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, 2009

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

For the transition period from __________ to __________

Commission File No. 0-18492

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

New Jersey (State or other jurisdiction of incorporation or organization)	**22-1899798** (I.R.S. Employer Identification No.)
1 Executive Drive, Suite 130 **Somerset, New Jersey** (Address of principal executive offices)	**08873** (Zip Code)

(877) 523-9897
(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 o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES o NO o

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 4,898,482 shares of Common Stock, par value $.001 per share, were outstanding as of August 13, 2009.

TEAMSTAFF, INC.
FORM 10-Q
For the Quarter Ended June 30, 2009

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Part I — FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

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

	June 30, 2009 (unaudited)	September 30, 2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 3,721	$ 5,213
Accounts receivable, net of allowance for doubtful accounts of $13 and $2 as of June 30, 2009 and September 30, 2008, respectively	12,036	12,892
Prepaid workers' compensation	516	562
Other current assets	432	607
Total current assets	**16,705**	**19,274**
EQUIPMENT AND IMPROVEMENTS:		
Furniture and equipment	3,299	3,299
Computer equipment	625	619
Computer software	1,229	1,166
Leasehold improvements	20	20
	5,173	5,104
Less accumulated depreciation and amortization	(4,595)	(4,409)
Equipment and improvements, net	**578**	**695**
TRADENAME	**4,569**	**4,569**
GOODWILL	**10,305**	**10,305**
OTHER ASSETS	**281**	**151**
TOTAL ASSETS	**$ 32,438**	**$ 34,994**

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

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

	June 30, 2009	September 30, 2008
	(unaudited)	
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable	$ 1,500	$ 1,500
Current portion of capital lease obligations	64	69
Accrued payroll	10,643	10,585
Accrued pension liability	—	70
Accounts payable	1,591	2,578
Accrued expenses and other current liabilities	1,404	2,008
Liabilities from discontinued operations	20	66
Total current liabilities	**15,222**	**16,876**
CAPITAL LEASE OBLIGATIONS, net of current portion	82	128
OTHER LONG TERM LIABILITY, net of current portion	64	104
Total Liabilities	**15,368**	**17,108**
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred stock, $.10 par value; authorized 5,000 shares; none issued and outstanding	—	—
Common Stock, $.001 par value; authorized 40,000 shares; issued 4,900 at June 30, 2009 and 4,874 at September 30, 2008, respectively; outstanding 4,898 at June 30, 2009 and 4,843 at September 30, 2008, respectively	5	5
Additional paid-in capital	69,067	68,844
Accumulated deficit	(51,978)	(50,934)
Accumulated comprehensive loss	—	(5)
Treasury stock, 2 shares at cost at June 30, 2009 and September 30, 2008	(24)	(24)
Total shareholders' equity	17,070	17,886
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 32,438**	**$ 34,994**

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

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

	For the Three Months Ended	
	June 30, 2009	June 30, 2008
REVENUES		
Operating revenues	$ 13,123	$ 15,767
Non-recurring retroactive billings	—	2,021
Total revenue	13,123	17,788
DIRECT EXPENSES		
Operating direct expense	11,023	12,738
Non-recurring retroactive billings	—	1,735
Total direct expense	11,023	14,473
GROSS PROFIT		
Operating gross profit	2,100	3,029
Non-recurring retroactive billings	—	286
Total gross profit	**2,100**	**3,315**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,743	2,970
DEPRECIATION AND AMORTIZATION	62	70
(Loss) income from operations	**(705)**	**275**
OTHER INCOME (EXPENSE)		
Interest income	9	6
Interest expense	(31)	(30)
Settlement of prior periods' payroll tax contingencies	—	300
Other income, net	159	38
Legal expense related to pre-acquisition activity of acquired company	(4)	(18)
	133	296
(Loss) income from continuing operations before taxes	**(572)**	**571**
INCOME TAX BENEFIT	39	—
(Loss) income from continuing operations	**(533)**	**571**
LOSS FROM DISCONTINUED OPERATIONS		
Loss from operations, net of tax benefit of $0 for the quarter ended June 30, 2008	—	(30)
Loss from discontinued operations	—	(30)
NET (LOSS) INCOME	**(533)**	**541**
OTHER COMPREHENSIVE INCOME		
Minimum pension liability adjustment, net of tax of $0	—	1
COMPREHENSIVE (LOSS) INCOME	**$ (533)**	**$ 542**
(LOSS) EARNINGS PER SHARE — BASIC & DILUTED		
(Loss) income from continuing operations	$ (0.11)	$ 0.12
Loss from discontinued operations	—	(0.01)
Net (loss) earnings per share	$ (0.11)	$ 0.11
WEIGHTED AVERAGE BASIC SHARES OUTSTANDING	4,897	4,868
WEIGHTED AVERAGE DILUTED SHARES OUTSTANDING	4,897	4,882

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

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

	For the Nine Months Ended June 30, 2009	June 30, 2008
REVENUES		
Operating revenues	$ 41,528	$ 47,030
Non-recurring retroactive billings	—	3,524
Total revenue	41,528	50,554
DIRECT EXPENSES		
Operating direct expense	34,498	38,578
Non-recurring retroactive billings	—	2,958
Total direct expense	34,498	41,536
GROSS PROFIT		
Operating gross profit	7,030	8,452
Non-recurring retroactive billings	—	566
Total gross profit	**7,030**	**9,018**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	8,067	8,220
DEPRECIATION AND AMORTIZATION	185	248
(Loss) income from operations	**(1,222)**	**550**
OTHER INCOME (EXPENSE)		
Interest income	41	18
Interest expense	(86)	(131)
Settlement of prior periods' payroll tax contingencies	—	300
Other income, net	211	101
Legal expense related to pre-acquisition activity of acquired company	(16)	(156)
	150	132
(Loss) income from continuing operations before taxes	**(1,072)**	**682**
INCOME TAX BENEFIT	28	—
(Loss) income from continuing operations	**(1,044)**	**682**
LOSS FROM DISCONTINUED OPERATIONS		
Loss from operations, net of tax benefit of $0 for 2008	—	(42)
Loss from discontinued operations	—	(42)
NET (LOSS) INCOME	**(1,044)**	**640**
OTHER COMPREHENSIVE INCOME		
Minimum pension liability adjustment, net of tax of $0	5	23
COMPREHENSIVE (LOSS) INCOME	**$ (1,039)**	**$ 663**
(LOSS) EARNINGS PER SHARE — BASIC & DILUTED		
(Loss) income from continuing operations	$ (0.21)	$ 0.14
Loss from discontinued operations	—	(0.01)
Net (loss) earnings per share	$ (0.21)	$ 0.13
WEIGHTED AVERAGE BASIC SHARES OUTSTANDING	4,901	4,851
WEIGHTED AVERAGE DILUTED SHARES OUTSTANDING	4,901	4,865

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

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

	For the Nine Months Ended June 30, 2009	For the Nine Months Ended June 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	$ (1,044)	$ 640
Adjustments to reconcile net income to net cash (used in) provided by operating activities, net of divested businesses:		
Depreciation and amortization	185	248
Settlement of prior periods' payroll tax contingencies	—	(300)
Compensation expense related to employee restricted stock grants	164	102
Provision for (recovery of) doubtful accounts	11	(12)
Loss on retirement of property, plant and equipment	—	8
Changes in operating assets and liabilities, net of divested businesses:		
Accounts receivable	845	(159)
Other current assets	221	(332)
Other assets	(130)	56
Accounts payable, accrued payroll, accrued expenses and other current liabilities	(1,473)	858
Other long term liabilities	(40)	(20)
Pension liability	(70)	(206)
Cash flow from discontinued operations	(46)	(195)
Net cash (used in) provided by operating activities	(1,377)	688
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment, leasehold improvements and software	(69)	(213)
Cash flow from discontinued operations	—	357
Net cash (used in) provided by investing activities	(69)	144
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments on capital lease obligations	(51)	(32)
Net comprehensive income on pension	5	23
Loan Fees	—	(146)
Net cash used in financing activities	(46)	(155)
Net (decrease) increase in cash and cash equivalents	(1,492)	677
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	5,213	592
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 3,721	$ 1,269
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	$ 39	$ 44
Cash paid during the period for income taxes	$ 113	$ 84

SUPPLEMENTAL DISCLOSURE OF NON CASH INVESTING AND FINANCING ACTIVITY:

In the nine months ended June 30, 2009, an accrued liability was reduced (and additional paid-in-capital was increased) by $59,000 to reflect the issuance of stock to settle the liability.

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

TEAMSTAFF, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2009 (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 temporary and permanent medical and administrative staffing services. Effective October 23, 2007, TeamStaff's corporate headquarters is in Somerset, New Jersey. Previously, the Company's corporate headquarters was located in Atlanta, Georgia and a since discontinued unit was based in Memphis, Tennessee. TeamStaff has offices located in Clearwater, Florida; Loganville, Georgia; and Somerset, New Jersey.

