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, 2005

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.)
300 ATRIUM DRIVE, SOMERSET, NEW JERSEY	**08873**
(Address of principal executive offices)	(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE **(732) 748-1700**

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

Yes ☒ No ☐

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

Yes ☐ No ☒

18,106,229 shares of Common Stock, par value $.001 per share, were outstanding as of March 31, 2005 and May 11, 2005.

TEAMSTAFF, INC. AND SUBSIDIARIES
FORM 10-Q
March 31, 2005

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TEAMSTAFF, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(AMOUNTS IN THOUSANDS)
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ASSETS	**March 31, 2005 (unaudited)**	**September 30, 2004**
CURRENT ASSETS:		
Cash and cash equivalents	$ 3,933	$ 3,060
Restricted cash	—	1,800
Accounts receivable, net of allowance for doubtful accounts of $54 and $39 at March 31, 2005 and September 30, 2004, respectively	4,843	3,013
Deferred tax asset	90	90
Prepaid workers' compensation	1,160	1,000
Other current assets	1,022	1,267
Total current assets	11,048	10,230
EQUIPMENT AND IMPROVEMENTS:		
Furniture & equipment	3,285	2,795
Computer equipment	469	367
Computer software	1,134	1,134
Leasehold improvements	241	210
	5,129	4,506
Less accumulated depreciation and amortization	(3,921)	(3,589)
Equipment and improvements, net	1,208	917
DEFERRED TAX ASSET, net of current portion	17,416	16,723
TRADENAME	4,199	4,199
GOODWILL	3,390	1,710
OTHER ASSETS:		
Prepaid workers' compensation, net of current portion	3,150	3,341
Other assets	315	309
Total other assets	3,465	3,650
TOTAL ASSETS	$ 40,726	$ 37,429

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

TEAMSTAFF, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(AMOUNTS IN THOUSANDS)
(Page 2 of 2)

LIABILITIES AND SHAREHOLDERS' EQUITY	**March 31, 2005 (unaudited)**	**September 30, 2004**
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 184	$ 112
Accrued workers' compensation	1,626	1,626
Accrued payroll	1,498	782
Accrued pension liability	484	588

Accounts payable	951	731
Accrued expenses and other current liabilities	573	770
Total current liabilities	5,316	4,609
LONG-TERM DEBT, net of current portion	241	24
ACCRUED PENSION LIABILITY, net of current portion	634	840
LIABILITIES FROM DISCONTINUED OPERATIONS	699	963
Total liabilities	6,890	6,436
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 18,113 and 15,721 at March 31, 2005 and September 30, 2004, respectively; outstanding 18,106 and 15,714 at March 31, 2005 and September 30, 2004, respectively	18	16
Additional paid-in capital	66,915	62,963
Retained (deficit) earnings	(32,850)	(31,651)
Accumulated comprehensive losses	(223)	(311)
Treasury stock, 7 shares at cost at March 31, 2005 and September 30, 2004, respectively	(24)	(24)
Total shareholders' equity	33,836	30,993
Total liabilities and shareholders' equity	$ 40,726	$ 37,429

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

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

	For the three months ended March 31	
	2005	2004
REVENUES	$ 10,899	$ 8,798
DIRECT EXPENSES	8,273	6,875
Gross profit	2,626	1,923
OPERATING EXPENSES	3,429	2,884
DEPRECIATION AND AMORTIZATION	184	115
Loss from operations	(987)	(1,076)
OTHER INCOME (EXPENSE):		
Interest income	15	7
Interest expense	(12)	(31)
Other income	37	48
	40	24
Loss before tax	(947)	(1,052)
INCOME TAX BENEFIT	362	401
Loss from continuing operations	(585)	(651)
LOSS FROM DISCONTINUED OPERATIONS:		
Loss from operations, net of tax benefit of $23 and $204 for quarters ended March 31, 2005 and 2004, respectively	(36)	(329)
Loss from disposal, net of tax benefit of $0 and $2 for quarters ended March 31, 2005 and 2004, respectively	—	(4)
	(36)	(333)
Net loss	(621)	(984)
OTHER COMPREHENSIVE INCOME:		
Minimum pension liability adjustment, net of tax	30	4
COMPREHENSIVE LOSS	$ (591)	$ (980)
LOSS PER SHARE – BASIC AND DILUTED		
Loss from continuing operations	$ (0.03)	$ (0.04)
Loss from discontinued operations	(0.00)	(0.02)
Net loss	$ (0.03)	$ (0.06)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC	18,106	15,714

