

**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 **June 30, 2007**

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File 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.)

1545 PEACHTREE STREET, N.E., ATLANTA, GEORGIA
(Address of principal executive offices)

30309
(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

Yes No

19,283,366 shares of Common Stock, par value \$.001 per share, were outstanding as of August 14, 2007.

TEAMSTAFF, INC.
FORM 10-Q
For the Quarter Ended **June 30, 2007**

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Part I — FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

**TEAMSTAFF, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(AMOUNTS IN THOUSANDS)**

	<u>JUNE 30, 2007</u>	<u>SEPTEMBER 30, 2006</u>
	(unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,054	\$ 2,157
Accounts receivable, net of allowance for doubtful accounts of \$16 and \$44 at June 30, 2007 and September 30, 2006, respectively	7,611	8,712
Prepaid workers' compensation	303	1,094
Other current assets	508	923
Total current assets	<u>10,476</u>	<u>12,886</u>
EQUIPMENT AND IMPROVEMENTS:		
Furniture and equipment	3,347	3,333
Computer equipment	587	556
Computer software	938	898
Leasehold improvements	177	177
	5,049	4,964
Less accumulated depreciation and amortization	<u>(4,332)</u>	<u>(4,085)</u>
Equipment and improvements, net	717	879
TRADENAME	4,569	4,569
GOODWILL	11,986	11,986
OTHER ASSETS:		
Prepaid workers' compensation, net of current portion	—	350
Other assets	86	106
Total other assets	<u>86</u>	<u>456</u>
TOTAL ASSETS	<u>\$ 27,834</u>	<u>\$ 30,776</u>

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

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

	<u>JUNE 30, 2007</u>	<u>SEPTEMBER 30, 2006</u>
	(unaudited)	
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable	\$ 1,500	\$ 1,500

Current portion of capital lease obligations	65	61
Accrued payroll	1,818	1,687
Accrued pension liability	280	210
Accounts payable	3,026	3,207
Accrued expenses and other current liabilities	2,203	1,818
Total current liabilities	8,892	8,483
CAPITAL LEASE OBLIGATIONS, net of current portion	199	247
ACCRUED PENSION LIABILITY, net of current portion	134	388
LIABILITIES FROM DISCONTINUED OPERATIONS	105	454
Total liabilities	9,330	9,572
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred stock, \$.10 par value; authorized 5,000 shares; 0 issued and outstanding	—	—
Common stock, \$.001 par value; authorized 40,000 shares; issued 19,290 and 19,285 at June 30, 2007 and September 30, 2006, respectively; outstanding 19,283 and 19,278 at June 30, 2007 and September 30, 2006, respectively	19	19
Additional paid-in capital	68,698	68,684
Accumulated deficit	(50,145)	(47,387)
Accumulated comprehensive losses	(44)	(88)
Treasury stock, 7 shares at cost at June 30, 2007 and September 30, 2006	(24)	(24)
Total shareholders' equity	18,504	21,204
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 27,834	\$ 30,776

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

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

	For the three months ended	
	June 30,	
	2007	2006
REVENUES	\$ 17,223	\$ 18,752
DIRECT EXPENSES	14,124	15,551
Gross profit	3,099	3,201
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	3,240	3,464
DEPRECIATION AND AMORTIZATION	85	104
Loss from operations	(226)	(367)
OTHER INCOME (EXPENSE):		
Interest income	24	28
Interest expense	(49)	(115)
Other income	27	35
Legal expense related to pre-acquisition activity of acquired company	(1,053)	—
	(1,051)	(52)
Loss from continuing operations before tax	(1,277)	(419)
INCOME TAX BENEFIT	—	158
Loss from continuing operations	(1,277)	(261)
(LOSS) INCOME FROM DISCONTINUED OPERATIONS:		
Loss from operations, net of tax benefit of \$0 and \$63 for quarters ended June 30, 2007 and 2006, respectively	(90)	(101)
Income from disposal, net of tax expense of \$0 and \$2,827 for quarters ended June 30, 2007 and 2006, respectively	125	4,556
	35	4,455
Net (loss) income	(1,242)	4,194
OTHER COMPREHENSIVE INCOME:		
Minimum pension liability adjustment, net of tax	6	5
COMPREHENSIVE (LOSS) INCOME	\$ (1,236)	\$ 4,199
(LOSS) EARNINGS PER SHARE – BASIC AND DILUTED		

Loss from continuing operations	\$ (0.06)	\$ (0.01)
Income from discontinued operations	0.00	0.23
Net (loss) earnings per share	<u>\$ (0.06)</u>	<u>\$ 0.22</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC	<u>19,296</u>	<u>19,278</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES AND EQUIVALENTS OUTSTANDING – DILUTED	<u>19,296</u>	<u>19,278</u>

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

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

	<u>For the nine months ended</u> <u>June 30,</u>	
	<u>2007</u>	<u>2006</u>
REVENUES	\$ 52,532	\$ 56,630
DIRECT EXPENSES	<u>44,102</u>	<u>47,119</u>
Gross profit	8,430	9,511
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	10,059	10,697
DEPRECIATION AND AMORTIZATION	<u>262</u>	<u>286</u>
Loss from operations	<u>(1,891)</u>	<u>(1,472)</u>
OTHER INCOME (EXPENSE):		
Interest income	58	39
Interest expense	(162)	(483)
Other income	124	113
Legal expense related to pre-acquisition activity of acquired company	<u>(1,053)</u>	<u>—</u>
	<u>(1,033)</u>	<u>(331)</u>
Loss from continuing operations before tax	(2,924)	(1,803)
INCOME TAX BENEFIT	<u>108</u>	<u>680</u>
Loss from continuing operations	<u>(2,816)</u>	<u>(1,123)</u>
INCOME FROM DISCONTINUED OPERATIONS:		
(Loss) income from operations, net of tax benefit (expense) of \$14 and \$(329) for nine months ended June 30, 2007 and 2006, respectively	(144)	531
Income from disposal, net of tax expense of \$48 and \$2,827 for nine months ended June 30, 2007 and 2006, respectively	<u>202</u>	<u>4,556</u>
	<u>58</u>	<u>5,087</u>
Net (loss) income	(2,758)	3,964
OTHER COMPREHENSIVE INCOME:		
Minimum pension liability adjustment, net of tax	<u>44</u>	<u>55</u>
COMPREHENSIVE (LOSS) INCOME	<u>\$ (2,714)</u>	<u>\$ 4,019</u>
(LOSS) EARNINGS PER SHARE – BASIC AND DILUTED		
Loss from continuing operations	\$ (0.14)	\$ (0.05)
Income from discontinued operations	0.00	0.26
Net (loss) earnings per share	<u>\$ (0.14)</u>	<u>\$ 0.21</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC	<u>19,269</u>	<u>19,278</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES AND EQUIVALENTS OUTSTANDING – DILUTED	<u>19,269</u>	<u>19,278</u>

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

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

	For the nine months ended	
	June 30,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	\$ (2,758)	\$ 3,964
Adjustments to reconcile net (loss) income to net cash used in operating activities, net of acquired and divested businesses:		
Deferred income taxes	—	2,319
Depreciation and amortization	268	286
Compensation expense related to director stock option grants	7	13
Compensation expense related to employee restricted stock grants	128	18
Provision for doubtful accounts	55	44
Gain on sale of DSI Payroll Services Division	(202)	(4,556)
Changes in operating assets and liabilities, net of acquired and divested businesses:		
Decrease in accounts receivable	1,046	54
Decrease in other current assets	1,085	351
Decrease in other assets	362	1,890
Increase (decrease) in accounts payable, accrued payroll, accrued expenses and other current liabilities	335	(1,839)
Decrease in pension liability	(184)	(208)
Cash flows from discontinued operations	(147)	5,095
Net cash (used in) provided by operating activities	(5)	7,431
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of equipment, leasehold improvements and software	(98)	(118)
Payment for acquisition of RS Staffing Services, net of cash acquired	—	(69)
Cash flows from discontinued operations	—	419
Net cash (used in) provided by investing activities	(98)	232
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on revolving line of credit	2,446	58,434
Payments on revolving line of credit	(2,446)	(62,440)
Principal payments on notes payable	—	(1,682)
Repayments on capital leases obligations	(43)	(66)
Net comprehensive income on pension	44	55
Cash flows from discontinued operations	—	(198)
Net cash provided by (used in) financing activities	1	(5,897)
Net (decrease) increase in cash and cash equivalents	(103)	1,766
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,157	1,304
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 2,054	\$ 3,070
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for-		
Interest	\$ 162	\$ 403
Income taxes	\$ 461	\$ 195

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

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TEAMSTAFF, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2007 (Unaudited)

(1) ORGANIZATION AND BUSINESS:

TeamStaff, Inc., a New Jersey corporation (“TeamStaff” or the “Company”), was founded in 1969 as a payroll service company and evolved into a national provider of payroll and temporary and permanent medical and administrative staffing services. TeamStaff has offices located in Clearwater, Florida; Memphis, Tennessee; Monroe, Georgia; Atlanta, Georgia; and Somerset, New Jersey.

When we use the term “TeamStaff,” or the “Company” we mean TeamStaff and its subsidiaries. Currently, we operate only through the parent corporation, TeamStaff, Inc., and TeamStaff Rx, Inc. (including its Nursing Innovations division) and RS Staffing Services, Inc., two wholly-owned subsidiaries of TeamStaff, Inc. 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 (“PEO”) business in fiscal year 2004 and other Company business changes, these “other” subsidiaries are not actively operating. References in this filing to “TeamStaff,” the “Company,” “we,” “us” and “our” refer to TeamStaff, Inc. and its wholly owned subsidiaries.

TeamStaff provides specialized medical, nursing and administrative staffing services. TeamStaff provides allied healthcare and nursing professionals and administrative personnel through three staffing units. The Company’s TeamStaff Rx, Inc. subsidiary operates throughout the United States and specializes in providing allied medical employees and nurses, especially “travel” staff (typically on a thirteen-week assignment basis). Allied medical staff includes MRI technicians, mammographers, dosimetrists, ultrasound staff and physicists. TeamStaff Rx, Inc. places temporary employees for over 200 client facilities. TeamStaff Rx, Inc.’s Nursing Innovations unit provides travel nursing, per diem nursing, temporary-to-permanent nursing and permanent nursing placement services. Nursing Innovations places temporary employees at over 60 client facilities. The Company’s RS Staffing Services, Inc. subsidiary specializes in providing medical and office administration/technical professionals through nationwide schedule contracts with both the General Services Administration and Department of Veterans Affairs. RS Staffing Services, Inc. places temporary employees at over 100 facilities.

TeamStaff, Inc. was organized under the laws of the State of New Jersey on November 25, 1969 and maintains its principal executive office at 1545 Peachtree Street, N.E., Suite 340, Atlanta, Georgia 30309 where its telephone number is (866) 352-5304.

Basis of Presentation

The consolidated financial statements included herein have been prepared by TeamStaff, without audit, pursuant to the applicable rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. 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 latest annual report on Form 10-K. This financial information reflects, in the

opinion of management, all adjustments necessary (consisting only of normal recurring adjustments) 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.

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

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Certain prior period amounts have been reclassified to conform to the current period presentation.

(2) SIGNIFICANT ACCOUNTING POLICIES:

Recently Issued Accounting Pronouncements Affecting the Company

In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). This Interpretation clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes a recognition threshold of more-likely-than-not to be sustained upon examination. Measurement of the tax uncertainty occurs if the recognition threshold has been met. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 will be effective in the Company's first quarter of the fiscal year ending September 30, 2008. The Company is currently evaluating the impact of adopting FIN 48.

Revenue Recognition

From October 1, 2005 through May 31, 2006, TeamStaff operated two different lines of business from which it derived substantially all of its revenue: temporary and permanent staffing and payroll services. Effective May 31, 2006, TeamStaff sold substantially all of the assets of its DSI Payroll Services division (see Note 5), and as a result, as of May 31, 2006 TeamStaff operated in only one segment, which is the temporary and permanent medical and administrative staffing business.

TeamStaff accounts for its revenues in accordance with EITF 99-19, *Reporting Revenues Gross as a Principal Versus Net as an Agent*, and SAB 104, *Revenue Recognition*. TeamStaff recognizes all amounts billed to its temporary staffing customers as gross revenue because, among other things, TeamStaff is the primary obligor in the temporary staffing arrangement; TeamStaff has pricing latitude; TeamStaff selects temporary 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 temporary 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 temporary employees which have not yet been billed to the customer as of the end of the accounting period.

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 temporary employees, plus an estimate to cover overhead expenses and a profit margin. Additionally, commissions from permanent placements are included in revenue related to Medical Staffing. Commissions from permanent placements result from the successful placement of a medical staffing employee to a customer's workforce as a permanent employee.

In connection with the Company's discontinued payroll services operation, payroll services revenue was recognized as service was rendered and consisted primarily of administrative service fees charged to clients for the processing of paychecks as well as the preparation of quarterly and annual payroll related reports. These amounts are reflected as part of income (loss) from discontinued operations in the consolidated financial statements.

Direct costs of services are reflected in TeamStaff's Statement of Operations as "direct expenses" and are reflective of the type of revenue being generated. Direct costs of the temporary staffing business include wages, employment related taxes and reimbursable expenses. In connection with the Company's discontinued payroll services operation, payroll services' direct costs include salaries and supplies associated with the processing of the payroll service.

Stock-Based Compensation

The Company's 2006 Long Term Incentive Plan (the "2006 Plan"), which is shareholder approved, permits the grant of stock options, stock appreciation rights, restricted stock, performance awards or

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other stock unit awards (collectively, "Awards") of up to 5,000,000 shares of common stock to all employees and non-employee directors. All Awards under the 2006 Plan are granted at the fair market value of the common stock at the grant date.

The Company's 2000 Employee Stock Option Plan (the "2000 Plan"), which is shareholder approved, permits the grant of options to purchase up to 1,714,286 shares of common stock to all employees as stock compensation. All stock options under the 2000 Plan are granted at the fair market value of the common stock at the grant date. Employee stock options vest ratably over a two-year period and expire 5 years from the grant date.

The Company's 2000 Non-Executive Director Stock Option Plan (the "Director Plan"), which is shareholder approved, permits the grant of options to non-employee directors of TeamStaff. Under the terms of the Director Plan, each non-executive director is automatically granted an option to purchase 5,000 shares upon joining the Board and each September 1st, pro rata, based on the time the director has served in such capacity during the previous year. The Director Plan also provides that directors, upon joining the Board, and for one (1) year thereafter, will be entitled to purchase restricted stock from TeamStaff at a price equal to 80% of the closing bid price on the date of purchase up to an aggregate purchase price of \$50,000.

Effective January 19, 2007, the Board of Directors agreed to change Board member stock compensation as follows:

Each non-employee Board member will receive an initial grant under the Company's 2006 Long-Term Incentive Plan of 15,000 shares of restricted stock following the 2007 annual meeting of shareholders. Additionally, for each Board committee on which such non-employee Board member serves, the Board member will receive a grant of 2,500 shares of restricted stock following the 2007 annual meeting of shareholders. Fifty percent (50%) of all such shares of restricted stock shall vest when the volume-weighted average share price of the Company's common stock over any twenty consecutive trading days exceeds the price on the date of grant by

20%, with the remaining fifty percent (50%) vesting one year thereafter. Future annual grants shall be determined by the Company's Compensation Committee.

Effective October 1, 2005, the Company's stock based compensation plans are accounted for in accordance with the recognition and measurement provisions of Statement of Financial Accounting Standards ("FAS") No. 123 (revised 2004), Share-Based Payment ("FAS 123(R)"), which replaces FAS No. 123, Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board Opinion ("APB") No. 25, Accounting for Stock Issued to Employees, and related interpretations. FAS 123(R) requires compensation costs related to share-based payment transactions, including employee stock options, to be recognized in the financial statements. In addition, the Company adheres to the guidance set forth within Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") No. 107, which provides the Staff's views regarding the interaction between SFAS No. 123(R) and certain SEC rules and regulations and provides interpretations with respect to the valuation of share-based payments for public companies.

Prior to October 1, 2005, the Company accounted for similar transactions in accordance with APB No. 25 which employed the intrinsic value method of measuring compensation cost. Accordingly, compensation expense was not recognized for fixed stock options if the exercise price of the option equaled or exceeded the fair value of the underlying stock at the grant date.

While FAS No. 123 encouraged recognition of the fair value of all stock-based awards on the date of grant as expense over the vesting period, companies were permitted to continue to apply the intrinsic value-based method of accounting prescribed by APB No. 25 and disclose certain pro-forma amounts as if the fair value approach of SFAS No. 123 had been applied. In December 2002, FAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of SFAS No. 123, was issued, which, in addition to providing alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation, required more prominent pro-forma disclosures in both the annual and interim financial statements. The Company complied with these disclosure requirements for all applicable periods prior to October 1, 2005.

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In adopting FAS 123(R), the Company applied the modified prospective approach to transition. Under the modified prospective approach, the provisions of FAS 123(R) are to be applied to new awards and to awards modified, repurchased, or cancelled after the required effective date. Additionally, compensation cost for the portion of awards for which the requisite service has not been rendered that are outstanding as of the required effective date shall be recognized as the requisite service is rendered on or after the required effective date. The compensation cost for that portion of awards shall be based on the grant-date fair value of those awards as calculated for either recognition or pro-forma disclosures under FAS 123. Stock option compensation expense in 2007 and 2006 is the estimated fair value of options granted amortized on a straight-line basis over the requisite service period for the entire portion of the award. As a result of the adoption of FAS 123(R), the Company's results for the three and nine month periods ended June 30, 2007 include share-based compensation expense totaling approximately \$2,000 and \$7,000, respectively. The Company's results for the three and nine month period ended June 30, 2006 include share-based compensation expense totaling approximately \$4,000 and \$13,000, respectively. Such amounts have been included in the Consolidated Statements of Operations within operating expenses. The Company did not recognize related tax benefits associated with its share-based compensation arrangements for the three and nine month period ended June 30, 2007. The Company recognized related tax benefits associated with its share-based compensation arrangements totaling approximately \$1,000 and \$5,000, respectively, for the three and nine month periods ended June 30, 2006. As of June 30, 2007, approximately \$1,000 of unrecognized compensation expense related to non-vested stock option awards is expected to be recognized during the remainder of the current fiscal year.

During the three months ended June 30, 2007, TeamStaff did not grant any options, no options expired, 550,000 options were cancelled unexercised and no options were exercised. During the nine months ended June 30, 2007, TeamStaff did not grant any options, no options expired, 612,000 options were cancelled unexercised and no options were exercised. There were 281,000 options outstanding as of June 30, 2007. During the three and nine months ended June 30, 2006, TeamStaff did not grant any options, 300,000 options expired or were cancelled unexercised, and no options were exercised. There were 1,018,000 options outstanding as of June 30, 2006.

During the three months ended June 30, 2007, TeamStaff did not grant any awards of restricted stock under its 2006 Long Term Incentive Plan. During the nine months ended June 30, 2007, TeamStaff granted awards of 230,000 shares of restricted stock under its 2006 Long Term Incentive Plan. The shares of restricted stock were awarded and valued at the closing price on the award date of \$1.07. The shares will vest according to the following schedule: (a) 60,000 shares will vest immediately; (b) 85,000 shares will vest on September 30, 2008, subject to the Company achieving four prior consecutive quarters of EBITDA profitability, and (c) 85,000 shares will vest on September 30, 2009 subject to at least a 50% improvement in EBITDA profitability in fiscal 2009 as compared to fiscal 2008. In accordance with FAS 123(R) the Company will not recognize expense until it is probable that these performance conditions will be achieved. Such charges could be material in future periods. During the three months ended June 30, 2007, 70,000 of these unvested performance based shares were cancelled due to the termination of the recipient.

	Number Of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding, September 30, 2006	893,000	\$ 2.65	2.6	\$ —
Granted	—			
Cancelled	(612,000)	\$ 2.67		
Options outstanding, June 30, 2007	281,000	\$ 2.38	2.4	\$ —
Options exercisable June 30, 2007	261,000	\$ 2.43	2.1	\$ —

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	Number Of Shares	Weighted Average Grant-Date Fair Value
Restricted stock outstanding, September 30, 2006	220,000	\$ 1.70
Granted	230,000	\$ 1.07
Cancelled	(190,000)	\$ 1.47
Restricted stock outstanding, June 30, 2007	260,000	\$ 1.31

As of June 30, 2007, approximately \$200,000 of unrecognized compensation costs related to non-vested restricted stock awards was expected to be recognized over a weighted average period of 2.1 years.

(Loss) Earnings Per Share

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

In accordance with SFAS 128, the following table reconciles basic shares outstanding to fully diluted shares outstanding:

(Amounts in thousands)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2007	2006	2007	2006
Weighted average number of common shares outstanding – basic	19,296	19,278	19,269	19,278
Incremental shares for assumed conversion of stock options/warrants	—	—	—	—
Weighted average number of common shares outstanding – diluted	19,296	19,278	19,269	19,278

Stock options, warrants and restricted stock outstanding at June 30, 2007 to purchase 1,039,000 shares of common stock and at June 30, 2006 to purchase 1,632,000 shares of common stock were not included in the computation of diluted earnings per share as they were antidilutive.

