8 million. This includes the operating loss as well as a charge of \$0.1 million for severance to certain TeamStaff Rx employees and \$0.3 million in various accrued expenses related to the sale and shut down of the business. Loss from disposal of the TeamStaff Rx discontinued business was \$0.3 million. Included in this loss are expenses approximating \$0.3 million principally from recognition of the remaining unfunded operating lease payments, net of estimated rent subsidy, as well as legal expenses related to the sale. Loss from discontinued operations for the three months ended December 31, 2008 was \$0.5 million, or \$0.11 per basic and diluted share.

Net loss for the three months ended December 31, 2009 was \$1.8 million, or \$0.36 per basic and diluted share, as compared to net income of \$48,000, or \$0.01 per basic and diluted share, for the three months ended December 31, 2008. This represents a decline of \$1.8 million in net income from the prior fiscal period.

### **Potential Contractual Billing Adjustments**

As described in greater detail in note 4 to the consolidated financial statements included in this Quarterly Report on Form 10-Q, TeamStaff GS is seeking approval from the Federal government for additional gross profit on retroactive billing rate increases associated with certain of its government contracts. These adjustments are due to changes in the contracted wage determination rates for covered contract employees. At December 31, 2009 and September 30, 2009, the amount of the remaining accounts receivable with the DVA approximates \$9.3 million. The Company has been and continues to be in discussions with representatives of the DVA regarding the matter and anticipates resolution during fiscal 2010. TeamStaff is currently in the process of negotiating a final amount related to gross profit on these adjustments. As such, there may be additional revenues recognized in future periods once the approval for such additional amounts is obtained. The ranges of additional revenue and gross profit are estimated to be between \$0.4 million and \$0.6 million. At present, the Company expects to collect such amounts during fiscal 2010. Because these amounts are subject to government review, no assurances can be given that we will receive any additional billings from our government contracts or that if additional amounts are received, that the amount will be within the range specified above.

### **Liquidity and Capital Resources; Commitments**

Our principal sources of cash to fund our working capital needs are cash generated from operating activities and borrowings under our revolving credit facility.

#### *Cash from operating activities*

Net cash used in operating activities for the three months ended December 31, 2009 was \$1.2 million. This decrease in cash was primarily driven by net losses, an increase in accounts receivable due to the slowdown in cash collections that historically occurs during the end of December and a decrease in accrued payrolls.

Net cash used in operating activities for the three months ended December 31, 2008 was \$1.8 million. This decrease in cash was primarily driven by a decrease in accounts payable due to \$0.6 million of payments made to the IRS for previously recorded prior period tax liabilities, an increase in accounts receivable due to the slowdown in cash collections that historically occurs during the end of December and payment of bonuses to Company employees in the quarter.

#### *Cash from investing activities*

Net cash used in investing activities for the three months ended December 31, 2009 was \$0.1 million for costs related to the purchase and initial stages of implementation of a new computer operating system for TeamStaff GS to replace the current payroll and billing system. The Company did not have any investing activity during the three months ended December 31, 2008.

#### *Cash from financing activities*

Net cash provided by financing activities was negligible for the three months ended December 31, 2009. Net cash provided by financing activities for the three months ended December 31, 2008 was \$0.7 million, primarily as a result of borrowing on the line of credit to fund operations during the last week of December 2008. This is due to a slow down in cash collections that historically occurs during the end of the calendar year.

Loan Facility

On March 28, 2008, TeamStaff and its wholly-owned subsidiaries, TeamStaff Rx and TeamStaff GS entered into an Amended and Restated Loan and Security Agreement dated as of March 28, 2008 (the "Loan Agreement") with Business Alliance Capital Company, a division of Sovereign Bank. Pursuant to the Loan Agreement, the Lender (i) acquired by assignment from the Company's prior lender, PNC Bank, National Association, all right, title and interest of PNC under the \$8.0 million PNC Credit Facility, the PNC note and related loan documentation, and (ii) restructured the PNC Credit Facility into a \$3.0 million revolving credit facility with a three year term. Effective April 1, 2008, BACC changed its name to Sovereign Business Capital. The outstanding principal and interest balance under the PNC Credit Facility, related fees and certain expenses related to the execution and closing of the Loan Agreement were paid in full with \$0.6 million in proceeds drawn from the Loan Agreement on April 2, 2008. Fees associated with this facility approximate \$150,000, which are amortized over the life of the Loan Agreement.

Under the Loan Agreement, the Lender originally agreed to provide a revolving credit facility to the Company in an aggregate amount of up to \$3.0 million subject to the further terms and conditions of the Loan Agreement. The loan is secured by a first priority lien on all of the Company's assets. There is currently no debt outstanding under the Loan Agreement. In connection with the disposition of the operating assets of our TeamStaff Rx subsidiary, we were required to obtain the consent of Sovereign. On January 12, 2010 we were granted such consent. As a condition to such consent, however, Sovereign reduced the maximum amount available under such loan facility from \$3.0 million to \$2.0 million.

The Company's ability to request loan advances under the Loan Agreement is subject to computation of the Company's advance limit and compliance with the covenants and conditions of the loan. The loan is for a term of 36 months and matures on March 31, 2011. Interest on advances accrues on the daily unpaid balance of the loan advances at a per annum rate of one-quarter (.25%) percentage points above the Prime Rate in effect from time to time, but not less than five and one-half percent (5.5%) per annum. The interest rate on the facility at December 31, 2009 was 5.5%.

The Loan Agreement requires compliance with certain customary covenants including a debt service coverage ratio and imposes restrictions on the Company's ability to, among other things, dispose of certain assets, engage in certain transactions, incur indebtedness and pay dividends. The Loan Agreement also provides for customary events of default following which, Sovereign may, at its option, accelerate the amounts outstanding under the Loan Agreement.

On February 12, 2010, we determined that as of December 31, 2009, we were not in compliance with the debt service coverage ratio covenant of the Loan Agreement. The Loan Agreement provides that following an event of default, Sovereign may, among other remedies provided for in the Loan Agreement, accelerate the amounts outstanding under the Loan Agreement, take such actions as it deems necessary to protect its security interest in the collateral, and terminate the Loan Agreement. We are in discussions with Sovereign regarding obtaining a waiver of our default under the debt service coverage ratio. However, no assurances can be given that Sovereign will grant any waiver or otherwise decline to exercise their rights under the Loan Agreement. If covenant violations were to occur in the future and the lender does not agree to modify the covenants or waive such violations, it could result in the acceleration of the maturity date of all of our debt under this loan facility. In both of these circumstances it could have a material adverse impact on our business and financial condition.

Availability under the Loan Agreement is directly related to the successful assignment of certain accounts receivable. Certain government accounts of TeamStaff GS are required to execute "Acknowledgements of Assignment." There can be no assurance that every TeamStaff GS government account will execute the documentation to effectuate the assignment and secure availability. The failure of government third parties to sign the required documentation could result in a decrease in availability under the Loan Agreement.

Cash Flows

As of December 31, 2009, TeamStaff had cash and cash equivalents of \$1.7 million and net accounts receivable of \$11.6 million. At December 31, 2009, the amount of the accounts receivable associated with the DVA retroactive billings approximates \$9.3 million and was unbilled at December 31, 2009. At December 31, 2009 there was \$40,000 of debt outstanding under the Loan Agreement. As of September 30, 2009, there was no debt outstanding. Unused availability (as defined) totaled \$1.6 million and \$1.7 million, at December 31, 2009 and September 30, 2009, respectively, net of required collateral reserves per the Loan Agreement for certain payroll and tax liabilities. The average daily outstanding balance on the facility for the three months ended December 31, 2009 was \$0.1 million. As of December 31, 2009, we had a working capital deficiency of \$0.8 million. The timing of the disposition of TeamStaff Rx has temporarily put the Company in a negative working capital position due to severance and disposal accruals to be paid over the next twelve months without the benefit, at December 31, 2009, of the cash received from the transaction. The Company also classifies a \$1.5 million note payable related to the acquisition of RS Staffing Services as a current liability (See Note 4 of Notes to Consolidated Financial Statements). However, the Company plans to pursue its right of offset against the note for legal expenses incurred and has a good faith belief that we will recover such amounts. The Company believes that it has adequate liquidity resources to fund operations over the next twelve months.

## Payroll Taxes

As described in greater detail in the notes to the consolidated financial statements, TeamStaff had received notices from IRS claiming taxes, interest and penalties due related to payroll taxes predominantly from its former PEO operations which were sold in fiscal 2003. TeamStaff has also received notices from the IRS reporting overpayments of taxes. Management believes that these notices are predominantly the result of misapplication of payroll tax payments between its legal entities. If not resolved favorably, the Company may incur interest and penalties. To date, TeamStaff has been working with the IRS to resolve these discrepancies and has had certain interest and penalty claims abated. TeamStaff has also received notices from the Social Security Administration claiming variances in wage reporting compared to IRS transcripts. TeamStaff believes the notices from the Social Security Administration are directly related to the IRS notices received. TeamStaff believes that after the IRS applies all the funds correctly, any significant interest and penalties will be abated; however, there can be no assurance that each of these matters will be resolved favorably. In settling various years for specific subsidiaries with the IRS, the Company has received refunds for those specific periods; however, as the process of settling and concluding on other periods and subsidiaries is not yet completed and the potential exists for related penalties and interest, the remaining liability (\$1.1 million at December 31, 2009) has been recorded in accounts payable. In fiscal 2009, the Company paid \$1.1 million, related to this matter. Management believes that the ultimate resolution of these remaining payroll tax matters will not have a significant adverse effect on its financial position or future results of operations.

## Contractual Obligations

Obligations (Amounts in thousands)	Payments Due By Period			
	Total	Less than 1 Year	1-3 Years	4-5 Years
Long Term Debt (1)	\$ 1,653	\$ 1,604	\$ 49	\$ —
Operating Leases (2)	895	374	395	126
Severance Liabilities (3)	522	498	24	—
Total Obligations	\$ 3,070	\$ 2,476	\$ 468	\$ 126

- (1) Represents bank line of credit, the maximum amount of notes payable related to the acquisition of TeamStaff GS, and capital lease obligations, including those of discontinued operations.
- (2) Represents lease payments net of sublease income, including those of discontinued operations.
- (3) Represents severance payments related to former employees, including those of discontinued operations.

## Employment Agreements

During the fiscal quarter ending March 31, 2010, we entered into employment agreements with Zachary C. Parker, who will become our Chief Executive Officer and President. The material terms and conditions of this employment agreement is summarized in Note 8 of the Consolidated Financial Statements included in this Quarterly Report on Form 10-Q. The terms and conditions of the employment agreements we have entered into with our other named executive officers are summarized in our Annual Report on Form 10-K for the fiscal year ended September 30, 2009. The summaries of each of the foregoing agreements are incorporated herein by reference.

## Off-Balance Sheet Arrangements

We have not created, and are not party to, any special-purpose or off-balance sheet entities for the purpose of raising capital, incurring debt or operating parts of our business that are not consolidated into our financial statements. We do not have any arrangements or relationships with entities that are not consolidated into our financial statements that are reasonably likely to materially affect our liquidity or the availability of our capital resources. We have entered into various agreements by which we may be obligated to indemnify the other party with respect to certain matters. Generally, these indemnification provisions are included in contracts arising in the normal course of business under which we customarily agree to hold the indemnified party harmless against losses arising from a breach of representations related to such matters as intellectual property rights. Payments by us under such indemnification clauses are generally conditioned on the other party making a claim. Such claims are generally subject to challenge by us and to dispute resolution procedures specified in the particular contract. Further, our obligations under these arrangements may be limited in terms of time and/or amount and, in some instances, we may have recourse against third parties for certain payments made by us. It is not possible to predict the maximum potential amount of future payments under these indemnification agreements due to the conditional nature of our obligations and the unique facts of each particular agreement. Historically, we have not made any payments under these agreements that have been material individually or in the aggregate. As of our most recent fiscal year end we were not aware of any obligations under such indemnification agreements that would require material payments.