WEIGHTED AVERAGE NUMBER OF COMMON SHARES AND EQUIVALENTS OUTSTANDING – DILUTED	18,106	15,714

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

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

	For the six months ended March 31	
	2005	2004
REVENUES	$ 21,100	$ 18,537
DIRECT EXPENSES	15,885	14,384
Gross profit	5,215	4,153
OPERATING EXPENSES	6,563	5,960
DEPRECIATION AND AMORTIZATION	332	187
Loss from operations	(1,680)	(1,994)
OTHER INCOME (EXPENSE):		
Interest income	35	12
Interest expense	(32)	(58)
Other income	97	119
	100	73
Loss before tax	(1,580)	(1,921)
INCOME TAX BENEFIT	601	731
Loss from continuing operations	(979)	(1,190)
LOSS FROM DISCONTINUED OPERATIONS:		
Loss from operations, net of tax benefit of $138 and $529 for six months ended March 31, 2005 and 2004, respectively	(222)	(858)
Income (loss) from disposal, net of tax benefit of $0 and $485 for six months ended March 31, 2005 and 2004, respectively	1	(783)
	(221)	(1,641)
Net loss	(1,200)	(2,831)
OTHER COMPREHENSIVE INCOME:		
Minimum pension liability adjustment, net of tax	88	8
COMPREHENSIVE LOSS	$ (1,112)	$ (2,823)
LOSS PER SHARE – BASIC AND DILUTED		
Loss from continuing operations	$ (0.06)	$ (0.08)
Loss from discontinued operations	(0.01)	(0.10)
Net loss	$ (0.07)	$ (0.18)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC	17,567	15,714
WEIGHTED AVERAGE NUMBER OF COMMON SHARES AND EQUIVALENTS OUTSTANDING – DILUTED	17,567	15,714

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

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

	For the six months ended March 31,	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss from continuing operations	$ (979)	$ (1,190)
Adjustments to reconcile net loss to net cash used by operating activities, net of acquired businesses:		
Deferred income taxes	(693)	441
Depreciation and amortization	332	187
Provision for doubtful accounts	15	133
Changes in operating assets and liabilities, net of acquired businesses:		
Decrease (increase) in restricted cash	1,800	(665)

(Increase) decrease in accounts receivable	(1,845)	1,609
Decrease (increase) in other current assets	85	(3,415)
Decrease (increase) in other assets	185	(2,010)
Increase (decrease) in accounts payable, accrued payroll, accrued expenses and other current liabilities	740	(1,330)
(Decrease) in pension liability	(310)	(376)
Change in net assets held for sale & loss from discontinued operations	(485)	5,715
Net cash (used in) operating activities	(1,155)	(901)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of equipment, leasehold improvements and software	(47)	(19)
Payments for acquisitions of businesses, net of cash acquired	(1,865)	—
Net cash used in investing activities	(1,912)	(19)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments on capital leases obligations	(102)	(29)
Proceeds from issuance of common stock, net of issuance costs	3,954	—
Proceeds from capital lease	—	50
Net comprehensive income on pension	88	8
Net cash provided by financing activities	3,940	29
Net increase (decrease) in cash and cash equivalents	873	(891)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3,060	4,329
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 3,933	$ 3,438
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for-		
Interest	$ 32	$ 58
Income taxes	$ 73	$ 40

SUPPLEMENTAL DISCLOSURE OF NON CASH INVESTING AND FINANCING ACTIVITY:
The company recorded $391,000 in capital leases during the six months ended March 31, 2005.

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

TEAMSTAFF, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2005
(Unaudited)

(1) ORGANIZATION AND BUSINESS:

TeamStaff, Inc., a New Jersey corporation, was founded in 1969 as a payroll service company and has evolved into a leading provider of payroll and temporary and permanent medical staffing services throughout the 50 states. TeamStaff's corporate headquarters is in Somerset, New Jersey and it has offices located in Clearwater, Florida, Woburn, Massachusetts, Memphis, Tennessee, New Orleans, Louisiana and Atlanta, Georgia. TeamStaff's wholly-owned subsidiaries include TeamStaff Rx, Inc., 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 V, Inc., TeamStaff VI, Inc., TeamStaff Insurance Services, Inc., TeamStaff VIII, Inc., Employer Support Services, Inc., TeamStaff IX, Inc., Digital Insurance Services, Inc., HR2, Inc., and BrightLane.com, Inc. When we use the term TeamStaff, we mean TeamStaff and its subsidiaries. As a result of the sale of our PEO business in fiscal year 2004, many of these subsidiaries are not actively operating. Currently, we operate only through the parent corporation, TeamStaff, Inc., and our TeamStaff Rx, Inc. subsidiary.

TeamStaff provides a variety of employment related services through two business units: (1) its medical staffing unit provides medical allied health professionals and nurses to doctors' offices and medical facilities throughout the United States on a temporary and permanent basis; and (2) the payroll services division provides customized payroll management and tax filing services to select industries, such as construction. We believe our medical staffing subsidiary is one of the top providers in the niche medical imaging field, placing temporary employees for over 275 clients. The payroll processing division processes payrolls for approximately 700 clients and generates paychecks for more than 30,000 employees.

Basis of Presentation:

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.

The Medical Staffing 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, included in revenue related to Medical Staffing are commissions from permanent placements. Commissions from permanent placements result from the successful placement of a medical staffing employee to a customer's workforce as a permanent employee.

The Payroll Services revenue is recognized as service is rendered and consists primarily of administrative service fees charged to clients for the processing of paychecks as well as preparing quarterly and annual payroll related reports.