When we use the term "TeamStaff," the "Company," "we," "us" and "our" we mean TeamStaff, Inc. and its wholly owned subsidiaries. Currently, we operate only through the parent corporation, TeamStaff, Inc., and TeamStaff Rx, Inc. ("TeamStaff Rx") and TeamStaff Government Solutions, Inc. ("TeamStaff GS"), two wholly-owned subsidiaries of TeamStaff, Inc. On February 12, 2008, the Company announced the name change of RS Staffing Services, Inc., a Loganville, Georgia-based provider of medical and office administration/technical professionals acquired in June 2005, to TeamStaff Government Solutions, Inc. The name change reflects the subsidiary's expanding service offerings in providing staffing for government logistical support positions through its United States General Services Administration ("GSA") Schedule, as well as providing medical and office administration/technical professionals through nationwide Federal Supply Schedule ("FSS") contracts. 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.

TeamStaff provides specialized medical, nursing, logistics, information technology and administrative staffing services through two staffing subsidiaries. The Company's TeamStaff Rx subsidiary, a Joint Commission on Accreditation of Healthcare Organizations ("JCAHO") certified healthcare staffing firm, operates throughout the United States and specializes in providing travel allied medical employees and nurses on a short term assignment basis, as well as permanent placement services. Allied medical staff includes MRI technicians, mammographers, dosimetrists, ultrasound staff and physicists. During the last six months, TeamStaff Rx placed temporary employees for approximately 110 client facilities. The Company's TeamStaff GS subsidiary specializes in providing medical, office administration, logistics and technical professionals through FSS contracts with both the United States General Services Administration ("GSA") and United States Department of Veterans Affairs ("DVA"). During the last six months, TeamStaff GS placed temporary employees at approximately 30 client facilities.

TeamStaff was organized under the laws of the State of New Jersey on November 25, 1969 and maintains its principal executive office at 1 Executive Drive, Suite 130, Somerset, New Jersey 08873 where its telephone number is (877) 523-9897.

Basis of Presentation

The consolidated interim financial statements included herein have been prepared by TeamStaff, without audit, pursuant to the applicable rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. TeamStaff believes that the disclosures are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in TeamStaff's fiscal 2008 Annual Report on Form 10-K. This interim financial information reflects, in the opinion of management, all adjustments necessary (consisting only of normal recurring adjustments and changes in estimates, where appropriate) to present fairly the results for the interim periods. The results of operations and cash flows for such interim periods are not necessarily indicative of the results for the full year.

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

Certain prior period amounts have been reclassified to conform to the current period presentation. Components of revenue, direct expenses and gross profit for the three and nine months ended June 30, 2008 have been retroactively reclassified to segregate recurring operating activity and non-recurring retroactive billings and costs. See Note 4.

(2) SIGNIFICANT ACCOUNTING POLICIES:

Revenue Recognition

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.

Revenues related to retroactive billings in 2008 (see Note 4) from an agency of the Federal government are recognized when: (1) the Company develops and calculates an amount for such prior period services and has a contractual right to bill for such amounts under its arrangements and (2) there are no remaining unfulfilled conditions for approval of such billings. The related direct costs, principally comprised of salaries and benefits, are recognized to match the recognized reimbursements from the Federal agency; upon approval, wages are processed for payment to the employees.

During the year ended September 30, 2008, TeamStaff recognized revenues of $10.8 million and direct costs of $10.1 million related to these non-recurring arrangements. At June 30, 2009, the amount of the remaining accounts receivable with the DVA approximates $9.3 million and accrued liabilities for salaries to employees and related benefits totaled $8.7 million. Accounts receivable includes $7.6 million that was unbilled to the DVA at June 30, 2009. At present, the Company expects to collect such amounts by the end of the current fiscal year.

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 for overhead expenses and a profit margin. Additionally, commissions from permanent placements are included in revenue as placements are made. Commissions from permanent placements result from the successful placement of a medical staffing employee to a customer's workforce as a permanent employee. The Company also reviews the status of such placements to assess the Company's future performance obligations under such contracts.

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

Stock-Based Compensation

The Company follows the guidance of Statement of Financial Accounting Standards ("FAS") No. 123 (revised 2004), Share-Based Payment ("FAS 123(R)"). Compensation costs for the portion of awards (for which the requisite service has not been rendered) that are outstanding are recognized as the requisite service is rendered. The compensation cost for that portion of awards shall be based on the grant-date fair value of those awards as calculated for recognition purposes under FAS 123(R). There was no share-based compensation expense for options for the three and nine months ended June 30, 2009 and 2008. As of June 30, 2009, there was no remaining unrecognized compensation expense related to non-vested stock option awards to be recognized in future periods.

During the three and nine months ended June 30, 2009, TeamStaff did not grant any options, 12,500 options expired or were cancelled unexercised and no options were exercised. There were 20,125 options outstanding as of June 30, 2009. During the three months ended June 30, 2008, TeamStaff did not grant any options, 6,250 options expired or were cancelled unexercised and no options were exercised. During the nine months ended June 30, 2008, TeamStaff did not grant any options, 9,000 options expired or were cancelled unexercised and no options were exercised. There were 50,125 options outstanding as of June 30, 2008.

During the three months ended June 30, 2009, TeamStaff did not grant any shares of restricted stock under its 2006 Long Term Incentive Plan ("2006 Plan"). During the nine months ended June 30, 2009, TeamStaff granted an aggregate of 341,612 shares of restricted stock under its 2006 Plan. Of these shares, 16,612 shares vested immediately, 50,000 shares are subject to certain performance based vesting requirements and 275,000 shares vest over two years. In accordance with FAS 123(R) the Company will not recognize expense on the performance based shares until it is probable that these conditions will be achieved. Such charges could be material in future periods. Stock compensation expense associated with these grants and all other grants totaled $0.06 million and $0.2 million for the three and nine months ended June 30, 2009, respectively.

During the nine months ended June 30, 2008, TeamStaff granted 107,500 shares of restricted stock. Of these shares, 27,500 vested immediately and 80,000 shares are subject to certain performance based vesting requirements. Stock compensation expense associated with these grants and all other grants totaled $0.08 million and $0.1 million for the three and nine months ended June 30, 2008, respectively. In accordance with FAS 123(R), the Company will not recognize expense on the performance based shares until it is probable that these conditions will be achieved. Such charges could be material in future periods.

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding, September 30, 2008	32,625	$ 8.09	1.8	$ —
Granted	—			
Exercised	—			
Cancelled	(12,500)	$ 9.20		
Options outstanding and exercisable, June 30, 2009	20,125	$ 7.16	1.6	$ —

	Number of Shares	Weighted Average Grant Date Fair Value
Restricted stock outstanding, September 30, 2008	152,916	$ 3.09
Granted	341,612	$ 1.76
Issued	(93,278)	$ 3.11
Cancelled	—	
Restricted stock outstanding and exercisable, June 30, 2009	401,250	$ 1.96

As of June 30, 2009, approximately $400,000 of unrecognized compensation costs related to non-vested restricted stock awards is expected to be recognized over the next 1.5 years. This amount does not include compensation costs, if any, related to conditional, performance based restricted stock awards.

At June 30, 2009, the Company had reserved 6,150,409 shares of common stock for issuance under various option, shares and warrant plans and arrangements.

Earnings (loss) Per Share

Basic earnings (loss) per share is calculated by dividing income (loss) available to common shareholders by the weighted average number of common shares outstanding and restricted stock grants that vested or are likely to vest during the period. Diluted earnings per share for the 2008 periods are 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 diluted shares outstanding:

(Amounts in thousands)	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Nine Months Ended June 30, 2009	Nine Months Ended June 30, 2008
Weighted average number of common shares outstanding — basic	4,897	4,868	4,901	4,851
Incremental shares for assumed conversion of restricted stock	—	14	—	14
Weighted average number of common shares outstanding — diluted	4,897	4,882	4,901	4,865

Stock options, warrants and restricted stock outstanding at June 30, 2009 to purchase 188,762 shares of common stock were not included in the computation of diluted loss per share as they were antidilutive. Stock options outstanding at June 30, 2008 to purchase 56,375 shares of common stock were not included in the computation of diluted earnings per share as the exercise price exceeded the fair market value of the common stock.

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 and current tax losses, outweighed any objectively verifiable positive factors, and as such, continues to conclude that a full valuation allowance against the deferred tax asset is necessary. For all periods presented, the Company did not record a Federal tax provision or tax benefit. In prospective periods, there may be reductions to the valuation allowance to the extent that the Company concludes that it is more likely that not that all or a portion of the deferred tax assets can be utilized (subject to annual limitations and prior to the expiration of net operating loss carryforwards). The net carrying value of the deferred tax asset was $0 (net of a valuation allowance of approximately $11.7 million) at June 30, 2009.

At June 30, 2009 the Company had net operating losses of approximately $29.1 million for U.S. tax return purposes, and unutilized tax credits approximate $1.1 million. As a result of previous business combinations and changes in its ownership, there is a substantial amount of U.S. NOLs that are subject to annual limitations on utilization. The U.S. NOLs begin to expire in 2021 and continue to expire through 2029.