### **Effects of Inflation**

Inflation and changing prices have not had a material effect on TeamStaff's net revenues and results of operations, as TeamStaff has been able to modify its prices and cost structure to respond to inflation and changing prices.

### **ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

TeamStaff does not undertake trading practices in securities or other financial instruments and therefore does not have any material exposure to interest rate risk, foreign currency exchange rate risk, commodity price risk or other similar risks, which might otherwise result from such practices. TeamStaff is not materially subject to fluctuations in foreign exchange rates, commodity prices or other market rates or prices from market sensitive instruments. TeamStaff has a material interest rate risk with respect to our prior workers' compensation programs. In connection with TeamStaff's prior workers' compensation programs, prepayments of future claims were deposited into trust funds for possible future payments of these claims in accordance with the policies. The interest income resulting from these prepayments is for the benefit of TeamStaff, and is used to offset workers' compensation expense. If interest rates in these periods decrease, TeamStaff's workers' compensation expense would increase because TeamStaff would be entitled to less interest income on the deposited funds. Further, and as discussed elsewhere in this filing, TeamStaff, Inc., effective in January 2010, has a \$2.0 million revolving credit facility by Sovereign Business Capital. Revolving credit advances bear interest at the Prime Rate plus 25 basis points. The facility has a three-year life and contains term and line of credit borrowing options. The facility is subject to certain restrictive covenants, including a fixed charge coverage ratio. The facility is subject to acceleration upon non-payment or various other standard default clauses. Material increases in the Prime rate could have an adverse effect on our results of operations, the status of the revolving credit facility as well as interest costs.

### **ITEM 4: CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

Our Acting President and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) under the Exchange Act) as of the end of the period covered by this report, has concluded that, based on the evaluation of these controls and procedures, our disclosure controls and procedures were effective at the reasonable assurance level to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Acting President and Chief Financial Officer, to allow timely decisions regarding required disclosure. Management does not view the Company's inability to timely file its Annual Report on Form 10-K for the fiscal year ended September 30, 2009 as evidence that the Company's disclosure controls and procedures were not effective as the delay experienced by the Company in completing its annual report was caused by the timing of the closing of the Company's disposition of the assets of its TeamStaff Rx business. Due to the timing of this transaction, the Company's management was not able to complete its preparation of this annual report prior to the required filing date.

Our management, including our Acting President and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. Our management, however, believes our disclosure controls and procedures are in fact effective to provide reasonable assurance that the objectives of the control system are met.

#### **Changes in Internal Controls**

There have been no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the Company's first quarter ended December 31, 2009, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Part II — OTHER INFORMATION**

**ITEM 1: LEGAL PROCEEDINGS**

**RS Staffing Services, Inc.**

On April 17, 2007, a Federal Grand Jury subpoena was issued by the Northern District of Illinois to the Company's wholly-owned subsidiary, TeamStaff GS, formerly known as RS Staffing Services, requesting production of certain documents dating back to 1997, prior to the time the Company acquired RS Staffing Services. The subpoena stated that it was issued in connection with an investigation of possible violations of Federal criminal laws and related crimes concerning procurement at the DVA. According to the cover letter accompanying the subpoena, the U.S. Department of Justice, Antitrust Division ("DOJ"), along with the DVA, Office of the Inspector General, are responsible for the current criminal investigation. RS Staffing Services provided contract staffing at certain DVA hospitals that may be part of the investigation. The return date for documents called for by the subpoena was May 17, 2007. In connection with the same investigation, agents with the DVA, Office of Inspector General, executed a search warrant at the Monroe, Georgia offices of RS Staffing Services.

The government has advised TeamStaff that the DOJ has no intent to charge TeamStaff or any of its subsidiaries or employees in connection with the Federal investigation of contract practices at various government owned/contractor operated facilities. TeamStaff remains committed to cooperate with the DOJ's continued investigation of other parties.

The Company originally acquired RS Staffing Services in June 2005. As part of the purchase price of the acquisition, the Company issued to the former owners of RS Staffing Services a \$3.0 million promissory note, of which \$1.5 million and interest of \$150,000 was paid in June 2006. On May 31, 2007, the Company sent a notice of indemnification claim to the former owners for costs that have been incurred in connection with the investigation. Effective June 1, 2007, the Company and former owners of RS Staffing Services reached an agreement to extend the due date from June 8, 2007 to December 31, 2008 with respect to the remaining \$1.5 million note payable and accrued interest payable. Such agreement has been extended to February 28, 2010. As of December 31, 2009, the amount has not been settled. The Company recognized expenses related to legal representation and costs incurred in connection with the investigation in the amount of \$1,000 and \$7,000 in the three months ended December 31, 2009 and 2008, respectively, as a component of other income (expense). Cumulative costs related to this matter approximate \$1.7 million. Pursuant to the acquisition agreement with RS Staffing Services, the Company has notified the former owners of RS Staffing Services that it is the Company's intention to exercise its right to setoff the payment of such expenses against the remaining principal and accrued interest due to the former owners of RS Staffing Services.

The Company will pursue the recovery as a right of offset in future periods. Management has a good faith belief that the Company will recover such amounts; however, generally accepted accounting principles preclude the Company from recording an offset to the note payable to the former owners of RS Staffing Services until the final amount of the claim is settled and determinable. At present, no assurances can be given that the former owners of RS Staffing Services would not pursue action against us or that the Company will be successful in the offset of such amounts against the outstanding debt and accrued interest from notice date forward, if any. Accordingly, the Company has expensed costs incurred related to the investigation through December 31, 2009.

**Other Matters**

As a commercial enterprise and employer, we are subject to various claims and legal actions in the ordinary course of business. These matters can include professional liability, employment-relations issues, workers' compensation, tax, payroll and employee-related matters and inquiries and investigations by governmental agencies regarding our employment practices. We are not aware of any pending or threatened litigation that we believe is reasonably likely to have a material adverse effect on our results of operations, financial position or cash flows.

In connection with its medical staffing business, TeamStaff is exposed to potential liability for the acts, errors or omissions of its temporary medical employees. The professional liability insurance policy provides up to \$5.0 million aggregate coverage with a \$2.0 million per occurrence limit. Although TeamStaff believes the liability insurance is reasonable under the circumstances to protect it from liability for such claims, there can be no assurance that such insurance will be adequate to cover all potential claims.

TeamStaff is engaged in no other litigation, the effect of which would be anticipated to have a material adverse impact on TeamStaff's results of operations, financial position or cash flows.

#### **ITEM 1A: RISK FACTORS**

Our operating results and financial condition have varied in the past and may in the future vary significantly depending on a number of factors. In addition to the other information set forth in this report, you should carefully consider the factors discussed in the "Risk Factors" section in our Annual Report on Form 10-K for the year ended September 30, 2009 for a discussion of the risks associated with our business, financial condition and results of operations. These factors, among others, could have a material adverse effect upon our business, results of operations, financial condition or liquidity and cause our actual results to differ materially from those contained in statements made in this report and presented elsewhere by management from time to time. The risks identified by TeamStaff in its reports are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently believe are immaterial also may materially adversely affect our business, results of operations, financial condition or liquidity. We believe there have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2009.

#### **ITEM 2: UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

During the period covered by this report, the Company granted an aggregate of 42,500 shares of restricted stock to our non-executive directors, consistent with its compensation policy for non-executive directors. These shares were issued pursuant to the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended.

#### **ITEM 3: DEFAULTS UPON SENIOR SECURITIES**

On February 12, 2010, we determined that as of December 31, 2009, we were not in compliance with the debt service coverage ratio covenant of our Loan Agreement with Sovereign. We are in discussions with Sovereign regarding the grant of a waiver of this default. No assurances, however, can be given that Sovereign will in fact grant such a waiver or whether they will decline to exercise any of their rights under the Loan Agreement. Additional information regarding this matter is incorporated herein by reference to Item 5 of Part II of this Quarterly Report.

#### **ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

Not applicable.

#### **ITEM 5: OTHER INFORMATION**

Under our Loan Agreement with Sovereign, as modified, our lender agreed to provide a revolving credit facility to the Company in an aggregate amount of up to \$2.0 million subject to the further terms and conditions of the Loan Agreement. The loan is secured by a first priority lien on all of the Company's assets. In connection with the disposition of the assets of our TeamStaff Rx subsidiary, we were required to obtain the consent of Sovereign. On January 12, 2010 we were granted such consent. As a condition to such consent, however, Sovereign reduced the maximum amount available under such loan facility from \$3.0 million to \$2.0 million. At December 31, 2009, there was \$40,000 of debt outstanding under the Loan Agreement and the interest rate on the facility at December 31, 2009 was 5.5%. The Loan Agreement requires us to comply with certain customary covenants including a debt service coverage ratio and imposes restrictions on the Company's ability to, among other things, dispose of certain assets, engage in certain transactions, incur indebtedness and pay dividends. On February 12, 2009, we determined that as of December 31, 2009, we were not in compliance with the debt service coverage ratio covenant of the Loan Agreement. The Loan Agreement provides that following an event of default, Sovereign may, among other remedies provided for in the Loan Agreement, accelerate the amounts outstanding under the Loan Agreement, take such actions as it deems necessary to protect its security interest in the collateral, and terminate the Loan Agreement. We are in discussions with Sovereign regarding obtaining a waiver of our default under the debt service coverage ratio. However, no assurances can be given that Sovereign will grant any waiver or otherwise decline to exercise their rights under the Loan Agreement.

As disclosed in its Current Report on Form 8-K filed on December 30, 2009, the Company incurred costs in connection with the disposition of substantially all of the operating assets of TeamStaff Rx related to its business of providing travel nurse and allied healthcare professionals for temporary assignments to Advantage RN, LLC. At the time of the filing of such Current Report on Form 8-K, the Company was not able to make a determination of the estimated amounts expected to be incurred in connection with such transaction and the other information required by Item 2.05 of the Current Report on Form 8-K. Effective with the Company's completion of its financial statements included in this Quarterly Report on Form 10-Q, the Company determined that the costs incurred with such transaction were approximately \$0.6 million in the aggregate, with an amount of \$0.2 million for one-time termination benefits, contract termination costs and other associated costs, approximately \$0.3 million from recognition of the remaining unfunded operating lease payments, net of estimated rent subsidy, and legal expenses related to the sale. In addition to the foregoing, the Company anticipates that it will not incur material future cash expenditures related to this transaction.

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On February 11, 2010, the Company entered into a separation agreement with its former Chief Executive Officer, Rick J. Filippelli, which memorializes the terms of his departure from the Company. As previously reported, in the first quarter of fiscal 2010, Mr. Filippelli resigned from all positions with the Company effective as of February 5, 2010. Consistent with the employment agreement the Company entered into with Mr. Filippelli in November 2009, pursuant to the separation agreement and in consideration of the general release granted by Mr. Filippelli to the Company, the Company agreed to provide Mr. Filippelli with the following: (a) a severance payment of \$290,000; (b) the provision of health benefits through February 5, 2011; and (c) all unvested stock options and restricted stock awards shall be deemed vested as of the termination date of his employment and all outstanding options shall remain exercisable for their original exercise period. Mr. Filippelli also agreed that he will not sell the 35,000 restricted shares of the Company's Common Stock originally scheduled to vest in January 2011, and the 30,000 shares of Common Stock underlying the option granted pursuant to the November 2009 employment agreement until the earlier of a change of control of the Company, as defined in such employment agreement, or January 31, 2011. This summary of the separation agreement is qualified in its entirety by reference to full text of the agreement.