Income Taxes

Deferred tax assets and liabilities are determined based on temporary differences between income and expenses reported for financial reporting and tax reporting. The Company is required to record a valuation allowance to reduce its net deferred tax assets to the amount that it believes is more likely than not to be realized. In assessing the need for a valuation allowance, the Company historically had considered all positive and negative factors, including scheduled reversals of deferred tax liabilities, prudent and feasible tax planning strategies and recent financial performance. The Company determined that the negative factors, including historic and current taxable losses, as well as uncertainties and limitations 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 full valuation allowance against the deferred tax asset was necessary in fiscal 2006. In fiscal 2006, the deferred tax asset was reduced by \$16.9 million with a corresponding adjustment to the provision for income taxes. For the three months ended June 30, 2007, the Company recorded approximately \$0.5 million in additional valuation allowance against the deferred tax asset related to current taxable losses, with a corresponding adjustment to the provision for income taxes. For the nine months ended June 30, 2007, the Company recorded approximately \$1.0 million in additional valuation allowance against the deferred tax asset related to current taxable losses, with a corresponding adjustment to the provision for income taxes. The net carrying value of the deferred tax asset was \$0 at September 30, 2006 and June 30, 2007. The establishment of the deferred tax asset allowance does not preclude the

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Company from reversing a portion or all of the allowance in future periods if the Company believes the positive factors are sufficient enough to utilize at least a portion of the deferred tax asset, nor does it limit the ability to utilize losses for tax purposes, subject to loss carry forward limitations and periods permitted by tax law.

The net tax benefit of \$0.1 million for the nine months ended June 30, 2007 pertains to adjustments in amounts accrued for tax provisions or settlements for fiscal year 2006 compared to amounts when the final federal and state returns were prepared and filed.

Accumulated Comprehensive Loss and Minimum Pension Liability Adjustment

A minimum pension liability adjustment is required when the actuarial present value of accumulated benefit obligation exceeds the plan assets and accrued pension liabilities. The minimum pension liability adjustment, net of income taxes, is recorded as a component of “Accumulated comprehensive income” on the balance sheet and is reflected in Statement of Comprehensive Income (Loss) as “Minimum pension liability adjustment, net of tax”. The Company used a discount rate of 3.0% each to calculate the projected benefit obligation and the periodic benefit cost calculation for the three and nine months ended June 30, 2007. The Company recorded a gain from such adjustment, net of tax of \$6,000 and \$5,000 for the three months ended June 30, 2007 and 2006, respectively. The Company recorded a gain from such adjustment, net of tax of \$44,000 and \$55,000 for the nine months ended June 30, 2007 and 2006, respectively. At June 30, 2007 and September 30, 2006, accumulated comprehensive loss on the balance sheet reflects the cumulative balance due to the minimum pension liability adjustment.

(3) RECENT EVENTS:

On April 17, 2007, a Federal Grand Jury subpoena was issued by the Northern District of Illinois to the Company’s wholly-owned subsidiary RS Staffing Services, Inc. (“RS Staffing”) requesting production of certain documents dating back to 1997. The subpoena stated that it is issued in connection with an investigation of possible violations of Federal criminal laws and related crimes concerning procurement at the Veterans Administration. According to the cover letter accompanying the subpoena, the U.S. Department of Justice, Antitrust Division, along with the U.S. Department of Veterans Affairs (“DVA”), Office of the Inspector General, are responsible for the current criminal investigation. RS Staffing provides temporary staffing at certain Veterans Administration hospitals that may be part of the investigation. The return date for documents called for by the subpoena was May 17, 2007. The Company has sought and obtained extensions to the original document production deadline called for in the subpoena. 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. The Company has been subsequently advised that neither it nor RS Staffing is currently a target of the investigation. The Company is actively cooperating with this government investigation.

The Company originally acquired RS Staffing in May 2005. As part of the purchase price of the acquisition, the Company issued to the former owners of RS Staffing a \$3.0 million promissory note, of which \$1.5 million 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 reached an agreement to extend the due date from June 8, 2007 with respect to the remaining \$1.5 million note payable and accrued interest payable on June 8, 2007. At June 30, 2007 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 \$1.05 million during the quarter ended June 30, 2007. Based on the Company’s and its counsel’s contractual interpretation, the Company has

notified the former owners that it is their 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.

Based on an assessment of the current status of the matter, the Company has expensed these costs at June 30, 2007. The Company will pursue the recovery as a right of offset in future periods. Accordingly, management and its counsel have a good faith belief that the Company will recover such

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amounts (as well as those costs incurred in future periods); however, generally accepted accounting principles preclude the Company from recording an offset to the note payable to the former owners of RS Staffing until the final amount of the claim is settled and determinable. At present, no assurances can be given that the Company will be successful in the offset of such amounts against the outstanding debt.

(4) BUSINESS COMBINATIONS:

Acquisition of RS Staffing Services, Inc.

On June 8, 2005 TeamStaff, Inc. completed its acquisition of RS Staffing, a privately held Georgia corporation, pursuant to the terms of a Stock Purchase Agreement dated as of May 26, 2005. RS Staffing, headquartered in Monroe, GA, specializes in providing medical and office administration/technical professionals through nationwide schedule contracts with both the United States General Services Administration ("GSA") and DVA. Closing of the transaction was completed for accounting purposes as of June 4, 2005. TeamStaff acquired all of the capital stock of RS Staffing for a purchase price of \$8 million consisting of \$3.25 million in cash, \$3 million in a 2-year note, and \$1.75 million in TeamStaff common stock (1,206,896 shares). The shares are restricted shares and can only be sold in accordance with the provisions of Rule 144 of the Securities Act of 1933. The Sellers guaranteed a minimum net worth of \$1.4 million and any amounts above or below this amount after a finalized accounting at one year post acquisition, were subject to a purchase price adjustment. As a result, for the quarter ended June 30, 2006, a downward purchase price adjustment in the amount of approximately \$132,000 was made and deducted from the amount due under the first installment of the note payable. In addition, there was a one-year earn out of up to a maximum of \$2.0 million based upon the achievement of specified performance targets for the business. The performance targets were met and the Company made payment of the maximum amount on August 14, 2006. Principals of RS Staffing, namely Roger Staggs and Barry Durham, initially continued as management of RS Staffing pursuant to employment agreements with each of them. Barry Durham resigned his position effective as of December, 2005. Roger Staggs' employment agreement expired on June 4, 2006 and was not renewed. The acquisition agreement also provided for mutual indemnification for breaches of representations and warranties. Further, the note issued by TeamStaff as part of the purchase price bears interest at 5% per annum, of which one half in the principal amount of \$1.5 million together was the accrued interest of \$150,000, was paid on June 8, 2006, and the remainder was payable in June 2007. The note is secured by a lien on certain assets of the business, subordinate to any liens granted in connection with financing for the transaction. As described in Note 3 above, effective June 1, 2007, the Company and former owners of RS Staffing reached an agreement to extend the due date of the \$1.5 million note payable and accrued interest that was payable on June 8, 2007. Based on the Company's and its counsel's contractual interpretation, the Company has notified the former owners that it is their 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.

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The following table summarizes the revised estimated fair values of the assets acquired and liabilities assumed:

(Amounts in thousands)	
Current assets	\$ 5,865
Property, plant, and equipment	204
Goodwill	8,960
Other assets	75
Total assets acquired	15,104
Current liabilities	4,680
Long term liabilities	39
Total liabilities assumed	4,719
Net assets acquired	\$ 10,385

Included in Goodwill is \$330,000 of expenses directly related to the acquisition.

(5) DISCONTINUED OPERATIONS:

Disposal of DSI Payroll Services

Effective May 31, 2006, the Company sold substantially all of the assets of its DSI Payroll Services ("DSI") division to CompuPay, Inc. ("CompuPay") for \$9.0 million. The general terms of the transaction were an all-cash sale for \$9.0 million, subject to an escrow of \$250,000 for potential post-closing contingencies. On November 30, 2006, CompuPay released \$125,000 of the escrow to TeamStaff. On May 31, 2007, CompuPay released the final \$125,000 of escrow plus earned interest of approximately \$9,000 to TeamStaff. The agreement also called for minimum working capital requirements that resulted in a purchase price adjustment of \$248,677, which was paid to TeamStaff on September 11, 2006. The agreement also included a transition agreement whereby CompuPay would sublease certain office space at DSI's current location from the Company, among other standard agreements.

Net revenues for the payroll services segment for the third fiscal quarter 2006 through the date of sale effective May 31, 2006 were \$0.8 million. Net revenues for the payroll services segment for fiscal year 2006 through the date of sale effective May 31, 2006 were \$3.5 million. There were no revenues during the three and nine months ended June 30, 2007.

The following charts detail assets and liabilities and changes therein from all discontinued operations:

(amounts in thousands)	June 30, 2007	September 30, 2006
ASSETS	\$ —	\$ —
LIABILITIES		
Accrued expenses and other current liabilities	\$ 105	\$ 454

Liability Balances (amounts in thousands)	March 31, 2007 Balance	Expensed This Quarter	Paid This Quarter	June 30, 2007 Balance
Accrued expenses and other current liabilities	\$ 205	\$ 90	\$ 190	\$ 105
Total	<u>\$ 205</u>	<u>\$ 90</u>	<u>\$ 190</u>	<u>\$ 105</u>

(6) COMMITMENT AND CONTINGENCIES:**New Lease Agreement**

On April 13, 2007, TeamStaff, Inc., as tenant and Somerset Executive Square Associates, L.P., as landlord, entered into a lease for approximately 2,670 rentable square feet located at 1 Executive

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Drive, Somerset, New Jersey. The lease is for a 62 month term, with a commencement date of July 9, 2007. The premises will be used primarily as office space for TeamStaff's corporate executive and finance staff. The total value of the commitment over the life of the lease is approximately \$255,000. The Company is also responsible for its share in increase to Operating Costs (as defined in the Lease) after the first lease year. The current office lease in Somerset, New Jersey, expired on May 31, 2007 but was extended until July 2007.

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. 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 PEO assets in November 2003, 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 on 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 has retained the services of Ernst & Young LLP as a consultant to assist it 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.

(7) WORKERS' COMPENSATION:**Prepaid Workers' Compensation**

TeamStaff's current workers' compensation insurance program is provided by Zurich American Insurance Company ("Zurich"). This program covers TeamStaff's temporary employees and its corporate employees. The program is managed by Cedar Hill and GAB Robins provides claims handling services. This program is a fully insured, guaranteed cost program that contains no deductible or retention feature. The premium for the program is paid monthly based upon actual payroll and is subject to a policy year-end audit.

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 17, 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. Assets in the trust may be adjusted from time to time based on program experience. On March 3, 2006, Zurich reduced the collateral requirements on outstanding workers' compensation claims and released \$2.25 million in trust account funds back to TeamStaff. On March 5, 2007, Zurich further reduced the collateral requirements on outstanding workers' compensation claims and released an additional \$0.76 million in trust account funds back to TeamStaff. After the release of these trust account funds, Zurich further reviewed the collateral requirements on outstanding worker's compensation claims and on April 3, 2007, released an additional \$0.43 million in trust account funds back to TeamStaff. TeamStaff estimates that at June 30, 2007, the remaining prepaid asset of \$0.3 million will be received within the next twelve months. This is reflected on TeamStaff's balance sheet as of June 30, 2007 as a current asset.

As of June 30, 2007 the adequacy of the workers' compensation reserves 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

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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 reserves as deemed appropriate.

(8) DEBT:

In connection with the acquisition of RS Staffing (see Note 4), TeamStaff secured financing with PNC Bank in the form of a \$7.0 million revolving credit facility. The credit facility was provided by PNC Bank effective on June 8, 2005 to (i) provide for the acquisition of RS Staffing; (ii) refinance an outstanding senior loan facility; and (iii) provide ongoing working capital. Effective February 13, 2006, TeamStaff entered into an amendment to the revolving credit note, increasing the revolving credit facility to \$8.0 million. Revolving credit advances under the credit facility bear interest at either a PNC Bank internal rate that approximates the Prime Rate plus 25 basis points or LIBOR plus 275 basis points, whichever is higher. 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 if the Company fails to maintain invested cash and line availability minimum requirements. For the period ended June 30, 2007, TeamStaff was in compliance with all loan covenants. The facility is subject to acceleration upon non-payment or various other standard default clauses. In addition, the Company granted PNC Bank a lien and security interest on all of its assets. The facility was paid off with the proceeds from the sale of DSI on May 31, 2006 and the line was not drawn upon subsequently until February 8, 2007. The line was not drawn upon during the quarter ended June 30, 2007. At June 30, 2007, there

was no debt outstanding under the credit facility and \$4.6 million of unused availability under the line, based on defined billed accounts receivable. The interest rate effective at June 30, 2007 was 8.5%.

In connection with the acquisition of RS Staffing, TeamStaff issued two promissory notes to the former owners of RS Staffing 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 PNC Bank described above. One half of the principal (\$1.5 million) and interest (\$150,000) was due on June 8, 2006 and payment was made in the amount of \$1.65 million. The remaining principal and interest was due in June 2007. As described in Note 3 above, effective June 1, 2007, the Company and former owners of RS Staffing reached an agreement to extend the due date of the \$1.5 million note payable and accrued interest that was payable on June 8, 2007. Based on the Company's and its counsel's contractual interpretation, the Company has notified the former owners that it is their 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.

Long-term debt at June 30, 2007 and September 30, 2006 consists of the following-

(Amounts in thousands)	June 30, 2007	September 30, 2006
Notes payable	\$ 1,500	\$ 1,500
Less: Current portion	(1,500)	(1,500)
Long-term debt	<u>\$ —</u>	<u>\$ —</u>

(9) STOCK WARRANTS:

During the three and nine months ended June 30, 2007, no warrants were issued, no warrants expired unexercised and no warrants were exercised. There were 598,000 warrants outstanding as of June 30, 2007. During the quarter ended June 30, 2006, no warrants were issued, no warrants expired unexercised and no warrants were exercised. During the nine months ended June 30, 2006, no warrants were issued, 10,000 warrants expired unexercised, and no warrants were exercised. There were 614,000 warrants outstanding as of June 30, 2006.

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(10) SUPPLEMENTAL RETIREMENT PLAN:

Effective October 1, 2000, TeamStaff adopted a non-qualified Supplemental Executive Retirement Plan ("SERP") covering certain TeamStaff corporate officers. TeamStaff's former President and Chief Executive Officer and its former Chief Financial Officer were the only SERP participants. No current employees are covered under SERP. SERP participants also were provided with a split dollar life insurance policy, insuring the life of the participant. Each participant collaterally assigned his policy to TeamStaff to secure repayment of policy premiums. In connection with the change in their employment status, TeamStaff engaged in negotiations with its former President and Chief Executive Officer and the former Chief Financial Officer regarding the payment of certain severance benefits and the satisfaction of TeamStaff's obligations to each of them under SERP and the split dollar life insurance arrangements.

On December 31, 2003, TeamStaff executed an agreement with its former President and Chief Executive Officer pursuant to which TeamStaff agreed to, among other things, release the collateral assignment of the split dollar life insurance policy as of December 31, 2003 and to accelerate the payment of certain agreed upon payments under SERP in complete satisfaction of TeamStaff's obligations under SERP.

TeamStaff entered into a similar agreement with its former Chief Financial Officer effective as of December 30, 2003 in complete satisfaction of TeamStaff's obligations under the SERP. That agreement also provided for the payment of severance and other benefits over time in complete satisfaction of TeamStaff's obligations to its former Chief Financial Officer under his severance agreement effective May 22, 2002.

Cash payments aggregating \$0.2 million have been made to the former President and Chief Executive Officer and the former Chief Financial Officer during the first nine months of fiscal 2007.

Components of Net Periodic Benefit Cost:

(amounts in thousands)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2007	2006	2007	2006
Interest cost	\$ 3	\$ 5	\$ 9	\$ 15
Amortization of net loss	9	8	35	27
Settlement charges	—	—	46	65
Total pension cost	<u>\$ 12</u>	<u>\$ 13</u>	<u>\$ 90</u>	<u>\$ 107</u>

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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. 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 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 qualified temporary and permanent healthcare professionals and administrative staff at reasonable costs; our ability to retain qualified temporary

healthcare professionals and administrative staff for multiple assignments at reasonable costs; our ability to attract and retain sales and operational personnel; our ability to enter into contracts with hospitals, healthcare facility clients, affiliated healthcare networks, physician practice groups and the United States government on terms attractive to us and to secure orders related to those contracts; our ability to demonstrate the value of our services to our healthcare and other facility clients; changes in the timing of hospital, healthcare facility clients', physician practice groups' and U.S. Government orders for and our placement of temporary and permanent healthcare professionals and administrative staff; the general level of patient occupancy at our hospital, healthcare facility clients' and physician practice groups' facilities; the overall level of demand for services offered by temporary and permanent healthcare staffing providers; the ability of our hospital, health care facility and physician practice group clients to retain and increase the productivity of their permanent staff; the variation in pricing of the healthcare facility contracts under which we place temporary and permanent healthcare professionals; our ability to successfully implement our strategic growth, acquisition and integration strategies; our ability to successfully integrate completed acquisitions into our current operations; our ability to manage growth effectively; our ability to leverage our cost structure; the performance of our management information and communication systems; the effect of existing or future government legislation and regulation; our ability to grow and operate our business in compliance with these legislation and regulations; 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; the disruption or adverse impact to our business as a result of the failure of our information systems; 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; 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, 2006 and our Current Reports on Form 8-K. 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.

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Restructuring of Management

Effective January 5, 2007, Mr. Robert P. Traficanti resigned as General Manager of the Nursing Innovations division of TeamStaff Rx.

Effective January 8, 2007, Mr. T. Kent Smith left the Company having served as President, Chief Executive Officer and a member of the Board of Directors. Mr. James L. Donahue left the Company having served as its Vice President of Sales and President of the Company's TeamStaff Rx subsidiary. Mr. Peter Rosen left the Company having served as its Vice President of Human Resources.

Effective January 10, 2007, Mr. Rick J. Filippelli, the Company's Chief Financial Officer was appointed President and Chief Executive Officer.

Effective January 18, 2007, Mr. James D. Houston, the Company's General Counsel, Vice President of Business and Legal Affairs and Corporate Secretary was appointed Chief Operating Officer. Effective April 30, 2007, Mr. Houston's employment with the Company was terminated.

Effective January 16, 2007, Mr. Ben Dyer resigned as a member of the Company's Board of Directors.

Effective January 19, 2007, the Company's Board of Directors elected Mr. Rick Filippelli, the Company's President, CEO and CFO to the Board of Directors.

Effective January 19, 2007, the Company's Board of Directors elected Mr. William H. Alderman and Mr. Rick Wasserman to the Company's Board of Directors to fill vacancies in accordance with the Company's by-laws.

Effective January 23, 2007, Mr. Ronald R. Aldrich resigned from the Company's Board of Directors.

Effective March 2, 2007, Mr. Timothy Nieman left the Company having served as President of RS Staffing. Ms. Julie Thompson was concurrently rehired on a consultant basis to assist at RS Staffing.

As part of the Company's initiative on sales and marketing in its allied and nursing staffing division, Mr. Terry Merlin was hired as Director of Sales and Marketing for TeamStaff Rx, the Company's allied and nursing staffing subsidiary. Mr. Merlin commenced employment on March 15, 2007.

As part of the Company's initiative on sales and contract procurement in the government sector, Mr. Kevin Wilson was hired as Director of Sales for RS Staffing, the Company's subsidiary that specializes in staffing through nationwide schedule contracts with both the GSA and DVA. Mr. Wilson commenced employment on June 18, 2007.

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 2006 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.

Recently Issued Accounting Pronouncements Affecting the Company

In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). This Interpretation clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes a recognition threshold of more-likely-than-not to be sustained upon examination. Measurement of the tax uncertainty occurs if the recognition threshold has been met. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 will be effective in the Company's first quarter of the fiscal year ending September 30, 2008. The Company is currently evaluating the impact of adopting FIN 48.

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Revenue Recognition

From October 1, 2005 through May 31, 2006, TeamStaff operated two different lines of business from which it derived substantially all of its revenue: temporary and permanent staffing and payroll services. Effective May 31, 2006, TeamStaff sold substantially all of the assets of its DSI Payroll Services division (see Note 5), and as a result, TeamStaff now operates in only one segment, which is the temporary and permanent medical and administrative staffing business.

TeamStaff accounts for its revenues in accordance with EITF 99-19, *Reporting Revenues Gross as a Principal Versus Net as an Agent* and SAB 104, *Revenue Recognition*. TeamStaff recognizes all amounts billed to its temporary staffing customers as gross revenue because, among other things, TeamStaff is the primary obligor in the temporary staffing arrangement; TeamStaff has pricing latitude; TeamStaff selects temporary 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 temporary 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 temporary employees which have not yet been billed to the customer as of the end of the accounting period.

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 temporary employees, plus an estimate to cover overhead expenses and a profit margin. Additionally, commissions from permanent placements are included in revenue related to medical staffing. Commissions from permanent placements result from the successful placement of a medical staffing employee to a customer's workforce as a permanent employee.

In connection with the Company's discontinued payroll services operation, payroll services revenue was recognized as service was rendered and consisted primarily of administrative service fees charged to clients for the processing of paychecks as well as the preparation of quarterly and annual payroll related reports. These amounts are reflected as part of income (loss) from discontinued operations in the consolidated financial statements.

Direct costs of services are reflected in TeamStaff's Statement of Operations as "direct expenses" and are reflective of the type of revenue being generated. Direct costs of the temporary staffing business include wages, employment related taxes and reimbursable expenses. In connection with the Company's discontinued payroll services operation, payroll services' direct costs include salaries and supplies associated with the processing of the payroll service.

Workers' Compensation

Prepaid Workers' Compensation

TeamStaff's current workers' compensation insurance program is provided by Zurich American Insurance Company ("Zurich"). This program covers TeamStaff's temporary employees and its corporate employees. The program is managed by Cedar Hill and GAB Robins provides claims handling services. This program is a fully insured, guaranteed cost program that contains no deductible or retention feature. The premium for the program is paid monthly based upon actual payroll and is subject to a policy year-end audit.

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 17, 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. Assets in the trust may be adjusted from time to time based on program experience. On March 3, 2006, Zurich reduced the collateral requirements on outstanding workers' compensation claims and released \$2.25 million in trust account funds back to TeamStaff. On March 5, 2007, Zurich further reduced the collateral requirements on outstanding workers'

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compensation claims and released an additional \$0.76 million in trust account funds back to TeamStaff. After the release of these trust account funds, Zurich further reviewed the collateral requirements on outstanding worker's compensation claims and on April 3, 2007, released an additional \$0.43 million in trust account funds back to TeamStaff. TeamStaff estimates that at June 30, 2007, the remaining prepaid asset of \$0.3 million will be received within the next twelve months. This is reflected on TeamStaff's balance sheet as of June 30, 2007 as a current asset.