Recently Issued Accounting Pronouncements Affecting the Company

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (“FIN 48”). This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an entity’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 de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. TeamStaff conducts business solely in the U.S. and, as a result, files income tax returns for U.S., New Jersey and various other states and jurisdictions. In the normal course of business the Company is subject to examination by taxing authorities. At present, there are no ongoing income tax audits or unresolved disputes with the various tax authorities that the Company currently files or has filed with. Given the Company’s substantial net operating loss carryforwards, which are subject to a full valuation allowance, as well as the historical operating losses in prior periods, the adoption of FIN 48 on October 1, 2007 did not have any effect on our financial position, results of operations or cash flows as of the adoption date.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (“SFAS 157”). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States, and expands disclosures about fair value measurements. SFAS 157 was effective for financial statements issued for fiscal years beginning after November 15, 2007, with earlier application encouraged. Any amounts recognized upon adoption as a cumulative effect adjustment will be recorded to the opening balance of retained earnings in the year of adoption. In February 2008, the FASB issued Staff Position 157-2, “Effective Date of FASB Statement No. 157”, which delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The Company adopted SFAS 157 on October 1, 2008 with no effect on its financial position, results of operations and cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (“SFAS 159”). SFAS 159 permits entities to choose to measure, on an item-by-item basis, specified financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are required to be reported in earnings at each reporting date. SFAS 159 is effective for fiscal years beginning after November 15, 2007, the provisions of which are required to be applied prospectively. The Company adopted SFAS 159 on October 1, 2008 with no effect on its financial position, results of operations and cash flows.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (“SFAS 161”). The new standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable users of the financial statements to better understand the effects on an entity’s financial position, financial performance, and cash flows. It was effective for financial statements issued for interim periods beginning after November 15, 2008, with early application encouraged. The Company adopted SFAS 161 on January 1, 2009 with no effect on its financial position, results of operations and cash flows.

In May 2009, FASB Statement 165, *Subsequent Events* (“SFAS 165”), was issued. SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date (“subsequent events”), but before the financial statements are issued or available to be issued and requires disclosure of the date through which the entity has evaluated subsequent events and the basis for that date. SFAS 165 is effective for interim and annual periods ending after June 15, 2009. The Company adopted SFAS 165 for the quarter ended June 30, 2009. The Company evaluated subsequent events through the time we filed our Form 10-Q with the Securities and Exchange Commission on August 14, 2009. The adoption did not have a material impact on its financial position, results of operations and cash flows.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles — a replacement of FASB Statement No. 162* (“SFAS 168”). SFAS 168 stipulates the FASB Accounting Standards Codification™ is the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The implementation of this standard is not expected to have a material impact on the Company’s financial position, results of operations and cash flows.

(3) DISCONTINUED OPERATIONS:

Effective January 27, 2008, TeamStaff, Inc. completed the sale of its per diem nurse staffing business located in Memphis, Tennessee and operating under the name of Nursing Innovations, to Temps, Inc. Under the terms of the definitive Asset Purchase Agreement, dated as of January 29, 2008 (“Asset Purchase Agreement”), the Company received a cash purchase price of $447,000 for the acquired business and related assets. Of the purchase price, $90,000 was escrowed for a period of six months from the closing date. Payment to TeamStaff was subject to the downward adjustment for the amount of pre-closing accounts receivables uncollected by the purchaser during such six-month period. Temps, Inc. released approximately $89,000 escrow to Teamstaff in the fourth quarter of 2008.

Net revenues for the Nursing Innovations per diem operations for the three and nine months ended June 30, 2008 were $0 and $0.7 million, respectively.

The following chart details activity in liabilities from the discontinued operation through June 30, 2009:

	September 30, 2008 Balance	Expensed This Period	Paid This Period	June 30, 2009 Balance
Accrued expenses and other current liabilities	$ 66		$ (46)	$ 20
Total	$ 66	$ —	$ (46)	$ 20

(4) COMMITMENTS AND CONTINGENCIES:

Payroll Taxes

TeamStaff has received notices from the Internal Revenue Service ("IRS") claiming taxes, interest and penalties due related to payroll taxes predominantly from its former PEO operations which were sold in fiscal 2003. TeamStaff has also received notices from the IRS reporting overpayments of taxes. Management believes that these notices are predominantly the result of misapplication of payroll tax payments between its legal entities. If not resolved favorably, the Company may incur interest and penalties. Until the sale of certain assets related to the former PEO operations, TeamStaff operated through 17 subsidiaries, and management believes that the IRS has not correctly identified payments made through certain of the different entities, therefore leading to the notices. To date, TeamStaff has been working with the IRS to resolve these discrepancies and has had certain interest and penalty claims abated. TeamStaff has also received notices from the Social Security Administration claiming variances in wage reporting compared to IRS transcripts. TeamStaff believes the notices from the Social Security Administration are directly related to the IRS notices received. TeamStaff has retained the services of Ernst & Young LLP as a consultant to assist in resolving certain of these matters with the IRS and Social Security Administration. TeamStaff believes that after the IRS applies all the funds correctly, any significant interest and penalties will be abated; however, there can be no assurance that each of these matters will be resolved favorably. In settling various years for specific subsidiaries with the IRS, the Company has received refunds for those specific periods; however, as the process of settling and concluding on other periods and subsidiaries is not yet completed and the potential exists for related penalties and interest, the remaining liability ($1.0 million at June 30, 2009) has been recorded in accounts payable. In the three and nine months ended June 30, 2009 the Company paid $0 million and $1.1 million, respectively, related to this matter.

Legal Proceedings

RS Staffing Services, Inc.

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

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

The Company originally acquired RS Staffing Services in June 2005. As part of the purchase price of the acquisition, the Company issued to the former owners of RS Staffing Services a $3.0 million promissory note, of which $1.5 million and interest of $150,000 was paid in June 2006. On May 31, 2007, the Company sent a notice of indemnification claim to the former owners for costs that have been incurred in connection with the investigation. Effective June 1, 2007, the Company and former owners of RS Staffing Services reached an agreement to extend the due date from June 8, 2007 to December 31, 2008 with respect to the remaining $1.5 million note payable and accrued interest payable. Such agreement has been extended to September 30, 2009. As of June 30, 2009, the amount has not been settled. The Company recognized expenses related to legal representation and costs incurred in connection with the investigation in the amount of $4,000 and $18,000 during the three months ended June 30, 2009 and 2008, respectively, as a component of other income (expense). The Company recognized expenses related to legal representation and costs incurred in connection with the investigation in the amount of $16,000 and $156,000 during the nine months ended June 30, 2009 and 2008, respectively, as a component of other income (expense). Cumulative costs related to this matter approximate $1.7 million. Pursuant to the acquisition agreement with RS Staffing Services, the Company has notified the former owners of RS Staffing Services that it is the Company's intention to exercise its right to setoff the payment of such expenses against the remaining principal and accrued interest due to the former owners of RS Staffing Services.

The Company will pursue the recovery as a right of offset in future periods. Management has a good faith belief that the Company will recover such amounts; however, generally accepted accounting principles preclude the Company from recording an offset to the note payable to the former owners of RS Staffing Services until the final amount of the claim is settled and determinable. At present, no assurances can be given that the former owners of RS Staffing Services would not pursue action against us or that the Company will be successful in the offset of such amounts against the outstanding debt. Accordingly, the Company has expensed costs incurred related to the investigation through June 30, 2009.

EEOC Investigation

On October 2, 2008, the United States Equal Employment Opportunity Commission (“EEOC”) issued a subpoena to TeamStaff GS regarding the alleged wrongful termination of certain employees who were employed at a federal facility staffed by TeamStaff GS temporary contract employees. The wrongful termination is alleged to have occurred when the former employees were terminated because they could not satisfy English proficiency requirements imposed by the Federal government. TeamStaff GS has produced all documents that it believes were required by the subpoena and has submitted its position statement to the EEOC. It is unclear, at present, if or when the EEOC will respond.

Other Matters

On August 10, 2009, the Company entered into a settlement agreement with a former employee to resolve a 2006 wrongful termination claim alleged by such person. Pursuant to this agreement, we agreed to pay an amount of $160,000 in full settlement of any and all claims he may have against the Company arising out of the termination of his employment with TeamStaff GS.

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

Potential Contractual Billing Adjustments

At June 30, 2009, TeamStaff GS is seeking approval from the Federal government for gross profit on retroactive billing rate increases associated with certain government contracts at which it has employees staffed on contract assignments. These adjustments are due to changes in the contracted wage determination rates for these contract employees. A wage determination is the listing of wage rates and fringe benefit rates for each classification of laborers whom the Administrator of the Wage and Hour Division of the U.S. Department of Labor (“DOL”) has determined to be prevailing in a given locality. Contractors performing services for the Federal government under certain contracts are required to pay service employees in various classes no less than the wage rates and fringe benefits found prevailing in these localities. An audit by the DOL at one of the facilities revealed that notification, as required by contract, was not provided to TeamStaff GS in order to effectuate the wage increases in a timely manner. Wages for contract employees currently on assignment have been adjusted prospectively to the prevailing rate and hourly billing rates to the DVA have been increased accordingly. During the fiscal year ended September 30, 2008, TeamStaff recognized nonrecurring revenues of $10.8 million and direct costs of $10.1 million, based on amounts that are contractually due under its arrangements with the Federal agencies. At June 30, 2009, the amount of the remaining accounts receivable with the DVA approximates $9.3 million. The Company has been and continues to be in discussions with representatives of the DVA regarding the matter and anticipates resolution by September 30, 2009. TeamStaff is currently in the process of negotiating a final amount related to gross profit on these adjustments. As such, there may be additional revenues recognized in future periods once the approval for such additional amounts is obtained. The ranges of additional revenue and gross profit are estimated to be between $0.4 million and $0.7 million. At present, the Company expects to collect such amounts by the end of the current fiscal year. Because these amounts are subject to government review, no assurances can be given that we will receive any additional billings from our government contracts or that if additional amounts are received, that the amount will be within the range specified above.