### **ITEM 6: EXHIBITS**

The exhibits designated with an asterisk (\*) are filed herewith. All other exhibits have been previously filed with the Commission and, pursuant to 17 C.F.R. Secs. 201.24 and 240.12b-32, are incorporated by reference to the document referenced in brackets following the descriptions of such exhibits. The exhibits designated with a number sign (#) indicate a management contract or compensation plan or arrangement.

<u>Exhibit No.</u>	<u>Description</u>
2.1	Asset Purchase Agreement, dated as of December 28, 2009, by and among Advantage RN, LLC, TeamStaff, Inc. and TeamStaff Rx, Inc. (filed as Exhibit 2.1 to Current Report on Form 8-K filed on December 30, 2009).
10.1	Employment Agreement between the Company and Rick Filippelli dated as of November 2, 2009 (filed as Exhibit 10.35 to Annual Report on Form 10-K for the fiscal year ended September 30, 2009).#
10.2	Modification Agreement dated as of January 8, 2010 between TeamStaff, Inc. and Sovereign Business Capital, Division of Sovereign Bank (filed as Exhibit 10.36 to Annual Report on Form 10-K for the fiscal year ended September 30, 2009).
10.3	Amended and Restated Revolving Credit Master Promissory Note dated January 8, 2010 between TeamStaff, Inc. and Sovereign Business Capital, Division of Sovereign Bank (filed as Exhibit 10.37 to Annual Report on Form 10-K for the fiscal year ended September 30, 2009).
10.4*	Employment Agreement between the Company and Cheryl Presuto dated as of October 1, 2009.#
10.5	Employment Agreement between the Company and Zachary C. Parker dated as of February 9, 2010 (filed as Exhibit 10.1 to Current Report on Form 8-K filed February 11, 2010).#
10.6*	Form of Stock Option Award under 2006 Long Term Incentive Plan.#
10.7*	Separation Agreement between the Company and Rick J. Filippelli.#
31.1*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.

/s/ Cheryl Presuto

Cheryl Presuto

Acting President and Chief Financial Officer

(Principal Executive Officer and Principal  
Accounting Officer)

Dated: February 16, 2010



**EMPLOYMENT AGREEMENT**

THIS AGREEMENT is made on the 14<sup>th</sup> day of January, 2010 by and between Cheryl Presuto (the "Employee") and TEAMSTAFF, INC., a New Jersey corporation (the "Company") and is effective as of the 1<sup>st</sup> day of October, 2009. (Unless the context indicates otherwise, the "Company" shall include the Company's subsidiaries.)

**WITNESSETH:**

WHEREAS, the Company and its subsidiaries are engaged in the business of providing Business Outsourcing Services; and

WHEREAS, the Employee is currently employed by the Company and the Company desires to continue the employment of the Employee and secure for the Company the experience, ability and services of the Employee; and

WHEREAS, the Employee desires to continue her employment with the Company, pursuant to the terms and conditions herein set forth, superseding all prior oral and written employment agreements, and term sheets and letters between the Company, its subsidiaries and/or predecessors and Employee;

NOW, THEREFORE, it is mutually agreed by and between the parties hereto as follows:

**ARTICLE I**

**DEFINITIONS**

1.1 *Accrued Compensation.* Accrued Compensation shall mean an amount which shall include all amounts earned or accrued through the "Termination Date" (as defined below) but not paid as of the Termination Date, including (i) Base Salary, (ii) reimbursement for business expenses incurred by the Employee on behalf of the Company, pursuant to the Company's expense reimbursement policy in effect at such time, (iii) vacation pay, and (iv) unpaid bonuses and incentive compensation earned and awarded prior to the Termination Date.

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1.2 *Cause*. Cause shall mean: (i) willful disobedience by the Employee of a material and lawful instruction of the Board of Directors of the Company; (ii) formal charge, indictment or conviction of the Employee of any misdemeanor involving fraud or embezzlement or similar crime, or any felony; (iii) conduct amounting to fraud, dishonesty, gross negligence, willful misconduct or recurring insubordination; or (iv) excessive absences from work, other than for illness or Disability; provided that the Company shall not have the right to terminate the employment of Employee pursuant to the foregoing clauses (i), (iii), and (iv) above unless written notice specifying such breach shall have been given to the Employee and, in the case of breach which is capable of being cured, the Employee shall have failed to cure such breach within thirty (30) days after her receipt of such notice.

1.3 *Change in Control*. “Change in Control” shall mean any of the following events:

a. (i) An acquisition (other than directly from the Company) of any voting securities of the Company (the “Voting Securities”) by any “Person” (as the term person is used for purposes of Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the “1934 Act”)) immediately after which such Person has “Beneficial Ownership” (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of twenty percent (20%) or more of the combined voting power of the Company’s then outstanding Voting Securities (27% if such Person is Wynnefield Capital Inc. and its affiliates); provided, however, that in determining whether a Change in Control has occurred, Voting Securities which are acquired in a “Non-Control Acquisition” (as defined below) shall not constitute an acquisition which would cause a Change in Control. A “Non-Control Acquisition” shall mean an acquisition by (1) an employee benefit plan (or a trust forming a part thereof) maintained by (x) the Company or (y) any corporation or other Person of which a majority of its voting power or its equity securities or equity interest is owned directly or indirectly by the Company (a “Subsidiary”), or (2) the Company or any Subsidiary.

(ii) Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because a Person (the "Subject Person") gained Beneficial Ownership of more than the permitted amount of the outstanding Voting Securities as a result of the acquisition of Voting Securities by the Company which, by reducing the number of Voting Securities outstanding, increases the proportional number of shares Beneficially Owned by the Subject Person, provided that if a Change in Control would occur (but for the operation of this sentence) as a result of the acquisition of Voting Securities by the Company, and after such share acquisition by the Company, the Subject Person becomes the Beneficial Owner of any additional Voting Securities which increases the percentage of the then outstanding Voting Securities Beneficially Owned by the Subject Person, then a Change in Control shall occur.

b. The individuals who, as of the date this Agreement is approved by the Board, are members of the Board (the "Incumbent Board"), cease for any reason to constitute at least two-thirds of the Board; provided, however, that if the election, or nomination for election by the Company's stockholders, of any new director was approved by a vote of at least two-thirds of the Incumbent Board, such new director shall, for purposes of this Agreement, be considered and defined as a member of the Incumbent Board; and provided, further, that no individual shall be considered a member of the Incumbent Board if such individual initially assumed office as a result of either an actual "Election Contest" (as described in Rule 14a-11 promulgated under the 1934 Act) or other solicitation of proxies or consents by or on behalf of a Person other than the Board (a "Proxy Contest"); or

c. Approval by stockholders of the Company of:

(i) A merger, consolidation or reorganization involving the Company, unless: (1) the stockholders of the Company, immediately before such merger, consolidation or reorganization, own, directly or indirectly immediately following such merger, consolidation or reorganization, at least sixty percent (60%) of the combined voting power of the outstanding voting securities of the corporation resulting from such merger or consolidation or reorganization (the "Surviving Corporation") in substantially the same proportion as their ownership of the Voting Securities immediately before such merger, consolidation or reorganization, (2) the individuals who were members of the Incumbent Board immediately prior to the execution of the agreement providing for such merger, consolidation or reorganization constitute at least two-thirds of the members of the board of directors of the Surviving Corporation, and (3) no Person (other than the Company, any Subsidiary, any employee benefit plan (or any trust forming a part thereof) maintained by the Company, the Surviving Corporation or any Subsidiary) becomes Beneficial Owner of twenty percent (20%) or more of the combined voting power of the Surviving Corporation's then outstanding voting securities as a result of such merger (27% if such Person is Wynnnefield Capital Inc. and its affiliates), consolidation or reorganization, a transaction described in clauses (1) through (3) shall herein be referred to as a "Non-Control Transaction"; or

(ii) An agreement for the sale or other disposition of all or substantially all of the assets of the Company, to any Person, other than a transfer to a Subsidiary, in one transaction or a series of related transactions;

(iii) The stockholders of the Company approve any plan or proposal for the liquidation or dissolution of the Company.

d. Notwithstanding anything contained in this Agreement to the contrary, if the Employee's employment is terminated prior to a Change in Control and the Employee reasonably demonstrates that such termination (i) was at the request of a third party who has indicated an intention or taken steps reasonably calculated to effect a Change in Control (a "Third Party") or (ii) otherwise occurred in connection with, or in anticipation of, a Change in Control, then for all purposes of this Agreement, the date of a Change in Control with respect to the Employee shall mean the date immediately prior to the date of such termination of the Employee's employment.

1.4 *Continuation Benefits*. Continuation Benefits shall be the continuation of the Benefits, as defined in Section 5.1, for the period commencing on the Termination Date and terminating 12 months thereafter, or such other period as specifically stated by this agreement (the "Continuation Period") at the Company's expense on behalf of the Employee and his dependents; provided, however, that (i) in no event shall the Continuation Period exceed 18 months from the Termination Date; and (ii) the level and availability of benefits provided during the Continuation Period shall at all times be subject to the post-employment conversion or portability provisions of the benefit plans. The Company's obligation hereunder with respect to the foregoing benefits shall also be limited to the extent that if the Employee obtains any such benefits pursuant to a subsequent employer's benefit plans, the

Company may reduce the coverage of any benefits it is required to provide the Employee hereunder as long as the aggregate coverage and benefits of the combined benefit plans is no less favorable to the Employee than the coverage and benefits required to be provided hereunder. This definition of Continuation Benefits shall not be interpreted so as to limit any benefits to which the Employee, her dependents or beneficiaries may be entitled under any of the Company's employee benefit plans, programs or practices following the Employee's termination of employment, including, without limitation, retiree medical and life insurance benefits. Notwithstanding the foregoing, Employee shall be entitled to take advantage of the COBRA benefits to the maximum amount permitted by law.

1.5 *Disability*. Disability shall mean a physical or mental infirmity which impairs the Employee's ability to substantially perform her duties with the Company for a period of one hundred eighty (180) consecutive days and the Employee has not returned to her full time employment prior to the Termination Date as stated in the "Notice of Termination" (as defined below).

1.6 *Good Reason*. "Good Reason" shall mean without the written consent of the Employee: (A) a material breach of any provision of this Agreement by the Company; (B) failure by the Company to pay when due any compensation to the Employee; (C) a reduction in the Employee's Base Salary; (D) failure by the Company to maintain the Employee in the positions referred to in Section 2.1 of this Agreement; (E) assignment to the Employee of any duties materially and adversely inconsistent with the Employee's positions, authority, duties, responsibilities, powers, functions, reporting relationship or title as contemplated by Section 2.1 of this Agreement or any other action by the Company that results in a material diminution of such positions, authority, duties, responsibilities, powers, functions, reporting relationship or title; (F) relocation of the Company's accounting

department or Employee's principal place of employment to a location outside a 25 mile radius of the present location in Somerset, New Jersey, without the Employee's written consent; or (G) a Change in Control, provided the event on which the Change of Control is predicated occurs within 90 days of the service of the Notice of Termination by the Employee, it being understood that Employee shall have the right to terminate her employment under this Section 1.6 (G) for any reason or no reason within such 90 day period; and provided further, however, that the Employee agrees not to terminate her employment for Good Reason pursuant to clauses (A) through (F) unless (a) the Employee has given the Company at least 30 days' prior written notice of her intent to terminate her employment for Good Reason, which notice shall specify the facts and circumstances constituting Good Reason; and (b) the Company has not remedied such facts and circumstances constituting Good Reason to the reasonable and good faith satisfaction of the Employee within a 30-day period after receipt of such notice.

1.7 *Notice of Termination.* Notice of Termination shall mean a written notice from the Company, or the Employee, of termination of the Employee's employment which indicates the provision in this Agreement relied upon, if any and which sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Employee's employment under the provision so indicated. A Notice of Termination served by the Company shall specify the effective date of termination.