As of June 30, 2007 the adequacy of the workers' compensation reserves 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 reserves as deemed appropriate.

Deferred Taxes

TeamStaff accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." Under SFAS No. 109, 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 balance sheet when it is determined that it is more likely than not that the asset will be realized. SFAS No. 109 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 June 30, 2007, the Company provided a 100% deferred tax valuation allowance of approximately \$17.9 million. In assessing the need for a valuation allowance, the Company historically has considered all positive and negative factors, including scheduled reversals of deferred tax liabilities, prudent and feasible tax planning strategies and recent financial performance. The Company determined that negative factors, 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. The Company is providing a 100% valuation allowance that it is more likely than not that it will not be able to realize the full benefit of the deferred tax asset. The establishment of the deferred tax asset allowance does not preclude the Company from reversing any or all of the allowance in future periods if the Company believes the positive factors are sufficient enough to utilize the deferred tax asset, nor does it limit the ability to utilize losses for tax purposes, subject to loss carry forward limitations and periods permitted by law.

Results of Continuing Operations

The Company's travel allied and nursing divisions continued to under perform the market during fiscal 2007. In response to this, in January 2007, the Company restructured its senior management and its Board of Directors in an effort to accelerate revenue growth, reduce expenses and restructure its operations and contribute to a return to profitability. Rick J. Filippelli, the Company's Chief Financial Officer, was appointed President and Chief Executive Officer and also retained his position as Chief Financial Officer. On January 19, 2007, Mr. Filippelli was also elected to the Board of Directors.

The Company has commenced several initiatives to position the staffing services divisions for growth in fiscal 2007. Sales initiatives include assessing, restructuring and adding to its sales force and recruiting efforts, restructuring sales force incentive compensation to better reflect pay for performance and implementation of a

pricing and gross margin improvement plan. The Company hired a Director of Sales and Marketing to oversee the allied and nursing sales efforts. As part of the marketing initiative, the Company has contracted with an advertising agency and has launched an

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aggressive ad campaign to attract allied medical and nurse travelers and effective August 6, 2007, subsequent to the balance sheet date, hired an experienced Marketing Manager. To lead initiatives in the government staffing sector, the Company hired a Director of Sales for RS Staffing. The Company seeks continued elimination of overhead costs deemed to be non-essential to growth or infrastructure.

Longer term, we continue to believe the demand for temporary medical personnel will increase. Key drivers in our business segment include the declining health of an aging population, advances in medical technology and growth in hospital admissions. We believe demand will also increase as more states introduce legislation for mandatory minimum caregiver-to-patient ratios and overtime limitations. The introduction of such legislation should favorably impact our temporary nurse staffing business. Our acquisition of RS Staffing completed in June 2005 gives us a strong presence in the government sector and provides us with an opportunity to bid on awards for large multi-year contracts with solid operating margins. We continue to focus on our sales and marketing efforts throughout the divisions in order to increase our contact with current and prospective clients.

TeamStaff's revenues for the three months ended June 30, 2007 and 2006 were \$17.2 million and \$18.8 million, respectively, which represents a decrease of \$1.6 million, or 8.2%, from third fiscal quarter 2006 to third fiscal quarter 2007. All revenues are related to the staffing services divisions. Revenues for the third fiscal quarter 2007 and 2006 include \$11.4 million and \$10.9 million, respectively, related to the RS Staffing subsidiary. This acquisition, effective as of June 2005, helped offset a decrease of \$2.1 million in the revenues of the travel allied and nursing portion ("travel") of our staffing services division from third fiscal quarter 2006 to third fiscal quarter 2007.

TeamStaff's revenues for the nine months ended June 30, 2007 and 2006 were \$52.5 million and \$56.6 million, respectively, which represents a decrease of \$4.1 million, or 7.2%, from fiscal year 2006 to fiscal year 2007. All revenues relate to the staffing services division. Revenues for the nine months ended June 30, 2007 and 2006 include \$33.7 million and \$32.8 million, respectively, related to RS Staffing.

Direct expenses for the three months ended June 30, 2007 and 2006 were \$14.1 million and \$15.6 million, respectively, which represents a decrease of \$1.5 million, or 9.2%, from third fiscal quarter 2006 to third fiscal quarter 2007. This decrease is a direct result of decreased revenues. As a percentage of revenue, direct expenses for the three months ended June 30, 2007 and 2006 were 82.0% and 82.9%, respectively. Direct expenses for the nine months ended June 30, 2007 and 2006 were \$44.1 million and \$47.1 million, respectively, which represents a decrease of \$3.0 million, or 6.4%, from fiscal year 2006 to fiscal year 2007. As a percentage of revenue, direct expenses for the nine months ended June 30, 2007 and 2006 were 84.0% and 83.2%, respectively.

Gross profit for the three months ended June 30, 2007 and 2006 was \$3.1 million and \$3.2 million, respectively, which represents a decrease of \$0.1 million, or 3.2%, from third fiscal quarter 2006 to third fiscal quarter 2007. This decrease is attributable to the decline in revenues. Gross profit, as a percentage of revenue, increased to 18.0% from 17.1%, for the three months ended June 30, 2007 and 2006, respectively. Gross profit for the nine months ended June 30, 2007 and 2006 was \$8.4 million and \$9.5 million, respectively, which represents a decrease of \$1.1 million, or 11.4%, from fiscal year 2006 to fiscal year 2007. Gross profit, as a percentage of revenue, decreased to 16.0% in fiscal year 2007 from 16.8% in fiscal year 2006. This decrease is primarily due to RS Staffing comprising a larger percentage of total revenue in the first nine months of fiscal 2007 to date compared to the first nine months of fiscal 2006. The gross profit calculation includes costs paid to RS Staffing teaming partners (subcontractors) that are included as a direct expense. Teaming partners (subcontractors) is a business practice expected by government entities who prefer their suppliers to provide more of a master vendor service where the supplier looks to outside sources when needed to fill open staffing positions.

Selling, general and administrative ("SG&A") expenses for the three months ended June 30, 2007 and 2006 were \$3.2 million and \$3.5 million, respectively, which represents a decrease of \$0.3 million, or 6.5%, from third fiscal quarter 2006 to third fiscal quarter 2007. Included in SG&A for the three months ended June 30, 2007 is approximately \$0.3 million in accrued severance costs related to the management restructuring. Adjusting for the \$0.3 million of severance included in the third fiscal quarter of 2007, SG&A expenses decreased \$0.6 million, or 15.8%, from third quarter 2006 to

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third quarter 2007. SG&A expenses, as a percentage of revenue, were 18.8% and 18.5%, for the three months ended June 30, 2007 and 2006, respectively. SG&A expenses for the nine months ended June 30, 2007 and 2006 were \$10.1 million and \$10.7 million, respectively, which represents a decrease of \$0.6 million, or 6.0% from fiscal year 2006 to fiscal year 2007.

Depreciation and amortization for the three months ended June 30, 2007 and 2006 was approximately \$85,000 and \$104,000, respectively. Depreciation and amortization for the nine months ended June 30, 2007 and 2006 was approximately \$262,000 and \$286,000, respectively.

Loss from operations for the three months ended June 30, 2007 and 2006 was \$0.23 million and \$0.37 million, respectively, representing a decrease of \$0.14 million. This is primarily a result of an increased gross profit percentage and prudent management of overhead expenses. Loss from operations for the nine months ended June 30, 2007 and 2006 were \$1.9 million and \$1.5 million, respectively, representing an increase of \$0.4 million. Comparing sequential quarters of fiscal 2007, loss from operations was \$0.2 million for the three months ended June 30, 2007 compared to loss from operations of \$1.0 million for the three months ended March 30, 2007. This represents a decrease of \$0.8 million in sequential quarter loss from operations, primarily as a result of reduced headcount, decreased payroll tax expense as employees begin to reach taxable limits as well as increased gross profit percentage and prudent management of overhead expenses.

Interest expense for the three months ended June 30, 2007 and 2006 was approximately \$49,000 and \$115,000, respectively, representing a decrease of \$66,000. Interest expense for the nine months ended June 30, 2007 and 2006 was \$162,000 and \$483,000, respectively, representing a decrease of \$321,000. This decrease is primarily due to the pay off of the revolving credit facility with the proceeds from the sale of DSI on May 31, 2006. Interest income for the three months ended June 30, 2007 and 2006 was approximately \$24,000 and \$28,000, respectively, representing a decrease of \$4,000. Interest income for the nine months ended June 30, 2007 and 2006 was approximately \$58,000 and \$39,000 respectively, representing an increase of \$19,000. This increase is a result of interest earned on the cash proceeds of the sale of the DSI division.

Other income, which primarily consists of late fee income, for the three months ended June 30, 2007 and 2006 was approximately \$27,000 and \$35,000, respectively, which represents an increase of \$8,000. Other income for the nine months ended June 30, 2007 and 2006 was approximately \$124,000 and \$113,000, respectively, representing an increase of \$11,000. Late fee income is earned only in the allied healthcare division.

The Company recorded other expense of \$1.05 million for the three months ended June 30, 2007 related to legal representation and investigation costs incurred in connection with the Federal Grand Jury subpoena issued to 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 expense because the subpoena relates to activity prior to the acquisition.

The income tax benefit from continuing operations for the three months ended June 30, 2007 and 2006 was \$0.5 million and \$0.2 million, respectively. Income tax benefit from continuing operations for the nine months ended June 30, 2007 and 2006 was \$1.1 million and \$0.7 million, respectively. As a component of the net tax benefit, the Company provided a deferred tax valuation allowance for the three and nine months ended June 30, 2007 of \$0.5 million and \$1.0 million, respectively. The Company has provided a 100% valuation allowance that it is more likely than not that it will not be able to realize the full benefit of the deferred tax asset. These tax benefits are a result of losses from operations. The remaining net tax benefit of \$0.1 million for the nine months ended June 30, 2007 pertains to adjustments in amounts accrued for tax provisions or settlements for fiscal year 2006 compared to amounts when the final federal and state returns were prepared and filed.

Loss from continuing operations for the three months ended June 30, 2007 was \$1.3 million, or \$(0.06) per fully diluted share, as compared to loss from continuing operations for the three months ended June 30, 2006 of \$0.3 million, or \$(0.01) per fully diluted share. Loss from continuing operations

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for the nine months ended June 30, 2007 was \$2.8 million, or \$(0.14) per fully diluted share, as compared to loss from continuing operations for the nine months ended June 30, 2006 of \$1.1 million, or \$(0.05) per fully diluted share.

Income from discontinued operations, net of tax, for the three months ended June 30, 2007 was \$0.04 million, with no effect on earnings per share. Income from discontinued operations, net of tax, for the three months ended June 30, 2006 was \$4.5 million, or \$0.23 per fully diluted share. Income from discontinued operations, net of tax, for the nine months ended June 30, 2007 was \$0.06 million, with no effect on earnings per share. Income from discontinued operations, net of tax, for the nine months ended June 30, 2006 was \$5.1 million, or \$0.26 per fully diluted share. Income from discontinued operations in fiscal 2006 is primarily a result of a reclassification of the profitable operations of the DSI division to discontinued operations, as well as the gain, net of tax, on the sale of DSI.

Net loss for the three months ended June 30, 2007 was \$1.2 million, or \$(0.06) per fully diluted share, as compared to net income of \$4.2 million, or \$0.22 per fully diluted share, for the three months ended June 30, 2006. Net loss for the nine months ended June 30, 2007 was \$2.8 million, or \$(0.14) per fully diluted share, as compared to net income of \$4.0 million, or \$0.21 per fully diluted share, for the nine months ended June 30, 2006.

Liquidity and Capital Resources

Net cash used in operating activities for the nine months ended June 30, 2007 was minimal at \$5 thousand compared to net cash provided by operating activities of \$7.4 million for the nine months ended June 30, 2006. Losses from continuing operations were the primary use of cash during the nine months ended June 30, 2007. This was offset by \$1.2 million in cash received from Zurich related to the reduction in collateral requirements on outstanding workers' compensation claims, \$0.25 million in escrow release related to the sale of the DSI Payroll Services division last fiscal year, and \$1.0 million decrease in accounts receivable. Cash provided by operations in fiscal 2006 was primarily due to the sales of substantially all of the assets of DSI Payroll Services division to CompuPay, Inc. for \$9.0 million in cash.

Cash used in investing activities for the nine months ended June 30, 2007 was \$0.1 million, primarily for the purchase of technology equipment, expenses related to the implementation of a new front office computer system and the redesign of our traveler website. Cash provided by investing activities for the nine months ended June 30, 2006 was \$0.2 million, due to the sale of fixed assets related to the DSI Payroll Services division offset by new technology purchases.

Cash provided by financing activities for the nine months ended June 30, 2007 was minimal. Cash used in financing activities was \$5.9 million for the nine months ended June 30, 2006, primarily as a result of paying off the revolving line of credit and payment of the \$1.5 million note payable related to the RS Staffing acquisition.

Effective June 8, 2005, TeamStaff entered into a \$7.0 million revolving credit facility provided by PNC Bank to (i) provide for the acquisition of RS Staffing; (ii) refinance an outstanding senior loan facility; and (iii) provide ongoing working capital. Effective February 13, 2006, TeamStaff entered into an amendment to the revolving credit note, increasing the revolving credit facility to \$8.0 million. Revolving credit advances bear interest at either the Prime Rate plus 25 basis points or LIBOR plus 275 basis points, whichever is higher. 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 if the Company fails to maintain invested cash and line availability minimum requirements. For the quarter ended June 30, 2007, TeamStaff was in compliance with all loan covenants. The facility is subject to acceleration upon non-payment or various other standard default clauses. In addition, the Company granted PNC Bank a lien and security interest on all of its assets. As of June 30, 2007, there was no debt outstanding under the credit facility and \$4.6 million of unused availability under the line of credit, based on defined billed accounts receivable.

Availability under the PNC Bank line of credit is directly related to the successful assignment of certain accounts receivable. Certain government accounts of RS Staffing are required to execute

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"Acknowledgements of Assignment." There can be no assurance that every RS Staffing 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 line of credit.

As of June 30, 2007, TeamStaff had unrestricted cash and cash equivalents of \$2.1 million and net accounts receivable of \$7.6 million. TeamStaff also had \$4.6 million of unused availability under the revolving credit facility provided by PNC Bank. As of June 30, 2007, TeamStaff had working capital of \$1.6 million. The Company believes that, along with cash on hand, the availability under the revolving line of credit will provide sufficient liquidity over the next twelve months.

Obligations (Amounts in thousands)	Payments Due By Period			
	Total	Less than 1 year	1-3 years	4-5 years
Long-term debt(1)	\$ 1,764	\$ 1,565	\$ 189	\$ 10
Operating leases(2)	1,773	437	1,269	67

Pension liability(3)	414	280	134	—
Severance liability(4)	243	243	—	—
Total Obligations	\$ 4,194	\$ 2,525	\$ 1,592	\$ 77

- (1) Represents notes payable related to acquisition of RS Staffing, and capital lease obligations.
- (2) Represents lease payments net of sublease income.
- (3) Represents pension liabilities for the former CEO and former CFO.
- (4) Represents severance payments related to former employees.

Contractual Obligations

Effective April 30, 2007, the employment of James D. Houston, Chief Operating Officer, Vice President and General Counsel with the Company was terminated. On May 11, 2007, TeamStaff, Inc. and James D. Houston entered into a formal separation agreement related to Mr. Houston's termination effective April 30, 2007. The material terms of the agreement provide: (a) TeamStaff will pay Mr. Houston the sum of \$220,000 representing one year of base salary, in accordance with the terms and conditions of paragraph 5.3(d) of his 2005 Severance Agreement (the "Agreement"); (b) TeamStaff will pay Mr. Houston the sum of \$89,024 on August 1, 2007, representing a 2007 pro rata bonus, in accordance with the terms and conditions of paragraph 5.3(d) of the Agreement; and (c) Mr. Houston will receive Continuation Benefits (as defined in the Agreement) for standard employee health benefits until March 31, 2008. The agreement provides for other immaterial consideration, mutual and general releases and other standard legal covenants.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements that have or are, in the opinion of management, likely to have a current or future material effect on the Company's financial condition or results of operations.

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.

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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. has an \$8.0 million revolving credit facility by PNC Bank. Revolving credit advances bear interest at either the Prime Rate plus 25 basis points or LIBOR plus 275 basis points, whichever is higher. 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 minimum combined cash and line availability. The facility is subject to acceleration upon non-payment or various other standard default clauses. Material increases in the Prime or LIBOR rate could have a material 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

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's Exchange Act reports 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 the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure based closely on the definition of "disclosure controls and procedures" in Rule 13a-15(e). In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in designing and evaluating the controls and procedures.

Based on their evaluation, as of June 30, 2007, the Company's Chief Executive Officer and the Company's Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

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 third quarter ended June 30, 2007, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

As previously disclosed, effective January 8, 2006, T. Kent Smith, the Company's Chief Executive Officer resigned. Rick J. Filippelli, the Company's Chief Financial Officer, was appointed President and Chief Executive Officer and retained his position as Chief Financial Officer.

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Part II — OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

On April 17, 2007, a Federal Grand Jury subpoena was issued by the Northern District of Illinois to the Company's wholly-owned subsidiary RS Staffing Services, Inc. ("RS Staffing") requesting production of certain documents dating back to 1997. The subpoena stated that it is issued in connection with an investigation of possible violations of Federal criminal laws and related crimes concerning procurement at the Veterans Administration. According to the cover letter accompanying the subpoena, the U.S. Department of Justice, Antitrust Division, along with the U.S. Department of Veterans Affairs ("DVA"), Office of the Inspector General, are responsible for the current criminal investigation. RS Staffing provides temporary staffing at certain Veterans Administration hospitals that may be part of the investigation. The return date for documents called for by the subpoena was May 17, 2007. The Company has sought and obtained extensions to the original document production deadline called for in the subpoena. 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. The Company has been subsequently advised that neither it nor RS Staffing is currently a target of the investigation. The Company is actively cooperating with this government investigation.

The Company originally acquired RS Staffing in May 2005. As part of the purchase price of the acquisition, the Company issued to the former owners of RS Staffing a \$3.0 million promissory note, of which \$1.5 million 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 reached an agreement to extend the due date from June 8, 2007 with respect to the remaining \$1.5 million note payable and accrued interest payable on June 8, 2007. At June 30, 2007 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 \$1.05 million during the quarter ended June 30, 2007. Based on the Company's and its counsel's contractual interpretation, the Company has notified the former owners that it is their 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.

Based on an assessment of the current status of the matter, the Company has expensed these costs at June 30, 2007. The Company will pursue the recovery as a right of offset in future periods. Accordingly, management and its counsel have a good faith belief that the Company will recover such amounts (as well as those costs incurred in future periods); however, generally accepted accounting principles preclude the Company from recording an offset to the note payable to the former owners of RS Staffing until the final amount of the claim is settled and determinable. At present, no assurances can be given that the Company will be successful in the offset of such amounts against the outstanding debt.

In July 2000, TeamStaff made claims for indemnification against the selling shareholders of the TeamStaff Companies (the "Sellers"), which were acquired by TeamStaff in January 1999. The claims consisted of various potential liabilities and expenses incurred based on breaches of representations and warranties contained in the acquisition agreement. The Sellers disputed these claims and attempted to assert claims of their own. On January 12, 2001, TeamStaff entered into a settlement agreement with the Sellers. Under the settlement agreement, the Sellers agreed to be liable and responsible for certain potential liabilities estimated at approximately \$0.5 million and agreed that 55,000 shares of TeamStaff common stock, which had been held in escrow since the acquisition, were to be cancelled. TeamStaff also agreed to release 29,915 escrow shares to the Sellers. TeamStaff retains 75,000 shares in escrow to provide security for the Seller's obligations. Each party agreed to release each other from all other claims under the acquisition agreements. No third parties have contacted TeamStaff seeking payment in the last fiscal year for these potential liabilities. In the event that TeamStaff incurs liability to third parties with respect to the claims, TeamStaff would declare an event of default under the settlement agreement and seek collection from the Sellers.

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As a commercial enterprise and employer and with respect to its employment-related businesses in particular, TeamStaff is engaged in litigation from time to time during the ordinary course of business in connection with employment-relations issues, workers' compensation and other matters. Generally, TeamStaff is entitled to indemnification or repayment from its former PEO clients for claims brought by worksite employees related to their employment. However, there can be no assurance that the client employer will have funds or insurance in amounts to cover any damages or awards, and as co-employer, TeamStaff may be subject to liability. Additionally, 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 \$5,000,000 aggregate coverage with a \$2,000,000 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 financial condition, results of operations or cash flows.

ITEM 1A: RISK FACTORS

Readers are asked to refer to the September 30, 2006 Form 10-K. The Company believes that there have not been any material changes from risk factors as previously disclosed in the registrant's Form 10-K in response to Item 1A to Part 1 of Form 10-K, other than the addition of the following two risk factors:

We are dependent upon certain of our management personnel.

Our performance to date has resulted in part from the contributions of the Company's executive officers. Our present executive officers are expected to make important contributions towards improved future performance. The loss of our key personnel could materially affect our operations. Competition for qualified management personnel is intense, and in the event that we experience further turnover in senior management positions, we cannot assure you that we will be able to recruit suitable replacements on a timely basis. We must also successfully integrate all new management and other key positions within our organization to achieve our operating objectives. Even if we are successful, further turnover in key management positions could temporarily harm our financial performance and results of operations until any new management becomes familiar with our business. As previously disclosed, effective January 8, 2006, T. Kent Smith, the Company's Chief Executive Officer resigned. Rick J. Filippelli, the Company's Chief Financial Officer, was appointed President and Chief Executive Officer and retained his position as Chief Financial Officer. The Company is dependent on Mr. Filippelli as its sole executive officer presently, and the loss of Mr. Filippelli could temporarily or permanently harm our financial performance and results of operations until we are able to recruit suitable replacements, if ever, and such new management becomes familiar with our business, if ever. Other than with our CEO and CFO, we generally do not have long-term employment contracts with our key personnel, nor do we maintain "key person" life insurance policies on any of our key personnel.