(5) PREPAID WORKERS' COMPENSATION:

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

As part of the Company's discontinued PEO operations, TeamStaff had a workers' compensation program with Zurich, which covered the period from March 22, 2002 through November 16, 2003, inclusive. Payments for the policy were made to the trust monthly based on projected claims for the policy period. Interest on all assets held in the trust is credited to TeamStaff. Payments for claims and claims expenses are made from the trust. From time-to-time, trust assets have been refunded to the Company based on Zurich's and managers' overall assessment of claims experience and historical and projected settlements. In March 2008, Zurich reduced the collateral requirements on outstanding workers' compensation claims and released $350,000 in trust account funds back to the Company. In April 2009, Zurich released $0.1 million in trust account funds back to the Company. The final amount of trust funds that could be refunded to the Company is subject to a number of uncertainties (e.g. claim settlements and experience, health care costs, the extended statutory filing periods for such claims); however, based on a third party's study of claims experience, TeamStaff estimates that at June 30, 2009, the remaining prepaid asset of $0.3 million will be received within the next twelve to thirty-six months. A portion of this is reflected on TeamStaff's balance sheet as of June 30, 2009 as a current asset, in addition to approximately $0.2 million related to current policy deposits.

As of June 30, 2009 the adequacy of the workers' compensation reserves (which are offset against the trust fund balances in prepaid assets) was determined, in management's opinion, to be reasonable. In determining our reserves we rely in part upon information regarding loss data received from our workers' compensation insurance carriers that may include loss data for claims incurred during prior policy periods. In addition, these reserves are for claims that have not been sufficiently developed and such variables as timing of payments and investment returns thereon are uncertain or unknown, therefore actual results may vary from current estimates. TeamStaff will continue to monitor the development of these reserves, the actual payments made against the claims incurred, the timing of these payments, the interest accumulated in TeamStaff's prepayments and adjust the related reserves as deemed appropriate.

(6) DEBT:

On March 28, 2008, TeamStaff and its wholly-owned subsidiaries, TeamStaff Rx and TeamStaff GS entered into an Amended and Restated Loan and Security Agreement dated as of March 28, 2008 (the "Loan Agreement") with Business Alliance Capital Company ("BACC"), a division of Sovereign Bank (the "Lender"). Pursuant to the Loan Agreement, the Lender (i) acquired by assignment from the Company's prior lender, PNC Bank, National Association ("PNC"), all right, title and interest of PNC under the $8.0 million PNC Credit Facility, the PNC note and related loan documentation, and (ii) restructured the PNC Credit Facility into a $3.0 million three (3) year revolving credit facility. Effective April 1, 2008, BACC changed its name to Sovereign Business Capital ("Sovereign"). The outstanding principal and interest balance under the PNC Credit Facility, related fees and certain expenses related to the execution and closing of the Loan Agreement were paid in full with $0.6 million in proceeds drawn from the Loan Agreement on April 2, 2008. Fees associated with this facility approximate $150,000, which are amortized over the life of the Loan Agreement.

Under the Loan Agreement, the Lender agreed to provide a revolving credit facility to the Company in an aggregate amount of up to $3.0 million subject to the further terms and conditions of the Loan Agreement. The loan is secured by a first priority lien on all of the Company's assets.

The Company's ability to request loan advances under the Loan Agreement is subject to computation of the Company's advance limit and compliance with the covenants and conditions of the loan. The loan is for a term of 36 months and matures on March 31, 2011. Interest on advances accrues on the daily unpaid balance of the loan advances at a per annum rate of one-quarter (.25%) percentage points above the Prime Rate in effect from time to time, but not less than five and one-half percent (5.5%) per annum. The interest rate on the facility at June 30, 2009 was 5.5%. The Loan Agreement requires compliance with certain customary covenants including a debt service coverage ratio and imposes restrictions on the Company's ability to, among other things, dispose of certain assets, engage in certain transactions, incur indebtedness and pay dividends. The Loan Agreement also provides for customary events of default following which, Sovereign may, at its option, accelerate the amounts outstanding under the Loan Agreement. As of June 30, 2009, there was no debt outstanding under the Loan Agreement and defined unused availability totaled $1.1 million, net of required collateral reserves per the Loan Agreement for certain payroll and tax liabilities.

On August 13, 2009, we determined that as of June 30, 2009, we were not in compliance with the debt service coverage ratio covenant of the Loan Agreement. In light of this event, Sovereign may avail itself of the remedies provided for in the Loan Agreement, including accelerating payment of amounts outstanding, taking such actions as it deems necessary to protect its security interest in the collateral, and terminating the Loan Agreement. We are in discussions with Sovereign regarding obtaining a waiver of our default under the debt service coverage ratio. However, no assurances can be given that Sovereign will grant any waiver or otherwise decline to exercise their rights under the Loan Agreement.

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

In connection with the acquisition of RS Staffing Services, TeamStaff issued two promissory notes to the former owners of RS Staffing Services as part of the acquisition price, in the aggregate principal amount of $3.0 million. The notes bear interest at 5% per annum, and are subordinate to the financing provided by Sovereign described above. One half of the principal ($1.5 million) and interest ($150,000) was due and paid on June 8, 2006. The remaining principal and interest was due in June 2007. As described in Note (4) above, effective June 1, 2007, the Company and former owners of RS Staffing Services reached an agreement to extend the due date of the $1.5 million note payable and accrued interest to September 30, 2009.

Based on contractual terms of the initial agreement and the status of the parties' discussions, this debt at June 30, 2009 and September 30, 2008 is classified as a current liability.

(7) STOCK WARRANTS:

The Company had no outstanding warrants during the three and nine months ended June 30, 2009. The Company had no outstanding warrants during the three months ended June 30, 2008. During the nine months ended June 30, 2008, no warrants were issued, warrants to purchase 149,500 shares of common stock expired unexercised and no warrants were exercised.

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

Forward Looking and Cautionary Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "1995 Reform Act"), Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). TeamStaff desires to avail itself of certain "safe harbor" provisions of the 1995 Reform Act and is therefore including this special note to enable TeamStaff to do so. Forward-looking statements are identified by words such as "believe," "anticipate," "expect," "intend," "plan," "will," "may" and other similar expressions. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. Forward-looking statements included in this Quarterly Report involve known and unknown risks, uncertainties and other factors which could cause TeamStaff's actual results, performance (financial or operating) or achievements to differ from the future results, performance (financial or operating) or achievements expressed or implied by such forward-looking statements. We based these forward-looking statements on our current expectations and best estimates and projections about future events. Our actual results could differ materially from those discussed in, or implied by, these forward-looking statements. The following factors (among others) could cause our actual results to differ materially from those implied by the forward-looking statements in this Quarterly Report: our ability to continue to recruit and retain qualified temporary and permanent healthcare professionals and administrative staff at reasonable costs; our ability to attract and retain sales and operational personnel; our ability to enter into contracts with 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; 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, healthcare 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; the performance of our information and communication systems; the effect of existing or future government legislation and regulation; the impact of medical malpractice and other claims asserted against us; the disruption or adverse impact to our business as a result of a terrorist attack; our ability to carry out our business strategy; the loss of key officers, and management personnel that could adversely affect our ability to remain competitive; the effect of recognition by us of an impairment to goodwill; 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, 2008 and our other reports filed with the SEC. We undertake no obligation to update any forward-looking statement or statements in this filing to reflect events or circumstances that occur after the date on which the statement is made or to reflect the occurrence of unanticipated events.

Critical Accounting Policies and Estimates

TeamStaff believes the accounting policies below represent its critical accounting policies due to the significance or estimation process involved in each. See Note 2 of TeamStaff's 2008 Annual Report on Form 10-K as well as "Critical Accounting Policies" contained therein for a detailed discussion on the application of these and other accounting policies.

Revenue Recognition

TeamStaff accounts for its revenues in accordance with 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.

Revenues related to retroactive billings in 2008 (see Note 4 to the Consolidated Financial Statements) from an agency of the Federal government are recognized when: (1) the Company develops and calculates an amount for such prior period services and has a contractual right to bill for such amounts under its arrangements and (2) there are no remaining unfulfilled conditions for approval of such billings. The related direct costs, principally comprised of salaries and benefits, are recognized to match the recognized reimbursements from the Federal agency; upon approval, wages are processed for payment to the employees.

During the year ended September 30, 2008, TeamStaff recognized revenues of $10.8 million and direct costs of $10.1 million related to these non-recurring arrangements. At June 30, 2009, the amount of the remaining accounts receivable with the DVA approximates $9.3 million and accrued liabilities for salaries to employees and related benefits totaled $8.7 million. Accounts receivable includes $7.6 million that was unbilled to the DVA at June 30, 2009. At present, the Company expects to collect such amounts by the end of the current fiscal year.