1.8 *Pro Rata Bonus.* "Pro Rata Bonus" shall mean an amount equal to the maximum bonus Employee had an opportunity to earn pursuant to section 4.2 multiplied by a fraction, the numerator of which shall be the number of days from the commencement of the fiscal year to the Termination Date, and the denominator of which shall be the number of days in the fiscal year in which Employee was terminated.

1.9 *Severance Payment*. “Severance Payment” shall mean an amount equal to the sum of 12 months of Employee’s Base Salary in effect on the Termination Date. The Severance Payment shall be payable in equal installments on each of the Company’s regular pay dates for executives during the twelve months commencing on the first regular executive pay date following the Termination Date. The Severance Payment is conditioned on the Employee executing a termination agreement and release in a form reasonably acceptable to the Employee and the Company.

1.10 *Termination Date*. Termination Date shall mean (i) in the case of the Employee’s death, her date of death; (ii) in the case of Good Reason, 30 days from the date the Notice of Termination is given to the Company, provided the Company has not remedied such facts and circumstances constituting Good Reason to the reasonable and good faith satisfaction of the Employee; (iii) in the case of termination of employment on or after the Expiration Date, the last day of employment; and (iv) in all other cases, the date specified in the Notice of Termination; provided, however, if the Employee’s employment is terminated by the Company for any reason except Cause, the date specified in the Notice of Termination shall be at least 30 days from the date the Notice of Termination is given to the Employee, and provided further that in the case of Disability, the Employee shall not have returned to the full-time performance of her duties during such period of at least 30 days.



**ARTICLE II**

**EMPLOYMENT**

2.1 Subject to and upon the terms and conditions of this Agreement, the Company hereby agrees to continue the employment of the Employee, and the Employee hereby accepts such employment, as Chief Financial Officer of the Company. The Employee's position includes acting as an officer and/or director of any of the Company's subsidiaries as determined by the Board of Directors.

**ARTICLE III**

**DUTIES**

3.1 The Employee shall, during the term of her employment with the Company, and subject to the direction and control of the Chief Executive Officer and the Company's Board of Directors, perform such duties and functions as she may be called upon to perform by the Chief Executive Officer and the Company's Board of Directors during the term of this Agreement, consistent with her position as Chief Financial Officer.

3.2 The Employee shall perform, in conjunction with the Company's Executive Management, to the best of her ability the following services and duties for the Company and its subsidiary corporations (by way of example, and not by way of limitation):

(i) Those duties attendant to the position with the Company for which she is hired;

(ii) Establish and implement current and long range objectives, plans, and policies, subject to the approval of the Chief Executive Officer and the Board of Directors;

(iii) Financial planning including the development of, liaison with, financing sources and investment bankers;

(iv) Managerial oversight of the Company's accounting department;

(v) Primary responsibility for the preparation and filing of all financial activity reports with federal and state regulatory authorities;

(vi) Acquiring appropriate insurance coverage to safeguard Company's assets (excluding workers' compensation coverage and medical benefits);

(vii) Evaluation and integration of acquisitions, joint ventures, and other opportunities; and

(viii) Promotion of the relationships of the Company and its subsidiaries with their respective employees, customers, suppliers and others in the business community.

3.3 The Employee agrees to devote full business time and her best efforts in the performance of her duties for the Company and any subsidiary corporation of the Company.

3.4 Employee shall undertake regular travel to the Company's executive and operational offices, and such other occasional travel within or outside the United States as is or may be reasonably necessary in the interests of the Company. All such travel shall be at the sole cost and expense of the Company and shall include reasonable lodging and food costs incurred by Employee while traveling.

**ARTICLE IV**  
**COMPENSATION**

4.1 During the term of this Agreement, Employee shall be compensated initially at the rate of \$181,000 per annum, subject to such increases, if any, as determined by the Board of Directors, or if the Board so designates, the Management Resources and Compensation Committee, in its discretion, at the commencement of each of the Company's fiscal years during the term of this Agreement (the "Base Salary"). The base salary shall be paid to the Employee in accordance with the Company's regular executive payroll periods.

4.2 Employee may receive a bonus (the "Bonus") in the sole discretion of the Management Resources and Compensation Committee of the Board of Directors of up to 50% of Employee's Base Salary for each fiscal year of employment. The Bonus will be based on performance targets and other key objectives established by the Management Resources and Compensation Committee.

4.3 The Company shall deduct from Employee's compensation all federal, state, and local taxes which it may now or hereafter be required to deduct.

4.4 Employee may receive such other additional compensation as may be determined from time to time by the Board of Directors including bonuses and other long term compensation plans. Nothing herein shall be deemed or construed to require the Board to award any bonus or additional compensation.

**ARTICLE V**  
**BENEFITS**

5.1 During the term hereof, the Company shall provide Employee with the following benefits (the "Benefits"): (i) group health care and insurance benefits as generally made available to the Company's senior management; and (ii) such other insurance benefits obtained by the Company and made generally available to the Company's senior management. The Company shall reimburse Employee, upon presentation of appropriate vouchers, for all reasonable business expenses incurred by Employee on behalf of the Company upon presentation of suitable documentation.

5.2 In the event the Company wishes to obtain Key Man life insurance on the life of Employee, Employee agrees to cooperate with the Company in completing any applications necessary to obtain such insurance and promptly submit to such physical examinations and furnish such information as any proposed insurance carrier may request.

5.3 For the term of this Agreement, Employee shall be entitled to paid vacation at the rate of five (5) weeks per annum.

## **ARTICLE VI**

### **NON-DISCLOSURE**

6.1 The Employee shall not, at any time during or after the termination of her employment hereunder, except when acting on behalf of and with the authorization of the Company, make use of or disclose to any person, corporation, or other entity, for any purpose whatsoever, any trade secret or other confidential information concerning the Company's business, finances, marketing, accounting, personnel and/or staffing business of the Company and its subsidiaries, including information relating to any customer of the Company or pool of temporary or permanent employees, governmental customer or any other nonpublic business information of the Company and/or its subsidiaries learned as a consequence of Employee's employment with the Company (collectively referred to as the "Proprietary Information"). For the purposes of this Agreement, trade secrets and confidential information shall mean information disclosed to the Employee or known by him as a consequence of her employment by the Company, whether or not pursuant to this Agreement, and not generally known in the industry. The Employee acknowledges that trade secrets and other items of confidential information, as they may exist from time to time, are valuable and unique assets of the Company, and that disclosure of any such information would cause substantial injury to the Company. Trade secrets and confidential information shall cease to be trade secrets or confidential information, as applicable, at such time as such information becomes public other than through disclosure, directly or indirectly, by Employee in violation of this Agreement.

6.2 If Employee is requested or required (by oral questions, interrogatories, requests for information or document subpoenas, civil investigative demands, or similar process) to disclose any Proprietary Information, Employee shall, unless prohibited by law, promptly notify the Company of such request(s) so that the Company may seek an appropriate protective order.

**ARTICLE VII**  
**RESTRICTIVE COVENANT**

7.1 In the event of the termination of employment with the Company for any reason, Employee agrees that she will not, for a period of one (1) year following such termination, directly or indirectly, enter into or become associated with or engage in any other business (whether as a partner, officer, director, shareholder, employee, consultant, or otherwise), which is involved in the business of providing (i) temporary and/or permanent staffing of governmental employees, and (ii) medical and office administration/technical professionals through Federal Supply Schedule (“FSS”) contracts with both the United States General Services Administration (“GSA”), United States Department of Veterans Affairs (“DVA”), United States Department of Defense (“DOD”) or other federal, state and local entities, or (iii) is otherwise engaged in the same or similar business as the Company in direct competition with the Company, or which the Company was in the process of developing, during the tenure of Employee’s employment by the Company. Notwithstanding the foregoing, the ownership by Employee of less than five percent of the shares of any publicly held corporation shall not violate the provisions of this Article VII. In furtherance of, and in addition to, the foregoing, Employee shall not during the aforesaid period of non-competition, directly or indirectly, in connection with any temporary or permanent employee placement, governmental staffing or any other business of the Company and its subsidiaries, including information relating to any customer of the Company or pool of temporary employees, or any other nonpublic business information, or any business similar to the business in which the Company was engaged, or in the process of developing during Employee’s tenure with the Company, solicit any customer or employee of the Company who was a customer or employee of the Company during the tenure of her employment.

7.2 If any court shall hold that the duration of non-competition or any other restriction contained in this Article VII is unenforceable, it is our intention that same shall not thereby be terminated but shall be deemed amended to delete therefrom such provision or portion adjudicated to be invalid or unenforceable or, in the alternative, such judicially substituted term may be substituted therefor.

## **ARTICLE VIII**

### **TERM**

8.1 This Agreement shall be for a term (the "Initial Term") commencing on October 1, 2009 (the "Commencement Date") and terminating on September 30, 2010 (the "Expiration Date"), unless sooner terminated upon the death of the Employee, or as otherwise provided herein.

8.2 Unless this Agreement is earlier terminated pursuant to the terms hereof, the Company agrees to use its best efforts to notify Employee in writing whether it intends to negotiate a renewal of this Agreement by notice four (4) months prior to the Expiration Date. Upon termination of the Employee's employment on or after the Expiration Date for any reason except Cause, the Company shall pay Employee the Severance Payment.

**ARTICLE IX**  
**TERMINATION**

9.1 The Company may terminate this Agreement by giving a Notice of Termination to the Employee in accordance with this Agreement:

- (i) for Cause;
- (ii) without Cause;
- (iii) for Disability.

9.2 Employee may terminate this Agreement by giving a Notice of Termination to the Company in accordance with this Agreement, at any time, with or without Good Reason.

9.3 If the Employee's employment with the Company shall be terminated, the Company shall pay and/or provide to the Employee the following compensation and benefits in lieu of any other compensation or benefits arising under this Agreement or otherwise:

- (i) if the Employee was terminated by the Company for Cause, or the Employee terminates without Good Reason, the Accrued Compensation;

(ii) if the Employee was terminated by the Company for Disability,

- (a) the Continuation Benefits;
- (b) the Accrued Compensation;
- (c) the Pro-Rata Bonus; and
- (d) the Severance Payment; or

(iii) if termination was due to the Employee's death,

- (a) the Accrued Compensation;
- (b) the Continuation Benefits;
- (c) and the Pro Rata Bonus; or

(iv) if the Employee was terminated by the Company without cause, or the Employee terminates this Agreement for Good Reason,

- (a) the Accrued Compensation;
- (b) the Severance Payment; and
- (c) the Continuation Benefits.

9.4 The amounts payable under this Section 9, shall be paid as follows:

(i) Accrued Compensation shall be paid within five (5) business days after the Employee's Termination Date (or earlier, if required by applicable law).

(ii) If the Continuation Benefits are paid in cash, the payments shall be made on the first day of each month during the Continuation Period (or earlier, if required by applicable law).

(iii) The Base Salary through the Expiration Date shall be paid in accordance with the Company's regular pay periods (or earlier, if required by applicable law).



9.5 Notwithstanding the foregoing, in the event Employee is a member of the Board of Directors on the Termination Date, the payment of any and all compensation due hereunder, except Accrued Compensation, and Employee's right to exercise any Employee Stock Option after the Termination Date, is expressly conditioned on Employee's resignation from the Board of Directors within five (5) business days of notice by the Company requesting such resignation.

9.6 The Employee shall not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise and no such payment shall be offset or reduced by the amount of any compensation or benefits provided to the Employee in any subsequent employment except as provided in Sections 1.4.

#### **ARTICLE X**

##### **TERMINATION OF PRIOR AGREEMENTS**

10.1 This Agreement sets forth the entire agreement between the parties and supersedes all prior agreements, letters and understandings between the parties, whether oral or written prior to the effective date of this Agreement except for the terms of employee stock option plans, restricted stock grants and option certificates.