We are dependent on the proper functioning of our information systems.

We are dependent on the proper functioning of our information systems in operating our business. Critical information systems used in daily operations identify and match staffing resources and client assignments and perform billing and accounts receivable functions. Additionally, we rely on our information systems in managing our accounting and financial reporting. Although we have risk mitigation measures in place, our information systems and our access to these systems are not impervious to flood, fire, storm, power loss, telecommunications

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

None.

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5: OTHER INFORMATION

On July 11, 2007, subsequent to June 30, 2007, the close of TeamStaff's third quarter ended June 30, 2007, TeamStaff, Inc. dismissed Lazar, Levine & Felix, LLP ("LLF") as the Company's independent registered public accounting firm and engaged WithumSmith + Brown, P.C. ("Withum") as its new independent registered public accounting firm for the fiscal year ending September 30, 2007. The Company's decision to change its independent registered public accounting firm was the result of a competitive bidding process involving several accounting firms including LLF. The decision to dismiss LLF and engage Withum was made and approved by the Audit Committee of the Board of Directors of the Company.

The reports of LLF on the financial statements of the Company for each of the past two fiscal years, contained no adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principle. During the Company's two most recent fiscal years and through July 11, 2007, there have been no disagreements with LLF on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements if not resolved to the satisfaction of LLF would have caused them to make reference thereto in their reports on the financial statements of the Company for such years. During the Company's two most recent fiscal years and through July 11, 2007, there have been no reportable events (as defined in Item 304(a)(1)(v) of Regulation S-K).

Prior to the engagement of Withum, neither the Company nor someone on behalf of the Company had consulted with Withum during the Company's two most recent fiscal years and through the date of this report in any matter regarding: (A) either the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company's financial statements, and neither was a written report provided to the Company nor was oral advice provided that Withum concluded was an important factor considered by the Company in reaching a decision as to the accounting, auditing or financial reporting issue, or (B) the subject of either a disagreement or a reportable event defined in Item 304(a)(1)(iv) and (v) of Regulation S-K.

The Company requested that LLF furnish it with a letter addressed to the Securities and Exchange Commission stating whether or not it agrees with the statements made above. A copy of such letter was filed on July 17, 2007.

On July 6, 2007, subsequent to June 30, 2007, the close of TeamStaff's third quarter ended June 30, 2007, the Company received a NASDAQ Staff Deficiency Letter from The NASDAQ Stock Market. The letter states that for the last 30 consecutive business days, the closing bid price per share of the Company's common stock has been below the \$1.00 minimum per share requirement for continued listing as set forth in NASDAQ Marketplace Rule 4450(a)(5). The letter has no effect on the listing of the Company's common stock at this time.

Pursuant to NASDAQ Marketplace Rule 4450(e)(2), the Company has been provided an initial period of 180 calendar days, or until January 2, 2008, to regain compliance. The letter states the NASDAQ staff will provide written notification that the Company has achieved compliance with Rule 4450(a)(5) if at any time before January 2, 2008, the bid price of the Company's common stock closes at \$1.00 per share or more for a minimum of 10 consecutive business days, although the letter also

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states that the NASDAQ staff has the discretion to require compliance for a period in excess of 10 consecutive business days, but generally no more than 20 consecutive business days, under certain circumstances.

In the event that the Company were to receive notice that its common stock will be delisted, NASDAQ rules permit the Company to appeal any delisting determination by the NASDAQ staff to a NASDAQ Listings Qualifications Panel. In addition, in the event that such a delisting determination was based solely on non-compliance with the minimum bid price rule, the Company may be permitted to transfer the listing of its common stock to the NASDAQ Capital Market if it satisfies all criteria for initial inclusion on such market other than compliance with the minimum bid price requirement. In the event of such a transfer, the NASDAQ Marketplace Rules provide that the Company would be granted an additional 180 calendar days to comply with the minimum bid price rule while on the NASDAQ Capital Market. The Company's management and Board of Directors are considering alternatives to address compliance with the continued listing standards of The NASDAQ Stock Market.

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ITEM 6: EXHIBITS

(a) Exhibits

- 10.1 Lease, dated as of April 13, 2007, for our business premises located at 1 Executive Drive, Suite 130, Somerset, New Jersey.
- 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

* In accordance with Rule 12b-23 and Rule 12b-32 under the Securities Exchange Act of 1934, as amended, reference is made to the documents previously filed with the Securities and Exchange Commission, which documents are hereby incorporated by reference.

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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/ Rick J. Filippelli
Rick J. Filippelli
Chief Executive Officer
(Principal Executive Officer)
Chief Financial Officer
(Principal Financial Officer)

Dated: August 14, 2007

LEASE COMPLETION CHECKLIST

**TEAMSTAFF INC.
1 Executive Drive, Suite 130, Somerset, NJ 08873**

**TENANT: THE FOLLOWING ITEMS MUST BE ATTACHED AND/OR COMPLETED
AND RETURNED TO THE LANDLORD WITH THE SIGNED LEASE**

Sent Rec'd

Security in the amount of \$8,000.00

First Month's Rent in the amount of \$4,005.00

Insurance Certificate (**NB: The Insurance Certificate should also be forwarded to our insurance compliance service by email to glenview_cert_tracking@ars.aon.com or by fax to 1-866-827-2256.**)

Two (2) signed originals of the Lease along with the above noted items should be forwarded to the Landlord's management company: Denholtz Associates, Attn: Beata Batista, 1600 St. Georges Avenue, Rahway, New Jersey 07065.

Please direct any comments regarding the Lease prior to execution to: Clifford Frish, Esq., c/o Denholtz Associates, 1600 St. Georges Avenue, Rahway, New Jersey 07065, Tel: 732-956-3122, Fax: 732-388-1290, E-mail: cfrish@denholtznj.com.

AGREEMENT OF LEASE

between

SOMERSET EXECUTIVE SQUARE ASSOCIATES, L.P.

and

TEAMSTAFF INC.

Complex:

**1 Executive Drive
Somerset, NJ 08873**

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THIS LEASE is made and entered into as of this _____ day of _____, 200____, by and between **SOMERSET EXECUTIVE SQUARE ASSOCIATES, L.P.**, a New Jersey limited partnership, having its principal office at c/o Denholtz Management Corp., 1600 St. Georges Avenue, Rahway, New Jersey 07065 ("**Landlord**") and **TEAMSTAFF INC.**, a New Jersey corporation, having an address at 300 Atrium Drive, Somerset, NJ 08873 ("**Tenant**").

NOW, THEREFORE, in consideration of the terms, covenants and conditions herein set forth, Landlord and Tenant hereby covenant and agree as follows:

The following Basic Provisions and Definitions are incorporated into and made a part of this Lease:

BASIC PROVISIONS

- (1) Building: 1 Executive Drive, Somerset, NJ 08873
- (2) Premises: Suite No. 130, consisting of approximately 2,670 Square Feet.
- (3) Permitted Use: Office
- (4) Estimated Commencement Date: June 1, 2007.
- (5) Rent Commencement Date: The date which is sixty (60) calendar days after the Commencement Date.
- (6) Expiration Date: The last day of the sixtieth (60th) Lease Month.
- (7) Security: \$8,000.00
- (8) Base Rent:

Period	Annual Base Rent	Monthly Base Rent
Commencement Date through Rent Commencement Date	\$ 0.00	\$ 0.00
Lease Months 1 through 12	\$ 48,060.00	\$ 4,005.00
Lease Months 13 through 24	\$ 49,501.80	\$ 4,125.15
Lease Months 25 through 36	\$ 50,986.80	\$ 4,248.90
Lease Months 37 through 48	\$ 52,516.44	\$ 4,376.37
Lease Months 49 through 60	\$ 54,091.92	\$ 4,507.66
- (9) Base Year: Calendar year 2007
- (10) Tenant's Percentage: Initially 3.26%, subject to adjustment per terms of the Lease.
- (11) Electricity Payment: Initially \$389.38 per month, subject to adjustment per terms of the Lease.
- (12) Tenant's Address: TeamStaff Inc.
1 Executive Drive
Suite No. 130
Somerset, NJ 08873
- (13) Landlord's Address: c/o Denholtz Management Corp.
P.O. Box 1234
1600 St. Georges Avenue
Rahway, New Jersey 07065
- (14) Parking Spaces: Ten (10) spaces, subject to Article 23
- (15) Broker: Denholtz Associates and Equis Corporation
- (16) Exhibits: The following exhibits annexed hereto are hereby incorporated herein and made a part hereof:
 - Exhibit A – Site Plan
 - Exhibit B – Floor Plan
 - Exhibit C – Rules & Regulations
 - Exhibit D – Landlord's Work
 - Exhibit E – Renewal Option

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DEFINITIONS

- (1) "**Additional Rent**" means any and all sums payable by Tenant to Landlord pursuant to this Lease for any reason with the exception of Base Rent.
- (2) "**Alteration(s)**" means any and all installations, changes, additions or improvements to the Premises made by or at the request of Tenant, other than the Landlord's Work.
- (3) "**Base Operating Expenses**" means the Operating Expenses incurred by Landlord in the Base Year.
- (4) "**Base Taxes**" means the Taxes incurred by Landlord in the Base Year.
- (5) "**Building**" means the building designated in the Basic Provisions section of this Lease.
- (6) "**Complex**" means the Building, the Common Areas and any other improvements on that certain developed parcel of real property located on 1 Executive Drive, Somerset, NJ 08873 as shown on Exhibit A.
- (7) "**Commencement Date**" means the earlier to occur of (i) the day on which possession of the Premises is delivered to Tenant ready for occupancy, or (ii) the day Tenant or anyone claiming under or through Tenant first occupies the Premises.

(8) “Common Areas” means those portions of the Complex and services which are generally available to any and all of the owners, tenants or users of the Complex and the business invitees of such owners, tenants or users.

(9) “Fee Mortgagee” means any person or entity which Landlord notifies Tenant has a mortgage against the Complex or Building.

(10) “Governmental Authorities” means all federal, state, county and municipal governments and appropriate departments, commissions, boards, subdivisions, and officers thereof, the Board of Fire Underwriters or similar body having jurisdiction, foreseen or unforeseen, ordinary as well as extraordinary, and whether or not the same shall presently be within the contemplation of the parties hereto.

(11) “Hazardous Materials” means any substances, materials, wastes, pollutants and the like which are defined as hazardous or toxic in, and/or regulated by (or become defined in and/or regulated by), any Legal Requirements.

(12) “HVAC System” means the heating, air conditioning and ventilation systems, and all component parts of such systems, installed by Landlord for the purpose of supplying ventilation, heat and/or cooling to the Premises.

(13) “Interest Rate” means the Prime Rate (hereinafter defined) plus five percent (5%). Where applicable, interest shall be payable for the time period provided in this Lease, and, if no time period is designated, the period shall be from the date of the occurrence in question to the date of payment. If, however, payment of interest at such rate by Tenant (or by the tenant then in possession having succeeded to Tenant’s interest in accordance with the terms of this Lease) should be unlawful, i.e., violative of usury statutes or otherwise, then “Interest Rate” shall be computed at the maximum lawful rate payable by such party.

(14) “Landlord’s Work” – See Exhibit D

(15) “Lease” means this lease as same may be amended, modified, extended or renewed.

(16) “Lease Month” means each calendar month commencing (i) on the Rent Commencement Date if the Rent Commencement Date falls on the first day of a calendar month, or (ii) if the Rent Commencement Date is not the first day of a calendar month, on the first day of the month following the Rent Commencement Date with the first Lease Month to include the initial partial calendar month in which the Rent Commencement Date falls.

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(17) “Legal Requirements” means any and all applicable laws and ordinances and the orders, rules, regulations and requirements of all Governmental Authorities whether or not the same shall presently be in force or within the contemplation of the parties hereto or shall involve any change of governmental policy, which may be applicable to the Lease, the Rent or the Premises or the use or manner of use of the Premises.

(18) “Operating Expense(s)” means any and all amounts incurred by Landlord in any calendar year in connection with Landlord’s responsibilities under this Lease and/or to operate, manage, maintain and repair the Complex, including, without limitation, (i) wages, salaries and worker’s compensation (including employee benefits and unemployment and social security taxes and insurance) of staff performing services in connection with the Complex, and (ii) management fees (not to exceed five percent (5%) of gross collected rents), but excluding any capitalized expenses.

(19) “Personalty” means any and all personal property of any type belonging to Tenant and located in or about the Building, the Premises and/or the Complex.

(20) “Premises” means the portion of the Building designated in the Basic Provisions section of this Lease, as shown on Exhibit B.

(21) “Prime Rate” means the prime interest rate for short term (90 day) unsecured loans as published from time to time by the Wall Street Journal, Eastern Edition.

(22) “Repair(s)” means any and all maintenance, repairs, replacements, alterations, additions and betterments, foreseen or unforeseen, ordinary or extraordinary, required to maintain the Premises and/or the Complex to the standard to which similar properties are maintained in the community in which the Complex is located.

(23) “Rent” means any and all Base Rent and/or Additional Rent.

(24) “Rules and Regulations” – means the Rules and Regulations set out in Exhibit C, subject to the provisions of Section 25.1.

(25) “Security” means the amount specified in the Basic Provisions, subject to the provisions of Article 4.

(26) “Square Feet” refers to the total number of square feet of floor area of all floors in the Building, including any mezzanine or basement space, as measured from the exterior faces of the exterior walls and/or the center line of any common walls. The Square Feet of the Premises shall conclusively be the number of Square Feet indicated in the Basic Provisions, which number includes a factor which takes into account the Common Areas.

(27) “Taking” means a legal transfer of ownership and/or possession, whether temporary or permanent, for any public or quasi-public use by any lawful power or authority by exercise of the right of condemnation or eminent domain or by agreement between Landlord and those having the authority to exercise such right.

(28) “Taxes” means any and all ad valorem real estate taxes and general, special and betterment assessments, incurred by Landlord as owner of the Complex in any calendar year, including, without limitation, all water and sewer charges, and any taxes, fees and charges imposed in lieu of or in addition to the foregoing due to a future change in the method of taxation. Nothing contained in this Lease shall require Tenant to pay any estate, inheritance, succession, corporate franchise or income tax of Landlord, nor shall any of same be deemed Taxes, except to the extent same are substituted in lieu of other forms of Taxes. Any Taxes for a calendar tax year only a part of which is included within the Term, shall be adjusted between Landlord and Tenant on the basis of a 365-day year as of the Commencement Date or the Expiration Date or sooner termination of the Term, as the case may be, for the purpose of computing Tenant’s Tax Payment.

(29) “Tenant’s Percentage” means the number of Square Feet within the Premises divided by the number of Square Feet within the Building. Landlord shall proportionally increase or decrease Tenant’s Percentage if the number of Square Feet in the Building increases or decreases due to additional development, subdivision, demolition, condemnation, or similar reasons.

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(30) “Term” means the period beginning on the Commencement Date and ending on the Expiration Date, unless sooner terminated or extended as provided elsewhere in this Lease.

(31) “Vesting Date” means the date of vesting of title or transfer of possession, whichever is earlier, if the Complex, Building, Premises or any portion thereof is the subject of a Taking.

(32) “Year End Reconciliation” – See Section 3.2.

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ARTICLE 1 DEMISE OF PREMISES AND COMMENCEMENT DATE

Section 1.1 Demise. Landlord is the owner of the Complex and hereby leases the Premises to Tenant for the Term. Tenant hereby takes the Premises from Landlord, subject to all liens, encumbrances, easements, restrictions, covenants, zoning laws and regulations affecting and governing the Premises. Tenant shall use the Premises for the Permitted Use and for no other use or purpose.

Section 1.2 Delivery and Acceptance.

(a) Upon completion of the Landlord’s Work, Landlord shall deliver, and Tenant shall accept delivery of, possession of the Premises. The Premises shall be delivered in “broom clean”, but otherwise in “AS IS, WHERE IS” condition. If the Premises are not ready for Tenant’s occupancy at the time of the Estimated Commencement Date, Landlord shall have no liability to Tenant for any delay and this Lease shall not be affected thereby, except that the Commencement Date shall be the actual date of delivery of possession of the Premises to Tenant.

(b) Upon entering into possession of the Premises, Tenant shall conclusively be deemed to have accepted the Premises in its then “AS IS, WHERE IS” condition, including, without limitation, as regards the title thereto, the nature, condition and usability thereof, and the use or uses to which the Premises may be put, and shall be deemed to have assumed all risk, if any, resulting from any patent defects and from the failure of the Premises to comply with all Legal Requirements applicable thereto. Except as specifically provided herein, Landlord shall not be required to perform any work to prepare the Premises for Tenant’s intended use.

Section 1.3 Commencement Date Letter. After determination of the Commencement Date, Landlord may send Tenant a commencement letter confirming the Commencement Date, the Expiration Date and any other variable terms of the Lease. The commencement letter, which may be delivered by regular mail, shall become a part of this Lease and shall be binding on Tenant and Landlord if Tenant does not give Landlord notice of its disagreement with any of the provisions of such commencement letter within ten (10) days after the date of such letter.

ARTICLE 2 COMMON AREAS

Section 2.1 Use of Common Areas. Beginning on the Commencement Date, Tenant shall have the nonexclusive right to the use of the Common Areas in common with others.

Section 2.2 Complex and Building. Provided Landlord makes commercially reasonable efforts to avoid interfering with Tenant’s use and occupancy of the Premises, Landlord shall have the right (i) to add to, or subtract from, the Common Areas, the Complex and/or the Building as Landlord may elect and Tenant shall not be entitled to any compensation as a result thereof, nor shall same be deemed an actual or constructive eviction, (ii) to erect, use and maintain pipes, ducts, shafts and conduits in and through the Premises, and (iii) to temporarily close any part of the Common Areas for such time as may be required to prevent a dedication thereof or an accrual of any rights in any person or in the public generally therein, or when necessary for the maintenance or repair thereof, or for such other reason as Landlord in its judgment may deem necessary or advisable.

ARTICLE 3 RENT

Section 3.1 Rent.

(a) From and after the Commencement Date and throughout the Term, Tenant shall pay Rent to Landlord. All payments of Rent shall be paid to or on behalf of Landlord in lawful money of the United States, without prior demand or notice. All payments of Rent shall be delivered to Landlord at the address set forth in this Lease or to any other place designated by Landlord. Tenant’s obligation to pay Rent accruing or on account of any time period during the Term shall survive the Expiration Date. This Lease shall not be affected by any Legal Requirements which may be enacted or become effective from and after the date of this Lease affecting or regulating or attempting to affect or regulate the Rent set out herein.

(b) The first full monthly installment of Base Rent shall be paid to Landlord simultaneous with execution of this Lease by Tenant. Thereafter, Base Rent shall be paid in equal monthly

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installments in advance on or before the first day of each month during the Term. Base Rent for the first Lease Month shall be increased, if appropriate, on a pro-rata basis for the actual number of calendar days occurring in the first Lease Month.

(c) Except as otherwise expressly and specifically provided to the contrary in this Lease, no abatement, diminution or reduction of Rent shall be claimed by or allowed to Tenant, or any persons or entities claiming under Tenant, under any circumstances for any cause or reason.

Section 3.2 Tenant’s Tax Payment and Operating Expense Payment

(a) Tenant shall pay to Landlord, as Additional Rent: (i) a portion of all Taxes in excess of the Base Taxes (“Tax Payment”), and (ii) a portion of all Operating Expenses in excess of the Base Operating Expenses (“Operating Expense Payment”). Tenant’s Tax Payment shall be equal to the product of (the Taxes allocated to the Building less the Base Taxes) multiplied by Tenant’s Percentage. Tenant’s Operating Expense Payment shall be equal to the product of (the Operating Expenses allocated to the Building less the Base Operating Expenses) multiplied by Tenant’s Percentage.

(b) In each calendar year after the Base Year, Landlord, at its option, shall have the right to require Tenant to pay, on a monthly basis as Additional Rent, an “Estimated Tax Payment” and an “Estimated Operating Expense Payment”. The Estimated Tax Payment shall be equal to the product of Landlord’s reasonable estimate of the actual Taxes for the current year minus the Base Taxes multiplied by Tenant’s Percentage and divided by the number of months remaining in the year. The Estimated Operating Expense Payment shall be equal to the product of Landlord’s reasonable estimate of the actual Operating Expenses for the current year minus the Base Operating Expenses multiplied by Tenant’s Percentage and divided by twelve (12).

(c) After the end of each calendar year after the Base Year, Landlord shall furnish to Tenant a statement of the difference, if any, between (i) the Tax Payment due and the actual amount of Estimated Tax Payments made by Tenant for the preceding calendar year and (ii) the Operating Expense Payment due and the actual amount of Estimated Operating Expense Payments made by Tenant for the preceding calendar year (a “Year End Reconciliation”). Tenant shall, within twenty (20) days after Landlord’s receipt of a Year End Reconciliation, pay

to Landlord the net deficiency, if any, set out in the Year End Reconciliation. If the Year End Reconciliation shows an overpayment of Estimated Tax and/or Estimated Operating Expense Payments, such overpayment shall be credited to Tenant against the next monthly installment or installments of Estimated Tax or Estimated Operating Expense Payment(s), as the case may be, due from Tenant, or shall be refunded to Tenant if such excess relates to the calendar year in which the Term expires.