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 for overhead expenses and a profit margin. Additionally, commissions from permanent placements are included in revenue as placements are made. Commissions from permanent placements result from the successful placement of a medical staffing employee to a customer's workforce as a permanent employee. The Company also reviews the status of such placements to assess the Company's future performance obligations under such contracts.

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

Prepaid Workers' Compensation

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

As part of the Company's discontinued PEO operations, TeamStaff had a workers' compensation program with Zurich, which covered the period from March 22, 2002 through November 16, 2003, inclusive. Payments for the policy were made to the trust monthly based on projected claims for the policy period. Interest on all assets held in the trust is credited to TeamStaff. Payments for claims and claims expenses are made from the trust. From time-to-time, trust assets have been refunded to the Company based on Zurich's and managers' overall assessment of claims experience and historical and projected settlements. In March 2008, Zurich reduced the collateral requirements on outstanding workers' compensation claims and released $350,000 in trust account funds back to the Company. The final amount of trust funds that could be refunded to the Company is subject to a number of uncertainties (e.g. claim settlements and experience, health care costs, the extended statutory filing periods for such claims); however, based on a third party's study of claims experience, TeamStaff estimates that at June 30, 2009, the remaining prepaid asset of $0.4 million will be received within the next twelve to thirty-six months. A portion of this is reflected on TeamStaff's balance sheet as of June 30, 2009 as a current asset, in addition to approximately $0.2 million related to current policy deposits.

As of June 30, 2009 the adequacy of the workers' compensation reserves (which are offset against the trust fund balances in prepaid assets) was determined, in management's opinion, to be reasonable. In determining our reserves we rely in part upon information regarding loss data received from our workers' compensation insurance carriers that may include loss data for claims incurred during prior policy periods. In addition, these reserves are for claims that have not been sufficiently developed and such variables as timing of payments and investment returns thereon are uncertain or unknown, therefore actual results may vary from current estimates. TeamStaff will continue to monitor the development of these reserves, the actual payments made against the claims incurred, the timing of these payments, the interest accumulated in TeamStaff's prepayments and adjust the related reserves as deemed appropriate.

Income Taxes

TeamStaff accounts for income taxes in accordance with Statements of Financial Accounting Standards No. 109, *Accounting for Income Taxes* ("SFAS 109"). Under SFAS 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 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, 2009, the Company provided a 100% deferred tax valuation allowance of approximately $11.7 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, continues to conclude that a valuation allowance is 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.

In the three and nine months ended June 30, 2009, the Company received a notification from the State of Florida regarding a refund of $151,000 for various taxes. Such amount has been recognized in the related periods' statement of operations as a change in estimate.

Recently Issued Accounting Pronouncements Affecting the Company

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an entity'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 de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. TeamStaff conducts business solely in the U.S. and, as a result, files income tax returns for U.S., New Jersey and various other states and jurisdictions. In the normal course of business the Company is subject to examination by taxing authorities. At present, there are no ongoing income tax audits or unresolved disputes with the various tax authorities that the Company currently files or has filed with. Given the Company's substantial net operating loss carryforwards, which are subject to a full valuation allowance, as well as the historical operating losses in prior periods, the adoption of FIN 48 on October 1, 2007 did not have any effect on our financial position, results of operations or cash flows as of the adoption date.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States, and expands disclosures about fair value measurements. SFAS 157 was effective for financial statements issued for fiscal years beginning after November 15, 2007, with earlier application encouraged. Any amounts recognized upon adoption as a cumulative effect adjustment will be recorded to the opening balance of retained earnings in the year of adoption. In February 2008, the FASB issued Staff Position 157-2, "Effective Date of FASB Statement No. 157", which delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The Company adopted SFAS 157 on October 1, 2008 with no effect on its financial position, results of operations and cash flows.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"). SFAS 159 permits entities to choose to measure, on an item-by-item basis, specified financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are required to be reported in earnings at each reporting date. SFAS 159 is effective for fiscal years beginning after November 15, 2007, the provisions of which are required to be applied prospectively. The Company adopted SFAS 159 on October 1, 2008 with no effect on its financial position, results of operations and cash flows.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ("SFAS 161"). The new standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable users of the financial statements to better understand the effects on an entity's financial position, financial performance, and cash flows. It was effective for financial statements issued for interim periods beginning after November 15, 2008, with early application encouraged. The Company adopted SFAS 161 on January 1, 2009 with no effect on its financial position, results of operations and cash flows.

In May 2009, FASB Statement 165, *Subsequent Events* ("SFAS 165"), was issued. SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date ("subsequent events"), but before the financial statements are issued or available to be issued and requires disclosure of the date through which the entity has evaluated subsequent events and the basis for that date. SFAS 165 is effective for interim and annual periods ending after June 15, 2009. The Company adopted SFAS 165 for the quarter ended June 30, 2009. The Company evaluated subsequent events through the time we filed our Form 10-Q with the Securities and Exchange Commission on August 14, 2009. The adoption did not have a material impact on its financial position, results of operations and cash flows.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles — a replacement of FASB Statement No. 162* ("SFAS 168"). SFAS 168 stipulates the FASB Accounting Standards Codification™ is the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The implementation of this standard is not expected to have a material impact on the Company's financial position, results of operations and cash flows.

Overview

Business Description

TeamStaff provides specialized medical, nursing, logistics, information technology and administrative staffing services through two staffing subsidiaries. The Company's TeamStaff Rx subsidiary is a JCAHO certified staffing provider which operates throughout the United States and specializes in providing travel allied medical employees and nurses on a short term assignment basis, as well as permanent placement services. Allied medical staff includes MRI technicians, mammographers, dosimetrists, ultrasound staff and physicists. JCAHO certification validates the Company's hiring practices and our commitment to providing quality healthcare services. During the last six months, TeamStaff Rx placed temporary employees at approximately 110 client facilities. The Company's TeamStaff GS subsidiary specializes in providing medical and office administration/technical professionals through FSS contracts with both the GSA and DVA. During the last six months, TeamStaff GS placed temporary employees at approximately 30 client facilities.

Recent Business Trends

TeamStaff Rx

The current operating environment for TeamStaff Rx continued to decline in the third fiscal quarter of 2009. The decline was driven by several factors including lower hospital admission levels, budget concerns given the economic environment, and hospitals' increased reliance on permanent labor to meet staffing needs both generally and on an incremental basis by reducing hours, shifts and/or assignments available for temporary workers. Toward the end of 2008, and continuing into 2009, demand decreased considerably in the travel nurse and allied healthcare business, we believe due to the widespread and unprecedented economic conditions. These economic conditions may have the following specific effects on our clients, which in turn reduce client demand for our services; lower permanent staff attrition rates due to high general unemployment and related factors; reduced census levels due partially to lower volume of elective surgeries; reduced insurance and Medicare reimbursement levels and anticipated additional future reductions; severely constricted budgets for both private institutions and publicly-supported facilities; and a forbearance or reluctance to contract for future services due to uncertainty regarding future patient admission levels and general anxiety regarding receivables and available credit.

As a result of these factors, TeamStaff Rx faces a very weak demand environment. For the third quarter of fiscal 2009, average hours billed were down 40% from the 2008 quarter. Correspondingly, this led to a 44% reduction in revenue as compared to the third quarter of fiscal 2008. To address the unfavorable trends in the non-government medical staffing market, the Company has taken several steps. We continue to offer client and traveler loyalty programs, we have reduced internal headcount and modified our advertising spend. Management is reluctant to substantially reduce its advertising program since it believes that it is a prudent investment of our capital to continue to market the TeamStaff brand while competitors are reducing their advertising. Currently, we are obtaining prime advertising spots at reasonable rates.

The Company is also increasing its focus on oncology, which continues to be in demand. We recently signed an agreement to serve as a preferred provider of medical healthcare professionals to one of the nation's largest oncology networks. TeamStaff was one of three preferred vendors chosen. TeamStaff Rx is also in the process of pursuing preferred vendor status with a second major oncology center. Such agreements are expected to provide us with a competitive advantage and additional revenue opportunities in subsequent quarters. However, no assurances can be given that we will be able to complete any additional agreements to act as a preferred vendor or whether any such opportunities will result in revenues to our Company.

Given the decline in revenue and operating performance, the Company will monitor TeamStaff Rx in relation to the healthcare staffing market, the economy and the Company's financial resources to determine the most prudent course of action.

TeamStaff Government Solutions

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

We believe demand will be strong in the fourth quarter of our current fiscal year and beyond as the government releases stimulus funds related to the American Recovery and Reinvestment Act of 2009 to the DVA to maintain or improve social services provided to our returning veterans, as well as funding to other federal agencies that TeamStaff GS provides services to. In addition, we believe the government staffing business is stable in an economic downturn due to the longer term duration of its contracts. Management believes that, under the current administration, there will not be a reduction in government spending supporting social programs that benefit military personnel and veterans.

