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 March 31, 2007

OR

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

For the transition period from to

Commission File No. 0-18492

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

NEW JERSEY	**22-1899798**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1545 PEACHTREE STREET, N.E., ATLANTA, GEORGIA	**30309**
(Address of principal executive offices)	(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE (866) 352-5304

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

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

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

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

Yes ☐ No ☒

19,243,366 shares of Common Stock, par value $.001 per share, were outstanding as of May 11, 2007.

TEAMSTAFF, INC.

FORM 10-Q

March 31, 2007

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Part I — FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

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

	MARCH 31, 2007 (unaudited)	SEPTEMBER 30, 2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 337	$ 2,157
Accounts receivable, net of allowance for doubtful accounts of $31and $44 at March 31, 2007 and September 30, 2006, respectively	9,105	8,712
Prepaid workers' compensation	723	1,094
Other current assets	1,024	923
Total current assets	11,189	12,886
EQUIPMENT AND IMPROVEMENTS:		
Furniture and equipment	3,347	3,333
Computer equipment	578	556
Computer software	898	898
Leasehold improvements	177	177
	5,000	4,964
Less accumulated depreciation and amortization	(4,256)	(4,085)
Equipment and improvements, net	744	879
TRADENAME	4,569	4,569

GOODWILL	11,986	11,986
OTHER ASSETS:		
Prepaid workers' compensation, net of current portion	—	350
Other assets	94	106
Total other assets	94	456
TOTAL ASSETS	$ 28,582	$ 30,776

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

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

	MARCH 31, 2007 (unaudited)	SEPTEMBER 30, 2006
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Notes payable	$ 1,500	$ 1,500
Current portion of capital lease obligations	63	61
Accrued payroll	1,748	1,687
Accrued pension liability	210	210
Accounts payable	2,924	3,207
Accrued expenses and other current liabilities	1,719	1,818
Total current liabilities	8,164	8,483
CAPITAL LEASE OBLIGATIONS, net of current portion	215	247
ACCRUED PENSION LIABILITY, net of current portion	201	388
LIABILITIES FROM DISCONTINUED OPERATIONS	205	454
Total liabilities	8,785	9,572
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred stock, $.10 par value; authorized 5,000 shares; 0 issued and outstanding	—	—
Common stock, $.001 par value; authorized 40,000 shares; issued 19,250 and 19,285 at March 31, 2007 and September 30, 2006, respectively; outstanding 19,243 and 19,278 at March 31, 2007 and September 30, 2006, respectively	19	19
Additional paid-in capital	68,755	68,684
Accumulated deficit	(48,903)	(47,387)
Accumulated comprehensive losses	(50)	(88)
Treasury stock, 7 shares at cost at March 31, 2007 and September 30, 2006	(24)	(24)
Total shareholders' equity	19,797	21,204
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 28,582	$ 30,776

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

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

	For the three months ended March 31,	
	2007	2006
REVENUES	$ 17,762	$ 18,452
DIRECT EXPENSES	15,145	15,395

Gross profit	2,617	3,057
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	3,516	3,548
DEPRECIATION AND AMORTIZATION	86	91
Loss from operations	(985)	(582)
OTHER INCOME (EXPENSE):		
Interest income	11	8
Interest expense	(56)	(193)
Other income	46	39
	1	(146)
Loss from continuing operations before tax	(984)	(728)
INCOME TAX BENEFIT	13	271
Loss from continuing operations	(971)	(457)
INCOME FROM DISCONTINUED OPERATIONS:		
(Loss) income from operations, net of tax expense of $0 and $152 for quarters ended March 31, 2007 and 2006, respectively	(31)	245
	(31)	245
Net loss	(1,002)	(212)
OTHER COMPREHENSIVE INCOME:		
Minimum pension liability adjustment, net of tax	15	5
COMPREHENSIVE LOSS	$ (987)	$ (207)
EARNINGS PER SHARE – BASIC AND DILUTED		
Loss from continuing operations	$ (0.05)	$ (0.02)
Income from discontinued operations	0.00	0.01
Net loss	$ (0.05)	$ (0.01)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC	19,243	19,278
WEIGHTED AVERAGE NUMBER OF COMMON SHARES AND EQUIVALENTS OUTSTANDING – DILUTED	19,243	19,278

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

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

	For the six months ended March 31,	
	2007	2006
REVENUES	$ 35,309	$ 37,877
DIRECT EXPENSES	29,978	31,567
Gross profit	5,331	6,310
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	6,819	7,233
DEPRECIATION AND AMORTIZATION	177	182
Loss from operations	(1,665)	(1,105)
OTHER INCOME (EXPENSE):		
Interest income	34	11
Interest expense	(113)	(368)
Other income	97	78
	18	(279)
Loss from continuing operations before tax	(1,647)	(1,384)
INCOME TAX BENEFIT	108	522
Loss from continuing operations	(1,539)	(862)
INCOME FROM DISCONTINUED OPERATIONS:		
(Loss) income from operations, net of tax expense of $0 and $392 for six months ended March 31, 2007 and 2006, respectively	(54)	632
Income from disposal, net of tax expense of $48 for six months ended March 31, 2007	77	—
	23	632
Net loss	(1,516)	(230)
OTHER COMPREHENSIVE INCOME:		
Minimum pension liability adjustment, net of tax	38	50
COMPREHENSIVE LOSS	$ (1,478)	$ (180)

EARNINGS PER SHARE – BASIC AND DILUTED		
Loss from continuing operations	$ (0.08)	$ (0.04)
Income from discontinued operations	0.00	0.03
Net loss	$ (0.08)	$ (0.01)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC	19,249	19,278
WEIGHTED AVERAGE NUMBER OF COMMON SHARES AND EQUIVALENTS OUTSTANDING – DILUTED	19,249	19,278

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

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

	For the six months ended March 31,	
	2007	**2006**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (1,516)	$ (230)
Adjustments to reconcile net loss to net cash used in operating activities, net of acquired businesses:		
Deferred income taxes	—	(182)
Depreciation and amortization	177	182
Compensation expense related to director stock option grants	5	10
Compensation expense related to employee restricted stock grants	115	—
Provision for doubtful accounts	58	104
Gain on sale of DSI Payroll Services Division	(77)	—
Changes in operating assets and liabilities, net of acquired businesses:		
(Increase) in accounts receivable	(451)	(487)
Decrease in other current assets	220	391
Decrease in other assets	357	1,878
(Decrease) in accounts payable, accrued payroll, accrued expenses and other current liabilities	(321)	(1,456)
(Decrease) in pension liability	(187)	(213)
Cash flows from discontinued operations	(172)	(155)
Net cash used in operating activities	(1,792)	(158)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of equipment, leasehold improvements and software	(36)	(82)
Payment for acquisition of Nursing Innovations	—	3
Net cash used in investing activities	(36)	(79)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on revolving line of credit	2,446	44,925
Payments on revolving line of credit	(2,446)	(44,910)
Principal payments on notes payable	—	(278)
Repayments on capital leases obligations	(30)	(21)
Net comprehensive income on pension	38	50
Cash flows from discontinued operations	—	12
Net cash provided by (used in) financing activities	8	(222)
Net decrease in cash and cash equivalents	(1,820)	(459)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,157	1,304
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 337	$ 845
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for-		
Interest	$ 113	$ 296
Income taxes	$ 457	$ 84

SUPPLEMENTAL DISCLOSURE OF NON CASH INVESTING AND FINANCING ACTIVITY:

The company reclassified $350,000 of prepaid workers’ compensation from long term asset to short term asset.

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

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TEAMSTAFF, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2007 (Unaudited)

(1) ORGANIZATION AND BUSINESS:

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

When we use the term “TeamStaff,” or the “Company” we mean TeamStaff and its subsidiaries. Currently, we operate only through the parent corporation, TeamStaff, Inc., and TeamStaff Rx, Inc. (including its Nursing Innovations division) and RS Staffing Services, Inc., two wholly-owned subsidiaries of TeamStaff Inc. TeamStaff’s other wholly-owned subsidiaries include DSI Staff ConnXions Northeast, Inc., DSI Staff ConnXions Southwest, Inc., TeamStaff Solutions, Inc., TeamStaff I, Inc., TeamStaff II, Inc., TeamStaff III, Inc., TeamStaff IV, Inc., TeamStaff VIII, Inc., TeamStaff IX, Inc., Digital Insurance Services, Inc., HR2, Inc. and BrightLane.com, Inc. As a result of the sale of our Professional Employer Organization (“PEO”) business in fiscal year 2004 and other Company business changes, these “other” subsidiaries are not actively operating.