#### **ARTICLE XI**

##### **STOCK OPTIONS AND RESTRICTED STOCK AWARDS**

(i) As an inducement to Employee to enter into this Agreement, the Company hereby grants to Employee options to purchase 75,000 shares of the Company's Common Stock, \$.001 par value (the "Options"), subject to the terms and conditions of the Company's 2006 Long Term Incentive Plan (the "Plan"), and the terms and conditions set forth in the Stock Option Agreement which are incorporated herein by reference. Fifty percent of the options shall vest upon issuance and the balance shall vest on September 30, 2010, provided Employee is an employee of the Company on the vesting date, unless otherwise provided by this Agreement. The Options, to the extent vested, shall be exercisable for a period of five years from the date of this Agreement (the "Exercise Period").

11.2 The exercise price of the Options shall be equal to the closing price of the Company's Common Stock as reported by Nasdaq on the date of final execution of this Agreement and shall contain such other terms and conditions as set forth in the stock option agreement. The Options provided for herein are not transferable by Employee and shall be exercised only by Employee, or by his legal representative or executor, as provided in the Plan. Such Options shall terminate as provided in the Plan, except as otherwise modified by this Agreement or the stock option agreement.

11.3 In the event of a termination of Employee's employment with the Company pursuant to Section 9.1(i), options granted and not exercised as of the Termination Date shall terminate immediately and be null and void. In the event of a termination of Employee's employment with the Company due to the Employee's death, or Disability, the Employee's (or his estate's or legal representative's) right to purchase shares of Common Stock of the Company pursuant to any stock option or stock option plan to the extent vested as of the Termination Date shall remain exercisable for a period of twelve (12) months following the Termination Date, but in no event after the expiration of the Exercise Period. In the event of a termination of Employee's employment with the Company by the Employee other than for Good Reason, the Employee's right to purchase shares of Common Stock of the Company pursuant to any stock option or stock option plan to the extent vested as of the Termination Date shall remain exercisable for a period of three months following the Termination Date, but in no event after the expiration of the exercise period.

11.4 In the event of a Change of Control, as defined in Section 1.3, or Employee's termination by the Company without cause or by Employee for Good Reason, the conditions to the vesting of any outstanding Restricted Stock Awards or Employee Stock Options granted to the Employee shall be deemed void and (i) all such Shares and Options shall be immediately and fully vested and delivered to the Employee, and (ii) all outstanding Options shall remain exercisable for a period of twenty-four (24) months following the Termination Date, but in no event after the expiration of the Exercise Period.

## **ARTICLE XII**

### **EXTRAORDINARY TRANSACTIONS**

12.1 The Company's Board of Directors has determined that it is appropriate to reinforce and encourage the continued attention and dedication of members of the Company's management, including the Employee, to their assigned duties without distraction in potentially disturbing circumstances arising from the possibility of a change in control of the Company.

In the event that within one hundred eighty days (180) days of a Change of Control as described in Section 12.2, (i) Employee is terminated, or (ii) Employee's status, title, position or responsibilities are materially reduced and Employee terminates her Employment, the Company shall pay and/or provide to the Employee, the following compensation and benefits:

- a. The Company shall pay the Employee, in lieu of any other payments due hereunder, (i) the Accrued Compensation; (ii) the Continuation Benefits; and (iii) as severance, Base Salary for a period of twelve (12) months payable in equal installments on each of the Company's regular pay dates for executives during the twelve months commencing on the first regular executive pay date following the termination Date; and

- b. The conditions to the vesting of any outstanding incentive awards (including restricted stock, stock options and granted performance shares or units) granted to the Employee under any of the Company's plans, or under any other incentive plan or arrangement, shall be deemed void and all such incentive awards shall be immediately and fully vested and exercisable. Further, the options shall be deemed amended to provide that in the event of termination after an event enumerated in this Article XII, the options shall remain exercisable for the duration of their term.

12.4 Upon the effective date of an event constituting a Change of Control, the Company shall pay Employee, in one lump sum within five (5) upon the first day of the month immediately following such event, an amount equal to Employee's then current Base Salary. Employee shall be entitled to such payment whether or not her employment with the Company continues after the Change of Control.

12.5 Notwithstanding the foregoing, if the payment under this Article XII, either alone or together with other payments which the Employee has the right to receive from the Company, would constitute an "excess parachute payment" as defined in Section 280G of the Internal Revenue Code of 1986, as amended (the "Code"), the aggregate of such credits or payments under this Agreement and other agreements shall be reduced to the largest amount as will result in no portion of such aggregate payments being subject to the excise tax imposed by Section 4999 of the Code. The priority of the reduction of excess parachute payments shall be in the discretion of the Employee. The Company shall give notice to the Employee as soon as practicable after its determination that Change of Control payments and benefits are subject to the excise tax, but no later than ten (10) days in advance of the due date of such Change of Control payments and benefits, specifying the proposed date of payment and the Change of Control benefits and payments subject to the excise tax. Employee shall exercise her option under this paragraph 12.4 by written notice to the Company within five (5) days in advance of the due date of the Change of Control payments and benefits specifying the priority of reduction of the excess parachute payments.

## ARTICLE XIII

### ARBITRATION AND INDEMNIFICATION

13.1 Any dispute arising out of the interpretation, application, and/or performance of this Agreement with the sole exception of any claim, breach, or violation arising under Articles VI or VII hereof shall be settled through final and binding arbitration before a single arbitrator in the State of New Jersey in accordance with the Rules of the American Arbitration Association. The arbitrator shall be selected by the Association and shall be an attorney-at-law experienced in the field of corporate law. Any judgment upon any arbitration award may be entered in any court, federal or state, having competent jurisdiction of the parties.

13.2 The Company hereby agrees to indemnify, defend, and hold harmless the Employee for any and all claims arising from or related to her employment by the Company at any time asserted, at any place asserted, to the fullest extent permitted by law, except for claims based on Employee's fraud, deceit or willfulness. The Company shall maintain such insurance as is necessary and reasonable to protect the Employee from any and all claims arising from or in connection with her employment by the Company during the term of Employee's employment with the Company and for a period of six (6) years after the date of termination of employment for any reason. The provisions of this Section 13.2 are in addition to and not in lieu of any indemnification, defense or other benefit to which Employee may be entitled by statute, regulation, common law or otherwise.

**ARTICLE XIV**

**SEVERABILITY**

If any provision of this Agreement shall be held invalid and unenforceable, the remainder of this Agreement shall remain in full force and effect. If any provision is held invalid or unenforceable with respect to particular circumstances, it shall remain in full force and effect in all other circumstances.

**ARTICLE XV**

**NOTICE**

For the purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when (a) personally delivered or (b) sent by (i) a nationally recognized overnight courier service or (ii) certified mail, return receipt requested, postage prepaid and in each case addressed to the respective addresses as set forth below or to any such other address as the party to receive the notice shall advise by due notice given in accordance with this paragraph. All notices and communications shall be deemed to have been received on (A) if delivered by personal service, the date of delivery thereof; (B) if delivered by a nationally recognized overnight courier service, on the first business day following deposit with such courier service; or (C) on the third business day after the mailing thereof via certified mail. Notwithstanding the foregoing, any notice of change of address shall be effective only upon receipt.

The current addresses of the parties are as follows:

IF TO THE COMPANY: TeamStaff, Inc.  
1 Executive Drive  
Somerset, NJ 08873

WITH A COPY TO: Victor J. DiGioia  
Becker & Poliakoff, LLP  
45 Broadway  
New York, NY 10006

IF TO THE EMPLOYEE:

**ARTICLE XVI**

**BENEFIT**

This Agreement shall inure to, and shall be binding upon, the parties hereto, the successors and assigns of the Company, and the heirs and personal representatives of the Employee.

**ARTICLE XVII**

**WAIVER**

The waiver by either party of any breach or violation of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach of construction and validity.

**ARTICLE XVIII**

**GOVERNING LAW**

This Agreement has been negotiated and executed in the State of New Jersey which shall govern its construction and validity.

**ARTICLE XIX**

**JURISDICTION**

Any or all actions or proceedings which may be brought by the Company or Employee under this Agreement shall be brought in courts having a situs within the State of New Jersey, and Employee and the Company each hereby consent to the jurisdiction of any local, state, or federal court located within the State of New Jersey.

**ARTICLE XX**

**ENTIRE AGREEMENT**

This Agreement contains the entire agreement between the parties hereto. No change, addition, or amendment shall be made hereto, except by written agreement signed by the parties hereto.

**IN WITNESS WHEREOF**, the parties hereto have executed this Agreement and affixed their hands and seals the day and year first above written.

**TEAMSTAFF, INC.**

By: /s/ Peter Black  
Peter Black  
Chairman of the Management Resources and  
Compensation Committee

/s/ Cheryl Presuto  
Cheryl Presuto  
Employee



**TEAMSTAFF, INC.**  
**EMPLOYEE STOCK OPTION CERTIFICATE**  
**AND AGREEMENT**

**Date of Grant:****Option No.:****Name of Optionee:****Number of Shares:****Exercise Price Per Share:****Expiration Date:**

Effective on the date of grant specified above, TEAMSTAFF, INC. (the "Company") has granted to the above-named Optionee under the Company's 2006 Long Term Incentive Plan (the "Plan"), an option to purchase from TeamStaff the number of shares of Common Stock of TeamStaff set forth above. This option is subject to all the terms and conditions of the Plan which is incorporated in this option as though set forth in full.

The terms and conditions of this option are as follows:

**1. Number and Price of Options.** The number and price of the shares subject to this option shall be the number and price set forth above, subject to any adjustments which may be made under Section 11 below.

**2. Vesting.** This option may not be exercised until it is vested. Portions of this option become vested if you continue to be employed by TeamStaff until after the expiration of the time periods stated below:

a. \_\_\_\_\_

b. \_\_\_\_\_

Except as otherwise set forth herein, this option shall terminate and no shares may be purchased after the expiration date. This option may also terminate sooner as provided below if your employment is terminated for any reason. This option expires at 5:00 pm (eastern standard time) on the Expiration Date as stated above whether or not it has been duly exercised, unless sooner terminated as provided below.

**3. Acceptance of Option Agreement.** Your acceptance of this stock option agreement will indicate your acceptance of and your agreement to be bound by its terms and the terms of the Plan. It imposes no obligation upon you to purchase any of the shares subject to the option. Your obligation to purchase shares can arise only upon your exercise of the option in the manner set forth herein. This stock option agreement shall be subject in all respects to the terms and conditions of the Plan and in the event of any question or controversy relating to the terms of the Plan, the decision of the Board of Directors shall be final.

**4. Condition of Employment.** Except as provided in Section 8, this option may not be exercised unless the Optionee is employed by TeamStaff or one of its parent or subsidiary corporations on the date of such exercise and shall have been an employee continuously since the date of grant.

**5. Exercise Procedure.** This option is exercisable by a written notice signed by you and delivered to TeamStaff at its executive offices, signifying your election to exercise the option. A form of the notice is attached to this option certificate. The notice must state the number of shares of Common Stock for which your option is being exercised and must be accompanied by the full purchase price of the shares being purchased. Payment shall be either (i) in cash, or by certified or bank cashier's check payable to the order of TeamStaff, free from all collection charges; (ii) by delivery of shares of Common Stock of TeamStaff already owned by the Optionee for at least six months prior to the date of exercise, which Common Stock shall be valued at Fair Market Value on the date of exercise; or (iii) by a combination of the methods of payment specified in (i) and (ii) above.

For these purposes, the market value per share of Common Stock shall be: (i) if the Common Stock is traded on a national securities exchange or on the NASDAQ Stock Market System ("Nasdaq"), the per share closing price of the Common Stock on the principal securities exchange on which they are listed or on Nasdaq, as the case may be, on the date of exercise (or if there is no closing price for such date of exercise, then the last preceding business day on which there was a closing price); or (ii) if the Common Stock is traded in the over-the-counter market and quotations are published on an inter-dealer quotation system (but not on Nasdaq), the closing bid price of the Common Stock on the date of exercise as reported by thereon (or if there are no closing bid prices for such date of exercise, then the last preceding business day on which there was a closing bid price); or (iii) if the Common Stock is traded in the over-the-counter market but bid quotations are not published on an inter-dealer quotation system, the closing bid price per share for the Common Stock as furnished by a broker-dealer which regularly furnishes price quotations for the Common Stock.