(d) Every Year End Reconciliation shall be conclusive and binding upon Tenant unless (i) within twenty (20) days after the receipt of a Year End Reconciliation, Tenant shall notify Landlord that it disputes the correctness of the Year End Reconciliation, specifying the particular respects in which the Year End Reconciliation is claimed to be incorrect, and (ii) if such dispute shall not have been settled by agreement, Tenant shall submit the dispute to arbitration pursuant to this Lease within twenty (20) days after Landlord's receipt of Tenant's notice of dispute. Pending the determination of such dispute by agreement or arbitration, Tenant shall pay Rent or accept credit in accordance with the Year End Reconciliation and such payment or acceptance shall be without prejudice to Tenant's position.

(e) Landlord may elect to contest the amount or validity of assessed valuation or Taxes for any real estate fiscal tax year, in which event Taxes shall be deemed to include any fees and/or expenses incurred by Landlord in contesting or appealing Taxes and Tenant shall pay Tenant's Percentage of the amount thereof within twenty (20) days after receipt of demand therefor. If Landlord shall receive a refund of any portion of the Taxes after Tenant's Tax Payment has been paid, then Landlord shall, after deducting all unreimbursed expenses paid by Landlord, if any, incurred in obtaining such refund, apply Tenant's Percentage of such net refund against the next installment or installments of Tenant's Tax Payment, or shall refund such amount to Tenant if

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such refund relates to the calendar year in which the Term expires. Tenant shall cooperate with Landlord, execute any and all documents required in connection therewith and, if required by Legal Requirements, shall join with Landlord in the prosecution thereof.

(f) In addition to Tenant's Tax Payment, Tenant shall pay, before delinquent, any and all taxes and assessments (i) levied against fixtures, equipment, signs and personal property located or installed in, about or upon the Premises; (ii) on account of any rent, income or other payments received by Tenant or anyone claiming by, through or under Tenant; (iii) arising out of the use or occupancy of the Premises and this transaction, or any document to which Tenant is a party creating or transferring an interest or estate in the Premises, and (iv) imposed by any Governmental Authority as a sales or use tax.

(g) If Tenant disputes or disagrees with any Year End Reconciliation, Tenant shall have the right to undertake a review ("Review") of Landlord's books used to determine Tenant's Tax Payment and Operating Expense Payment upon the following terms and conditions:

(i) Tenant shall deliver notice ("Review Notice") to Landlord, in writing, of such dispute or disagreement no later than thirty (30) days after receipt of the Year End Reconciliation to be verified.

(ii) The Review shall be conducted only by (i) the Tenant, or (ii) an agent of the Tenant that is not being compensated by Tenant on a contingent fee basis. The Review shall be conducted during regular business hours at the office where Landlord maintains its books.

(iii) The Review shall commence no later than thirty (30) days after the date of delivery of the Review Notice and shall be completed within five (5) business days after commencement.

(iv) A copy of the results of the Review shall be delivered to Landlord within thirty (30) days after completion of the Review. If the results of the Review are not timely delivered to Landlord, then the Year End Reconciliation shall be deemed to have been approved and accepted by Tenant as correct.

(v) The Review shall be limited strictly to those items in the Year End Reconciliation that Tenant has specifically identified in the Review Notice. Tenant shall not be entitled to inspect books or records that apply to any calendar year other than the year covered by the subject Year End Reconciliation.

(vi) Tenant acknowledges and agrees that any records reviewed constitute confidential information of Landlord which shall not be disclosed to anyone other than the auditor performing the Review and the principals of Tenant. Tenant further acknowledges and agrees that the disclosure of information to any other person, whether by Tenant or anyone acting on behalf of Tenant, shall cause irreparable harm to Landlord and may be the basis of legal action by Landlord against Tenant and/or the auditor performing the Review. Tenant shall be responsible for any breach of this provision by the entity conducting the Review.

Section 3.3 Late Charge. If any Rent is not paid to Landlord within five (5) days after its due date, a late charge equal to ten percent (10%) of the then late payment shall be automatically due from Tenant to Landlord ("Late Charge"). The Late Charge is in compensation of Landlord's additional costs of processing late payments. Additionally, payments of Rent not received by Landlord when due shall accrue interest at the Interest Rate from the date on which such payment was due until the date full payment (including accrued interest) is received by Landlord.

ARTICLE 4 SECURITY

(a) Tenant has, simultaneously with the execution hereof, deposited with Landlord the Security for the faithful performance and observance by Tenant of the terms, covenants, conditions and provisions of this Lease. Landlord may retain, use, or apply the whole or part of the Security to the extent required for payment of any: (i) Rent; (ii) loss or damage that Landlord may suffer by reason of an Event of Default by Tenant including, without limitation, any damages

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incurred by Landlord or deficiency resulting from the re-letting of the Premises, whether such damages or deficiency accrues before or after summary proceedings or other reentry by Landlord; (iii) costs incurred by Landlord in connection with the cleaning or repair of the Premises upon expiration or earlier termination of this Lease. Landlord shall not be obligated to apply the Security and the Landlord's right to bring an action or special proceeding to recover damages or otherwise to obtain possession of the Premises before or after Landlord's declaration of the termination of this Lease for nonpayment of Rent or for any other reason shall not be affected by reason of the fact that Landlord holds the Security. The Security will not be a limitation on the Landlord's damages or other rights and remedies available under this Lease, or at law or equity; nor shall the Security be a payment of liquidated damages or advance of the Rent or any component thereof.

(b) If Landlord uses, applies, or retains all or any portion of the Security, Tenant will restore the Security to its original amount immediately upon written demand from Landlord. Tenant's failure to strictly comply with this requirement shall be an Event of Default.

(c) Subject to applicable Legal Requirements and requirements of Landlord's lender(s), Landlord may commingle the Security with its own funds. Landlord shall not be required to keep the Security in an interest

bearing account. Upon expiration or earlier termination of the Lease, Landlord will return the Security to the then current Tenant and Landlord shall be deemed released by Tenant from all liability for the return of the Security. If any part of Landlord's property of which the Premises forms a part is sold, leased or otherwise legally transferred (including to a mortgagee upon foreclosure of its mortgage), Landlord shall transfer the Security to the successor entity, and, upon such transfer, Landlord shall be deemed released by Tenant from all liability for the return of the Security; and Tenant shall look solely to the Landlord's successor for the return of the Security.

(d) The Security shall not be mortgaged, assigned, or encumbered by Tenant, and neither Landlord nor its successors or assigns shall be bound by any such mortgage, assignment or encumbrance.

(e) If no Event of Default remains uncured beyond any applicable cure or grace period, the amount of Security required hereunder shall be reduced to Fourth Thousand and 00/100 Dollars (\$4,000.00) following the last day of the fourteenth (14th) lease month. Any excess Security in the possession of Landlord after such reduction shall be refunded to Tenant by way of credit(s) against the next occurring charge(s) for Base Rent.

(f) If Tenant fully and faithfully complies with all of the terms, covenants, conditions and provisions of this Lease, Landlord shall, within sixty (60) days after the later of the Expiration Date and the date of surrender of possession of the Premises to Landlord in accordance with this Lease, return to Tenant the Security, or such portion thereof as shall then remain, less an estimated amount due for any unpaid Operating Expense Payment and/or Tax Payment.

ARTICLE 5 ASSIGNMENT AND SUBLETTING

Section 5.1 Permitted Transfers.

(a) The provisions of Section 5.2 notwithstanding, Tenant shall be permitted to assign this Lease or sublet the Premises (a "Permitted Transfer") without further consent of Landlord, to a parent, subsidiary or affiliate of Tenant, provided that the financial strength of the proposed assignee or subtenant as of the effective date of the transfer shall be at least equal to the financial strength of Tenant as of the Commencement Date. For purposes of this section, the term "affiliate" shall mean a business entity that directly or indirectly controls, is controlled by, or is under common control with Tenant at the time of the intended transfer.

(b) A Permitted Transfer shall not be deemed effective or binding on Landlord unless there is delivered to Landlord within five (5) days of the effective date of the Permitted Transfer, (i) an agreement, executed by Tenant and the assignee, by which the assignee agrees to be the Tenant as defined herein and assume all of the obligations of the Tenant, or (ii) a sublease.

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(c) The right to transfer granted under this Section shall be personal to the Tenant originally executing this Lease. No successor to the original Tenant shall have the right to any Permitted Transfer and all successors to the original Tenant shall be required to obtain Landlord's consent to any later assignment or subletting.

Section 5.2 Consent Required.

(a) Except as otherwise set out in this Article, Tenant shall not mortgage, encumber or assign its interest in this Lease or sublet all or any part of the Premises without the prior written consent of Landlord, which consent shall not be unreasonably withheld, conditioned or delayed.

(b) Landlord's consent to any one assignment or sublease will not act as a waiver of the requirement of obtaining the Landlord's consent to any subsequent assignment or sublease.

(c) Should Tenant wish to assign this Lease or sublet any portion of the Premises, Tenant shall submit to Landlord a written request ("Tenant's Request") for Landlord's consent to such assignment or subletting. Tenant's Request shall include, at a minimum, the name and address of the proposed assignee or subtenant, the proposed use of the Premises, financial statements of the proposed assignee or sublessee in form satisfactory to Landlord, a copy of the proposed assignment or sub-lease, executed by Tenant and the assignee or sub-tenant, and any other documentation reasonably required by Landlord.

(d) Notwithstanding anything contained in this Lease to the contrary, Landlord shall not be obligated to entertain or consider any request by Tenant to consent to any proposed assignment of this Lease or sublet of all or any part of the Premises unless each request by Tenant is accompanied by a nonrefundable fee payable to Landlord in the amount of Five Hundred and 00/100 Dollars (\$500.00) to cover Landlord's administrative, legal, and other costs and expenses incurred in processing each Tenant's Request. Neither Tenant's payment nor Landlord's acceptance of the said fee shall be construed to impose any obligation whatsoever upon Landlord to consent to Tenant's request. Landlord shall have the right to charge Tenant an additional or higher fee in the event the processing of the proposed assignment or subletting shall require more than two (2) hours to negotiate and/or draft the necessary documents.

(e) Landlord and Tenant agree that any one of the following factors, or any other reasonable factor, will be reasonable grounds for declining the Tenant's request:

(i) financial strength of the proposed subtenant/assignee is not at least equal to that of the Tenant as of the Commencement Date and the proposed effective date of the assignment or subletting;

(ii) business reputation of the proposed subtenant/assignee is not in accordance with generally acceptable commercial standards and the businesses of other tenants in the Complex;

(iii) the proposed subtenant/assignee is an existing tenant or occupant of the Complex, or a person or entity with whom Landlord is then dealing with regard to leasing space in the Complex, or with whom Landlord has had any dealings within the past six months with regard to leasing space in the Complex;

(iv) use of the Premises will violate the exclusive right(s) of any other tenant of the Complex, any other agreements affecting the Premises, the Landlord or other tenants.

(f) Tenant shall pay to Landlord, as Additional Rent, fifty percent (50%) of any and all rents, additional charges, and other consideration payable to Tenant under or in connection with any sublease which is in excess of the Rent and Additional Rent accruing under the Lease during the term of the sublease.

Section 5.3 Change of Control. Excluding the sale of corporate shares held by the general public and traded through a nationally recognized stock exchange, the sale, assignment, transfer or other disposition of any of the issued and outstanding capital stock of Tenant (or of any successor or assignee of Tenant which is a corporation), or of the interest of any general partner in a partnership

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constituting Tenant hereunder, or of the interest of any member of a limited liability company, joint venture, syndicate or other group which may collectively constitute Tenant hereunder, shall result in changing the control of Tenant or such other corporation or such partnership, limited liability company, joint venture, syndicate or other group, such sale, assignment, transfer or other disposition shall be deemed an assignment of this Lease. For

the purposes of this Section, "control" of any corporation shall be deemed to have changed, if, in one or more transactions, any person or group of persons purchases or otherwise succeeds to more than forty nine percent (49%) in the aggregate of the voting power for the election of the Board of Directors of such corporation and "control" of a partnership, a limited liability company, joint venture, syndicate or other group shall be deemed to have changed if, in one or more transactions, any person or group of persons purchases or otherwise succeeds to more than forty nine percent (49%) in the aggregate of the general partners' or other active interest in such limited liability company, joint venture, syndicate or other group.

Section 5.4 Continuation of Liability. Regardless of any assignment, subletting or other transfer by Tenant of any of Tenant's rights or obligations under this Lease, Tenant shall continue to be and remain liable hereunder.

Section 5.5 Default after Transfer. If this Lease is assigned, or if the Premises or any part thereof is sublet or occupied by anybody other than Tenant, Landlord may, after an Event of Default by Tenant, and without notice to Tenant collect rent from the assignee, subtenant or occupant, and apply the net amount collected to the Rent herein reserved, but no such assignment, subletting, occupancy or collection shall be deemed an acceptance of the assignee, subtenant or occupant as tenant, or a release of Tenant from the further performance by Tenant of the terms, covenants and conditions of this Lease on the part of Tenant to be performed. Any violation of any provision of this Lease, whether by act or omission, by any assignee, subtenant or similar occupant, shall be deemed a violation of such provision by Tenant, it being the intention and meaning of the parties hereto that Tenant shall assume and be liable to the Landlord for any and all acts and omissions of any and all assignees, subtenants and similar occupants.

Section 5.6 Recapture. Landlord shall have the right, within forty five (45) days after Landlord's receipt of Tenant's Request, to terminate this Lease on notice (a "Recapture Notice") to Tenant. If Landlord gives a Recapture Notice, Tenant shall have five (5) calendar days from receipt of such Recapture Notice to rescind, in writing, the Tenant's Request and, upon such rescission, both the Recapture Notice and Tenant's Request shall be deemed withdrawn, null and void. If Tenant's Request is not so rescinded within the permitted time period, then this Lease shall terminate (in whole if Tenant's Request is for an assignment of the Lease or subleasing of all or substantially all of the Premises, or with respect to that part of the Premises which is the subject of a subletting if Tenant's Request is for a subletting of less than substantially all of the Premises) (that portion, whether the whole or a part, of the Premises which is the subject of Tenant's Request is hereinafter referred to as the "Subject Portion") on the date which is thirty (30) days after the date of the Recapture Notice (the "Surrender Date"). Tenant shall vacate the Subject Portion on or before the Surrender Date and deliver possession of the Subject Portion to Landlord in the condition required by this Lease. Effective as of the Surrender Date, neither Landlord nor Tenant shall have any further obligations under this Lease with respect to the Subject Portion, except for those rights and obligations which survive expiration or termination of the Lease. Effective as of the Surrender Date, all Rent shall be adjusted on a pro rata basis to reflect the reduced size of the Premises.

ARTICLE 6 REPAIRS, MAINTENANCE AND UTILITIES

Section 6.1 Tenant's Obligations.

- (a) If the Premises has a point of entry and exit on the exterior of the Building, Tenant shall keep the sidewalk adjoining the Premises free from rubbish, dirt, garbage and other refuse.
- (b) All damage or injury to the Premises or to its fixtures, appurtenances and equipment or to the Building, its fixtures, appurtenances or equipment caused by Tenant, its servants, employees, agents, visitors or licensees, shall be Repaired promptly by Tenant at no cost or expense to Landlord and to the reasonable satisfaction of Landlord. Tenant shall cause all

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Repairs to be made in a good and workmanlike manner and in accordance with the provisions of this Lease. If Tenant fails after twenty (20) days' notice to proceed with due diligence to make Repairs required to be made by Tenant, the same may be made by Landlord at the expense of Tenant, and the expenses thereof incurred by Landlord, with interest thereon at the Interest Rate, shall be paid to Landlord as Additional Rent within ten (10) calendar days after delivery of a bill or statement to Tenant.

Section 6.2 Landlord's Obligations and Services.

- (a) Landlord agrees to make all Repairs to the structural portions and exterior surfaces of the Building, the roof, the roof gutters, and operate and Repair the Common Areas.
- (b) Landlord shall additionally provide the following services to Tenant:
 - (i) Repair of the interior of the Premises within a reasonable period of time after submission of a request by Tenant, the cost of same being included in Operating Expense.
 - (ii) Repair, at Tenant's cost, of all light fixtures, including any ballasts, and light bulbs, such cost to be deemed Additional Rent.
 - (iii) Janitorial services, general cleaning of the Premises, and removal and disposal of all trash and other refuse, the cost of same being deemed an Operating Expense. Landlord reserves the right to impose a surcharge on Tenant directly if excessive amounts or unusual types of trash are generated in the Premises.
 - (iv) Air cooling and heat, between the hours of 8:00 A.M. and 6:00 P.M., Monday through Friday, and 8:00 A.M. through 1:00 P.M. on Saturdays. Tenant at all times agrees to cooperate fully with Landlord and to abide by all regulations and requirements which Landlord may reasonably prescribe for the proper functioning and protection of the HVAC System. Landlord shall have free access to any and all components of the HVAC System; and Tenant agrees that there shall be no construction of partitions or other obstructions which might interfere with Landlord's full access thereto, or interfere with the moving of Landlord's equipment to and from the enclosures containing said installations. Tenant agrees that Tenant, its agents, employees or contractors shall not at any time enter the said enclosures or tamper with, adjust, touch or otherwise in any manner affect the HVAC System.
 - (v) Operation and Repair of the HVAC System in a manner consistent with the standard to which similar properties are maintained in the area, the cost of same being included in Operating Expenses. Landlord may, upon not less than thirty (30) days notice to Tenant, require Tenant to assume responsibility for operation and Repair of the HVAC System serving the Premises, at Tenant's cost and expense, in which event Tenant shall promptly enter into a maintenance contract with a reputable heating and air conditioning contractor reasonably acceptable to Landlord and provide Landlord with a copy thereof.
- (c) Tenant acknowledges that Landlord shall not be providing the security which Tenant may require with respect to its Permitted Use(s). Landlord and Tenant hereby expressly acknowledge that Tenant shall be required to install such security systems as Tenant may require with respect to its Permitted Use(s) and that all costs and expenses with regard to such security to be provided by Tenant shall be at Tenant's sole cost and expense.

- (d) Landlord reserves the right to undertake such Complex-wide Repairs and provide such Complex-wide services as it deems necessary to preserve and promote the good physical condition of the Building and such costs shall be deemed Operating Expenses.

Section 6.3 Utilities.

- (a) The following utilities will be made available at the Premises:

(i) (A) Electric current, with the understanding, however, that the cost of electricity consumed by Tenant in the Premises is not included in Base Rent or Operating Expenses. Therefore, Tenant shall additionally be required to pay an estimated and agreed amount for

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the consumption of electricity (the "Electricity Payment") as set out in the Basic Provisions section of the Lease. The Electricity Payment shall be fixed for the entire Term, subject to Landlord's right to survey the utility usage, as follows.

(B) Landlord may, at any time and from time to time, at no cost or expense to Tenant, survey the estimated use of electricity in the Premises. The Electricity Payment shall be adjusted as appropriate based on the results of the survey.

(C) Landlord shall provide a copy of any utility survey to Tenant and the results of such survey shall be deemed binding upon Tenant unless Tenant objects to same within thirty (30) days of the date the survey is delivered to Tenant. If Landlord and Tenant are unable to agree upon the results of a survey, the disagreement shall be submitted to arbitration in accordance with the terms of this Lease. Pending the outcome of such arbitration, the charges to Tenant imposed pursuant to this Section shall be paid by Tenant without prejudice to Tenant's rights.

(ii) water service, the cost of which shall be included in Operating Expenses.

(iii) sewer service, the cost of which shall be included in Operating Expenses.

(b) Tenant agrees to pay or cause to be paid all charges for utilities of any kind which are billed directly to Tenant, and agrees to indemnify, defend and save Landlord harmless against any liability or damages for such charges.

(c) Tenant covenants and agrees that its use of utility services will not exceed either the capacity or maximum load of the utility lines serving the Premises or which may from time to time be prescribed by applicable Governmental Authorities.

(d) Unless the direct and proximate result of the gross negligence or willful misconduct of Landlord, its agents, servants or employees, Landlord shall in no event be liable or responsible to Tenant for any loss, damage or expense which Tenant may sustain or incur if either the quantity or character of utility services is changed or is no longer available or suitable for Tenant's purposes.

ARTICLE 7 COMPLIANCE WITH LAW

Section 7.1 Legal Requirements. Tenant shall, at its expense throughout the Term, promptly comply, or cause compliance, with all Legal Requirements of all Governmental Authorities which may be applicable to the Premises or the use or manner of use thereof.

Section 7.2 Hazardous Materials. Tenant agrees to refrain, and to prevent its employees, invitees, agents, contractors and subcontractors, from bringing any Hazardous Materials onto the Premises, except for cleaning fluids and common office supplies in de minimis quantities for normal cleaning use within the Premises which shall be stored in proper containers and in compliance with Legal Requirements. Tenant hereby covenants and agrees to indemnify, defend and hold Landlord harmless from and against any and all claims, actions, administrative proceedings, judgments, damages, penalties, costs, expenses, losses and liabilities of any kind or nature that arise (indirectly or directly) from or in connection with the presence (or suspected presence), release (or suspected release), spill (or suspected spill) or discharge (or suspected discharge) of any Hazardous Materials in, on or about the Premises at any time resulting from the acts or omissions of Tenant, its subcontractors or their respective employees, agents or contractors. Without limiting the generality of the foregoing, the indemnity set forth above shall specifically cover any investigation, monitoring and remediation costs.