TeamStaff provides specialized medical, nursing and administrative staffing services. TeamStaff provides allied healthcare and nursing professionals and administrative personnel through three staffing units. The Company’s TeamStaff Rx, Inc. subsidiary operates throughout the United States and specializes in providing allied medical employees and nurses, especially “travel” staff (typically on a thirteen-week assignment basis). Allied medical staff includes MRI technicians, mammographers, dosimetrists, ultrasound staff and physicists. TeamStaff Rx, Inc. places temporary employees for over 200 client facilities. TeamStaff Rx Inc.’s Nursing Innovations unit provides travel nursing, per diem nursing, temporary-to-permanent nursing and permanent nursing placement services. Nursing Innovations places temporary employees at over 130 client facilities. The Company’s RS Staffing Services, Inc. subsidiary specializes in providin g medical and office administration/technical professionals through nationwide Schedule contracts with both the General Services Administration and Veterans Affairs. RS Staffing Services, Inc. places temporary employees at over 75 facilities.

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

Basis of Presentation

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

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

Certain prior period amounts have been reclassed to conform to current period presentation.

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(2) SIGNIFICANT ACCOUNTING POLICIES:

Recently Issued Accounting Pronouncements Affecting the Company

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159*)*. SFAS No. 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 No. 159 is effective for fiscal years beginning after November 15, 2007, the provisions of which are required to be applied prospectively. The Company expects to adopt SFAS No. 159 in the first quarter of fiscal 2009 and is stil l evaluating the effect, if any, on its financial position or results of operations.

Revenue Recognition

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

TeamStaff accounts for its revenues in accordance with EITF 99-19, *Reporting Revenues Gross as a Principal Versus Net as an Agent,* and SAB 104*, Revenue Recognition*. TeamStaff recognizes all amounts billed to its temporary staffing customers as gross revenue because, among other things, TeamStaff is the primary obligor in the temporary staffing arrangement; TeamStaff has pricing latitude; TeamStaff selects temporary employees for a given assignment from a broad pool of individuals; TeamStaff is at risk for the payment of its direct costs; and, TeamStaff assumes a significant amount of other risks and liabilities as an employer of its temporary employees, and therefore, is deemed to be a principal in regard to these services. TeamStaff also recognizes as gross revenue and as unbilled receivables, on an accrual basis, any such amounts that relate to services performed by temporary employees which have not yet been billed to the customer as of the end of the accounting period.

Staffing (whether medical or administrative) revenue is recognized as service is rendered. TeamStaff bills its clients based on an hourly rate. The hourly rate is intended to cover TeamStaff's direct labor costs of the temporary employees, plus an estimate to cover overhead expenses and a profit margin. Additionally, commissions from permanent placements are included in revenue related to Medical Staffing. Commissions from permanent placements result from the successful placement of a medical staffing employee to a customer's workforce as a permanent employee.

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

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

Stock-Based Compensation

The Company's 2006 Long Term Incentive Plan (the "2006 Plan"), which is shareholder approved, permits the grant of stock options, stock appreciation rights, restricted stock, performance awards or other stock unit awards (collectively, "Awards") of up to 5,000,000 shares of common stock to all employees and non-employee directors. All Awards under the 2006 Plan are granted at the fair market value of the common stock at the grant date.

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

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

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

Each non-employee Board member will receive an initial grant under the Company's 2006 Long-Term Incentive Plan of 15,000 shares of restricted stock following the 2007 annual meeting of shareholders. Additionally, for each Board committee on which such non-employee Board member serves, the Board member will receive a grant of 2,500 shares of restricted stock following the 2007 annual meeting of shareholders. Fifty percent (50%) of all such shares of restricted stock shall vest when the volume-weighted average share price of the Company's common stock over any twenty consecutive trading days exceeds the price on the date of grant by 20%, with the remaining fifty percent (50%) vesting one year thereafter. Future annual grants shall be determined by the Company's Compensation Committee.

Effective October 1, 2005, the Company's stock based compensation plans are accounted for in accordance with the recognition and measurement provisions of Statement of Financial Accounting Standards ("FAS") No.

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

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

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

In adopting FAS 123(R), the Company applied the modified prospective approach to transition. Under the modified prospective approach, the provisions of FAS 123(R) are to be applied to new

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awards and to awards modified, repurchased, or cancelled after the required effective date. Additionally, compensation cost for the portion of awards for which the requisite service has not been rendered that are outstanding as of the required effective date shall be recognized as the requisite service is rendered on or after the required effective date. The compensation cost for that portion of awards shall be based on the grant-date fair value of those awards as calculated for either recognition or pro-forma disclosures under FAS 123. Stock option compensation expense in 2007 and 2006 is the estimated fair value of options granted amortized on a straight-line basis over the requisite service period for the entire portion of the award. As a result of the adoption of FAS 123(R), the Company's results for the three and six month period ended March 31, 2007 include share-based compensation expense totaling approximately $2,000 and $5,000, respectively. The Company's results for the three and six month period ended March 31, 2006 include share-based compensation expense totaling approximately $5,000 and $10,000, respectively. Such amounts have been included in the Consolidated Statements of Operations within operating expenses. The Company recognized related tax benefits associated with its share-based compensation arrangements totaling approximately $1,000 and $2,000, respectively, for the three and six month period ended March 31, 2007. The Company recognized related tax benefits associated with its share-based compensation arrangements totaling approximately $2,000 and $4,000, respectively, for the three and six month period ended March 31, 2006. As of March 31, 2007, approximately $4,000 of unrecognized compensation expense related to non-vested stock option awards is expected to be recognized during the remainder of the current fiscal year.

During the three and six months ended March 31, 2007, TeamStaff did not grant any options, no options expired, 62,000 options were cancelled unexercised and no options were exercised. There were 831,000 options outstanding as of March 31, 2007. During the three and six months ended March 31, 2006, TeamStaff did not grant any options, no options expired or were cancelled unexercised, and no options were exercised. There were 1,318,000 options outstanding as of March 31, 2006.

During the three months ended March 31, 2007, TeamStaff granted awards of restricted stock under its 2006 Long Term Incentive Plan. An aggregate of 230,000 shares of restricted stock were awarded at the closing price on the award date of $1.07. The Shares will vest according to the following schedule: (a) 60,000 Shares will vest immediately; (b) 85,000 Shares will vest on September 30, 2008, subject to the Company achieving four prior consecutive quarters of EBITDA profitability, and (c) 85,000 Shares will vest on September 30, 2009 subject to at least a 50% improvement in EBITDA profitability in fiscal 2009 as compared to fiscal 2008. In accordance with FAS 123(R) the company will not accrue expense until it is probable that these performance conditions will be achieved.

	Number Of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding, September 30, 2006	893,000	$ 2.65	2.6	$ —
Granted	—			
Exercised	—			
Cancelled	62,000	$ 2.00		
Options outstanding, March 31, 2007	831,000	$ 2.69	2.1	$ —
Options exercisable, March 31, 2007	811,000	$ 2.70	2.0	$ —

	Number Of Shares	Weighted Average Grant-Date Fair Value
Restricted stock outstanding, September 30, 2006	220,000	$ 1.70
Granted	230,000	1.07
Cancelled	80,000	1.70
Restricted stock outstanding, March 31, 2007	370,000	$ 1.31

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As of March 31, 2007, approximately $347,000 of unrecognized compensation costs related to non-vested restricted stock awards was expected to be recognized over a weighted average period of 2.3 years.

Earnings Per Share

Basic earnings per share is calculated by dividing income available to common shareholders by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is calculated by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period adjusted to reflect potentially dilutive securities.

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

	Three Months Ended March 31,		Six Months Ended March 31,	
(Amounts in thousands)	**2007**	**2006**	**2007**	**2006**
Weighted average number of common shares outstanding-basic	19,243	19,278	19,249	19,278
Incremental shares for assumed conversion of stock options/warrants	—	—	—	—
Weighted average number of common shares outstanding-diluted	19,243	18,398	19,249	17,844

Stock options and warrants outstanding at March 31, 2007 to purchase 1,429,000 shares of common stock and at March 31, 2006 to purchase 1,932,000 shares of common stock were not included in the computation of diluted earnings per share as they were antidilutive.