Results of Operations

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

	Three Months Ended		Nine Months Ended	
Condensed Consolidated Statement of Operations:	**June 30, 2009**	**June 30, 2008**	**June 30, 2009**	**June 30, 2008**
Revenues	100.0%	100.0%	100.0%	100.0%
Direct Expenses	84.0%	81.4%	83.1%	82.2%
Gross Profit	16.0%	18.6%	16.9%	17.8%
Selling, general and administrative	20.9%	16.7%	19.4%	16.3%
Depreciation and amortization expense	0.5%	0.4%	0.4%	0.5%
(Loss) income from operations	-5.4%	1.5%	-2.9%	1.0%
Other income (expense)	1.0%	1.7%	0.4%	0.3%
(Loss) income from continuing operations before tax	-4.4%	3.2%	-2.5%	1.3%
Income tax expense	0.3%	0.0%	0.1%	0.0%
(Loss) income from continuing operations	-4.1%	3.2%	-2.4%	1.3%
Loss from discontinued operations	0.0%	-0.2%	0.0%	-0.1%
Net (loss) income	-4.1%	3.0%	-2.4%	1.2%

TeamStaff's total revenues for the three months ended June 30, 2009 and 2008 were $13.1 million and $17.8 million, respectively, which represents a decrease of $4.7 million, or 26.2% over the prior fiscal year period. As described in greater detail in note 4 to the consolidated financial statements included in this Quarterly Report on Form 10-Q, included in revenues for the three months ended June 30, 2008 is $2.0 million in non-recurring retroactive billings to the DVA. Operating revenues for the three months ended June 30, 2009 and 2008 were $13.1 million and $15.8 million, respectively, which represents a decrease of $2.7 million or 16.8%. The decrease in revenues from recurring operations is due primarily to the impact of the current economic downturn on the results of TeamStaff Rx coupled with reduced overtime and net reductions in headcount at certain Government facilities. Operating revenues for the three months ended June 30, 2009 and 2008 include $11.3 million and $12.6 million, respectively, related to TeamStaff GS.

TeamStaff's total revenues for the nine months ended June 30, 2009 and 2008 were $41.5 million and $50.6 million, respectively, which represents a decrease of $9.1 million, or 17.9% over the prior fiscal year. Included in revenues for the nine months ended June 30, 2008 is $3.5 million in non-recurring retroactive billings to the DVA. Operating revenues for the nine months ended June 30, 2009 and 2008 were $41.5 million and $47.0 million, respectively, which represents a decrease of $5.5 million or 11.7%. The decrease in revenues from recurring operations is due primarily to the impact of the current economic downturn on the results of TeamStaff Rx, reduced overtime and net reductions in headcount at certain Government facilities, offset by the performance of TeamStaff GS in the first quarter of fiscal 2009, which saw its recurring revenues for the quarter ended December 31, 2008 increase by approximately 10% over the same period last year. Operating revenues for the nine months ended June 30, 2009 and 2008 include $34.8 million and $39.4 million, respectively, related to TeamStaff GS.

Direct expenses for the three months ended June 30, 2009 and 2008 were $11.0 million and $14.5 million, respectively, which represents a decrease of $3.5 million, or 23.8% over the prior fiscal year period. This decrease is primarily a result of lower revenues. Included in direct expenses for the three months ended June 30, 2008 is $1.7 million related to non-recurring retroactive billings to the DVA. As a percentage of total revenue, direct expenses for the three months ended June 30, 2009 and 2008 were 84.0% and 81.4%, respectively. Direct expenses for the nine months ended June 30, 2009 and 2008 were $34.5 million and $41.5 million, respectively, which represents a decrease of $7.0 million, or 16.9%. This decrease is primarily a result of lower revenues. Included in direct expenses for the nine months ended June 30, 2008 is $3.0 million related to non-recurring retroactive billings to the DVA. As a percentage of total revenue, direct expenses were 83.1% and 82.2%, respectively, for the nine months ended June 30, 2009 and 2008.

Gross profit for the three months ended June 30, 2009 and 2008 were $2.1 million and $3.3 million, respectively, which represents a decrease of $1.2 million, or 36.7%. This decrease is primarily a result of lower revenues. Gross profit, as a percentage of revenue, was 16.0% and 18.6% for the three months ended June 30, 2009 and 2008, respectively. Included in gross profit for the three months ended June 30, 2008 is $0.3 million related to non-recurring retroactive billings to the DVA. Operating gross profit for the three months ended June 30, 2009 and 2008 were $2.1 million and $3.0 million, which represents a decrease of $0.9 million, or 30.7%. Operating gross profit, as a percentage of revenue, was 16.0% and 19.2% for the three months ended June 30, 2009 and 2008, respectively. Operating gross profit is lower as compared to the prior year due to a higher percentage of Government revenues which carry a lower gross profit, increased health benefit expenses, lower overtime at certain government facilities and lower turnover among our government contract employees, resulting in higher vacation expense. Effective July 1, 2009, billing increases to certain government facilities were granted that are expected to help offset these additional expenses going forward. Gross profit for the nine months ended June 30, 2009 and 2008 were $7.0 million and $9.0 million, respectively, which represents a decrease of $2.0 million, or 22.0%. This decrease is primarily a result of lower revenues. Gross profit, as a percentage of revenue, was 16.9% and 17.8%, for the nine months ended June 30, 2009 and 2008, respectively. Included in gross profit for the nine months ended June 30, 2008 is $0.6 million related to non-recurring retroactive billings to the DVA. Operating gross profit for the nine months ended June 30, 2009 and 2008 were $7.0 million and $8.5 million, which represents a decrease of $1.5 million, or 16.8%.

Selling, general and administrative (“SG&A”) expenses for the three months ended June 30, 2009 and 2008 were $2.7 million and $3.0 million, respectively, which represents a decrease of $0.3 million or 7.6% despite $175,000 in legal settlement expense in the three months ended June 30, 2009 and a 5.7% increase in new business expense from the third quarter of fiscal 2008 to the third quarter of fiscal 2009. The Company continues to eliminate overhead costs deemed to be non-essential to growth or infrastructure. SG&A expenses for the nine months ended June 30, 2009 and 2008 were $8.1 million and $8.2 million, respectively, which represents a decrease of $0.1 million, or 1.9%.

Depreciation and amortization expense was $0.1 million for each of the three months ended June 30, 2009 and 2008. Depreciation and amortization expense was $0.2 million for each of the nine months ended June 30, 2009 and 2008.

Other income, net for the three months ended June 30, 2009 and 2008, which is normally comprised primarily of late fee income in the TeamStaff Rx subsidiary and interest income, was $0.2 million and $0.03 million, respectively. In the three and nine months ended June 30, 2009, the Company received a notification from the State of Florida regarding a refund of $151,000 for various taxes. Such amount has been recognized in the related periods’ statement of operations as a change in estimate. Based on an assessment of periods settled and the status of open periods under review by the IRS regarding notices the Company received related predominantly to its former PEO operations, the Company reduced its estimated liability by $300,000 in the three and nine months ended June 30, 2008. Such amount, accounted for as a change in estimate, is also included in other income for the nine months ended June 30, 2008. Other income for the nine months ended June 30, 2009 and 2008 was $0.3 million and $0.4 million, respectively.

Interest expense for the three months ended June 30, 2009 and 2008 was $31,000 and $30,000, respectively, representing a decrease of $1,000. Interest expense for the nine months ended June 30, 2009 and 2008 was $86,000 and $131,000, respectively. This decrease is due primarily to reduced interest rates related to borrowings on the line of credit.

The Company recognized other expense of $4,000 and $18,000 for the three months ended June 30, 2009, and 2008, respectively, related to legal representation and investigation costs incurred in connection with the Federal Grand Jury subpoena issued to our subsidiary formerly known as RS Staffing Services on April 17, 2007. The subpoena requested production of certain documents dating back to 1997. The Company acquired RS Staffing in June 2005. These expenses are classified as non-operating expense because the subpoena relates to activity prior to the acquisition. Other expense for the nine months ended June 30, 2009 and 2008 were $16,000 and $156,000, respectively, related to these legal expenses.

For the three and nine months ended June 30, 2009, the Company recorded a tax benefit of $39,000 and $28,000, respectively. For the three and nine months ended June 30, 2008, the Company did not record a tax provision or tax benefit.

Loss from continuing operations for the three months ended June 30, 2009 was $0.5 million, or ($0.11) per basic and diluted share, compared to income from continuing operations for the three months ended June 30, 2008 of $0.6 million, or $0.12 per basic and diluted share. Loss from continuing operations for the nine months ended June 30, 2009 was $1.0 million, or ($0.21) per basic and diluted share, compared to income from continuing operations for the nine months ended June 30, 2008 of $0.7 million, or $0.14 per basic and diluted share.

There was no activity relating to discontinued operations for the three or nine months ended June 30, 2009. Loss from discontinued operations for the three months ended June 30, 2008 was $0.03 million, or $(0.01) per basic and diluted share. Loss from discontinued operations for the nine months ended June 30, 2008 was $0.04 million, or $(0.01) per basic and diluted share.

Net loss for the three months ended June 30, 2009 was $0.5 million, or ($0.11) per basic and diluted share, compared to net income of $0.5 million, or $0.11 per basic and diluted share. This represents a decrease of $1.0 million in net income from the third fiscal quarter of 2008 to the third fiscal quarter of 2009. Adjusted to eliminate profit from the non-recurring retroactive billings, the results for the three months ended June 30, 2008 would have been net income of $0.3 million, or $0.05 per basic and diluted share. Net loss for the nine months ended June 30, 2009 was $1.0 million, or ($0.21) per basic and diluted share, compared to net income of $0.6 million, or $0.13 per basic and diluted share, for the nine months ended June 30, 2008. This represents a decline of $1.6 million in net income. Adjusted to eliminate profit from the non-recurring retroactive billings, the results for the nine months ended June 30, 2008 would have been net income of $0.1 million, or $0.01 per basic and diluted share.