If notice of the exercise of this option is given by the person or persons other than you, TeamStaff may require, as a condition to the exercise of this option, the submission to TeamStaff of appropriate proof of the right of such person or person to exercise this option.

**5. Issuance of Shares.** Certificate for the shares purchased will be issued as soon as practicable. TeamStaff, however, shall not be required to issue or deliver a certificate for any shares until it has complied with all requirements of the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended, any stock exchange on which TeamStaff's Common Stock may then be listed and all applicable state laws in connection with the issuance or sale of such shares or the listing of such shares.

**6. No Rights Until Exercise.** Until the issuance of the certificate for the shares, you or such other person as may be entitled to exercise this option, shall have none of the rights of a stockholder with respect to shares issuable upon exercise of this option.

**7. Transferability.** This option is personal to the Optionee and during the Optionee's lifetime may be exercised only by the Optionee. This option shall not be transferable other than by will or the laws of descent and distribution, and as may be permitted under the Internal Revenue Code, the federal securities laws and the rules and regulations promulgated thereunder. If notice of the exercise of this option is given by the person or persons other than you, TeamStaff may require, as a condition to the exercise of this option, the submission to TeamStaff of appropriate proof of the right of such person or person to exercise this option.

**8. Termination of Employment.** Unless otherwise provided in an employment agreement between the Company and the Optionee, in the event that an option holder ceases to be an employee of TeamStaff or of any subsidiary for any reason other than permanent disability (as determined by the Board of Directors, or a committee of the board or as provided for in an employment agreement between the Company and the Optionee) or death, this option shall automatically terminate. Notwithstanding the foregoing, however, unless otherwise provided in an employment agreement between the Company and the Optionee, upon termination of employment the Optionee shall continue to have the right to exercise any unexercised portion of this option, which was otherwise exercisable on the date of termination, for a period of three months from the date on which the Optionee ceased to be so employed, but in no event after the Expiration Date, unless the employment of the Optionee was determined to be for cause, in which event this Option will terminate on the date of that the Optionee ceases to be an employee of the Company or a subsidiary. Unless otherwise provided in an employment agreement between the Company and the Optionee, in the event of the death of Optionee during this three month period, this option shall be exercisable by his or her personal representatives, heirs or legatees to the same extent that the Optionee could have exercised this option if he or she had not died, for three months from the date of death, but in no event after the Expiration Date. Unless otherwise provided in an employment agreement between the Company and the Optionee, in the event of the permanent disability of Optionee while an employee of TeamStaff or of any subsidiary, this option shall be exercisable for 365 days after the date of permanent disability, but in no event after the Expiration Date. In the event of the death of the Optionee while an employee of TeamStaff or any Subsidiary, or during the 365 day period after the date of permanent disability of the Optionee, that portion of the option which had become exercisable on the date of death shall be exercisable by his or her personal representatives, heir or legatees at any time prior to the expiration of 365 days months from the date of the death of Optionee, but in no event after the Expiration Date.

**9. Not an Employment Agreement.** This option does not confer on the Optionee any right to continue in the employ of TeamStaff or interfere in any way with the right of TeamStaff to determine the terms of the Optionee's employment.

**10. Corporate Transactions.** Subject to the terms and conditions which may be provided in an employment agreement between the Company and the Optionee, in the event of a reorganization, recapitalization, stock split, stock dividend, combination of shares, merger, consolidation, rights offering, or any other change in the corporate structure or stock of TeamStaff, the Board shall make such adjustments, if any, as it deems appropriate in the number and kind of shares covered by this option, or in the option price, or both. Notwithstanding any provision to the contrary, the Committee or the Board may cancel, amend, alter or supplement any term or provision of this option to avoid the penalty provisions of Section 4999 of the Code, subject to the terms of an employment agreement between the Company and the Optionee. Subject to the terms and conditions which may be set forth in an employment agreement between the Company and the Optionee, in the event of a merger of one or more corporations with and into Company or any consolidation of the Company and one or more corporations, or any other Change in Control (as defined in the Plan), the treatment of this Option will be subject in all respects to the terms and conditions of the Plan, including provisions which set forth the ability of the Company to determine the rights of the Optionee with respect to this Option.

**11. Capital Adjustments.** The existence of the Option shall not affect in any way the right or power of Company or its stockholders to make or authorize any or all adjustments, recapitalizations, reorganizations, or other changes in Company's capital structure or its business, or any merger or consolidation of Company or any issue of bonds, debentures, preferred stock having a preference to or affecting Company's common stock or of any rights thereof, or the issuance of any securities convertible into any such common stock or of any rights, options, or warrants to purchase any common stock, or the dissolution or liquidation of Company, any sale or transfer of all or any part of its assets or business, or any other act or proceeding of Company, whether of a similar character or otherwise. The securities with respect to which the Option is granted are shares of common stock of the Company as presently constituted, but if and whenever, prior to the delivery by Company of all the shares with respect to which the Option is granted, the Company shall effect a subdivision or consolidation of shares of its common stock or other capital readjustment, the payment of a stock dividend, or other increase or reduction of the number of shares of such common stock outstanding, the number of shares subject to the Option and the applicable Exercise Price shall be adjusted as provided for in the Plan.

**12. Securities Law Compliance.** This option shall be subject to the requirement that if at any time the Board shall determine that the registration, listing or qualification of the shares covered hereby upon any securities exchange or under any federal or state law, or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the granting of this option or the purchase of the shares, this option may not be exercised unless and until such registration, listing, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Board. The Board may require that the person exercising this option shall make such representations and agreements and furnish such information as it deems appropriate to assure compliance with the foregoing or any other applicable legal requirements.

**13. Tax Matters.** To the maximum extent permissible under the Code, this Option is intended to qualify for "incentive stock option" treatment under the provisions of Section 422 of the Code. It is understood and acknowledged by Optionee, however, that all of the options represented by this Option Certificate may not qualify as Incentive Stock Options. You are therefore urged to consult with your individual tax advisor prior to exercising this Option since the exercise of this Option may result in adverse tax consequences including the payment of additional federal and/or state income taxes.

**14. Withholding Tax.** TeamStaff shall have the power and the right to deduct or withhold, or require a Optionee to remit to TeamStaff as a condition precedent for the fulfillment of any option exercise, an amount sufficient to satisfy Federal, state, and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising as a result of this option. Whenever Shares are to be issued or cash paid to an Optionee upon exercise of an option, TeamStaff shall have the right to require the Optionee to remit to TeamStaff, as a condition of exercise of the option, an amount sufficient to satisfy federal, state and local withholding tax requirements at the time of exercise. However, notwithstanding the foregoing, to the extent that a Optionee is an insider (as determined by the Board of Directors), satisfaction of withholding requirements by having TeamStaff withhold Shares may only be made to the extent that such withholding of Shares (1) has met the requirements of an exemption under Rule 16b-3 promulgated under the Exchange Act, or (2) is a subsequent transaction the terms of which were provided for in a transaction initially meeting the requirements of an exemption under Rule 16b-3 promulgated under the Exchange Act.

**15. Notices.** All notices hereunder to TeamStaff shall be delivered or mailed to the following address:

TEAMSTAFF, INC.  
One Executive Drive, Suite 130  
Somerset, New Jersey 08873  
Attention: Chief Financial Officer

Such address for the service of notices may be changed at any time provided notice of such change is furnished in advance to the Optionee.

**16. Governing Law.** This Agreement is granted and delivered in the State of New Jersey and is intended to be construed and enforced under the laws thereof. The Holder submits to the exclusive jurisdiction and venue of the federal or state courts of New Jersey, to resolve any and all issues that may arise out of or relate to this Option Agreement.

17. **Certain Definitions.** Capitalized terms used herein, to the extent not defined in this Stock Option Agreement shall have the meanings ascribed to such term in the Plan.

18. **General Provisions.** This Option constitutes the entire agreement of the parties and supersede all prior undertakings and agreements with respect to the subject matter hereof. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine, the plural shall include the singular, and the singular shall include the plural. In the event any provision of this Agreement shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of this Agreement and this Agreement shall be construed and enforced as if the illegal or invalid provision had not been included. No fractional shares of Common Stock shall be issued or delivered pursuant to this Option. The Company shall determine whether cash or other property shall be issued or paid in lieu of fractional shares of Common Stock or whether such fractional shares or any rights thereto shall be forfeited or otherwise eliminated.

**TEAMSTAFF, INC.**

By: \_\_\_\_\_  
Name:  
Title:

Secretary:  
\_\_\_\_\_  
Secretary

**OPTION EXERCISE FORM**

TO: TeamStaff, Inc.  
One Executive Drive, Suite 130  
Somerset, NJ 08873  
Attn: Chief Financial Officer

Ladies/Gentlemen:

I irrevocably elect to exercise my right to purchase \_\_\_\_\_ shares of Common Stock covered by this Option Agreement and make full payment of the Exercise Price of such shares as follows (PLEASE CHOOSE FORM OF PAYMENT).

o. **Cash Purchase.** I hereby elect to pay the exercise price in cash, and enclose a CERTIFIED CHECK (or has wired payment) in the amount of \$\_\_\_\_\_.

o. **Cashless Exercise.** I have enclosed \_\_\_\_\_ shares of Common Stock of TeamStaff, Inc. in accordance with the Option Agreement. I represent that I have owned the shares being delivered for at least six months prior to the date of exercise.

o. **Combination of Cash and Cashless.** I elect to pay the exercise price in cash and stock, and encloses a CERTIFIED CHECK (or has wired payment) in the amount of \$\_\_\_\_\_ and have enclosed \_\_\_\_\_ shares of Common Stock of TeamStaff, Inc. in accordance with the Option Agreement. I represent that I have owned the shares being delivered for at least six months prior to the date of exercise.

I understand and agree that TeamStaff shall have the power and the right to deduct or withhold, or require me to remit to TeamStaff as a condition precedent for the fulfillment of any option exercise, an amount sufficient to satisfy Federal, state, and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising as a result of this option. Further, I acknowledge that TeamStaff shall have the right to require me to remit to TeamStaff, as a condition of exercise of the option, an amount sufficient to satisfy federal, state and local withholding tax requirements at the time of exercise. However, notwithstanding the foregoing, to the extent that a Optionee is an insider ( as determined by the Board of Directors), satisfaction of withholding requirements by having TeamStaff withhold Shares may only be made to the extent that such withholding of Shares (1) has met the requirements of an exemption under Rule 16b-3 promulgated under the Exchange Act, or (2) is a subsequent transaction the terms of which were provided for in a transaction initially meeting the requirements of an exemption under Rule 16b-3 promulgated under the Exchange Act.

Further, I agree to promptly notify TeamStaff of the sale of any of the shares I received upon exercise of this option during the one year period commencing on the date I receive the certificate for the shares.

Kindly deliver to me a certificate representing the shares as follows:

INSTRUCTIONS FOR DELIVERY

Name: \_\_\_\_\_  
(please typewrite or print in block letters)

Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Dated: \_\_\_\_\_

Signature \_\_\_\_\_

Print Name: \_\_\_\_\_

**AGREEMENT AND RELEASE**

**CONSULT WITH AN ATTORNEY BEFORE SIGNING THIS AGREEMENT AND RELEASE.**

**BY SIGNING THIS AGREEMENT AND RELEASE, YOU GIVE UP AND WAIVE IMPORTANT LEGAL RIGHTS.**

This is an agreement and release (the "Agreement") between TeamStaff, Inc., its stockholders (solely in their capacity as stockholders TeamStaff, Inc.), subsidiaries, affiliates, divisions, successors and assigns, their respective past and present officers, directors, employees, agents, attorneys, whether as individuals or in their official capacity, and each of their respective successors and assigns (hereinafter collectively referred to as "TSTF" or the "Company") and by his own free will, Rick J. Filippelli ("Filippelli" or "Employee"). As used herein, the term "Execution Date" shall mean the later of the two dates on which this agreement has been executed by Employee and TSTF, as specified on the signature page of this agreement.