Income Taxes

Deferred tax assets and liabilities are determined based on temporary differences between income and expenses reported for financial reporting and tax reporting. The Company is required to record a valuation allowance to reduce its net deferred tax assets to the amount that it believes is more likely than not to be realized. In assessing the need for a valuation allowance, the Company historically had considered all positive and negative evidence, including scheduled reversals of deferred tax liabilities, prudent and feasible tax planning strategies and recent financial performance. The Company determined that the negative evidence, including historic and current taxable losses, as well as uncertainties related to the ability to utilize certain Federal and state net loss carry forwards, outweighed any objectively verifiable positive factors, and as such, concluded that a full valuation allowance against the deferred tax asset was necessary in fiscal 2006. In fis cal 2006, the deferred tax asset was reduced by $16.9 million with a corresponding adjustment to the provision for income taxes. For the three months ended March 31, 2007, the Company recorded approximately $0.4 million in additional valuation allowance against the deferred tax asset related to current taxable losses, with a corresponding adjustment to the provision for income taxes. For the six months ended March 31, 2007, the Company recorded approximately $0.5 million in additional valuation allowance against the deferred tax asset related to current taxable losses, with a corresponding adjustment to the provision for income taxes. The net carrying value of the deferred tax asset was $0 at September 30, 2006 and as of March 31, 2007. The establishment of the deferred tax asset allowance does not preclude the Company from reversing a portion or all of the allowance in future periods if the Company believes the positive evidence is sufficient enough to utili ze at least a portion of the deferred tax asset, nor does it limit the ability to utilize losses for tax purposes, subject to loss carry-forward limitations and periods permitted by tax law.

The Company has available approximately $28.3 in net operating loss carry forwards that expire at various dates through 2025.

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Accumulated Comprehensive Loss and Minimum Pension Liability Adjustment

A minimum pension liability adjustment is required when the actuarial present value of accumulated benefit obligation exceeds the plan assets and accrued pension liabilities. The minimum pension liability adjustment, net of income taxes, is recorded as a component of "Accumulated comprehensive income" on the balance sheet and is reflected in Statement of Comprehensive Income (Loss) as "Minimum pension liability adjustment, net of tax". The Company used a discount rate of 3.0% each to calculate the projected benefit obligation and the periodic benefit cost calculation for the three and six months ended March 31, 2007. The Company recorded a gain from such adjustment, net of tax of $15,000 and $5,000 for the three months ended March 31, 2007 and 2006, respectively. The Company recorded a gain from such adjustment, net of tax of $38,000 and $50,000 for the six months ended March 31, 2 007 and 2006, respectively. At March 31, 2007 and September 30, 2006, accumulated comprehensive loss on the balance sheet reflects the cumulative balance due to the minimum pension liability adjustment.

(3) RECENT EVENTS:

On April 17, 2007, a Federal Grand Jury subpoena was issued by the Northern District of Illinois to RS Staffing Services, Inc. ("RS Staffing") requesting production of certain documents dating back to 1997. According to the cover letter accompanying the subpoena, the U.S. Department of Justice, Antitrust Division, along with members of the Veterans Affairs Office of Inspector General are responsible for the current criminal investigation. The subpoena states that it is issued in connection with an investigation of possible violations of federal criminal laws and related crimes concerning procurement at the Veterans Administration. RS Staffing provides temporary staffing at certain Veterans Administration hospitals that may be part of the investigation. The return date for documents called for by the subpoena is May 17, 2007. In connection with the same investigation, agents with the United States Department of Vetera ns Affairs, Office of Inspector General, executed a search warrant at the Monroe, Georgia offices of RS Staffing. The Company has been advised that neither it nor RS Staffing is currently a target of the investigation. The Company is actively cooperating with the government's investigation.

The Company originally acquired RS Staffing in May of 2005 and is reviewing its rights to seek indemnification from the sellers for costs that may be incurred in connection with the investigation.

(4) BUSINESS COMBINATIONS:

Acquisition of RS Staffing Services, Inc.

On June 8, 2005 TeamStaff, Inc. completed its acquisition of RS Staffing, a privately held Georgia corporation, pursuant to the terms of a Stock Purchase Agreement dated as of May 26, 2005. RS Staffing, headquartered in Monroe, GA, specializes in providing medical and office administration/ technical professionals through nationwide Schedule contracts with both the General Services Administration ("GSA") and Veterans Affairs ("VA"). Closing of the transaction was completed for accounting purposes as of June 4, 2005. TeamStaff acquired all of the capital stock of RS Staffing for a purchase price of $8 million consisting of $3.25 million in cash, $3 million in a 2-year note, and $1.75 million in TeamStaff common stock (1,206,896 shares). The shares are restricted shares and can only be sold in accordance with the provisions of Rule 144 of the Securities Act of 1933. The Sellers guaranteed a minimum net worth of $1.4 million and any amounts above or below this amount after a finalized accounting at one year post acquisition, were subject to a purchase price adjustment. As a result, for the quarter ended June 30, 2006, a downward purchase price adjustment i n the amount of approximately $132,000 was made and deducted from the amount due under the first installment of the note payable. In addition, there was a one-year earn out of up to $2.0 million based upon the achievement of specified performance targets for the business. The performance targets were met and the Company made payment of the full amount on August 14, 2006. Principals of RS Staffing, namely Roger Staggs and Barry Durham, initially continued as management of RS Staffing pursuant to employment agreements with each of them. Barry Durham resigned his position effective as of

December, 2005. Roger Staggs' employment agreement expired on June 4, 2006 and was not renewed. The acquisition agreement also provided for mutual indemnification for breaches of representations and warranties. Further, the note issued by TeamStaff as part of the purchase price bears interest at 5% per annum, of which one half has been paid and the remainder is payable in June 2007, and is secured by a lien on certain assets of the business, subordinate to any liens granted in connection with financing for the transaction. The Company paid $1.5 million of the note payable plus accrued interest of $150,000 on June 8, 2006. In connection with the acquisition, TeamStaff obtained financing from PNC Bank, National Association ("PNC Bank").

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

(Amounts in thousands)	
Current assets	$ 5,865
Property, plant, and equipment	204
Goodwill	8,960
Other assets	75
Total assets acquired	15,104
Current liabilities	4,680

Long term liabilities	39
Total liabilities assumed	4,719
Net assets acquired	$ 10,385

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

(5) DISCONTINUED OPERATIONS:

Disposal of DSI Payroll Services

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

Net revenues for the payroll services segment during the three and six months ended March 31, 2006 were $1.2 million and $2.7 million, respectively, and due to the sale of DSI, there were no revenues during the three and six months ended March 31, 2007.

The following chart details assets and liabilities from all discontinued operations:

(amounts in thousands)	March 31, 2007	September 30, 2006
ASSETS	$ —	$ —
LIABILITIES		
Accrued expenses and other current liabilities	$ 205	$ 454
Total current liabilities	205	454
Total liabilities	$ 205	$ 454

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Liability Balances (amounts in thousands)	December 31, 2006 Balance	Expensed This Quarter	Paid This Quarter	March 31, 2007 Balance
Accrued expenses and other current liabilities	$ 321	$ 0	$ 116	$ 205
Total	$ 321	$ 0	$ 116	$ 205

(6) COMMITMENT AND CONTINGENCY:

Payroll Taxes

TeamStaff has received notices from the Internal Revenue Service ("IRS") claiming taxes, interest and penalties due related to payroll taxes predominantly from its former PEO operations. TeamStaff has also received notices from the IRS reporting overpayments of taxes. Management believes that these notices are predominantly the result of misapplication of payroll tax payments between its legal entities. If not resolved favorably, the Company may incur interest and penalties. Until the sale of certain PEO assets in November, 2003, TeamStaff operated through 17 subsidiaries, and management believes that the IRS has not correctly identified payments made through certain of the different entities, therefore leading to the notices. To date, TeamStaff has been working with the IRS to resolve these discrepancies and has had certain interest and penalty claims abated. TeamStaff has also received notices from the Social Security Administration c laiming variances in wage reporting compared to IRS transcripts. TeamStaff believes the notices from the Social Security Administration are directly related to the IRS notices received. TeamStaff has retained the services of Ernst & Young LLP as a consultant to assist it in resolving certain of these matters with the IRS and Social Security Administration. TeamStaff believes that after the IRS applies all the funds correctly, any significant interest and penalties will be abated; however, there can be no assurance that each of these matters will be resolved favorably.

(7) WORKERS' COMPENSATION:

Prepaid Workers' Compensation

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

As part of the Company's discontinued PEO operations, TeamStaff had a workers' compensation program with Zurich, which covered the period from March 22, 2002 through November 17, 2003, inclusive. Payments

for the policy were made to the trust monthly based on projected claims for the policy period. Interest on all assets held in the trust is credited to TeamStaff. Payments for claims and claims expenses are made from the trust. Assets in the trust may be adjusted from time to time based on program experience. On March 3, 2006, Zurich reduced the collateral requirements on outstanding workers' compensation claims and released $2.25 million in trust account funds back to TeamStaff. On March 5, 2007, Zurich further reduced the collateral requirements on outstanding workers' compensation claims and released an additional $0.76 million in trust account funds back to TeamStaff. After the release of t hese trust account funds, Zurich further reviewed the collateral requirements on outstanding worker's compensation claims and on April 3, 2007, subsequent to the balance sheet date, released an additional $0.43 million in trust account funds back to TeamStaff. TeamStaff estimates that at March 31, 2007, the remaining prepaid asset of $0.7 million (which includes the $0.43 million received on April 3, 2007,) will be received within the next twelve months. This is reflected on TeamStaff's balance sheet as of March 31, 2007 as a current asset.