The above information contains certain non-GAAP financial measures. The following table reconciles GAAP to these non-GAAP financial measures:

	For the Three Months Ended		For the Nine Months Ended	
	June 30, 2009	**June 30, 2008**	**June 30, 2009**	**June 30, 2008**
NET (LOSS) INCOME	**$ (533)**	**$ 541**	**$ (1,044)**	**$ 640**
Gross profit from non-recurring retroactive billings	—	(286)	—	(566)
ADJUSTED NET (LOSS) INCOME (1)	**$ (533)**	**$ 255**	**$ (1,044)**	**$ 74**
GAAP based diluted net (loss) earnings per share	**$ (0.11)**	**$ 0.11**	**$ (0.21)**	**$ 0.13**
Adjustments:				
Gross profit from non-recurring retroactive billings	$ —	$ (0.06)	$ —	$ (0.12)
Adjusted diluted net (loss) earnings per share (2)	**$ (0.11)**	**$ 0.05**	**$ (0.21)**	**$ 0.01**

(1) Adjusted net (loss) income represents GAAP net (loss) income minus gross profit from non-recurring retroactive billings. Management presents adjusted net (loss) income because it believes that adjusted net (loss) income is a useful supplement to net (loss) income as an indicator of operating performance. Management believes such a measure provides a picture of the Company's results that is more comparable among periods since it excludes the impact of items that are non-recurring, which could cause distorted comparisons between periods. As defined, adjusted net (loss) income is not necessarily comparable to other similarly titled captions of other companies due to potential inconsistencies in the method of calculation. While management believes that the non-recurring items are not indicative of the Company's operating performance, these items do impact the statement of operations, and management therefore utilizes adjusted net (loss) income as an operating performance measure in conjunction with GAAP measures such as GAAP net (loss) income.

(2) Adjusted diluted net (loss) earnings per share represents GAAP net (loss) earnings per share minus gross profit from non-recurring retroactive billings. Management presents adjusted diluted net (loss) earnings per share because it believes that adjusted diluted net (loss) earnings per share is a useful supplement to GAAP net (loss) earnings per share as an indicator of operating performance. Management believes such a measure provides a picture of the Company's results that is more comparable among periods since it excludes the impact of items that are non-recurring, which could cause distorted comparisons between periods. As defined, adjusted diluted net (loss) earnings per share is not necessarily comparable to other similarly titled captions of other companies due to potential inconsistencies in the method of calculation. While management believes that the non-recurring items are not indicative of the Company's operating performance, these items do impact the statement of operations, and management therefore utilizes adjusted diluted net (loss) earnings per share as an operating performance measure in conjunction with GAAP measures such as GAAP net (loss) earnings per share.

Potential Contractual Billing Adjustments

As described in greater detail in note 4 to the consolidated financial statements included in this Quarterly Report on Form 10-Q, TeamStaff GS is seeking approval from the Federal government for additional gross profit on retroactive billing rate increases associated with certain of its government contracts. These adjustments are due to changes in the contracted wage determination rates for covered contract employees. At June 30, 2009, the amount of the remaining accounts receivable with the DVA approximates $9.3 million. TeamStaff is currently negotiating a final amount related to gross profit on these adjustments. As such, there may be additional revenues recognized in future periods if the approval for the additional amounts is obtained. The ranges of additional revenue and gross profit are estimated to be between $0.4 million and $0.7 million. At present, the Company expects to collect such amounts by the end of the current fiscal year. Because these amounts are subject to government review, no assurances can be given that we will receive any additional billings from these contracts or that if additional amounts are received, that the amount will be within the range specified above.

Liquidity and Capital Resources; Commitments

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

Cash from operating activities

Net cash used in operating activities for the nine months ended June 30, 2009 was $1.4 million as compared to net cash provided by operating activities of $0.7 million for the nine months ended June 30, 2008. This decrease in cash was primarily driven by a net loss of $1.0 million and a decrease in accounts payable of $1.0 million, of which $1.1 million was for payments made to the IRS for previously recorded payroll tax liabilities. Net cash provided by operating activities for the nine months ended June 30, 2008 was $0.7 million. This increase in net cash was primarily driven by $0.35 million in cash received from Zurich related to the reduction in collateral requirements on outstanding workers' compensation claims and an increase in accounts payable and other accrued expenses.

Cash from investing activities

We continue to have relatively low capital investment requirements. The Company spent $0.1 million during the nine months ended June 30, 2009 for the purchase of equipment. Cash provided by investing activities for the nine months ended June 30, 2008 was $0.1 million as a result of proceeds from the sale of Per Diem, offset in part by cash used for the purchases of furniture, technology equipment and software related to the relocation of TeamStaff GS administrative offices to Loganville, Georgia.

Cash from financing activities

Net cash used in financing activities for the nine months ended June 30, 2009 was $46,000, primarily as a result of repayment of capital lease obligations. Net cash used in financing activities for the nine months ended June 30, 2008 was $0.2 million, primarily as a result of repayments on capital lease obligations and fees related to the new credit facility with Sovereign Business Capital.

Loan Facility

On March 28, 2008, TeamStaff and its wholly-owned subsidiaries, TeamStaff Rx and TeamStaff GS entered into an Amended and Restated Loan and Security Agreement dated as of March 28, 2008 (the "Loan Agreement") with Business Alliance Capital Company ("BACC"), a division of Sovereign Bank (the "Lender"). Pursuant to the Loan Agreement, the Lender (i) acquired by assignment from the Company's prior lender, PNC Bank, National Association ("PNC"), all right, title and interest of PNC under the $8.0 million PNC Credit Facility, the PNC note and related loan documentation, and (ii) restructured the PNC Credit Facility into a $3.0 million three (3) year revolving credit facility. Effective April 1, 2008, BACC changed its name to Sovereign Business Capital ("Sovereign"). The outstanding principal and interest balance under the PNC Credit Facility, related fees and certain expenses related to the execution and closing of the Loan Agreement were paid in full with $0.6 million in proceeds drawn from the Loan Agreement on April 2, 2008. Fees associated with this facility approximate $150,000, which are amortized over the life of the Loan Agreement.

Under the Loan Agreement, the Lender agreed to provide a revolving credit facility to the Company in an aggregate amount of up to $3.0 million subject to the further terms and conditions of the Loan Agreement. The loan is secured by a first priority lien on all of the Company's assets. There is currently no debt outstanding under the Loan Agreement.

The Company's ability to request loan advances under the Loan Agreement is subject to computation of the Company's advance limit and compliance with the covenants and conditions of the loan. The loan is for a term of 36 months and matures on March 31, 2011. Interest on advances accrues on the daily unpaid balance of the loan advances at a per annum rate of one-quarter (.25%) percentage points above the Prime Rate in effect from time to time, but not less than five and one-half percent (5.5%) per annum. The interest rate on the facility at June 30, 2009 was 5.5%.

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

On August 13, 2009, we determined that as of June 30, 2009, we were not in compliance with the debt service coverage ratio covenant of the Loan Agreement. In light of this event, Sovereign may avail itself of the remedies provided for in the Loan Agreement, including accelerating payment of amounts outstanding, taking such actions as it deems necessary to protect its security interest in the collateral, and terminating the Loan Agreement. We are in discussions with Sovereign regarding obtaining a waiver of our default under the debt service coverage ratio. However, no assurances can be given that Sovereign will grant any waiver or otherwise decline to exercise their rights under the Loan Agreement.

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

As of June 30, 2009, TeamStaff had cash and cash equivalents of $3.7 million and net accounts receivable of $12.0 million. At June 30, 2009, the amount of the accounts receivable associated with the DVA retroactive billings approximates $9.3 million. This includes $7.6 million that was unbilled at June 30, 2009. As of June 30, 2009, there was no debt outstanding under the Loan Agreement and defined unused availability totaled $1.1 million, net of required collateral reserves per the Loan Agreement for certain payroll and tax liabilities. As of June 30, 2009, TeamStaff had working capital of $1.5 million. The Company believes that it has adequate liquidity resources to fund operations over the next twelve months.

Contractual Obligations

Obligations (Amounts in thousands)	Total	Payments Due By Period: Less than 1 Year	1-3 Years	4-5 Years
Long Term Debt (1)	$ 1,646	$ 1,564	$ 82	$ —
Operating Leases (2)	1,245	479	597	169
Severence Liability (3)	37	37	—	—
Total Obligations	$ 2,928	$ 2,080	$ 679	$ 169

(1) Represents bank line of credit, the maximum amount of notes payable related to the acquisition of TeamStaff GS, and capital lease obligations.

(2) Represents lease payments net of sublease income.

(3) Represents severance payments related to former employees.