**WHEREAS**, Filippelli has been an employee of TSTF, and

**WHEREAS**, Filippelli has been employed pursuant to a written employment agreement dated as of November 2, 2009 (the "Employment Agreement"); and

**WHEREAS**, Employee and TSTF each desire an amicable cessation of the employment relationship,

**NOW, THEREFORE**, in consideration of the covenants and promises contained herein and for other good and valuable consideration, receipt of which is hereby acknowledged, Employee and TSTF (who hereinafter collectively may be referred to as the "Parties") hereby agree as follows:

1. Employee acknowledges and agrees that effective the close of business February 5, 2010, Employee's position as President and Chief Executive Officer and the Employment Agreement shall be terminated (the "Termination Date"), and except as otherwise stated, all terms of the Employment Agreement shall be deemed superseded by this Agreement.

- a. Employee agrees to voluntarily resign as a director of the Company effective as of the Termination Date.
  - b. Employee will cooperate in completing any action necessary to fully implement his resignation, including the execution of any documentation necessary to effectuate his removal from and/or the transfer of any position he has held as an officer, director, or committee member of TSTF.
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2. In consideration for Employee's execution of this Agreement, and for the release of claims against TSTF, the Company will give Employee the following:

- a. Solely for the purpose of determining the benefits under the Employment Agreement, the termination of Employee's Employment shall be deemed a termination without cause.
- b. Employee shall receive and be paid a severance payment, in accordance with the terms and conditions of the Employment Agreement, the sum of Two Hundred Ninety Thousand dollars (\$290,000) representing 12 months of Base Salary (the "Severance Payment"). The Severance Payment shall be payable in equal installments on each of the Company's regular pay dates for executives during the twelve months commencing on the first regular executive pay date following the Termination Date.
- c. All unvested stock options and restricted stock awards shall be deemed vested as of the Termination Date. The options shall remain exercisable for their original Exercise Period.
- d. Notwithstanding the foregoing, Employee agrees that Employee will not sell the 35,000 restricted shares of the Company's Common Stock originally scheduled to vest in January 2011, and the 30,000 shares of Common Stock underlying the option granted pursuant to Section 11.2 of the Employment Agreement, until the earlier of a change of control, as defined in the Employment Agreement, or January 31, 2011. Notwithstanding the foregoing, Employee shall be entitled to take advantage of the COBRA benefits to the maximum amount permitted by law.

3. Benefits:

- a. Employee's current health and insurance benefits will continue until February 5, 2010 as provided in the Employment Agreement, and except as otherwise expressly provided in this Agreement, Employee will not be entitled to receive any other benefits after the Termination Date. TSTF shall be responsible for providing equivalent health benefits or paying all "COBRA" charges through February 5, 2011.
- b. To the extent Employee has unreimbursed business expenses, incurred through the Termination Date, Employee must immediately submit the expenses with all appropriate documentation; those expenses which meet the Company's guidelines will be reimbursed. Any expense account that Employee has with the Company terminates effective on the Termination Date, and any expenses already incurred will be reviewed and processed in accordance with the policies and procedures of the Company. No new expenses may be incurred after the Termination Date. Employee agrees to promptly pay any outstanding balance on these accounts that represent non-reimbursable expenses.

4. Employee understands that neither this Agreement (nor anything contained herein) nor the making of this Agreement is intended, and shall not be construed, as an admission that the Company has violated any federal, state or local law (statutory, decisional or common law), or any ordinance or regulation, or has committed any wrong whatsoever with respect to the Employee (including, but not limited to, breach of any contract, actual or implied).

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5. Employee acknowledges that the consideration provided in this Agreement exceed that to which Employee would otherwise be entitled under the normal operation of any benefit plan, policy or procedure of the Company or under any previous agreement (written or oral) between Employee and the Company. Employee further acknowledges that the agreement by TSTF to provide consideration pursuant to this Agreement beyond Employee's entitlement is conditioned upon Employee's release of all claims against TSTF and Employee's compliance with all the terms and conditions of this Agreement. Furthermore, except as provided in this Agreement, Employee gives up Employee's right to individual damages in connection with any administrative or court proceeding with respect to any claim that has been waived herein, arising out of Employee's employment or separation from employment from the Company and if Employee is awarded or accepts money damages, Employee will assign to the Company any right and interest to such money damages.

6. The Parties agree that, except as provided for herein, there shall be no other payments or benefits payable to Employee, including but not limited to, salary, bonuses, commissions, finder's fees and/or other payments.

7. Arbitration:

- a. The Parties specifically and knowingly and voluntarily agree to arbitrate any controversy, dispute or claim which has arisen or should arise in connection with Employee's employment, the cessation of Employee's employment, or in any way related to the terms of this Agreement. The Parties agree to arbitrate any and all such controversies, disputes, and claims before a single arbitrator in the State of New Jersey in accordance with the Rules of the American Arbitration Association. The arbitrator shall be selected by the Association and shall be an attorney-at-law experienced in the field of corporate law and admitted to practice in the State of New Jersey. In the course of any arbitration pursuant to this Agreement, Employee and the Company agree (i) to request that a written award be issued by the arbitrator and (ii) that each side is entitled to receive any and all relief it would be entitled to receive in a court proceeding. The Parties knowingly and voluntarily agree to enter into this arbitration clause and, except for claims contemplated in paragraphs 9 and 10 below, waive any rights that might otherwise exist to request a jury trial or other court proceeding. This paragraph is intended to be both a post-dispute and pre-dispute arbitration clause. Any judgment upon any arbitration award may be entered in any court, federal or state, having competent jurisdiction of the parties.
  - b. The Parties' agreement to arbitrate disputes includes, but is not limited to, any claims of unlawful discrimination and/or unlawful harassment under Title VII of the Civil Rights Act of 1964, as amended, the Age Discrimination in Employment Act 1967, as amended, the Americans with Disabilities Act, the New Jersey and New York Civil Rights Laws, the New Jersey Law Against Discrimination, the New York Executive Law, the New York City Human Rights Law, the New Jersey Conscientious Employee Protection Act, the New Jersey Family Leave Act, or any other federal, state or local law relating to discrimination in employment and any claims relating to wage and hour claims and any other statutory or common law claims.
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## 8. Confidentiality

- a. Employee further acknowledges and agrees that any non-public and/or proprietary information of the Company and/or its customers disclosed to or prepared by Employee during Employee's employment remains confidential and may not be used and/or disclosed by Employee hereafter without the prior written consent of TSTF. Such information includes, without limitation, information concerning products and services developed and under development, pending or completed Company regulatory matters (internal or external), litigations, arbitrations, internal investigations or reviews, internal compliance memoranda and reviews.
  - b. Employee further agrees that the provisions of Article VI of the Employment Agreement ("Non-Disclosure") shall remain in full force and effect.
  - c. Employee agrees that the terms and existence of this Agreement are and shall remain confidential and agrees, to the maximum extent permitted by applicable law, rule, code or regulation, not to disclose (directly or indirectly) the terms, conditions or existence of this Agreement, or to talk or write about the negotiation, execution or implementation of this Agreement, without the prior written consent of TSTF, except as required by law, regulatory authorities, internally to process this Agreement at TSTF, or in connection with any arbitration or litigation arising out of this Agreement. Anything herein to the contrary notwithstanding, Employee may disclose the terms of this Agreement to Employee's immediate family, financial advisor, accountant or attorney, provided that Employee advises any individual to whom the terms, conditions or existence of this Agreement has been disclosed (in accordance with this sentence) of the confidentiality requirements of this paragraph and Employee shall use Employee's best efforts to ensure that the requirements are complied with in all respects. Further, nothing in this paragraph shall preclude Employee from using this Agreement in any action for breach of this Agreement. In that case, however, Employee shall seek to protect the terms of this Agreement from public disclosure to the extent possible, including filing this Agreement under seal where permissible to do so.
  - d. Employee agrees that in the event Employee is contacted by the media in any form, including, but not limited to, any wire service, newspaper, magazine or web-based news service, with respect to the Company, its clients and/or customers, and/or Employee's conduct and/or employment at the Company, Employee will immediately refer all contacts directly to Ms. Cheryl Presuto, Chief Financial Officer, or his successor at the Company.
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9. Solely for the purpose of determining the applicability of the Restrictive Covenant in Article VII of the Employment Agreement, Employee shall be deemed to have voluntarily terminated his employment as of the Termination Date, and Employee hereby agrees that all of the provisions of Article VII, as modified by this paragraph, shall remain in full force and effect. Notwithstanding the provisions of Article VII of the Employment Agreement, the Company agrees to delete the reference to temporary and/or permanent staffing of travel health professionals and/or travel nurses related to non-government staffing. Further, in addition to the provisions of Article VII, Employee also agrees that in consideration for the payments and other consideration provided in this Agreement, Employee will not for a period of one year after the Termination Date, either directly or indirectly, (a) solicit any person who is employed by TSTF (or who was employed by TSTF within 90 days of the Termination date to: (i) terminate his employment with TSTF; (ii) accept employment with anyone other than TSTF, or (iii) in any manner interfere with the business of TSTF.

10. Employee agrees that for a period of three years following the Termination Date, Employee agrees that he will not make any negative or derogatory statements in verbal, written, electronic or any other form about the Company, including, but not limited to, a negative or derogatory statement made in, or in connection with, any article or book, on a website, in a chat room or via the internet except where such statement is required by law or regulation. Nothing contained in this paragraph shall be construed as requiring the Employee to provide untruthful sworn testimony in any legal proceeding.

#### 11. Litigation

- a. The payments to be made hereunder on conditioned on the full cooperation by Employee with the Company in the prosecution or defense, as the case may be, of any and all actions, governmental inquiries or other legal or regulatory proceedings in which Employee's assistance may be reasonably requested by the Company. Reasonable expenses arising from the cooperation will be reimbursed within the Company's guidelines. Consistent with the Certificate of Incorporation of TSTF, and the Company's Amended and Restated By-Laws, TSTF will hold harmless and indemnify Employee from and against any expenses (including attorneys' reasonable fees), judgments, fines and amounts paid in settlement arising from any claim, suit or other action against Employee by any third party, on account of any action or inaction by Employee taken or omitted to be taken by Employee on behalf of TSTF during the course of his employment, up to his date of termination, provided that such action or inaction by Employee was within the scope of Employee's employment and consistent with the Company's policies and procedures.
  - b. Promptly after receipt by Employee under this paragraph 12 of notice of the commencement of any action, suit or proceeding, Employee shall notify TSTF in writing of the commencement thereof (but the failure so to notify shall not relieve TSTF from any liability which it may have under this paragraph except to the extent that it has been prejudiced in any material respect by such failure or from any liability which it may have otherwise). In case any such action is brought against Employee, and Employee notifies TSTF of the commencement thereof, TSTF will be entitled to participate therein, and to the extent it may elect by written notice delivered to the Employee promptly after receiving the aforesaid notice from Employee, TSTF may assume the defense thereof with counsel
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reasonably satisfactory to such Employee. Notwithstanding the foregoing, Employee shall have the right to employ his own counsel in any such case but the fees and expenses of such counsel shall be at the expense of Employee unless (i) the employment of such counsel shall have been authorized in writing by the TSTF in connection with the defense of such action at the expense of TSTF, or (ii) Employee shall have reasonably concluded that there may be defenses available to him that are different from or additional to those available to TSTF (in which case TSTF shall not have the right to direct the defense of such action on behalf of Employee), in any of which events such fees and expenses of one additional counsel shall be borne by TSTF. Anything in this paragraph to the contrary notwithstanding, neither Employee or TSTF shall be liable for any settlement of any claim or action effected without its written consent; provided however, that such consent was not unreasonably withheld.