Section 7.3 ISRA. Tenant further covenants and agrees that Tenant is not, and the Premises shall not be occupied during the Lease by, an "Industrial Establishment," as defined in the Industrial Site Recovery Act, N.J.S.A. 13:1k-6 et seq., and the rules and regulations promulgated thereunder, as same may be amended from time to time ("ISRA"). If Tenant's operations on the Premises now or hereafter constitute an Industrial Establishment subject to the requirements of ISRA, then prior to the expiration or sooner termination of this Lease, Tenant, at no cost or expense to Landlord, shall comply with all requirements of ISRA pertaining to an Industrial Establishment closing or transferring

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operations, to the satisfaction of the New Jersey Department of Environmental Protection ("DEP") and Landlord. If Tenant has not fully complied with ISRA prior to the expiration or sooner termination of the Lease, then Tenant, at Landlord's option and in addition to all other rights and remedies of Landlord under this Lease, at law, in equity or otherwise, shall forfeit the full amount of the Security. In addition to the foregoing, Tenant shall obtain and deliver to Landlord, at no cost or expense to Landlord and at least thirty (30) days prior to the expiration of the Term or any assignment of this Lease or subletting of the Premises, a letter from the DEP stating that termination of Tenant's operations at the Premises does not trigger ISRA, together with true copies of any affidavits on which such letter is based. If Landlord shall have to comply with ISRA by reason of Landlord's actions, Tenant shall promptly provide all information requested by Landlord for preparation of non-applicability affidavits or a negative declaration and shall promptly sign such affidavits when requested by Landlord.

ARTICLE 8 ALTERATIONS

Section 8.1 Permitted Alterations. Tenant shall be permitted to make any Alteration(s) which (i) are not structural in nature and/or do not affect the structural portions of the Building, (ii) do not exceed Ten Thousand Dollars (\$10,000.00) in the aggregate during the Term and (iii) do not require any permit or other form of legal authority (collectively, "Permitted Alterations"). Any and all other Alterations shall require the prior written consent of Landlord, which consent shall not be unreasonably withheld.

Section 8.2 Requirements.

(a) All Alterations shall be made at no cost or expense to Landlord.

(b) Tenant shall submit to Landlord a copy of any plans and specifications prepared in connection with any Alteration except Permitted Alterations (including layout, architectural, mechanical and structural drawings).

(c) Before commencing any Alteration, Tenant shall provide any necessary and appropriate riders for fire and extended coverage, and commercial general liability and property damage insurance, covering the risks during the course of such Alteration and obtain and pay for all necessary permits and authorizations. Landlord agrees to join in the application for such permits or authorizations upon request of Tenant if necessary provided Landlord is promptly reimbursed for any filing or other costs, fees or expenses incurred and Tenant otherwise indemnifies Landlord for all losses, costs, claims and expenses incurred by Landlord in connection therewith.

(d) All Alterations shall be made with reasonable diligence, in a good and workmanlike manner, by contractor(s) approved by Landlord in Landlord's sole discretion and in compliance with all applicable Legal Requirements. Upon completion, Tenant shall obtain and deliver to Landlord any necessary amendment to the certificate of occupancy.

Section 8.3. Ownership. All Alterations shall remain the property of Tenant and shall be removed by Tenant upon expiration or earlier termination of the Lease. Notwithstanding the foregoing, Tenant may request Landlord's consent to abandon any Alteration(s) provided such request is submitted to Landlord, in the form of a Notice, prior to commencing the Alteration. Landlord may grant or withhold its consent to such request in Landlord's sole discretion and failure of the Landlord to respond to such request shall be deemed a denial. Any Alteration abandoned by Tenant with Landlord's consent shall immediately become the sole property of Landlord.

ARTICLE 9 INSURANCE

Section 9.1 Tenant's Coverages.

(a) Commencing with the Commencement Date and throughout the Term, Tenant shall, at Tenant's cost and expense, provide and cause to be maintained:

(i) commercial general liability insurance (including contractual liability coverage) insuring against claims for bodily injury, death or property damage that may arise from or be

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occasioned by (x) the condition, use or occupancy of the Premises, the sidewalks adjacent thereto, and the loading docks and other appurtenances, or (y) any act, omission or negligence of Tenant, its subtenants, or their respective contractors, licensees, agents, servants, employees, invitees or visitors; such insurance to afford minimum protection of not less than \$3,000,000.00 combined single limit on an occurrence basis. The liability insurance requirements hereunder may be reviewed by Landlord every two (2) years for the purpose of increasing (in consultation with their respective insurance advisors) the minimum limits of such insurance from time to time to limits which shall be reasonable and customary for similar facilities of like size and operation in accordance with generally accepted insurance industry standards;

(ii) "All-risk" insurance (including coverages against loss or damage by fire, lightning, windstorm, hail, explosion, vandalism and malicious mischief, riot and civil commotion, smoke and all other perils now or hereafter included in extended coverage endorsements) covering Tenant's merchandise, inventory, trade fixtures, furnishings, equipment and leasehold improvements for the full replacement value on an agreed amount basis, including all items of personal property of Tenant located on, in or about the Premises, in an amount equal to one-hundred percent (100%) of the actual replacement cost thereof (with provisions for a deductible as shall be reasonable in comparison with similar properties); and

(iii) during performance of any Alteration, Tenant shall maintain Worker's Compensation, public liability and builder's risk form of casualty insurance in amounts appropriate to the status of the construction being performed by Tenant. In addition, all contractors working on behalf of Tenant shall provide evidence of coverage, equal to the requirements of Tenant, naming Landlord as an additional insured.

(b) If Tenant fails to maintain the insurance to be maintained by Tenant hereunder, the same may be purchased by Landlord at the expense of Tenant, and the expense therefor incurred by Landlord, with interest thereon at the Interest Rate, shall be forthwith paid to Landlord as Additional Rent after rendition of a bill or statement therefor.

(c) All insurance policies required to be maintained by Tenant pursuant to this Article shall be effected under policies issued by insurers which are permitted to do business in the State where the Complex is situated and rated "A/VIII" by A.M. Best Company, or any successor thereto. Tenant shall provide to Landlord, and to any Fee Mortgagee, certificates of the policies required to be maintained pursuant to this Lease. Each such policy shall contain a provision that no act or omission of the insured shall affect or limit the obligation of the insurance company to pay the amount of any loss sustained and an agreement by the insurer that such policy shall not be modified or canceled without at least 30 days' prior notice to Landlord and to any Fee Mortgagee.

(d) All policies of insurance provided for under this Article, except Workers' Compensation, shall name the Tenant as the insured, and Landlord and Landlord's managing agent as additional insureds, and any Fee Mortgagee pursuant to a standard first mortgagee clause, subject in all respects to the terms of this Lease.

(e) Any insurance provided for in this Article may be effected by a blanket policy or policies of insurance, provided that the amount of the total insurance available shall be at least the protection equivalent to separate policies in the amounts herein required, and provided further that in other respects, any such policy or policies shall comply with the provisions of this Article. An increased coverage or "umbrella policy" may be provided and utilized to increase the coverage provided by individual or blanket policies in lower amounts, and the aggregate liabilities provided by all such policies shall be satisfactory provided they otherwise comply with the provisions of this Article.

(f) Each policy carried by Tenant shall be written as a primary policy not contributing with, and not in excess of, coverage carried by Landlord and/or Landlord's managing agent.

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Section 9.2 Landlord's Coverages. Commencing with the Commencement Date and throughout the Lease Term, Landlord shall maintain, or cause to be maintained:

(a) "All-risk" insurance covering the Complex, in an amount equal to one-hundred percent (100%) of the actual replacement cost thereof (exclusive of the cost of excavations, pavement, foundations and footings) with or without provisions for a deductible as shall be reasonable in comparison with similar properties;

(b) commercial general liability insurance (including contractual liability) covering the Common Areas, in an amount not less than \$5,000,000 for personal and bodily injury to all persons in any one occurrence and for property damage;

(c) rent insurance, for the benefit of Landlord, covering the risks referred to in Paragraph (a) above, in an amount equal to all Rent payable for a period of twelve (12) months commencing on the date of loss;

(d) if at any time a steam boiler or similar equipment is located in, on or about the Building, a policy insuring against loss or damage due to explosion, rupture or other failure of any boiler, pipes, turbines, engines or other similar types of equipment; and

(e) other coverage as Landlord may reasonably deem necessary and appropriate.

If by reason of failure of Tenant to comply with the provisions of this Lease, including but not limited to the manner in which Tenant uses or occupies the Premises, Landlord's insurance rates shall on the Commencement

Date or at any time thereafter be higher than such rates otherwise would be, then Tenant shall reimburse Landlord, as Additional Rent hereunder, for that part of all insurance premiums thereafter paid or incurred by Landlord, which shall have been charged because of such failure or use by Tenant, and Tenant shall make such reimbursement upon the first day of the month following the billing to Tenant of such additional cost by Landlord.

Section 9.3 Waiver of Subrogation. Every insurance policy carried by either party shall include provisions denying to the insurer subrogation rights against the other party and any Fee Mortgagee to the extent such rights have been waived by the insured prior to the occurrence of damage or loss. Each party hereby waives any rights of recovery against the other party for any direct damage or consequential loss covered by said policies against which such party is protected, or required hereunder to be protected, by insurance or (by the inclusion of deductible provisions therein or otherwise) has elected to be self-insured, to the extent of the proceeds paid under such policies and the amount of any such self-insurance, whether or not such damage or loss shall have been caused by any acts or omissions of the other party.

ARTICLE 10 DAMAGE AND DESTRUCTION; EMINENT DOMAIN

Section 10.1 Termination Due to Damage or Destruction. If the Premises, or any portion thereof, shall be damaged by fire or other casualty, Tenant shall immediately give Notice thereof to Landlord. If the Building shall be damaged or destroyed to the extent that the estimated cost of repair or restoration of the damage or destruction shall be in excess of twenty five percent (25%) of the replacement cost of the Building, then Landlord shall have the right to terminate this Lease by giving notice of such election to Tenant within sixty (60) days after such damage or destruction shall have occurred. If such notice shall be given, this Lease shall terminate as of the date of Tenant's receipt of such Notice. Landlord shall not be required to restore or rebuild the damaged or destroyed Premises, or any portion thereof, and all insurance proceeds payable on account of such damage or destruction may be retained by Landlord.

Section 10.2 Taking.

(a) If a Taking of all or substantially all of the Premises occurs, then this Lease shall terminate as of the Vesting Date. If there is a Taking of less than substantially all of the Premises, then this Lease shall terminate on the Vesting Date with respect to the portion so taken.

(b) If there is a Taking of part of the Complex but none of or less than substantially all of the Premises, Landlord may elect to terminate this Lease if (i) there is any Taking occurring

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during the last two (2) years of the Term; or (ii) in Landlord's reasonable judgment, it shall not be economically feasible to restore and replace the Building, the Premises, the Common Areas, the Complex or part thereof, to tenable condition capable of being operated as a mixed use complex in an economical manner. If Landlord elects to terminate this Lease pursuant to this Section, Landlord shall, within one hundred twenty (120) days of the Taking, give notice to Tenant, and the Term shall expire and come to an end as of the last day of the calendar month in which such notice is given.

(c) If there is a Taking of less than substantially all of the Premises, Tenant, subject to Landlord's lenders' requirements, may elect to terminate this Lease if, by reason of the Taking (i) more than thirty-three percent (33%) of the Square Feet within the Premises shall be taken; (ii) there is a prohibition of the use of the Premises for Tenant's actual permitted use thereof; or (iii) there is any Taking of the Premises occurring during the last two (2) years of the Term. If Tenant elects to terminate this Lease pursuant to this Section, Tenant shall, within one hundred twenty (120) days of the Taking, give notice to Landlord, and the Term shall expire and come to an end as of the last day of the calendar month in which such notice is given.

(d) If there is a Taking, then commencing on the Vesting Date, Base Rent shall be the product of (i) Base Rent immediately preceding the Taking, and (ii) a fraction, the numerator of which shall be the number of Square Feet within the Premises remaining after the Taking, and the denominator of which shall be the number of Square Feet within the Premises immediately preceding the Taking.

(e) Tenant shall not be entitled to and hereby waives any and all claims against Landlord for any compensation or damage for loss of use of the Premises, the Common Areas or any portion thereof, for any interruption of services required to be provided by Landlord hereunder, and/or for any inconvenience or annoyance resulting from any damage, destruction, repair or restoration.

(f) All compensation awarded or paid in respect of a Taking shall belong to and be the property of Landlord without any participation by Tenant. Nothing herein shall be construed to preclude Tenant from prosecuting any claim directly against the condemning authority in such condemnation proceeding for moving expenses; any fixtures or equipment owned by Tenant; and the unamortized cost of Tenant's betterments and improvements, provided that no such claim shall (x) diminish or otherwise adversely affect Landlord's award or the award of any Fee Mortgagee, or (y) include any value for the leasehold estate created hereby or the unexpired term of this Lease.

Section 10.3 Restoration by Landlord. If the whole or any part of the Premises or Building shall, during the Term, be damaged or destroyed by fire or other casualty, or any portion of the Premises be Taken, and this Lease is not terminated pursuant to the terms hereof, Landlord shall, to the extent of insurance proceeds or award received by Landlord, repair, restore and/or rebuild the Premises and or Building substantially to the condition and character existing as of the Commencement Date. In no event shall Landlord be required to repair or replace any Personalty.

ARTICLE 11 RENT ABATEMENT

(a) For purposes of this Article only, the Premises, or any portion thereof, shall be considered "Untenantable" if Tenant is, in fact, unable to engage in its regular business practices in the Premises due to (i) damage or destruction, (ii) loss of utilities, HVAC or elevator service, which loss is within the ability of Landlord to control, or (iii) a Taking, and (iv) the Premises is not rendered Untenantable by reason of any negligent or willful act of Tenant, its agents, servants or employees.

(b) If all or part of the Premises are rendered Untenantable, Tenant shall, within five (5) business days after the occurrence, notify Landlord that the Premises, or a part thereof, has been rendered Untenantable (a "Rent Abatement Notice"). The Rent Abatement Notice shall be in writing, shall specify (i) the nature of the cause of the Untenantability, (ii) the area(s) of the

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Premises Tenant claims to be Untenantable and (iii) the date the space became Untenantable. The Rent Abatement Notice shall be delivered to Landlord in the manner required under this Lease for delivery of Notices. If a Rent Abatement Notice is not delivered to Landlord within the time and in the manner set out herein, then Tenant shall be deemed to have waived any right to abatement of Rent.

(c) If the Premises are rendered Untenantable, in whole or in part, for a period of ten (10) or more business days, and the Lease is not terminated pursuant to the provisions hereof then Rent shall abate proportionately to the portion of the Premises rendered Untenantable from the date of the event causing the Untenantability and continuing until the Untenantability is remediated (the "Abatement Period"). However, the necessity for the completion of any repair, restoration or other work to be performed by Tenant shall not provide the basis for abatement of Rent.

(d) Determination of the percentage of Rent to be abated shall be reasonably made by Landlord. If Landlord and Tenant disagree on the extent of the Untenantability of the Premises, an appropriate third-party professional, designated by Landlord and reasonably acceptable to Tenant, shall certify to Landlord and Tenant as to the condition of the Premises (the "Abatement Certification"), which Abatement Certification shall be binding upon both parties. The cost of obtaining the Abatement Certification shall be borne by Tenant and reimbursable to Landlord as Additional Rent.

(e) Upon substantial completion of the remediation of the condition resulting in the Untenantability of the Premises, as reasonably determined by Landlord, the Abatement Period shall terminate. If Landlord and Tenant disagree on the date of substantial completion or the tenantability of any part of the Premises, an appropriate third-party professional, designated by Landlord and reasonably acceptable to Tenant, shall certify to Landlord and Tenant as to the condition of the Premises (the "Restoration Certification"), which Restoration Certification shall be binding upon the parties. The cost of obtaining the Restoration Certification shall be borne by Tenant and reimbursable to Landlord as Additional Rent.

(f) Anything to the contrary notwithstanding, there shall be no abatement of Rent for any portion of the Premises in which Tenant continues to operate its business, regardless of whether such portion of the Premises has been determined to be Untenantable.

ARTICLE 12 QUIET POSSESSION

Provided no Event of Default remains uncured, Tenant shall have and enjoy, during the Term, possession and use of the Premises and all appurtenances thereto which is quiet and undisturbed by Landlord, subject to the terms and provisions of this Lease. This covenant shall be construed as running with Landlord's estate as owner of the Premises and is not, nor shall it operate or be construed as, a personal covenant of Landlord, except to the extent of Landlord's interest in the Premises and only so long as such interest shall continue, and thereafter this covenant shall be binding only upon such subsequent owners and successors in interest, to the extent of their respective interests, as and when they shall acquire the same, and only so long as they shall retain such interest. Tenant shall not, through its acts or omissions, or the acts or omissions of Tenants employees, agents, servants or contractors, disturb the quiet possession of any other tenant or occupant of the Building.

ARTICLE 13 DEFAULT; REMEDIES AND DAMAGES

Section 13.1 Events of Default. Each of the following shall be deemed an "Event of Default":

(a) any failure by Tenant to pay Base Rent on the date it was payable under this Lease, or any failure by Tenant to pay Additional Rent or other sum of money payable under this Lease within five (5) days after notice from Landlord that such payment of Additional Rent or other sum is due;

(b) any interest of Tenant passes to another except as permitted under Article 5;

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(c) if proceedings in bankruptcy shall be instituted by or against any guarantor of this Lease, or if any guarantor of this Lease shall file, or any creditor or other person shall file, any petition in bankruptcy under any law, rule or regulation of the United States of America or of any State, or if a receiver of the business or assets of Tenant or of any guarantor of this Lease shall be appointed, or if a general assignment is made by Tenant for the benefit of creditors, or any sheriff, marshal, constable or other duly constituted public official takes possession of the Premises, or any part thereof, by authority of any attachment or execution proceedings, and offers same for sale publicly, and, with respect to any of the foregoing actions which shall be involuntary on Tenant's part, such action is not vacated or withdrawn within thirty (30) days thereafter;

(d) failure to pay Rent in a timely fashion three (3) or more times in any twelve (12) calendar month period or four (4) or more times during the Term;

(e) any other failure by Tenant to perform any of the other terms, conditions or covenants of this Lease to be observed or performed by Tenant (for which notice and/or cure periods are not otherwise set forth in this Lease) for more than twenty (20) days after notice of such default shall have been given to Tenant, or if such default is of such nature that it cannot with due diligence be completely remedied with said period of twenty (20) days such longer period of time as may be reasonably necessary to remedy such default provided Tenant shall commence within said period of twenty (20) days and shall thereafter diligently prosecute to completion, all steps necessary to remedy such default, but in no event more than ninety (90) days after notice of such default shall have been given to Tenant; and

(f) an Event of Default provided for under any other section of this Lease.

Section 13.2 Remedies.

(a) If an Event of Default shall occur, Landlord shall, in addition to any other right or remedy available at law, in equity or otherwise, have the right:

(i) to bring suit for the collection of Rent and/or other amounts for which Tenant may be in default, or for the performance of any other covenant or agreement devolving upon Tenant, all with or without entering into possession or terminating this Lease;

(ii) terminate this Lease and dispossess Tenant and any other occupants thereof, remove their effects not previously removed by them and hold the Premises free of this Lease; or

(iii) without terminating this Lease, re-enter the Premises by summary proceedings and dispossess Tenant and any other occupants thereof, remove their effects not previously removed by them and hold the Premises free of this Lease. No such re-entry or taking possession of the Premises by Landlord shall be construed as election on its part to terminate this Lease unless a written notice of such intention be given to Tenant or unless such termination is decreed by a court of competent jurisdiction. Landlord may remove all persons and property from the Premises in accordance with this Section, and store such property in a public warehouse or elsewhere at the cost of and for the account of Tenant, without service of notice or resort to legal process (all of which Tenant expressly waives) and without being guilty of trespass or becoming liable for any loss which may be occasioned thereby.

(b) After such a dispossession or removal, (x) Rent shall be paid up to the date thereof, (y) Landlord may relet the Premises or any part or parts thereof either in the name of Landlord or otherwise, for a term or terms which may, at the option of Landlord, be less than or exceed the period which would otherwise have constituted the balance of the Term, and (z) Tenant shall pay to Landlord any deficiency between the Rent due hereunder plus the reasonable costs and expenses incurred or paid by Landlord in terminating this Lease or in re-entering the Premises and in securing possession thereof, as well as the expenses of reletting the Premises, including, without limitation, repairing, altering and preparing the Premises for new tenants, brokers' commissions, legal fees, and other expenses and concessions ("Default Costs"), and the amount of

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rents and other charges collected on account of the new lease or leases of the Premises for each month of the period which would otherwise have constituted the balance of the Term (not including any renewal periods, the commencement of which shall not have occurred prior to such dispossession or removal). Such deficiency shall be paid by Tenant in monthly installments on the dates specified in this Lease for payment of Base Rent. Landlord reserves the right to bring actions or proceedings for the recovery of any deficits remaining unpaid without being obliged to await the end of the Term for a final determination of Tenant's account, and the commencement or maintenance of any one or more actions or proceedings shall not bar Landlord from bringing other or subsequent actions or proceedings for further accruals pursuant to the provisions of this Section. Any rent received by Landlord from such reletting shall be applied first to the payment of any indebtedness (other than Rent due hereunder) of Tenant to Landlord; second, to the payment of any Default Costs; third, to the payment of Rent due and unpaid hereunder, and the balance, if any, shall be held by Landlord and applied in payment of future Rent as it may come due and payable hereunder. In the alternative, following any such dispossession or removal, Landlord may claim as damages no more than the difference between the balance of Base Rent and Additional Rent payable over the remainder of the Term and the fair market rental value of the Premises over the same period, discounted to present value at a discount rate equal to the then effective rate on obligations of the U.S. Treasury having a maturity closest to the number of months remaining in the Term.

(c) Landlord agrees to use commercially reasonable efforts to mitigate any damages occasioned by Tenant's default. Tenant agrees that Landlord's duty to mitigate (i) shall arise only after Landlord regains possession of the Premises, (ii) shall be deemed satisfied if Landlord has used commercially reasonable efforts to relet the Premises, whether or not such efforts are successful, and (iii) shall not require Landlord to market the Premises ahead of other space which is vacant or about to become vacant in properties owned by Landlord or its affiliates within five (5) miles of the Premises.