As of March 31, 2007 the adequacy of the workers' compensation reserves was determined, in management's opinion, to be reasonable. In determining our reserves we rely in part upon information

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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 due to their relatively young age, and such variables as timing of payments and investment returns thereon are uncertain or unknown, therefore actual results may vary from current estimates. TeamStaff will continue to monitor the development of these reserves, the actual payments made against the claims incurred, the timing of these payments, the interest accumulated in TeamStaff's prepayments and adjust the reserves as deemed appropriate.

(8) DEBT:

In connection with the acquisition of RS Staffing (see Note 4), TeamStaff secured financing with PNC Bank in the form of a $7.0 million revolving credit facility. The credit facility was provided by PNC Bank effective on June 8, 2005 to (i) provide for the acquisition of RS Staffing; (ii) refinance an outstanding senior loan facility; and (iii) provide ongoing working capital. Effective February 13, 2006, TeamStaff entered into an amendment to the revolving credit note, increasing the revolving credit facility to $8.0 million. Revolving credit advances under the credit facility bear interest at either a PNC Bank internal rate that approximates the Prime Rate plus 25 basis points or LIBOR plus 275 basis points, whichever is higher. The facility has a three-year life and contains term and line of credit borrowing options. The facility is subject to certain restrictive covenants includinga fixed charge coverage ratio if the Company fai ls to maintain invested cash and line availability minimum requirements. For the period ended March 31, 2007, TeamStaff was in compliance with all loan covenants. The facility is subject to acceleration upon non-payment or various other standard default clauses. In addition, the Company granted PNC Bank a lien and security interest on all of its assets. The facility was paid off with the proceeds from the sale of DSI on May 31, 2006 and the line was not drawn upon subsequently until February 8, 2007. At March 31, 2007, there was no debt outstanding under the credit facility and $5.9 million of unused availability under the line, based on billed accounts receivable. The average daily outstanding balance from February 8, 2007 through March 31, 2007, was $0.07 million. The weighted average interest rate on advances from February 8, 2007 through March 31, 2007 was 8.5% for balances not subject to LIBOR. The interest rate ef fective at March 31, 2007 was 8.5%.

In connection with the acquisition of RS Staffing, TeamStaff issued two promissory notes to the former owners of RS Staffing as part of the acquisition price, in the aggregate principal amount of $3.0 million. The notes bear interest at 5% per annum, and are subordinate to the financing provided by PNC Bank described above. One half of the principal and interest was due on June 8, 2006 and payment was made in the amount of $1.65 million. The remaining principal and interest is due in June 2007.

Long-term debt from continuing operations at March 31, 2007 and September 30, 2006 consists of the following-

(Amounts in thousands)	March 31, 2007	September 30, 2006
Notes payable	$ 1,500	$ 1,500
Less: Current portion	(1,500)	(1,500)
Long-term debt	$ —	$ —

(9) STOCK WARRANTS:

During the three and six months ended March 31, 2007, no warrants were issued, no warrants expired unexercised and no warrants were exercised. There were 598,000 warrants outstanding as of March 31, 2007. During the quarter ended March 31, 2006, no warrants were issued, no warrants expired unexercised and no warrants were exercised. During the six months ended March 31, 2006, no warrants were issued, 10,000 warrants expired unexercised, and no warrants were exercised. There were 614,000 warrants outstanding as of March 31, 2006.

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(10) SUPPLEMENTAL RETIREMENT PLAN:

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

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

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

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

Components of Net Periodic Benefit Cost:

(amounts in thousands)	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006	Six Months Ended March 31, 2007	Six Months Ended March 31, 2006
Interest cost	$ 3	$ 5	$ 7	$ 10
Amortization of net loss	11	8	25	19
Settlement charges	14	—	46	65
Total pension cost	$ 28	$ 13	$ 78	$ 94

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

Forward Looking and Cautionary Statements

This Quarterly Report on Form 10-Q contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995 (the “1995 Reform Act”), Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. TeamStaff desires to avail itself of certain “safe harbor” provisions of the 1995 Reform Act and is therefore including this special note to enable TeamStaff to do so. Forward-looking statements are identified by words such as “believe,” “anticipate,” “expect,” “intend,” “plan,” “will,” “may” and other similar expressions. In addition, any statements that refer to expectations, projections or other characterizations o f future events or circumstances are forward-looking statements. Forward-looking statements included in this report involve known and unknown risks, uncertainties and other factors which could cause TeamStaff’s actual results, performance (financial or operating) or achievements to differ from the future results, performance (financial or operating) or achievements expressed or implied by such forward-looking statements. We based these forward-looking statements on our current expectations and best estimates and projections about future events. Our actual results could differ materially from those discussed in, or implied by, these forward-looking statements. The

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following factors (among others) could cause our actual results to differ materially from those implied by the forward-looking statements in this Quarterly Report: our ability to continue to recruit qualified temporary and permanent healthcare professionals and administrative staff at reasonable costs; our ability to retain qualified temporary healthcare professionals and administrative staff for multiple assignments at reasonable costs; our ability to attract and retain sales and operational personnel; our ability to enter into contracts with hospitals, healthcare facility clients, affiliated healthcare networks, physician practice groups and the United States government on terms attractive to us and to secure orders related to those contracts; our ability to demonstrate the value of our services to our healthcare and other facility clients; changes in the timing of hospital, healthcare facility clients’, physician practice groups’ and U.S. Government orders for and our placement of temporary an d 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; our ability to leverage our cost structure; the performance of our management information and communication systems; the effect of existing or future government legislation and regulation; our abi lity to grow and operate our business in compliance with these legislation and regulations; the impact of medical malpractice and other claims asserted against us; the disruption or adverse impact to our business as a result of a terrorist attack; the disruption or adverse impact to our business as a result of the failure of our information systems; our ability to carry out our business strategy; the loss of key officers, and management personnel that could adversely affect our ability to remain competitive; the effect of recognition by us of an impairment to goodwill; other tax and regulatory issues and developments; and the effect of adjustments by us to accruals for self-insured retentions.

Other factors that could cause actual results to differ from those implied by the forward-looking statements in this Quarterly Report on Form 10-Q are set forth in our Annual Report on Form 10-K for the year ended September 30, 2006 and our Current Reports on Form 8-K. We undertake no obligation to update the forward-looking statements in this filing. References in this filing to "TeamStaff" the "Company," "we," "us" and "our" refer to TeamStaff, Inc. and its wholly owned subsidiaries.

Restructuring of Management

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

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

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

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

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

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

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

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

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

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

Critical Accounting Policies and Estimates

TeamStaff believes the accounting policies below represent its critical accounting policies due to the significance or estimation process involved in each. See Note 2 of TeamStaff's 2006 annual report on Form 10-K as well as "Critical Accounting Policies" contained therein for a detailed discussion on the application of these and other accounting policies.

Revenue Recognition

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

TeamStaff accounts for its revenues in accordance with EITF 99-19, *Reporting Revenues Gross as a Principal Versus Net as an Agent* and SAB 104*, Revenue Recognition*. TeamStaff recognizes all amounts billed to its temporary staffing customers as gross revenue because, among other things, TeamStaff is the primary obligor in the temporary staffing arrangement; TeamStaff has pricing latitude; TeamStaff selects temporary employees for

a given assignment from a broad pool of individuals; TeamStaff is at risk for the payment of its direct costs; and TeamStaff assumes a significant amount of other risks and liabilities as an employer of its temporary employees, and therefore, is de emed to be a principal in regard to these services. TeamStaff also recognizes as gross revenue and as unbilled receivables, on an accrual basis, any such amounts that relate to services performed by temporary employees which have not yet been billed to the customer as of the end of the accounting period.

Staffing (whether medical or administrative) revenue is recognized as service is rendered. TeamStaff bills its clients based on an hourly rate. The hourly rate is intended to cover TeamStaff's direct labor costs of the temporary employees, plus an estimate to cover overhead expenses and a profit margin. Additionally, commissions from permanent placements are included in revenue related to Medical Staffing. Commissions from permanent placements result from the successful placement of a medical staffing employee to a customer's workforce as a permanent employee.