- c. As the result of a grand jury subpoena issued to RS Staffing Services, Inc., the Company and the Employee are aware of an on-going government investigation of violation of possible federal laws concerning procurement at the Veterans Administration. Consistent with the provisions of this paragraph 11, the Company will provide the Employee with counsel in connection with the investigation if reasonably necessary. The Employee shall use his best efforts to cooperate with the Company with respect to the investigation and shall immediately notify the Company if contacted by any third party in connection with it.
- d. Employee acknowledges that he has advised the Company completely and candidly of all facts of which he is aware that may give rise to legal matters. The Company is not aware of any claims or any facts giving rise to a claim against the Employee by the Company.

12. You agree to cause all requests for references to be forwarded in writing to the Company, attention: Office of the President. The Company will state in response to such inquiries your dates of employment and positions held. The Company shall not be responsible for responses to reference requests sought or obtained other than under the procedures set forth in this paragraph.

13. Employee realizes there are many laws and regulations prohibiting employment discrimination, or otherwise regulating employment or claims related to employment pursuant to which Employee may have rights or claims. These include but are not limited to Title VII of the Civil Rights Act of 1964, as amended; the Americans with Disabilities Act of 1990; the Pregnancy Discrimination Act; the National Labor Relations Act, as amended; 42 U.S.C 1981; the Employee Retirement Income Security Act of 1974, as amended; the Age Discrimination in Employment Act of 1967, as amended; the Civil Rights Act of 1991; the Worker Adjustment and Retraining Notification Act; the New York State and City Human Rights Laws; the New Jersey Law Against Discrimination; the New Jersey Conscientious Employee Protection Act, the New Jersey Family Leave Act, Florida Civil Rights Act, and other Federal, State and local human rights, fair employment and other laws. Employee also understands there are other statutes and contract and tort laws which relate to Employee's employment and/or the termination of Employee's employment. Employee hereby knowingly and voluntarily agrees to waive and release any rights or claims Employee may have under these and other laws, including, but not limited to, any right to allege retaliation under the Sarbanes-Oxley Act of 2002 or any applicable federal or state False Claims Act statute, but does not intend to, nor is Employee waiving any rights or claims that may arise after the date that this Agreement is signed by Employee. Notwithstanding the foregoing sentence, Employee's waiver and release shall not extend to (i) any rights, remedies, or claims Employee may have in enforcing the terms of the Agreement; and (ii) any rights Employee may have to receive vested amounts under TSTF's stock option plans or pension plans.

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14. This Agreement shall be deemed to have been made within the County of Middlesex, State of New Jersey, and shall be interpreted and construed and enforced in accordance with the laws of the State of New Jersey without regard to its conflicts of law provision.

15. Employee is hereby advised of Employee's rights to review this Agreement with counsel of Employee's choice. Employee has had the opportunity to consult with an attorney and/or other advisor of Employee's choosing before signing the Agreement, and was given a period of twenty-one (21) days to consider the Agreement. Employee is permitted, at his discretion, to return the Agreement prior to the expiration of this 21-day period. Employee acknowledges that in signing this Agreement, Employee has relied only on the promises written in this Agreement, and not on any other promise made by the Company or any other entity or person.

16. Employee represents that Employee has not filed any complaints, charges or claims against TSTF with any local, State, or Federal agency or court, or with any other forum.

17. Employee agrees to immediately return any TSTF property no matter where located to TSTF including, but not limited to, TSTF I.D. card, corporate credit card, keys, computer disks, and written/electronic material prepared in the course of employment at TSTF. Notwithstanding the foregoing, Employee shall be allowed to retain possession of the Company issued laptop computer. Employee represents and warrants that the only property of TSTF that he is in possession at the present time is an IBM laptop computer and keys. Employee covenants and agrees that if he determines any other TSTF property is in his possession in the future he will promptly notify TSTF and return the property. The Company agrees to keep Employee's current telephone extension of 5550 operational and assigned to Employee for a period of no less than 90 days from the Termination Date. Employee agrees to transfer any Company related business calls to the current CFO.

18. If any provision of this Agreement, or any part thereof, is held to be invalid or unenforceable because of the scope or duration of or the area covered by such provision, Employee and TSTF agree that the court or other appropriate decision-making authority making such determination shall reduce the scope, duration and/or area of such provision (and shall substitute appropriate provisions for any such invalid or unenforceable provisions) in order to make such provision enforceable to the fullest extent permitted by law and/or shall delete specific words and phrases, and such modified provision shall then be enforceable and shall be enforced. In the event that any court or other appropriate decision-making authority determines that the time period or the area, or both, are unreasonable and that any of the covenants is to that extent invalid or unenforceable, the parties hereto agree that such covenants will remain in full force and effect, first, for the greatest time period, and second, in the greatest geographical area that would not render them unenforceable. If any provision of this Agreement is held to be invalid or unenforceable, the remaining provisions of this Agreement shall nonetheless survive and be enforced to the fullest extent permitted by law.

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19. Except as otherwise expressly provided herein, this Agreement and Release, together with the General Release constitute the entire agreement between the Parties and supersede any and all prior agreements, whether written or oral. This Agreement may not be modified or changed, except in a written agreement signed by both Parties.

20. The Agreement may be executed in multiple counterparts, each of which shall be considered an original but all of which shall constitute one agreement.

**IN WITNESS WHEREOF**, the parties have executed this Agreement as of the dates set forth below.

**I have read this Agreement, and I understand all of its terms. I enter into and sign this Agreement knowingly and voluntarily with full knowledge of what it means. I understand that I have twenty-one (21) days to consider this Agreement and return it to TSTF. I also understand that I have seven (7) days to revoke this Agreement in writing after I sign it. I understand that a revocation will become effective only if I furnish TSTF with written notice, within such seven (7) day period. This Agreement will not become effective or enforceable until TSTF's receipt back of Employee's executed Agreement and the expiration of the seven day revocation period.**

\_\_\_\_\_  
Rick J. Filippelli

\_\_\_\_\_  
Date

TeamStaff, Inc.

By \_\_\_\_\_  
Authorized Representative

\_\_\_\_\_  
Date

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**CONSULT WITH AN ATTORNEY BEFORE SIGNING GENERAL RELEASE. BY SIGNING THIS GENERAL RELEASE, YOU GIVE UP AND WAIVE IMPORTANT LEGAL RIGHTS.**

**GENERAL RELEASE**

Rick J. Filippelli understands and, of my own free will, enters into this General Release.

In consideration of the payments, benefits, agreements, and other consideration to be provided by TSTF as described in the Agreement of which this General Release is a part (such agreement, this General Release, together, the "Agreement"), for himself and for his heirs, executors, administrators, and their respective successors and assigns (collectively, "Employee"), **HEREBY RELEASES AND FOREVER DISCHARGES**, to the maximum extent permitted by law, TeamStaff, Inc. its stockholders, subsidiaries, affiliates, divisions, successors and assigns, their respective current and former officers, directors, employees, agents, attorneys, whether as individuals or in their official capacity, and each of their respective successors and assigns (hereinafter collectively referred to as "TSTF") of and from all or any manner of actions, causes and causes of action, suits, debts, obligations, damages, complaints, liabilities, losses, covenants, contracts, controversies, agreements, promises, variances, trespasses, judgments and expenses (including attorneys' fees and costs), extents, executions, claims and demands whatsoever at law or in equity ("claims"), specifically including by way of example but not limitation, Title VII of the Civil Rights Acts of 1964 and 1991, as amended; the Civil Rights Act of 1866; the Employee Retirement Income Security Act of 1974, as amended; the National Labor Relations Act, as amended; the Americans with Disabilities Act of 1990; the Age Discrimination in Employment Act of 1967, as amended; the Worker Adjustment and Retraining Notification Act; the Pregnancy Discrimination Act, the Sarbanes-Oxley Act of 2002 or any applicable federal or state False Claims Act statute; and all Federal, State and local statutes, regulations, decisional law and ordinances and all human rights, fair employment, contract and tort laws relating in any way to Employee's employment with TSTF and/or the termination thereof including, again by way of example but without limitation, the New Jersey and New York Civil Rights Laws, the New Jersey Law Against Discrimination, the New York Executive Law, the New York City Human Rights Law, the New Jersey Conscientious Employee Protection Act, the New Jersey Family Leave Act, the Florida Civil Rights Act, any civil rights or human rights law, as well as all claims for wrongful discharge, breach of contract, personal injury, defamation, mental anguish, injury to health and reputation, sexual, harassment, which Employee ever had, now has, or which Employee hereafter can, shall or may have for, upon or by reason of any matter, cause or thing whatsoever arising out of Employee's employment by TSTF or the termination thereof, provided that this General Release shall not extend to (i) any rights, remedies, or claims Employee may have in enforcing the terms of this Agreement; (ii) any rights Employee may have to receive vested amounts under TSTF's stock option plan, 401-K or pension plans; (iii) Employee's rights to medical benefit continuation coverage, on a self-pay basis, pursuant to federal law (COBRA); and (iv) claims for indemnification (whether under state law, the Company's by-laws or otherwise) for acts performed as an officer or director of the Company or any of its affiliates. Employee takes this action fully aware of Employee's rights arising under the laws of the United States (and any State or local governmental entity thereof) and voluntarily waives and releases all such rights or claims under these or other laws, but does not intend to, nor is Employee waiving any rights or claims that may arise after the date that this Agreement is signed by Employee. The provisions of any laws providing in substance that releases shall not extend to claims which are at the time unknown to or unsuspected by the person executing such release, are hereby waived.

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Employee represents that Employee has been advised to and has had an opportunity to consult with an attorney and/or any other advisors of Employee's choosing before signing this Agreement, and was given a period of twenty-one (21) days to consider this Agreement. Employee is permitted, at his discretion, to return the Agreement prior to the expiration of this 21-day period. Employee has relied only on the promises written in the Agreement, and not on any other promise made by TSTF or any other entity or person.

**Employee has seven (7) days to revoke the Agreement after Employee signs it. The Agreement will not become effective or enforceable until TSTF's receipt back of Employee's executed Agreement and the expiration of the seven day revocation period.**

Employee has read and understood the Agreement and enters into it knowingly and voluntarily.

**IN WITNESS WHEREOF**, Rick J. Filippelli has set his hand this \_\_\_\_ day of \_\_\_\_\_, 2010 having had the opportunity to review this with counsel of his or her choice.

\_\_\_\_\_  
Rick J. Filippelli

\_\_\_\_\_  
Date

**CERTIFICATIONS**

I, Cheryl Presuto, certify that:

1. I have reviewed this quarterly report on Form 10-Q of TeamStaff, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my 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
  - d) 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 materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the 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: February 16, 2010

/s/ Cheryl Presuto

\_\_\_\_\_  
Cheryl Presuto  
Acting President and Chief Financial Officer  
(Principal Executive Officer and Principal  
Accounting Officer)

**Exhibit 32.1**

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER  
TEAMSTAFF, INC.  
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of TeamStaff, Inc. ("TeamStaff") on Form 10-Q for the period ending December 31, 2009 as filed with the Securities and Exchange Commission on the date hereof, the undersigned, being, Cheryl Presuto, Acting President and Chief Financial Officer and Principal Accounting Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: February 16, 2010

/s/ Cheryl Presuto

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Cheryl Presuto  
Acting President and Chief Financial Officer  
(Principal Executive Officer and Principal  
Accounting Officer)

A signed original of this written statement required by Section 906 has been provided to TeamStaff and will be retained by TeamStaff and furnished to the Securities and Exchange Commission or its staff upon request.