In addition, on August 10, 2009, the Company entered into a settlement agreement with a former employee to resolve a 2006 wrongful termination claim alleged by such person. Pursuant to this agreement, we agreed to pay an amount of $160,000 in full settlement of any and all claims he may have against the Company arising out of the termination of his employment with TeamStaff GS.

Employment Agreements

As previously reported, during fiscal 2008 and the first quarter of fiscal 2009, we entered into employment agreements with each of our executive officers. The material terms and conditions of each of these employment agreements were summarized in greater detail in our Annual Report on Form 10-K for the fiscal year ended September 30, 2008 under the caption "Executive Compensation and Related Information". The summaries of each of the foregoing agreements are incorporated herein by reference.

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, results of operations or cash flows.

Effects of Inflation

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

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

TeamStaff does not undertake trading practices in securities or other financial instruments and therefore does not have any material exposure to interest rate risk, foreign currency exchange rate risk, commodity price risk or other similar risks, which might otherwise result from such practices. TeamStaff is not materially subject to fluctuations in foreign exchange rates, commodity prices or other market rates or prices from market sensitive instruments. TeamStaff has a material interest rate risk with respect to our prior workers' compensation programs. In connection with TeamStaff's prior workers' compensation programs, prepayments of future claims were deposited into trust funds for possible future payments of these claims in accordance with the policies. The interest income resulting from these prepayments is for the benefit of TeamStaff, and is used to offset workers' compensation expense. If interest rates in these periods decrease, TeamStaff's workers' compensation expense would increase because TeamStaff would be entitled to less interest income on the deposited funds. Further, and as discussed elsewhere in this filing, as of March 28, 2008, TeamStaff has a $3.0 million revolving credit facility with Sovereign Business Capital under which revolving credit advances bear interest at the Prime Rate in effect from time to time plus 25 basis points. The Loan Agreement has a three-year life and contains term and line of credit borrowing options. The Loan Agreement is subject to certain restrictive covenants, including a debt service coverage ratio. The Loan Agreement is subject to acceleration upon non-payment or various other standard default clauses. Material increases in the Prime Rate could have a material adverse effect on our results of operations, cash flows, the status of the Loan Agreement 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, 2009, the Company's Chief Executive Officer and the Company's Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our President and Chief Financial Officer, to allow timely decisions regarding required disclosure.

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, 2009, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II — OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

RS Staffing Services, Inc.

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

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

The Company originally acquired RS Staffing Services in June 2005. As part of the purchase price of the acquisition, the Company issued to the former owners of RS Staffing Services a $3.0 million promissory note, of which $1.5 million and interest of $150,000 was paid in June 2006. On May 31, 2007, the Company sent a notice of indemnification claim to the former owners for costs that have been incurred in connection with the investigation. Effective June 1, 2007, the Company and former owners of RS Staffing Services reached an agreement to extend the due date from June 8, 2007 to December 31, 2008 with respect to the remaining $1.5 million note payable and accrued interest payable. Such agreement has been extended to September 30, 2009. As of June 30, 2009, the amount has not been settled. The Company recognized expenses related to legal representation and costs incurred in connection with the investigation in the amount of $4,000 and $18,000 during the three months ended June 30, 2009 and 2008, respectively, as a component of other income (expense). The Company recognized expenses related to legal representation and costs incurred in connection with the investigation in the amount of $16,000 and $156,000 during the nine months ended June 30, 2009 and 2008, respectively, as a component of other income (expense). Cumulative costs related to this matter approximate $1.7 million. Pursuant to the acquisition agreement with RS Staffing Services, the Company has notified the former owners of RS Staffing Services that it is the Company's intention to exercise its right to setoff the payment of such expenses against the remaining principal and accrued interest due to the former owners of RS Staffing Services.

The Company will pursue the recovery as a right of offset in future periods. Management has a good faith belief that the Company will recover such amounts; however, generally accepted accounting principles preclude the Company from recording an offset to the note payable to the former owners of RS Staffing Services until the final amount of the claim is settled and determinable. At present, no assurances can be given that the former owners of RS Staffing Services would not pursue action against us or that the Company will be successful in the offset of such amounts against the outstanding debt. Accordingly, the Company has expensed costs incurred related to the investigation through June 30, 2009.

Other Matters

On October 2, 2008, the United States Equal Employment Opportunity Commission ("EEOC") issued a subpoena to TeamStaff GS regarding the alleged wrongful termination of certain employees who were employed at a federal facility staffed by TeamStaff GS temporary contract employees. The wrongful termination is alleged to have occurred when the former employees were terminated because they could not satisfy English proficiency requirements imposed by the Federal government. TeamStaff GS has produced all documents that it believes were required by the subpoena and has submitted its position statement to the EEOC. It is unclear, at present, if or when the EEOC will respond.

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

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

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

ITEM 1A: RISK FACTORS

Our operating results and financial condition have varied in the past and may in the future vary significantly depending on a number of factors. In addition to the other information set forth in this report, you should carefully consider the factors discussed in the "Risk Factors" section in our Annual Report on Form 10-K for the year ended September 30, 2008, and the "Risk Factors" section in our Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2008 for a discussion of the risks associated with our business, financial condition and results of operations. These factors, among others, could have a material adverse effect upon our business, results of operations, financial condition or liquidity and cause our actual results to differ materially from those contained in statements made in this report and presented elsewhere by management from time to time. The risks identified by TeamStaff in its reports are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently believe are immaterial also may materially adversely affect our business, results of operations, financial condition or liquidity. We believe there have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2008 and our Quarterly Report on Form 10-Q for the fiscal quarter ended December 31,2008.

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

During the period covered by this report, the Company did not issue any securities that were not registered under the Securities Act of 1933, as amended, except as has been reported in previous filings with the SEC.

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

On August 13, 2009, we determined that as of June 30, 2009, we were not in compliance with the debt service coverage ratio covenant of our Loan Agreement with Sovereign. We are in discussions with Sovereign regarding the grant of a waiver of this default. No assurances, however, can be given that Sovereign will in fact grant such a waiver or whether they will decline to exercise any of their rights under the Loan Agreement. Additional information regarding this matter is incorporated herein by reference to Item 5 of Part II of this Quarterly Report.

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

On April 22, 2009, TeamStaff held its Annual Meeting of Shareholders. The record date for shareholders eligible to vote was March 4, 2009. As of the record date there were 4,883,389 shares of common stock issued and outstanding. Voting of the shares of common stock was on a non-cumulative basis. A total of 3,714,246 shares were voted at the Annual Meeting.

The only matter before the shareholders was the election of two persons as Class I directors for a term of three years. The persons nominated for election were T. Stephen Johnson and Peter Black. Both nominees were elected to the Board of Directors. The results of the vote were:

Nominees	Votes Cast For	Withheld Authority to Vote
T. Stephen Johnson	3,574,595	139,651
Peter Black	3,616,887	97,359

ITEM 5: OTHER INFORMATION

Under our Loan Agreement with Sovereign, our lender agreed to provide a revolving credit facility to the Company in an aggregate amount of up to $3.0 million subject to the further terms and conditions of the Loan Agreement. The loan is secured by a first priority lien on all of the Company's assets. There is currently no debt outstanding under the Loan Agreement and the interest rate on the facility at June 30, 2009 was 5.5%. The Loan Agreement requires us to comply with certain customary covenants including a debt service coverage ratio and imposes restrictions on the Company's ability to, among other things, dispose of certain assets, engage in certain transactions, incur indebtedness and pay dividends. On August 13, 2009, we determined that as of June 30, 2009, we were not in compliance with the debt service coverage ratio covenant of the Loan Agreement. The Loan Agreement provides that following an event of default, Sovereign may, among other remedies provided for in the Loan Agreement, accelerate the amounts outstanding under the Loan Agreement, take such actions as it deems necessary to protect its security interest in the collateral, and terminate the Loan Agreement. We are in discussions with Sovereign regarding obtaining a waiver of our default under the debt service coverage ratio. However no assurances can be given that Sovereign will grant any waiver or otherwise decline to exercise their rights under the Loan Agreement.

ITEM 6: EXHIBITS

The exhibits designated with an asterisk (*) are filed herewith.

Exhibit No.	Description
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

TEAMSTAFF, INC.

/s/ Rick Filippelli
Rick Filippelli
Chief Executive Officer
(Principal Executive Officer)

/s/ Cheryl Presuto
Cheryl Presuto
Chief Financial Officer
(Principal Accounting Officer)

Dated: August 14, 2009

EXHIBIT INDEX

Exhibit No.	Description
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	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*

Exhibit 31.1

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. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

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

5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

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

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

Date: August 14, 2009

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

Exhibit 31.2

CERTIFICATIONS

I, Cheryl Presuto, certify that:

1. I have reviewed this quarterly report on Form 10-Q of TeamStaff, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

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

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

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

5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

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

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

Date: August 14, 2009

/s/ Cheryl Presuto
Cheryl Presuto
Chief Financial Officer

Exhibit 32.1

**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. (“TeamStaff”) on Form 10-Q for the period ending June 30, 2009 as filed with the Securities and Exchange Commission on the date hereof, the undersigned, being, Rick J. Filippelli, Chief Executive Officer, and Cheryl Presuto, Chief Financial Officer and Principal Accounting Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the report fairly presents, in all material respects, the financial condition and results of operations of TeamStaff.

Date: August 14, 2009

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