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

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

Workers' Compensation

Prepaid Workers' Compensation

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

As part of the Company's discontinued PEO operations, TeamStaff had a workers' compensation program with Zurich, which covered the period from March 22, 2002 through November 17, 2003, inclusive. Payments for the policy were made to the trust monthly based on projected claims for the policy period. Interest on all assets held in the trust is credited to TeamStaff. Payments for claims and claims expenses are made from the trust. Assets in the trust may be adjusted from time to time based on program experience. On March 3, 2006, Zurich reduced the collateral requirements on outstanding workers' compensation claims and released $2.25 million in trust account funds back to TeamStaff. On March 5, 2007, Zurich further reduced the collateral requirements on outstanding workers' compensation claims and released an additional $0.76 million in trust account funds back to TeamStaff. After the release of these trust account funds, Zurich further reviewed the collateral requirements on outstanding worker's compensation claims and on April 3, 2007, subsequent to the balance sheet date, released an additional $0.43 million in trust account funds back to TeamStaff. TeamStaff estimates that at March 31, 2007, the remaining prepaid asset of $0.7 million (which includes the $0.43 million received on April 3, 2007,) will be received within the next twelve months. This is reflected on TeamStaff's balance sheet as of March 31, 2007 as a current asset.

As of March 31, 2007 the adequacy of the workers' compensation reserves was determined, in management's opinion, to be reasonable. In determining our reserves we rely in part upon information regarding loss data received from our workers' compensation insurance carriers that may include loss data for claims incurred during prior policy periods. In addition, these reserves are for claims that have not been sufficiently developed due to their relatively young age, and such variables as timing of payments and investment returns thereon are uncertain or unknown, therefore actual results may vary from current estimates. TeamStaff will continue to monitor the development of these reserves, the actual payments made against the claims incurred, the timing of these payments, the interest accumulated in TeamStaff's prepayments and adjust the reserves as deemed appropriate.

Deferred Taxes

TeamStaff accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." Under SFAS No. 109, deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are reflected on the balance sheet when it is determined that it is more likely than not that the asset will be realized. SFAS No. 109 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some or all of the deferred tax asset will not be realized.

At March 31, 2007, the Company provided a 100% deferred tax valuation allowance of approximately $17.4 million. In assessing the need for a valuation allowance, the Company historically has considered all positive and negative evidence, including scheduled reversals of deferred tax liabilities, prudent and feasible tax

planning strategies and recent financial performance. The Company determined that negative evidence, including historic and current taxable losses, as well as uncertainties related to the ability to utilize certain Federal and state net loss carry forwards, outweighed any objectively verifiable positive factors, and as such, concluded that a valuation allowance was necessary. 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

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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 evidence is sufficient enough to utilize the deferred tax asset, nor does it limit the ability to utilize losses for tax purposes, subject to loss carry forward limitations and periods permitted by law.

Results of Continuing Operations

TeamStaff's revenues for the three months ended March 31, 2007 and 2006 were $17.8 million and $18.5 million, respectively, which represents a decrease of $0.7 million, or 3.7%, from second fiscal quarter 2006 to second fiscal quarter 2007. All revenues are related to the staffing services divisions. Revenues for the second fiscal quarter 2007 and 2006 include $11.2 million and $10.9 million, respectively, related to the RS Staffing subsidiary. This acquisition, effective as of June 2005, helped offset a decrease of $0.9 million in the revenues of the travel allied and nursing portion (''travel'') of our staffing services division from second fiscal quarter 2006 to second fiscal quarter 2007.

TeamStaff's revenues for the six months ended March 31, 2007 and 2006 were $35.3 million and $37.9 million, respectively, which represents a decrease of $2.6 million, or 6.8%, from fiscal year 2006 to fiscal year 2007. All revenues relate to the staffing services division. Revenues for the six months ended March 31, 2007 and 2006include $22.3 million and $21.9 million, respectively, related to RS Staffing.

The Company's travel allied and nursing divisions continued to under perform the market during the second fiscal quarter of 2007. In response to this, in January 2007, the Company restructured its senior management and its Board of Directors in an effort to reduce expenses and restructure its operations, to accelerate revenue growth and contribute to a return to profitability. In connection with the restructuring, the Company's President and Chief Executive Officer, T. Kent Smith, resigned effective January 8, 2007. Mr. Smith also resigned from the Board of Directors. Rick J. Filippelli, the Company's Chief Financial Officer, was appointed President and Chief Executive Officer and also retained his position as Chief Financial Officer. Mr. Filippelli was also elected to the Board of Directors. James D. Houston, the Company's General Counsel, Vice President of Business and Legal Affairs and Corporate Secretary, was also appointed to the position of Chief Operating Officer. Effective April 30, 2007, subsequent to the balance sheet date, Mr. Houston's employment with the Company was terminated. Additional members of the senior management team that resigned in January 2007 were James Donahue, Vice President of Sales and Marketing and President of TeamStaff Rx, Peter Rosen, Vice President of Human Resources and Robert Traficanti, Vice President of Nursing Innovations.

The Company is leading several initiatives to position the staffing services divisions for growth in fiscal 2007. Sales initiatives include assessing, restructuring and adding to its sales force and recruiting efforts, restructuring sales force incentive compensation to better reflect pay for performance and implementation of a pricing and gross margin improvement plan. As part of a marketing initiative, the Company has contracted with an advertising agency to launch an aggressive ad campaign to attract travelers. The Company seeks continued elimination of overhead costs deemed to be non-essential to growth or infrastructure. On March 15, 2007, the Company hired a Director of Sales and Marketing to oversee the allied and nursing sales efforts.

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

Direct expenses for the three months ended March 31, 2007 and 2006 were $15.1 million and $15.4 million, respectively, which represents a decrease of $0.3 million, or 1.6%, from second fiscal

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quarter 2006 to second fiscal quarter 2007. This decrease is a direct result of decreased revenues. As a percentage of revenue, direct expenses for the three months ended March 31, 2007 and 2006 were 85.3% and 83.4%, respectively. Direct expenses for the six months ended March 31, 2007 and 2006 were $30.0 million and $31.6 million, respectively, which represents an decrease of $1.6 million, or 5.0%, from fiscal year 2006 to fiscal

year 2007. As a percentage of revenue, direct expenses for the six months ended March 31, 2007 and 2006 were 84.9% and 83.3%, respectively.

Gross profit for the three months ended March 31, 2007 and 2006 was $2.6 million and $3.1 million, respectively, which represents a decrease of $0.5 million, or 14.4 %, from second fiscal quarter 2006 to second fiscal quarter 2007. This decrease is attributable to the decline in revenues. Gross profit, as a percentage of revenue, decreased to 14.6% from 16.6%, for the three months ended March 31, 2007 and 2006, respectively. Gross profit for the six months ended March 31, 2007 and 2006 was $5.3 million and $6.3 million, respectively, which represents an decrease of $1.0 million, or 15.5%, from fiscal year 2006 to fiscal year 2007. Gross profit, as a percentage of revenue, decreased to 15.0% in fiscal year 2007 from 16.6% in fiscal year 2006. This decrease is primarily due to RS Staffing comprising a larger percentage of total revenue in fiscal 2007 compared to fiscal 2006. The gross profit calculation i ncludes costs paid to RS Staffing teaming partners (subcontractors) that are included as a direct expense. Teaming partners (subcontractors) is a business practice expected by government entities who prefer their suppliers to provide more of a master vendor service where the supplier looks to outside sources when needed to fill open staffing positions.

Selling, general and administrative (“SG&A”) expenses for the three months ended March 31, 2007 and 2006 remained approximately the same at $3.5 million. Included in SG&A for the three months ended March 31, 2007 is approximately $0.3 million in accrued severance costs related to the management restructuring that occurred during the quarter. SG&A expenses, as a percentage of revenue, were 19.8% and 19.2%, for the three months ended March 31, 2007 and 2006, respectively. SG&A expenses for the six months ended March 31,2007 and 2006 were $6.8 million and $7.2 million, respectively, which represents a decrease of $0.4 million, or 5.7% from fiscal year 2006 to fiscal year 2007. Adjusting for the $0.3 million of severance included in the second fiscal quarter of 2007, SG&A expenses for the current fiscal year decreased by approximately $0.7 million or nine p ercent.

Depreciation and amortization for the three months ended March 31, 2007 and 2006 was approximately $86,000 and $91,000, respectively. Depreciation and amortization for the six months ended March 31, 2007 and 2006 was approximately $177,000 and $182,000, respectively.

Other income, which primarily consists of late fee income, for the three months ended March 31, 2007 and 2006 was approximately $46,000 and $39,000, respectively, which represents an increase of $7,000. Other income for the six months ended March 31,2007 and 2007 was approximately $97,000 and $78,000, respectively, representing an increase of $19,000. Late fee income is earned only in the allied healthcare division.

Interest expense for the three months ended March 31, 2007 and 2006 was approximately $56,000 and $193,000, respectively, representing a decrease of $137,000. Interest expense for the six months ended March 31, 2007 and 2006 was $113,000 and $368,000, respectively, representing a decrease of $255,000. This decrease is primarily due to the pay off of the revolving credit facility with the proceeds from the sale of DSI on May 31, 2006. Interest income for the three months ended March 31, 2007 and 2006 was approximately $11,000 and $8,000, respectively, representing an increase of $3,000. Interest income for the six months ended March 31, 2007 and 2006 was approximately $34,000 and $11,000 respectively, representing an increase of $23,000. This increase is a result of interest earned on the cash proceeds of the sale of the DSI division.