(d) In addition to the foregoing, if an Event of Default shall occur other than as to the payment of Rent, Landlord, in addition to any other right or remedy available at law or in equity, shall have the right, but not the obligation, to cure such failure. Notwithstanding the above, if, in Landlord's reasonable judgment, an emergency shall exist, Landlord may cure such Event of Default upon such notice to Tenant as may be reasonable under the circumstances (and may be without any prior notice if the circumstances shall so require). If Landlord cures such failure as aforesaid, Tenant shall pay to Landlord on demand, as Additional Rent, the reasonable and necessary cost or amount thereof, together with interest thereon at the Interest Rate from the date of outlay of expense until payment.

(e) If there is a breach by Tenant, or any persons claiming through or under Tenant, of any term, covenant or condition of this Lease, Landlord shall have the right to enjoin such breach and the right to invoke any other remedy allowed by law or in equity as if re-entry, summary proceedings and other special remedies were not provided in this Lease for such breach.

(f) The right to invoke the remedies hereinbefore set forth is cumulative and shall not preclude Landlord from invoking any other remedy allowed at law, in equity or otherwise.

(g) If Tenant fails to pay any Rent when due (i.e. the Event of Default is strictly monetary), any period of "free Rent" during the Term shall be deemed null and void and Rent for such "free Rent" period, at the rate of the monthly Base Rent in effect immediately after the end of such "free Rent" period, shall immediately become due and payable.

Section 13.3 Landlord's Default.

(a) If Landlord shall fail to observe, perform or comply with any of its duties and obligations as set forth in this Lease for a period of thirty (30) days after notice thereof from Tenant to Landlord, or if such failure is of such a nature that it cannot be completely remedied within said period of thirty (30) days, if Landlord shall not (x) promptly upon the giving by Tenant of such notice, advise Tenant of Landlord's intention to institute reasonable steps

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necessary to remedy such failure, (y) promptly institute and thereafter diligently prosecute to completion reasonable steps necessary to remedy same, and (z) complete such remedy within a reasonable time after the date of the giving of said notice by Tenant, Tenant may at any time thereafter cure such breach or failure, but only if such breach or failure is creating a material impairment to the operation of Tenant's business at the Premises, for the account of Landlord, provided that Tenant may cure any such breach or failure as aforesaid prior to the expiration of said waiting period, without notice to Landlord if an emergency situation exists, or after notice to Landlord, but solely if the curing of such breach or failure prior to the expiration of said waiting period is necessary to protect the Premises or Tenant's interest therein or to prevent injury to persons or material damage to property. Landlord shall reimburse Tenant for the amounts reasonably and properly incurred by Tenant as aforesaid within thirty (30) days of Tenant's written demand therefor. In no event whatsoever, however, shall Tenant have a right to terminate this Lease by reason of Landlord's default, nor shall Landlord be liable to Tenant for any consequential, incidental or punitive damages in connection with or as a result of any default by Landlord hereunder. For the purposes of this Section, lost sales and/or profit shall be deemed to be consequential damages.

(b) Notwithstanding that certain additional rights or remedies may now or hereafter be available to Tenant at law, in equity or otherwise, the rights and remedies as, when and to the extent specifically provided Tenant in Subsection (a) hereof shall be Tenant's sole and exclusive rights and remedies under this Lease in the event of Landlord's failure to observe, perform or comply with any of its duties and obligations of this Lease on its part to be observed, performed or complied within the time periods provided in this Lease.

ARTICLE 14 UNAVOIDABLE DELAYS, FORCE MAJEURE

With the exception of Tenant's obligation to pay Rent, if Landlord or Tenant shall be prevented or delayed from punctually performing any obligation or satisfying any condition under this Lease by any strike, lockout, labor dispute or other labor trouble, inability to obtain labor, materials or reasonable substitutes therefor, act of God, weather, soil conditions, site conditions, present or future governmental restrictions, regulation or control, governmental pre-emption or priorities or other conflicts in connection with a national or other public emergency or shortages of fuel, supply of labor resulting therefrom, insurrection, sabotage, fire or other casualty, or any other condition beyond the control of the party required to perform, other than unavailability of funds or financing (individually and collectively "Unavoidable Delays"), then the time to perform such obligation or satisfy such condition shall be extended by the delay caused by such event. If either party shall, as a result of an Unavoidable Delay, be unable to exercise any right or options within any time limit provided therefor in this Lease, such time limit shall be deemed extended for a period equal to the duration of such Unavoidable Delay. This Lease and the obligations of Tenant to pay Rent hereunder and perform all of the other covenants, agreements, terms, provisions and conditions hereunder on the part of Tenant to be performed shall in no way be affected, impaired or excused because Landlord is unable to fulfill any of its obligations under this Lease as a result of any Unavoidable Delay.

ARTICLE 15 NOTICES

(a) Unless specifically provided to the contrary in this Lease, any notices, consents, approvals, elections, submissions, requests or demands required or permitted to be given under this Lease or pursuant to any law or governmental regulation (individually and collectively, a "Notice") by Landlord to Tenant or by Tenant to Landlord shall be in writing (whether or not expressly so provided) and delivered to the recipient at the respective addresses set forth in the Basic Provisions of this Lease, or, in the case of Notices to Tenant, to the Premises.

(b) Notices shall be deemed delivered upon (i) personal delivery; (ii) three (3) calendar days after being deposited in the United States mail, registered or certified mail, return receipt requested, postage prepaid; or (iii) one (1) business day after being sent by overnight express mail or nationally recognized courier service (e.g., Federal Express) to Landlord or Tenant, at the

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respective addresses set forth in the Basic Provisions of this Lease, and shall be deemed received upon actual receipt or rejection. Notices may be signed by the attorneys for the party on whose behalf the notice is sent. Changes in addresses may be designated by written notice as provided in this Article.

ARTICLE 16 ACCESS

Landlord and any Fee Mortgagee and any lessor under any ground or underlying lease, and their respective representatives, may enter the Premises at all times, upon reasonable advance notice to Tenant, for the purposes of (a) responding to emergency situations, (b) inspection, (c) making Repairs, replacements or improvements in or to the Premises or the Building or equipment, (d) performing other obligations of Landlord or Tenant pursuant to this Lease, (e) complying with any Legal Requirements, (f) exercising any right reserved to Landlord by this Lease (including the right during the progress of any such Repairs, replacements or improvements or while performing work and furnishing materials in connection with the compliance with any such Legal Requirements to keep and store within the Premises all necessary materials, tools and equipment) or (g) during the period commencing twelve (12) months prior to the end of the Term, for the purpose of exhibiting same to prospective tenants. Nothing herein contained, however, shall be deemed or construed to impose upon Landlord or any Fee Mortgagee or lessor, any obligation, responsibility or liability whatsoever for the care, supervision or repair of the Premises or Building or any parts thereof other than as herein provided. If a representative of Tenant shall not be personally present to open and permit an entry into the Premises at any time when an entry shall be reasonably necessary or permissible hereunder, Landlord or its agents may enter by a master key or may, in case of emergency, forcibly enter the same without rendering Landlord or its agents liable therefor (provided that, during such entry, reasonable care shall be accorded to avoid damage or injury to Tenant's property), and without in any manner affecting the obligations and covenants of this Lease. Without incurring any liability to Tenant, Landlord may permit access to the Premises and open the same, whether or not Tenant shall be present, upon de mand of any receiver, trustee, assignee for the benefit of creditors, sheriff, marshal or court officer entitled to, or reasonably purporting to be entitled to, such access for the purpose of taking possession of, or removing, Tenant's property or for any other lawful purpose (but this provision and any action by Landlord hereunder shall not be deemed a recognition by Landlord that the person or official making such demand has any right or interest in or to this Lease, or in or to the Premises), or upon demand of any representative of the fire, police, building, sanitation or other department of Governmental Authorities.

ARTICLE 17 SIGNS

Tenant shall place no signs upon the Premises, Building or Complex except as permitted by Landlord in its sole discretion. Tenant acknowledges and agrees that Landlord may desire to have standardized signage and Tenant agrees to conform with such signage requirements.

ARTICLE 18 END OF TERM

Upon the expiration or other termination of the Term, Tenant shall peaceably and quietly quit and surrender the Premises to Landlord. The Premises shall be delivered in substantially the same condition as on the Commencement Date, broom clean, in good order and condition, reasonable wear and tear excepted, and otherwise in accordance with the terms of this Lease. Any Rent which is payable to the Expiration Date or earlier termination of this Lease which is not then ascertainable shall be paid to Landlord when the same is determined. Any Personalty remaining in the Premises after possession of the Premises has been returned to Landlord shall be deemed abandoned by Tenant to Landlord. Landlord shall have the right to dispose of the Personalty in any manner Landlord deems appropriate. Tenant agrees to indemnify and hold Landlord harmless from any and all (i) costs and expenses incurred by Landlord for the removal or disposal of the Personalty, and (ii) claims by third parties for ownership, obligation, payment, debt, loss or damage to any item or items of Personalty so abandoned. The provisions of this Article shall survive the Expiration Date or earlier termination of this Lease.

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ARTICLE 19 HOLDING OVER

Should Tenant hold over in possession after the Expiration Date, such holding over shall not be deemed to extend the Term or renew this Lease. Tenant agrees to indemnify and save Landlord harmless from and against all claims, losses, damages, liabilities, costs and expenses (including, without limitation, reasonable attorneys' fees and disbursements) resulting from delay by Tenant in surrendering the Premises, including, without limitation, any claims made by any succeeding tenant founded on such delay. The parties recognize and agree that the damage to Landlord resulting from any failure by Tenant to timely surrender possession of the Premises will be extremely substantial, will exceed the amount of the Rent and will be impossible to accurately measure. Tenant therefore agrees that if possession of the Premises is not surrendered to Landlord on the Expiration Date, in addition to any other rights and remedies Landlord may have hereunder or at law, and without in any manner limiting Landlord's right to demonstrate and collect any damages suffered by Landlord and arising from Tenant's failure to surrender the Premises as provided herein, Tenant shall pay to Landlord on account of use and occupancy of the Premises for each month and for each portion of any month during which Tenant holds over after the Expiration Date, a sum equal to two hundred percent (200%) of the aggregate of that portion of the Rent which was payable under this Lease during the last month of the Term. Nothing herein shall be deemed to permit Tenant to retain possession of the Premises after the Expiration Date or to limit in any manner Landlord's right to regain possession of the Premises through summary proceeding or otherwise, and no acceptance by Landlord of payments from Tenant after the Expiration Date shall be deemed to be other than on account of the amount to be paid by Tenant in accordance with the provisions of this Article. The provisions of this Article shall survive the Expiration Date.

ARTICLE 20 INDEMNITY

Section 20.1 Indemnity.

(a) Neither Landlord nor Tenant shall do or permit any act or thing to be done in or about the Premises which may subject the other party to any liability or responsibility for injury, damages to persons or property or to

any liability by reason of any violation of any Legal Requirement.

(b) Tenant shall exercise such control over the Premises as to fully protect Landlord against any such liability. Tenant shall indemnify and save the Landlord, the members comprising Landlord and its and their partners, shareholders, members, officers, directors, employees, agents and contractors (the “Indemnitees”) harmless from and against (x) all claims of whatever nature against the Indemnitees arising from Tenant’s occupancy of the Premises, or from any act, omission or negligence of Tenant, its contractors, licensees, agents, servants, employees, invitees or visitors (including, without limitation, statutory liability and liability under worker’s compensation laws), (y) all claims against the Indemnitees arising from any accident, injury or damage whatsoever caused to any person or to the property of any person and occurring during the Term in or about the Premises, and (z) any breach, violation or non-performance of any covenant, condition or agreement in this Lease set forth and contained on the part of Tenant to be fulfilled, kept, observed and performed.

(c) Landlord agrees to indemnify and hold Tenant, its agents, servants and employees, harmless from any loss or damages, including reasonable attorneys’ fees and costs, resulting from the gross negligence or willful misconduct of Landlord, its agents, servants and employees.

(d) This indemnity and hold harmless agreement shall include indemnity from and against any and all liability, fines, suits, demands, costs and expenses of any kind or nature (including, without limitation, attorneys’ fees and disbursements) incurred in or in connection with any such claim or proceeding brought thereon, and the defense thereof.

Section 20.2 Defense. If any claim, action or proceeding is made or brought against Landlord, Tenant, the Indemnitees or any of them, which claim, action or proceeding either Landlord or Tenant shall be obligated to indemnify against pursuant to the terms of this Lease, then, upon demand by the

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indemnified party or any of them, the indemnitor, at its sole cost and expense, shall resist or defend such claim, action or proceeding in the name of such indemnified party, if necessary, by such attorneys as such indemnified party shall approve, which approval shall not be unreasonably withheld. Attorneys for the indemnitor’s insurer are hereby deemed approved for purposes of this Section. The provisions of this Section shall survive the expiration or earlier termination of this Lease.

ARTICLE 21 SUBORDINATION

Section 21.1 Fee Mortgage. Landlord shall have the right at any time during the Term to subject its interest in the Premises, the Building, the Complex and/or this Lease to any one or more mortgages on Landlord’s interest therein (“Fee Mortgage”) and to renew, modify, consolidate, replace, extend and/or refinance any such Fee Mortgage. Landlord shall be entitled to all of the proceeds from any such Fee Mortgage at any time effected pursuant hereto.

Section 21.2 Subordination. This Lease shall at all times be subordinate to any Fee Mortgage. The foregoing provisions shall be self-operative and no further instrument of subordination shall be required. If Landlord or any holder of any Fee Mortgage desires confirmation of such subordination, Tenant shall promptly execute, without charge therefor, any certificate that Landlord or the Fee Mortgagee may request, provided that such certificate does not modify the terms of this Lease.

Section 21.3 Attornment. Notwithstanding the provisions of Section 21.2, should any Fee Mortgagee require that this Lease be prior rather than subordinate to any such Fee Mortgage, Tenant shall, within ten (10) days after request therefor by Landlord or such Fee Mortgagee, and without charge therefor, execute a document effecting or acknowledging such priority, which document shall contain, at the option of such requesting party, an attornment to the Fee Mortgagee, or any person acquiring the interest of Landlord as a result of any foreclosure or the granting of a deed in lieu of foreclosure, as landlord, upon the then executory terms and conditions of this Lease for the remainder of the Term. If a Fee Mortgage is foreclosed or title to the Premises transferred to a Fee Mortgagee by deed in lieu of foreclosure, Tenant shall attorn to Landlord’s successor.

ARTICLE 22 CERTIFICATES

On the request of either party, Landlord and Tenant shall execute, acknowledge and deliver to each other, within ten (10) days after request, a written instrument, duly executed and acknowledged, (i) certifying that this Lease has not been modified and is in full force and effect or, if there has been a modification, that this Lease is in full force and effect as modified, stating such modification, and that this Lease is the only lease between Landlord and Tenant affecting the Premises, (ii) specifying the dates to which Rent has been paid, (iii) stating whether or not, to the knowledge of the party executing such instrument, the other party hereto is in default and, if so, stating the nature of such default, (iv) stating whether or not there are then existing any credits, offsets or defenses against the enforcement of any provisions of this Lease, (v) stating the Commencement Date and the Expiration Date, (vi) stating which of any options to extend the Term have been exercised, (vii) stating that there are no actions, whether voluntary or otherwise, pending against Tenant under the bankruptcy laws of the United States or any state thereof, and (viii) stating such further information with respect to the Lease or the Premises as may reasonably be requested. Any such certificate may be relied upon by any prospective purchaser of the Complex, the Building or the Premises (or any portion of any of the foregoing) or of the interest of Landlord in any part thereof, by any mortgagee or prospective mortgagee thereof, by a lessor or prospective lessor thereof, by any lessee or prospective lessee thereof, or by any prospective assignee of any mortgage thereof. The failure of Tenant to execute, acknowledge and deliver to Landlord a statement in accordance with the provisions of this Article within ten (10) days after request therefor shall constitute an acknowledgment by Tenant, which may be relied on by any person who would be entitled to rely upon any such statement, that such statement as submitted by Landlord is true and correct.

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ARTICLE 23 PARKING SPACES; USE OF EXTERIOR AREAS

Section 23.1 Parking Spaces.

(a) Tenant shall, without additional charge, have the use of the number of Parking Spaces stated in the Basic Provisions section of this Lease. Unless specifically stated otherwise, parking shall be on a non-designated, unassigned basis and in common with Landlord, the other tenants of the Complex and other vehicles permitted in the Complex.

(b) Landlord reserves the right to issue parking permits, install a gate system, or impose any other system Landlord deems necessary for the use of the parking area, including requiring Tenant to affix parking stickers or other means of identification and/or furnish Landlord with the license plate numbers of vehicles operated or controlled by Tenant or its subtenants. Tenant agrees not to permit vehicles operated or controlled by Tenant or its subtenants to park in parking spaces allocated to others by Landlord. Landlord shall have the right to have

vehicles violating the provisions of this Lease removed from the Complex at the cost and expense of the vehicle's owner or operator.

(c) Landlord shall not be required to keep parking spaces clear of unauthorized vehicles or to otherwise supervise the use of the parking area. Landlord reserves the right to change any existing or future parking area, roads or driveways, and may make any Repairs or alterations it deems necessary to the parking area, roads and driveways and to temporarily revoke or modify the parking rights granted to Tenant hereunder, provided that no such change shall permanently reduce the number of available parking spaces nor render the parking less accessible than at the Commencement Date (except for temporary periods when necessary repairs are being performed).

Section 23.2 Use of Exterior Areas.

(a) Tenant shall not use the access driveway, parking areas and loading platforms so as to interfere with the use by others of the access driveways, parking areas, other loading areas and the vehicular traffic in and out of the Complex.

(b) Except as specifically permitted under this Lease, Tenant shall have no right to use any part of the roof of the Building or the exterior Building walls.

(c) Tenant may not utilize any portion of the Complex outside of the Premises for storage of any kind.

ARTICLE 24 WAIVER PROVISIONS

Section 24.1 Waivers.

(a) Tenant hereby waives any right to rescind this Lease which Tenant might otherwise have pursuant to any Legal Requirement.

(b) Tenant, on its own behalf and on behalf of all persons claiming through or under Tenant, including all creditors, hereby waives any and all rights which Tenant and all such persons might otherwise have under any present or future law to redeem the Premises, or to re-enter or repossess the Premises, or to restore the operation of this Lease, after Tenant shall have been dispossessed by a judgment or by warrant of any court or judge; or any re-entry by Landlord; or any expiration or termination of this Lease and the Term, whether such dispossession, re-entry, expiration or termination shall be by operation of law or pursuant to the provisions of this Lease.

(c) Landlord and Tenant hereby waive trial by jury in any action, proceeding or counterclaim brought by either against the other upon any matters whatsoever arising out of or in any way connected with this Lease, Tenant's use or occupancy of the Premises, and/or any claim of injury or damage. It is further mutually agreed that if Landlord commences any summary proceedings for non-payment of any Rent, Tenant will not interpose any non-mandatory or non-compulsory counterclaim of whatever nature or description in any such proceeding.

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Section 24.2 Non-Waiver.

(a) The failure of Landlord to insist upon strict performance of any of the terms, covenants or conditions hereof shall not be deemed a waiver of any rights or remedies that Landlord may have and shall not be deemed a waiver of any subsequent breach or default in any of such terms, covenants or conditions. No provision of this Lease shall be deemed waived by Landlord unless such waiver is granted in writing signed by Landlord.

(b) No payment by Tenant or receipt by Landlord of a lesser amount than the Rent herein stipulated and reserved shall be deemed to be other than on account of the earliest stipulated Rent then due and payable unless Landlord, in its sole discretion, elects to apply such payment to a later installment of Rent herein stipulated and reserved. No endorsement or statement on any check, or letter accompanying any rent check or payment shall be deemed an accord and satisfaction, and Landlord may accept the same without prejudice to Landlord's right to recover any balance due or to pursue any other remedy in this Lease provided.

(c) No failure by Landlord to enforce any of the Rules and Regulations against Tenant and/or any other tenant or occupant of the Complex shall be deemed a waiver thereof.

(d) No receipt of money by Landlord from Tenant with knowledge of the breach of any covenant or agreement of this Lease, or after the termination hereof, or after the service of any notice, or after the commencement of any suit, or after final judgment for possession of the Premises, shall be deemed a waiver of such breach, nor shall it reinstate, continue or extend the Term, or affect any such notice, demand or suit.

(e) No act done or thing said by Landlord or Landlord's agents shall constitute a cancellation, termination or modification of, or eviction or surrender under, this Lease, or a waiver of any covenant, condition or provision hereof, nor relieve Tenant of Tenant's obligation to pay Rent hereunder. Any acceptance of surrender, waiver or release by Landlord and any cancellation, termination or modification of this Lease must be in writing signed by Landlord or by Landlord's duly authorized representative. The delivery of keys to any employee or agent of Landlord shall not operate as a surrender or as a termination of this Lease, and no such employee or agent shall have any power to accept such keys prior to the termination of this Lease.

ARTICLE 25 MISCELLANEOUS

Section 25.1 Rules and Regulations. Tenant shall comply with, and cause its employees, contractors, subtenants, licensees and business invitees to comply with, the Rules and Regulations. Landlord reserves the right from time to time to suspend, amend or supplement the Rules and Regulations and Tenant agrees to comply with all such Rules and Regulations upon notice of the same from Landlord. In the case of any conflict or inconsistency between the provisions of this Lease and any of the Rules and Regulations as originally promulgated or as changed, the provisions of this Lease shall control. Landlord agrees to make commercially reasonable efforts to enforce the Rules and Regulations against all tenants in the Complex in a consistent and non-discriminatory manner.

Section 25.2 Relationship of Parties. Nothing contained in this Lease shall be construed to create the relationship of principal and agent, partnership, joint venture or any other relationship between the parties hereto other than the relationship of Landlord and Tenant. Nothing contained herein shall in any way impose any liability upon the members, officers, partners or directors of Landlord.

Section 25.3 Recording. Neither Landlord nor Tenant shall record this Lease nor any memorandum, abstract or other form of this Lease.

Section 25.4 Captions. The captions, section numbers, and index appearing in this Lease are inserted only as a matter of convenience and in no way define, limit, construe, or describe the scope or intent of such sections or articles nor in any way affect this Lease.