The income tax benefit from continuing operations for the three months ended March 31, 2007 and 2006 was $0.01 million and $0.3 million, respectively. Income tax benefit from continuing operations for the six months ended March 31, 2007 and 2006 was $0.1 million and $0.5 million, respectively. As a component of this net tax benefit, the Company provided a deferred tax valuation allowance for the three and six months ended March 31, 2007 of $0.4 million and $0.5 million,

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respectively. The Company has provided a 100% valuation allowance that it is more likely than not that it will not be able to realize the full benefit of the deferred tax asset. These tax benefits are a result of losses from operations.

Loss from continuing operations for the three months ended March 31, 2007 was $1.0 million, or $(0.05) per fully diluted share, as compared to loss from continuing operations for the three months ended March 31, 2006 of $0.5 million, or $(0.02) per fully diluted share. Loss from continuing operations for the six months ended March 31, 2007 was $1.5 million, or $(0.08) per fully diluted share, as compared to loss from continuing operations for the six months ended March 31, 2006 of $0.9 million, or $(0.04) per fully diluted share.

Loss from discontinued operations, net of tax, for the three months ended March 31, 2007 was $0.03 million, with no effect on earnings per share. Income from discontinued operations, net of tax, for the three months ended March 31, 2006 was $0.2 million, or $0.01 per fully diluted share. Income from discontinued operations, net of tax, for the six months ended March 31, 2007 was $0.02 million, with no effect on earnings per share. Income from discontinued operations, net of tax, for the six months ended March 31, 2006 was $0.6 million, or $0.03 per fully diluted share. Income from discontinued operations in fiscal 2006 is primarily a result of a reclassification of the profitable operations of the DSI division to discontinued operations.

Net loss for the three months ended March 31, 2007 was $1.0 million, or $(0.05) per fully diluted share, as compared to a net loss of $0.2 million, or $(0.01) per fully diluted share, for the three months ended March 31, 2006. Net loss for the six months ended March 31, 2007 was $1.5 million, or $(0.08) per fully diluted share, as compared to a net loss of $0.2 million, or $(0.01) per fully diluted share, for the six months ended March 31, 2006.

Liquidity and Capital Resources

Net cash used in operating activities for the six months ended March 31, 2007 was $1.8 million compared to net cash used in operating activities of $0.2 million for the six months ended March 31, 2006. Losses from continuing operations as well as increased accounts receivable and decreased current liabilities contributed to the use of cash during the six months ended March 31, 2007. This was partially offset by $0.76 million in cash received from Zurich related to the reduction in collateral requirements on outstanding workers' compensation claims.

Cash used in investing activities for the six months ended March 31, 2007 was $0.04 million compared to $0.08 million for the six months ended March 31, 2006. Use of cash for investing activities in the first six months of fiscal 2007 was primarily for the purchase of telephone and technology equipment.

Cash provided by financing activities for the six months ended March 31, 2007 approximated zero. Cash used in financing activities was $0.2 million for the six months ended March 31, 2006, primarily for principal payments made on notes payable for the financing of insurance premiums.

Effective June 8, 2005, TeamStaff entered into a $7.0 million revolving credit facility provided by PNC Bank to (i) provide for the acquisition of RS Staffing; (ii) refinance an outstanding senior loan facility; and (iii) provide ongoing working capital. Effective February 13, 2006, TeamStaff entered into an amendment to the revolving credit note, increasing the revolving credit facility to $8.0 million. Revolving credit advances bear interest at either the Prime Rate plus 25 basis points or LIBOR plus 275 basis points, whichever is higher. The facility has a three-year life and contains term and line of credit borrowing options. The facility is subject to certain restrictive covenants including a fixed charge coverage ratio if the Company fails to maintain invested cash and line availability minimum requirements. For the quarter ended March 31, 2007, TeamStaff was in compliance with all loan covenants. The facility is sub ject to acceleration upon non-payment or various other standard default clauses. In addition, the Company granted PNC Bank a lien and security interest on all of its assets. As of March 31, 2007, there was no debt outstanding under the credit facility and $5.9 million of unused availability under the line of credit, based on billed accounts receivable.

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

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"Acknowledgements of Assignment." There can be no assurance that every RS Staffing government account will execute the documentation to effectuate the assignment and secure availability. The failure of government third parties to sign the required documentation could result in a decrease in availability under the line of credit.

As of March 31, 2007, TeamStaff had unrestricted cash and cash equivalents of $0.3 million and net accounts receivable of $9.1 million. TeamStaff also had $5.9 million of unused availability under the revolving credit facility provided by PNC Bank. As of March 31, 2007, TeamStaff had working capital of $3.0 million. The Company is in discussions with its lender, PNC Bank, regarding possible amendments to its revolving credit facility. The Company is reliant upon the credit facility to provide sufficient liquidity over the next twelve months.

Obligations (Amounts in thousands)	Total	Payments Due By Period Less than 1 year	1-3 years	4-5 years
Long-term debt(1)	$ 1,778	$ 1,563	$ 190	$ 25
Operating leases(2)	1,653	435	1,197	21
Pension liability(3)	411	210	201	—
Severance liability(4)	263	263	—	—
Total Obligations	$ 4,105	$ 2,471	$ 1588	$ 46

(1) Represents notes payable related to acquisition of RS Staffing, and capital lease obligations.

(2) Represents lease payments net of sublease income.

(3) Represents pension liabilities for the former CEO and former CFO.

(4) Represents severance payments related to former employees.

Contractual Obligations

On January 19, 2007, TeamStaff, Inc. and T. Kent Smith entered into a formal separation agreement that became effective on January 29, 2007. The material terms of the agreement provide: (a) Mr. Smith agreed to resign, which TeamStaff agreed is "without cause" under the terms and conditions of his 2005 Employment Agreement (the "Agreement"); (b) Mr. Smith agreed to resign from the board of directors according to Article 9.5 of the Agreement; (c) the non-compete provisions of the Agreement were incorporated by reference; (d) TeamStaff will properly disburse Mr. Smith's 401(k) funds by January 30, 2007; (e) Mr. Smith will receive Continuation Benefits (as defined in the Agreement) for life insurance and long-term disability insurance only; (f) TeamStaff will pay Mr. Smith the Accrued Compensation, "Accrued Compensation" defined as two days of

vacation pay, two floating holidays and two expense reports for approximately $1000; and (g) TeamStaff will pay Mr. Smith, according to Article 9.4(c) of the Agreement, base salary under the Agreement through and including September 30, 2007 on the Company's salary payment dates. The separation agreement provides for other immaterial consideration, mutual and general releases and other standard legal covenants.

TeamStaff, Inc. entered into a formal letter agreement dated and effective as of February 14, 2007 with Rick J. Filippelli, President and CEO, as further described below.

The material terms of Mr. Filippelli's letter agreement provide for a modification to his employment agreement dated October 1, 2005 (the "Filippelli Agreement") as follows: (1) Term: the term of the Filippelli Agreement will be from January 10, 2007 until September 30, 2009 (the "Term"); (2) Position: Mr. Filippelli's position is amended to include President and CEO; (3) Salary: the initial salary during the Term will be the sum of $265,000.00 per annum; (4) Fiscal Year Cash Bonus: Mr. Filippelli will be entitled to a cash bonus of up to 70% of Mr. Filippelli's annual salary in the discretion of the Company's Board of Directors as recommended by the Compensation Committee, subject to certain performance and EBITDA requirements; (5) Incentive Compensation

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(Equity): Mr. Filippelli will receive 130,000 shares of restricted stock issued under the Company's 2006 Long Term Incentive Plan at the closing market price per share of the Company's stock on the date of the modification letter (the "Shares"); the Shares will vest according to the following schedule: (a) 30,000 Shares will vest immediately; (b) 50,000 Shares will vest on September 30, 2008, subject to the Company achieving four prior consecutive quarters of EBITDA profitability, and (c) 50,000 Shares will vest on September 30, 2009 subject to at least a 50% improvement in EBITDA profitability in fiscal 2009 as compared to fiscal 2008; (6) Severance Amount: "Severance Amount" in the Filippelli Agreement is amended to mean the aggregate sum of one year's salary, payable on the Termination Date (as defined therein); "Continuation Period" in the Filippelli Agreement is modified to mean the period of one (1) year; and (7) If Mr. Filippelli's employment is terminated for any reason, Mr. Filippelli retains any stock options, restricted stock or other incentive compensation that has vested upon such termination in accordance with the terms and conditions of the Company's 2006 Long Term Incentive Plan, and all accrued and unused vacation time will be paid out on the Termination Date. All accrued and unused vacation time will carry over from year-to-year until used. Mr. Filippelli will notify the Company's Compensation Committee annually of amounts being carried over. In all other respects, the Filippelli Agreement remains in full force and effect and applicable to Mr. Filippelli's employment. In the case of any conflict between the modification letter and the Filippelli Agreement, the letter will control.

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

Off-Balance Sheet Arrangements

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

Effects of Inflation

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

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

TeamStaff does not undertake trading practices in securities or other financial instruments and therefore does not have any material exposure to interest rate risk, foreign currency exchange rate risk, commodity price risk or other similar risks, which might otherwise result from such practices. TeamStaff is not materially subject to fluctuations in foreign exchange rates, commodity prices or other market rates or prices from market sensitive instruments. TeamStaff has a material interest rate risk with respect to our prior workers' compensation programs. In connection with TeamStaff's prior workers' compensation programs, prepayments of future claims were deposited into trust funds for possible future payments of these claims in accordance with the policies. The interest income resulting from these prepayments is for the benefit of TeamStaff, and is used to offset workers' compensation expense. If interest rates in these periods decrease , TeamStaff's workers' compensation expense would

increase because TeamStaff would be entitled to less interest income on the deposited funds. Further, and as discussed elsewhere in this filing, TeamStaff, Inc. has an $8.0 million revolving credit facility by PNC Bank. Revolving credit advances bear interest at either the Prime Rate plus 25 basis points or LIBOR plus 275 basis points, whichever is higher. The facility has a three-year life and contains term and line of credit borrowing options. The facility is subject to certain restrictive covenants, including minimum combined cash and line availability. The facility is subject to acceleration upon non-payment or various other standard default clauses. Material increases in the Prime or LIBOR rate could have a material adverse effect on our results of operations, the status of the revolving credit facility as well as interest costs.

ITEM 4: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Based on their evaluation, as of March 31, 2007, the Company's Chief Executive Officer and the Company's Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

Changes in Internal Controls

There have been no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the Company's second quarter ended March 31, 2007, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

Part II — OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

On April 17, 2007, a Federal Grand Jury subpoena was issued by the Northern District of Illinois to RS Staffing requesting production of certain documents dating back to 1997. According to the cover letter accompanying the subpoena, the U.S. Department of Justice, Antitrust Division, along with members of the Veterans Affairs Office of Inspector General are responsible for the current criminal investigation. The subpoena states that it is issued in connection with an investigation of possible violations of federal criminal laws and related crimes concerning procurement at the Veterans Administration. RS Staffing provides temporary staffing at certain Veterans Administration hospitals that may be part of the investigation. The return date for documents called for by the subpoena is May 17, 2007. In connection with the same investigation, agents with the United States Department of Veterans Affairs, Office of Inspector General, executed a searc h warrant at the Monroe, Georgia offices of RS Staffing. The Company has been advised that neither it nor RS Staffing is currently a target of the investigation. The Company is actively cooperating with the government's investigation. The Company originally acquired RS Staffing in May of 2005 and is reviewing its rights to seek indemnification from the sellers for costs that may be incurred in connection with the investigation.

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

TeamStaff incurs liability to third parties with respect to the claims, TeamStaff would declare an event of default under the settlement agreement and seek collection from the Sellers.

As a commercial enterprise and employer and with respect to its employment-related businesses in particular, TeamStaff is engaged in litigation from time to time during the ordinary course of business in connection with employment-relations issues, workers' compensation and other matters. Generally, TeamStaff is entitled to indemnification or repayment from its former PEO clients for claims brought by worksite employees related to their employment. However, there can be no assurance that the client employer will have funds or insurance in amounts to cover any damages or awards, and as co-employer, TeamStaff may be subject to liability. Additionally, in connection with its medical staffing business, TeamStaff is exposed to potential liability for the acts, errors or omissions of its temporary medical employees. The professional liability insurance policy provides up to $5,000,000 aggregate coverage with a $2,000,000 per occurrence limit. Although TeamStaff believes the liability insurance is reasonable under the circumstances to protect it from liability for such claims, there can be no assurance that such insurance will be adequate to cover all potential claims.

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

ITEM 1A: RISK FACTORS

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

We are dependent upon certain of our management personnel.

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

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

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

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

None.

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

None.

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

None.

ITEM 5: OTHER INFORMATION

None.

ITEM 6: EXHIBITS

(a) Exhibits

10.1	Separation Agreement with T. Kent Smith dated as of January 19, 2007 (filed as Exhibit 99.1 to the Form 8-K filed on February 1, 2007)*
10.2	Form of Letter of Agreement with Rick Filippelli dated as of January 10, 2007 (filed as Exhibit 99.1 to the Form 8-K filed on February 14, 2007)*
10.3	Form of Letter of Agreement with James Houston dated as of January 10, 2007 (filed as Exhibit 99.2 to the Form 8-K filed on February 14, 2007)*
10.4	Form of Agreement and Release with James Houston dated as of May 11, 2007
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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

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SIGNATURES

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

TEAMSTAFF, INC.

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

Dated: May 15, 2007

AGREEMENT AND RELEASE

CONSULT WITH AN ATTORNEY BEFORE SIGNING THIS AGREEMENT AND RELEASE.

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

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

WHEREAS, Houston has been an employee of TSTF, and

WHEREAS, Houston has been employed pursuant to a written letter agreement dated as of February 14, 2007 (the "Employment Agreement"); and

WHEREAS, the Employment Agreement incorporates the terms of a certain severance agreement dated October 11, 2005 (the "Severance Agreement") and Executive's Change in Control Agreement dated October 31, 2006 (the "Change Agreement"); and

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

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

1. Employee acknowledges and agrees that:

   a. TSTF has served Employee with a valid and timely notice of termination;

   b. effective the close of business April 30, 2007, Employee's employment and the Employment Agreement terminated (the "Termination Date"), and except as otherwise stated, all terms of the Employment Agreement, Severance Agreement and Control Agreement shall be deemed superseded by this Agreement.

2. In consideration for Employee's execution of this Agreement, and for the release of claims against TSTF, the Company will give Employee the following:

   a. Solely for the purpose of determining the benefits under the Severance Agreement, the termination of Employee's Employment shall be deemed a termination without cause.

   b. Employee shall receive and be paid, in accordance with the terms and conditions of the Employment Agreement, the sum of (i) Two Hundred Twenty Thousand dollars ($220,000) representing one year of Base Salary; and (ii) Eighty-Nine Thousand Twenty-Four dollars representing a pro rata bonus for 2007. The Base Salary shall be paid on the date hereof provided Employee has complied with paragraph 18 below. The Pro Rata Bonus will be payable on August 1, 2007.

   c. All unvested stock options, restricted stock awards and all other incentive awards shall be cancelled and all of such awards which shall have vested as of the Termination Date shall be exercisable according to the terms of such awards for an employee terminated without cause.

3. Benefits:

   a. Employee standard health benefits will continue until March 31, 2008 as provided in the Employment Agreement, and except as otherwise expressly provided in this Agreement, Employee will not be entitled to receive any other benefits after the Termination Date. TSTF shall be responsible for providing equivalent health benefits or paying all "COBRA" charges through March 31, 2008.

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   b. To the extent Employee has unreimbursed business expenses, incurred through the Termination Date, Employee must immediately submit the expenses with all appropriate documentation; those expenses which meet the Company's guidelines will be reimbursed. Any expense account that Employee has with the Company terminates effective on the Termination Date, and any expenses already incurred will be reviewed and processed in accordance with the policies and procedures of the Company. No new expenses may be incurred after the Termination Date. Employee agrees to promptly pay any outstanding balance on these accounts that represent non-reimbursable expenses.

4. Employee understands that this Agreement does not constitute an admission by the Company of any liability, error or omission, including without limitation, any: (a) violation of any statute, law, or regulation; (b) breach of contract, actual or implied; or (c) commission of any tort.

5. Employee acknowledges that the consideration provided in this Agreement exceed that to which Employee would otherwise be entitled under the normal operation of any benefit plan, policy or procedure of the Company or under any previous agreement (written or oral) between Employee and the Company. Employee further acknowledges that the agreement by TSTF to provide consideration pursuant to this Agreement beyond Employee's entitlement is conditioned upon Employee's release of all claims against TSTF and Employee's compliance with all the terms and conditions of this Agreement.