Section 25.5 Applicable Law. This Lease shall be governed by, and construed in accordance with, the laws of the State in which the Complex is located. If any provision of this Lease or the

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application thereof to any person or circumstances shall, to any extent, be found to be invalid or unenforceable, the remainder of this Lease shall not be affected thereby and each provision of this Lease shall be valid and enforceable to the fullest extent permitted by the law.

Section 25.6 Mechanics' Liens.

(a) Tenant shall not suffer or permit any liens to stand against the Premises or any part thereof, by reason of any work, labor, services or materials done for, or supplied to, or claimed to have been done for, or supplied to, Tenant or anyone holding the Premises or any part thereof through or under Tenant. If any such lien shall at any time be filed against the Premises, Tenant shall cause the same to be discharged of record within ten (10) days after receipt of Notice of the filing of same, by either payment, deposit or bond. If Tenant shall fail to discharge any such lien within such period, then, in addition to any other right or remedy of Landlord, Landlord may, but shall not be obligated to, procure the discharge of such lien either by paying the amount claimed to be due, or such greater amount as is otherwise required pursuant to Legal Requirements, by deposit in court or bonding, and/or Landlord shall be entitled, if Landlord so elects, to compel the prosecution of an action for the foreclosure of such lien by the lienor and to pay the amount of the judgment, if any, in favor of the lienor with interest, costs and allowances. Any amount paid or deposited by Landlord for any of the aforesaid purposes, and all legal and other expenses of Landlord, including counsel fees, in defending any such action or in or about procuring the discharge of such lien, with all necessary disbursements in connection therewith, together with interest thereon at the Interest Rate from the date of payment or deposit, shall become due and payable forthwith by Tenant to Landlord, or, at the option of Landlord, shall be payable by Tenant to Landlord as Additional Rent.

(b) Nothing in this Lease shall be deemed to be, or construed in any way as constituting, the consent or request of Landlord, expressed or implied, by inference or otherwise, to any person, firm or corporation for the performance of any labor or the furnishing of any materials for any construction, rebuilding, alteration or repair of or to the Premises, or any part thereof, or as giving Tenant any right, power or authority to contract for or permit the rendering of any services or the furnishing of any materials, which might in any way give rise to the right to file any lien against or Landlord's interest in the Premises. Landlord shall have the right to post and keep posted at all reasonable times upon the Premises any notices which Landlord shall be required so to post for the protection of Landlord and/or the Premises from any such lien.

Section 25.7 Brokerage. Landlord and Tenant each represent that it dealt with no broker or brokers or other person in connection with the negotiation, execution and delivery of this Lease other than Broker. Landlord agrees to pay any commission due Broker in connection with this Lease pursuant to a separate agreement. Each party shall defend, indemnify and hold the other harmless from and against any claims or demands for any brokerage commissions, finder's fees and/or other compensation resulting from a breach by it of the foregoing representation.

Section 25.8 Limitation of Landlord's Liability; Authority.

(a) The term "Landlord" as used in this Lease means only the owner of the Premises for the time being, so that in the event of any sale of Landlord's interest in the Premises or in this Lease, Landlord shall be and hereby is entirely freed and relieved of all obligations of Landlord with respect to the Premises, and it shall be deemed without further agreement between the parties and such purchaser(s) or assignee(s) that the purchaser or assignee has assumed and agreed to observe and perform all obligations of Landlord hereunder relating to the Premises.

(b) Except as the same may be attributable solely to the gross negligence or willful misconduct of the Landlord, its servants, agents, or employees, (i) all Personalty shall be kept at the sole risk of Tenant and Landlord shall not be considered the voluntary or involuntary bailee of same, (ii) Landlord shall bear no responsibility for damage or injury to Tenant or any of its officers, agents or employees or to any other persons or to any Personalty or to the business of the Tenant, or any interruption thereof.

(c) It is specifically understood and agreed that there shall be no personal liability on Landlord in respect to any of the covenants, conditions, or provisions of this Lease. If there is a

breach or default by Landlord under this Lease, Tenant shall look solely to the equity of Landlord in the Building for the satisfaction of Tenant's claims, and to no other property or assets of Landlord. No constituent of Landlord including, without limitation, any agent, partner, member, shareholder, managing agent or otherwise shall be in any manner personally liable under this Lease.

Section 25.9 Attorneys' Fees. Should either party hereto institute any action or proceeding in court to enforce any provision hereof, or for damages or for declaratory or other relief hereunder, the prevailing party shall be entitled to receive from the losing party, in addition to court costs, such amount as the court may adjudge to be reasonable as attorneys' fees for services rendered to said prevailing party, and said amount may be made a part of the judgment against the losing party.

Section 25.10 Arbitration. In any case where this Lease provides for the settlement of a dispute by arbitration, the same shall be settled by arbitration under the auspices of the American Arbitration Association. The rules of the American Arbitration Association from time to time in effect shall apply (to the extent appropriate). Any award shall be enforceable by proper proceedings in any court having jurisdiction. The arbitrator, regardless of how appointed, may determine how the expenses of the arbitration, including reasonable attorney's fees, and disbursements of the successful party, shall be borne as between Landlord and Tenant. Nothing in this Section shall preclude Landlord or Tenant from exercising their rights to make payments or perform any work to cure alleged defaults prior to or during the course of arbitration, if any delay in complying with any requirements of this Lease by Landlord or Tenant might subject the other to any fine or penalty, or to prosecution for a crime, or if it would constitute a default by Landlord under any mortgage.

Section 25.11 Non-Binding Until Executed. This Lease is offered for signature by Tenant and it is understood that this Lease shall not be binding upon Landlord or Tenant unless and until Landlord and Tenant shall have executed and unconditionally delivered a fully executed copy of this Lease to each other. The acceptance by Landlord of the Security shall not render this Lease effective unless and until Landlord shall have executed and delivered to Tenant a fully executed copy of this Lease.

Section 25.12 No Claim for Damages. Tenant hereby waives any claim against Landlord which Tenant may have based upon any assertion that Landlord has unreasonably withheld or delayed any consent or approval requested by Tenant, and Tenant agrees that its sole remedy shall be an action or proceeding to enforce any related provision or for specific performance, injunction or declaratory judgment. If there is a determination that such consent or approval has been withheld or delayed unreasonably, the requested consent or approval shall be deemed to have been granted; however, Landlord shall have no liability to Tenant for its refusal or failure to give such consent or approval. Tenant's sole remedy for Landlord's unreasonably withholding or delaying consent or approval shall be as provided in this Section.

Section 25.13 Independent Covenants. Tenant agrees that Tenant's covenants and obligations under this Lease shall be independent of Landlord's covenants and obligations under this Lease and that each such covenant and obligation is independent of any other covenant or obligation. Landlord's breach or non-performance of any of Landlord's covenants or obligations under this Lease shall not excuse Tenant of Tenant's covenants and obligations under this Lease, and shall not be the basis for any defense, of any kind or nature whatsoever, to any suit by Landlord for Tenant's breach or non-performance of any of Tenant's covenants or obligations under this

Lease (including, without limitation, Tenant's failure to pay Rent). It is the express agreement of Landlord and Tenant that all payments of Base Rent and Additional Rent due under this Lease are absolutely and unconditionally due at the time set forth herein, without any right of set-off or deduction of any kind or nature whatsoever except as expressly provided to the contrary in this Lease.

Section 25.14 Interpretation. No provision of this Lease shall be construed against or interpreted to the disadvantage of either Landlord or Tenant by any court or other governmental or judicial authority by reason of either Landlord or Tenant having or being deemed to have drafted, structured or dictated such provision. The words "herein," "hereof," "hereunder," "hereafter," and the

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words of similar import refer to this Lease as a whole and not to any particular Article, Section or subsection thereof, unless specifically stated otherwise.

Section 25.15 Entire Agreement. This Lease and the exhibits attached hereto and forming a part hereof, set forth all the covenants, promises, agreements, conditions and understandings between Landlord and Tenant concerning the subject matter hereof and there are no covenants, promises, agreements, conditions or understandings heretofore made, either oral or written, between the parties other than as herein set forth. No modification, amendment, change or addition to this Lease shall be binding upon Landlord or Tenant unless reduced to writing and signed by each party.

Section 25.16 Binding Effect. The covenants, agreements, terms, provisions and conditions of this Lease shall bind and benefit the respective successors, assigns and legal representatives of the parties hereto with the same effect as if mentioned in each instance where a party hereto is named or referred to, except that no violation of the provisions of this Lease shall operate to vest any rights in any successor, assignee or legal representative of Tenant. It is understood and agreed, however, that the covenants and obligations on the part of the Landlord under this Lease shall not be binding upon Landlord herein named with respect to any period subsequent to the transfer of its interest in the Building or Complex, that in the event of such transfer said covenants and obligations shall thereafter be binding upon each transferee of such interest of Landlord herein named, but only with respect to the period ending with a subsequent transfer of such interest, and that a lease of the entire interest shall be deemed a transfer within the meaning of this Section.

Section 25.17 Severability. If any provision of this Lease or the application thereof to any person or circumstances shall, to any extent, be invalid or unenforceable, the remainder of this Lease shall not be affected thereby and each provision of this Lease shall be valid and enforceable to the fullest extent permitted by law.

Section 25.18 Relocation. Landlord hereby reserves the right, at its sole expense and on at least thirty (30) days' prior written Notice, to require Tenant to move from the Premises to other space within the Complex. The relocated space shall be of comparable size and decor. If Tenant is relocated pursuant to the provisions of this Section, Landlord will pay all reasonable, documented expenses of preparing and decorating the relocated space so that it will be substantially similar to the Premises from which the Tenant is moving and Landlord will also pay the reasonable, documented expenses of moving Tenant's furniture and equipment to the relocated space. In such event, Landlord and Tenant shall execute a modification of or supplement to this Lease in respect of and identifying such other space, each and all of the terms, covenants and conditions hereof shall remain in full force and effect and thereupon be deemed applicable to such new space except that the description of the Premises, and the Building, if applicable, shall be revised and if applicable Tenant's Percentage shall likewise be revised.

Section 25.19 Patriot Act. Landlord and Tenant each represents and warrants to the other that, to their knowledge: (i) they are not acting, directly or indirectly, for or on behalf of any person, group, entity or nation named by the United States Treasury Department as a Specially Designated National and Blocked Person, or for or on behalf of any person, group, entity or nation designated in Presidential Executive Order 13224 as a person who commits, threatens to commit, or supports terrorism; and (ii) they are not engaged in this transaction directly or indirectly on behalf of, or facilitating this transaction directly or indirectly on behalf of, any such person, group, entity or nation

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IN WITNESS WHEREOF, the parties have this day set their hands and seals.

Signed, Sealed and Delivered
In the presence of:

SOMERSET EXECUTIVE SQUARE ASSOCIATES, L.P.

By: _____
Name:
Title:

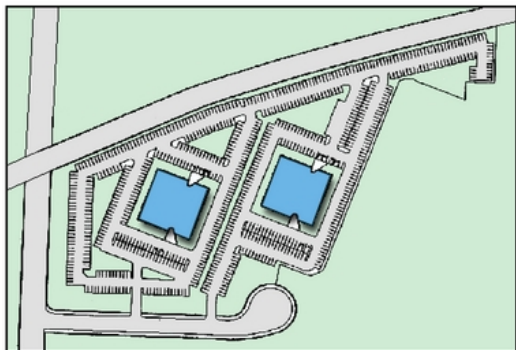
TEAMSTAFF INC.

By: _____
Name:
Title:

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EXHIBIT A

Site Plan



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EXHIBIT B

Floor Plan

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EXHIBIT C

Rules and Regulations

1. Tenant, its employees, agents, servants, visitors, licensees and invitees shall not:
 - (a) obstruct or permit the obstruction of the sidewalks, entry passages, corridors, halls, stairways or elevators, or use the same in any way other than as a means of passage to and from the Premises
 - (b) damage or defile any other part of the interior or exterior of the Building;
 - (c) place anything on the outside of the Building, including roof setbacks, window ledges and other projections;
 - (d) interfere with the heating or cooling systems;
 - (e) use any electrical heating device;
 - (f) use or permit the use of alcoholic beverages or tobacco, except as may be otherwise specifically permitted;
 - (g) give its employees or other persons permission to go on the roof of the Building;
 - (h) place door mats in public corridors,
 - (i) conduct, or permit any other person or entity to conduct, any auction in the Premises or the Complex,
 - (j) manufacture or store goods, wares or merchandise upon the Premises except in the ordinary course of Tenant's business as allowed by the Permitted Use,
 - (k) permit the Premises to be used for gambling,
 - (l) burn any papers, trash or garbage of any kind,
 - (m) throw substances of any kind out of the windows or doors, or down the passages of the Building, or in the halls or passageways,
 - (n) cause or allow any use generally deemed to be obnoxious or a nuisance, make or allow any unusual or extraordinary lights, sounds, noises or music, or permit any unusual or strong odors.
2. The Premises shall not be used for lodging, cooking or sleeping. The use of a microwave oven shall not be prohibited.
3. No lock or locks shall be placed by Tenant on any door in the Building (including the Premises), without the prior written consent of Landlord. Tenant, its agents and employees shall not change any lock. All keys to doors and rest rooms shall be returned to Landlord on or before the termination of the Lease, and Tenant shall pay for any lost keys.
4. Rest rooms, plumbing fixtures, other water apparatus and electrical outlets shall not be used for any purposes other than those for which they are constructed.
5. All trash and garbage shall be stored in appropriate receptacles and in such manner so as not to create or permit any health hazard or fire hazard.
6. No vehicles or animals of any kind shall be brought into or kept in or about the Premises, except animals such as seeing-eye dogs, etc., as may be reasonably required to accommodate the needs of individuals with disabilities. Bicycles may be brought into the Premises, but shall not be left in front of the Building.
7. Business machines and mechanical equipment which cause vibration, noise, cold or heat that may be transmitted to the Building structure or to any leased space outside the Premises shall be placed and maintained by Tenant, at its sole cost and expense, in settings or cork, rubber or spring type vibration eliminators sufficient to absorb and prevent such vibration, noise, cold or heat.

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8. Canvassing and soliciting in the Building are prohibited, and Tenant shall cooperate to prevent the same.
9. No portion of the Complex may be used, directly or indirectly, by any person or legal entity other than Tenant, Tenants' subtenants, agents, servants, employees licensees, invitees, contractors, customers and deliverymen.
10. Landlord reserves to itself any and all rights not granted to Tenant and shall have the following additional rights:
 - (a) to change the name and/or street address of the Building and the arrangement and/or location of entrances, passageways, doors, doorways, corridors, elevators, stairs, toilet or other public parts of the Building;
 - (b) to install and maintain a sign or signs on the exterior of the Building;
 - (c) to constantly have keys to the Premises;
 - (d) to grant to anyone the exclusive right to conduct any particular business or undertaking in the Building;

(e) to make such other and further reasonable Rules and Regulations, as in the reasonable judgment of Landlord, may from time to time be necessary and/or appropriate for the safety, appearance, care and cleanliness of the Building and for the preservation of good order therein. Landlord shall not be responsible to Tenant for any violation of Rules and Regulations by any other tenants.

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EXHIBIT D

LANDLORD'S WORK

1. Landlord shall, at no additional cost to Tenant, provide Tenant with all of the items provided below. Upon substantial completion of the Landlord's Work, which shall be deemed achieved notwithstanding the fact that in the Landlord's reasonable opinion, minor or insubstantial details of construction, mechanical adjustment, or decoration remain to be performed, the noncompletion of which does not materially interfere with Tenant's use of the Premises, and at such time as Landlord obtains a Certificate of Occupancy, Certificate of Completion, Certificate of Continued Occupancy or the required equivalent of any of them, Landlord shall deliver, and Tenant shall accept, possession of the Premises.

- a. Premises to be reconfigured as per Exhibit B.
- b. Paint the Premises with any one (1) color of Tenant's choice of Building standard paint
- c. Re-carpet the Premises with any one (1) selection of Tenant's choice of Building standard carpeting

2. Tenant may request a pre-possession "walk through" of the Premises with a representative of the Landlord. If a walk through is requested by Tenant, Tenant and Landlord's representative shall prepare a mutually agreed upon "punch list" of Landlord's Work that is incomplete or in need of repair, which punch list shall be signed by Tenant and shall be conclusive and final. Landlord shall complete or correct all punch list items within a reasonable time after Tenant takes possession of the Premises.

3. (a) "Tenant Delay" means any actual delay in the completion of the Landlord's Work that may arise as a result of: (i) Tenant's failure to comply with its obligations to submit any plans and/or specifications, supply information, approve plans, specifications or estimates, or give authorizations within the time specified; (ii) any change made after notification to Tenant that a change will delay completion of the construction; (iii) extra time required to obtain any "long lead" items specified by Tenant, (iv) Tenant's failure to allow Landlord, or its agents, access to the Premises, (v) Tenant's interference, or failure to cooperate, with Landlord's completion of the Landlord's Work (vi) work, other than Landlord's Work, being performed in the Premises by, or at the request of, Tenant, or (vii) delay that is otherwise the direct result of the act(s) or omission(s) of Tenant, its agents, servants or employees. For purposes of this section, an item shall be considered a "long-lead" item if Landlord notifies Tenant within ten (10) business days after receipt of Tenant's approved construction drawings that such item is not readily available or readily installable after the same is requested by Tenant. Landlord shall not be responsible for any delays in the time for completion of construction resulting from Tenant's Delay.

(b) If Landlord determines that a change proposed by Tenant will delay completion of the Landlord's Work, Landlord shall notify Tenant of the estimated length of delay caused by Tenant's request. Tenant shall advise Landlord within one (1) business day after receipt of such notice as to whether Landlord shall proceed with requested change, modification or alteration. Landlord shall not make the requested change without Tenant's approval of any proposed time extension. Any period beyond the permitted response time by Tenant shall be a day of Tenant Delay.

(c) If Landlord determines that a Tenant Delay exists, Landlord shall so notify Tenant in writing. Any time period set out in this Lease which is contingent on completion of Landlord's Work shall be extended by one (1) day for each day of Tenant Delay, beginning on the date Tenant receives notice of the Tenant Delay. If any Tenant Delay continues for a period of five (5) or more calendar days, Tenant shall pay Landlord, as Additional Rent, one day of the then current Base Rent (or the Base Rent that would be in effect upon commencement of the Lease) to compensate Landlord for the losses incurred by Landlord in delay of Tenant's obligation to begin paying Rent upon completion of the Landlord's Work.

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EXHIBIT E

RENEWAL OPTION

If no Event of Default remains uncured beyond any applicable cure period, Tenant shall have the option to renew ("Renewal Option") this Lease for a period of sixty (60) months from the Expiration Date (the "Renewal Term") upon the terms and conditions herein set forth.

The Renewal Option shall be exercised, if at all, by Tenant giving written notice of exercise ("Renewal Notice") to Landlord, which must be received by Landlord not less than nine (9) months prior to the Expiration Date. The Renewal Option shall be voidable by Landlord if the Renewal Notice is not received by Landlord on a timely basis.

During the Renewal Term all of the terms, covenants and conditions of this Lease shall continue to apply, except as specifically otherwise provided herein, and there shall be no additional right to renew this Lease.

The Base Rent for the Renewal Term shall be determined as follows:

(a) Not later than thirty (30) calendar days after Landlord receives the Renewal Notice, Landlord shall deliver to Tenant a notice of the proposed Base Rent for each month of the Renewal Term ("Landlord's Rent Notice").

(b) Not later than thirty (30) calendar days after receipt of Landlord's Rent Notice, Tenant may deliver to Landlord a notice of its proposed Base Rent for each month of the Renewal Term ("Tenant's Rent Notice"). Delivery of Tenant's Rent Notice shall be deemed a rejection of Landlord's Rent Notice. If Tenant does not deliver Tenant's Rent Notice to Landlord in a timely fashion, then the Base Rent set out in Landlord's Rent Notice shall be deemed accepted by both parties.

(c) Not later than thirty (30) calendar days after receipt of Tenant's Rent Notice, Landlord may deliver to Tenant a notice of its acceptance or rejection of Tenant's proposed Base Rent. If Landlord does not deliver notice of its acceptance or rejection of the Tenant's proposed Base Rent in a timely fashion, then Tenant's proposed Base Rent shall be deemed rejected by Landlord.

(d) If Landlord rejects Tenant's proposed Base Rent, then the parties shall obtain an appraisal of the fair market Base Rent for the Premises prepared by a member of the American Institute of Real Estate Appraisers ("Appraiser"), which Appraiser is mutually acceptable to both Landlord and Tenant. The cost of the appraisal shall be shared equally by Landlord and Tenant. The Appraiser's determination of the fair market Base Rent for the Renewal Term shall be final and binding on both parties.

Upon determination of the Base Rent for each month of the Renewal Term, Landlord shall prepare, and Tenant shall execute within ten (10) calendar days after receipt, an amendment to the Lease setting out the terms of the renewal.

CERTIFICATIONS

I, Rick J. Filippelli, 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)) 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) *(Paragraph omitted in accordance with SEC transition instructions contained in SEC Release 34-47986)*;
 - 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: August 14, 2007

/s/ Rick J. Filippelli
Rick J. Filippelli
Chief Executive Officer
Chief Financial Officer

**CERTIFICATION OF CHIEF 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. on Form 10-Q for the period ending June 30, 2007 as filed with the Securities and Exchange Commission on the date hereof, I, Rick J. Filippelli, 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, Inc.

Date: August 14, 2007

/s/ Rick J. Filippelli
Rick J. Filippelli
Chief Executive Officer
(Principal Executive Officer)
Chief Financial Officer
(Principal Financial Officer)

This Certification is being furnished solely to accompany the Form 10-Q pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed "filed" by TeamStaff for purposes of Section 18 of the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of the Form 10-Q, irrespective of any general incorporation language contained in such filing. 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.