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

7. Arbitration:

a. The Parties specifically and knowingly and voluntarily agree to arbitrate any controversy, dispute or claim which has arisen or should arise in connection with Employee's employment, the cessation of Employee's employment, or in any way related to the terms of this Agreement. The Parties agree to arbitrate any and all such controversies, disputes, and claims before a single arbitrator in the State of New Jersey in accordance with the Rules of the American Arbitration Association. The arbitrator shall be selected by the Association and shall be an attorney-at-law experienced in the field of corporate law and admitted to practice in the State of New Jersey. In the course of any arbitration pursuant to this Agreement, Employee and the Company ag ree (i) to request that a written award be issued by the arbitrator and (ii) that each side is entitled to receive any and all relief it would be entitled to receive in a court proceeding. The Parties knowingly and voluntarily agree to enter into this arbitration clause and, except for claims contemplated in paragraphs 9 and 10 below, waive any rights that might otherwise exist to request a jury trial or other court proceeding. This paragraph is intended to be both a post-dispute and pre-dispute arbitration clause. Any judgment upon any arbitration award may be entered in any court, federal or state, having competent jurisdiction of the parties.

b. The Parties' agreement to arbitrate disputes includes, but is not limited to, any claims of unlawful discrimination and/or unlawful harassment under Title VII of the Civil Rights Act of 1964, as amended, the Age Discrimination in Employment Act 1967, as amended, the Americans with Disabilities Act, the New Jersey and New York Civil Rights Laws, the New Jersey Law Against Discrimination, the New York Executive Law, the New York City Human Rights Law, the New Jersey Conscientious Employee Protection Act, the New Jersey Family Leave Act, or any other federal, state or local law relating to discrimination in employment and any claims relating to wage and hour claims and any other statutory or common law claims.

8. Employee and TSTF agree that the terms and existence of this Agreement are and shall remain confidential and agrees not to disclose any terms or provisions of this Agreement, or to talk or write about the negotiation, execution or implementation of this Agreement, without the prior written consent of the other, except (a) as required by law; (b) as required by regulatory authorities; (c) as required within TSTF to process this Agreement; or (d) in connection with any arbitration or litigation arising out of this

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Agreement. Anything herein to the contrary notwithstanding, Employee may disclose the terms of this Agreement to Employee's immediate family, accountant or attorney, provided they are made aware of and agree to the confidentiality provisions.

9. Employee further acknowledges and agrees that any non-public and/or proprietary information of the Company and/or its customers disclosed to or prepared by Employee during Employee's employment remains confidential and may not be used and/or disclosed by Employee hereafter without the prior written consent of TSTF. Employee further agrees that the provisions of Article II of the Severance Agreement ("Non-Disclosure") shall remain in full force and effect.

Solely for the purpose of determining the applicability of the Restrictive Covenants in Article III of the Severance Agreement ("Restrictive Covenant"), Employee shall be deemed to have voluntarily terminated his employment as of the Termination Date, and Employee hereby agrees that all of the provisions of Article III, as modified by this paragraph, shall remain in full force and effect for a period of twelve months commencing on the Termination Date. The Further, in addition to the provisions of Article III, Employee also agrees that in consideration for the payments and other consideration provided in this Agreement, Employee will not, during the period commencing on the Execution Date and for as long as Employee is receiving payments under this Agreement, either directly or indirectly, (a) solicit any person who is employed by TSTF (or who was employed by TSTF within ninety (90) days of the Termination Date) to: (i) terminate his em ployment with TSTF; (ii) accept employment with anyone other than TSTF, or (iii) in any manner interfere with the business of TSTF. The payments to be made hereunder on conditioned on full compliance with this paragraph 10. The existence of any claim or demand by Employee against the Company, whether based upon this Agreement or otherwise, shall not constitute a defense to the Company's enforcement of the covenants contained in Paragraphs Nos. 9 and 10 of this Agreement.

11. Employee shall not make any negative or derogatory statements in verbal, written, electronic or any other form about the Company, or its officers, employees and directors including, but not limited to, a negative or derogatory statement made in, or in connection with, any article or book, on a website, in a chat room or via the internet**.** Nothing contained in this paragraph shall be construed as requiring the Employee to provide untruthful sworn testimony in any legal proceeding.

12. Litigation

a. The payments to be made hereunder on conditioned on the full cooperation by Employee with the Company in the prosecution or defense, as the case may be, of any and all actions, governmental inquiries or other legal or regulatory proceedings in which Employee's assistance may be reasonably requested by the Company. Reasonable expenses arising from the cooperation will be reimbursed within the Company's guidelines. Consistent with the Certificate of Incorporation of TSTF, and the Company's Amended and Restated By-Laws, TSTF will hold harmless and indemnify Employee from and against any expenses (including attorneys' reasonable fees), judgments, fines and amounts paid in settlement arising from any claim, suit or other action against Employee by any third party, on account of any action or inaction by Employee taken or omitted to be taken by Employee on behalf of TSTF during the course of his employment, up to his date of termination, provided that such action or inaction by Employee was within the scope of Employee's employment and consistent with the Company's policies and procedures.

b. Promptly after receipt by Employee under this paragraph 12 of notice of the commencement of any action, suit or proceeding, Employee shall notify TSTF in writing of the commencement thereof (but the failure so to notify shall not relieve TSTF from any liability which it may have under this paragraph except to the extent that it has been prejudiced in any material respect by such failure or from any liability which it may have otherwise). In case any such action is brought against Employee, and Employee notifies TSTF of the commencement thereof, TSTF will be entitled to participate therein, and to the extent it may elect by written notice delivered to the Employee promptly after receiving the aforesaid notice from Employee, TSTF may assume the defense the reof with counsel reasonably satisfactory to such Employee. Notwithstanding the foregoing, Employee shall have the

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right to employ his own counsel in any such case but the fees and expenses of such counsel shall be at the expense of Employee unless (i) the employment of such counsel shall have been authorized in writing by the TSTF in connection with the defense of such action at the expense of TSTF, or (ii) Employee shall have reasonably concluded that there may be defenses available to him that are different from or additional to those available to TSTF (in which case TSTF shall not have the right to direct the defense of such action on behalf of Employee), in any of which events such fees and expenses of one additional counsel shall be borne by TSTF. Anything in this paragraph to the contrary notwithstanding, neither Employee or TSTF shall be liable for any settlement of any claim or action effected without its written consent;provided however, that such consent was not unreasonably wit hheld.

c. As the result of a grand jury subpoena issued to RS Staffing Services, Inc., the Company and the Employee are aware of an on-going government investigation of violation of possible federal laws concerning procurement at the Veterans Administration. Consistent with the provisions of this paragraph 12, the Company will provide the Employee with counsel in connection with the investigation. The Employee shall cooperate with the Company with respect to the investigation and shall immediately notify the Company if contacted by any third party in connection with it. Given the Employee's role as General Counsel for the Company, and the privileged nature of the Employee's communications with the Company, the Employee agrees not to communicate with an y third party concerning the investigation without the Company's counsel present.

d. Employee acknowledges that he has advised the Company completely and candidly of all facts of which he is aware that may give rise to legal matters. The Company is not aware of any claims or any facts giving rise to a claim against the Employee by the Company.

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

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

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

16. Employee is hereby advised of Employee's rights to review this Agreement with counsel of Employee's choice. Employee has had the opportunity to consult with an attorney and/or other advisor of Employee's choosing before signing the Agreement, and was given a period of twenty-one (21) days to

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consider the Agreement. Employee is permitted, at his discretion, to return the Agreement prior to the expiration of this 21-day period. Employee acknowledges that in signing this Agreement, Employee has relied only on the promises written in this Agreement, and not on any other promise made by the Company or any other entity or person.

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

18. Employee agrees to immediately return any TSTF property no matter where located to TSTF including, but not limited to, TSTF I.D. card, corporate credit card, keys, computer disks, laptop computer and written/electronic material prepared in the course of employment at TSTF. Employee represents and warrants that the only property of TSTF that he is in possession at the present time is an IBM laptop computer and keys. Employee covenants and agrees that if he determines any other TSTF property is in his possession in the future he will promptly notify TSTF and return the property.

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

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

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

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

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

______________________________	______________________________
James D. Houston	Date

TeamStaff, Inc.

By ______________________________	______________________________
Authorized Representative	Date

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

GENERAL RELEASE

James D. Houston understands and, of my own free will, enters into this General Release.

In consideration of the payments, benefits, agreements, and other consideration to be provided by TSTF as described in the Agreement of which this General Release is a part (such agreement, this General Release, together, the "Agreement"), for himself and for his heirs, executors, administrators, and their respective

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

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

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

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

IN WITNESS WHEREOF, James D. Houston has set his hand this day of , 2007 having had the opportunity to review this with counsel of his or her choice.

James D. Houston	Date

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. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

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

b) [Intentionally omitted];

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: May 15, 2007

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

Exhibit 32.1

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

I, Rick J. Filippelli, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of TeamStaff, Inc. on Form 10-Q for the period ended March 31, 2007 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of TeamStaff, Inc.

In Witness Whereof, the undersigned has set his hand hereto as of the 15th day of May 2007.

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

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of TeamStaff, Inc. under 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.