The consolidated financial statements included herein have been prepared by TeamStaff, without audit, pursuant to the 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, although 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, all of which are wholly owned. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

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

(2) SIGNIFICANT ACCOUNTING POLICIES:

Recently Issued Accounting Standards Affecting the Company:

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123 (revised 2004) *Share-Based Payments* (SFAS No. 123(R)), which replaces SFAS No. 123 and supercedes APB No. 25. SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values beginning with the first interim or annual period after June 15, 2005. The pro forma disclosures previously permitted under SFAS No. 123 no longer will be an alternative to financial statement recognition. In April 2005, the SEC issued a press release that revises the required date of adoption under SFAS 123(R). The new rule allows companies to adopt the provisions of SFAS 123(R) beginning on the first annual period beginning after June 15, 2005. Based on the new required adoption date, the Company expects to adopt SFAS 123(R) effective October 1, 2005.

SFAS 123(R) permits public companies to adopt its requirements using one of two methods: (1) a "modified prospective" method under which compensation cost is recognized beginning with the effective date based on the requirements of SFAS 123(R) for all share-based payments granted after the effective date and based on the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS 123(R) that are unvested on the effective date; or (2) a "modified retrospective" method which includes the requirements of the modified prospective method and also has entities restate either all prior periods presented or prior interim periods of the year of adoption using the amounts previously calculated for pro forma disclosure under SFAS 123. We have not yet determined which method we will select for our adoption of SFAS 123(R).

See "Stock-Based Incentive Compensation" below for the pro forma net income and net income per share amounts, for the first fiscal quarter of 2005 and 2004, as if we had used a fair-value-based method similar to the methods required under SFAS 123(R) to measure compensation expense for employee stock incentive awards. Although we have not yet determined whether the adoption of SFAS 123(R) will result in amounts that are similar to the current pro forma disclosures under SFAS 123, we are evaluating whether the requirements under SFAS 123(R) will have a significant adverse impact on our consolidated statements of operations and net income (loss) per share.

Stock-Based Compensation:

At March 31, 2005, TeamStaff has two stock-based employee compensation plans, which are described more fully in TeamStaff's latest annual report on Form 10-K. TeamStaff accounts for those plans under the recognition and measurement principles of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations. No stock-based employee compensation cost is reflected, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

The following table illustrates the effect on net income (loss) and earnings (loss) per share if the Company had applied the fair value recognition provisions of FASB Statement No. 123, *Accounting for Stock-Based Compensation*, as amended, to stock-based employee compensation.

(Amounts in thousands, except per share data)	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004	Six Months Ended March 31, 2005	Six Months Ended March 31, 2004
Net loss, as reported	$ (621)	$ (984)	$ (1,200)	$ (2,831)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(76)	(73)	(140)	(147)
Pro forma net loss	$ (697)	$ (1,057)	$ (1,340)	$ (2,978)
Loss per share:				
Basic & diluted-as reported	$ (0.03)	$ (0.06)	$ (0.07)	$ (0.18)
Basic & diluted-pro forma	$ (0.04)	$ (0.07)	$ (0.08)	$ (0.19)

In accordance with Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), which was effective October 1, 1996, as amended, the fair value of option grants is estimated on the date of grant using the Black-Scholes option-pricing model for proforma footnote purposes with the following assumptions; dividend yield of 0%, risk-free interest rate of 3.5% and 3.2% in fiscal year 2005 and 2004, respectively, and expected option life of 4 years. Expected volatility was assumed to be 47% and 69% in fiscal year 2005 and 2004, respectively.

Earnings Per Share:

Basic earnings per share ("Basic EPS") 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 ("Diluted EPS") 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:

(Amounts in thousands)	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004	Six Months Ended March 31, 2005	Six Months Ended March 31, 2004
Weighted average number of common shares outstanding-basic	18,106	15,714	17,567	15,714
Incremental shares for assumed conversion of stock options/warrants	—	—	—	—
Weighted average number of common shares outstanding-diluted	18,106	15,714	17,567	15,714

Stock options and warrants outstanding at March 31, 2005 to purchase 2,044,000 shares of common stock and at March 31, 2004 to purchase 1,259,537 shares of common stock were not included in the computation of diluted earnings per share as they were antidilutive.

Income Taxes:

TeamStaff, Inc. has recorded a $17.5 million deferred tax asset as of March 31, 2005 and $16.8 million as of September 30, 2004. This represents management's estimate of the income tax benefits to be realized upon utilization of its net operating losses and tax credits as well as temporary differences between the financial statement and tax basis of certain assets and liabilities, for which management believes utilization to be more likely than not. Management believes TeamStaff's operations can generate sufficient taxable income to realize this deferred tax asset as a result of historical profitability and its ability to generate operating income in the future.

Payroll Taxes:

TeamStaff has received notices from the IRS and state agencies claiming taxes, interest and penalties due related to payroll taxes predominantly from its former PEO operations. 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 recent sale of certain assets as described elsewhere, TeamStaff operated through 17 subsidiaries, and management believes that the IRS and certain state agencies have 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 and various state agencies to resolve these discrepancies and has had certain interest and penalty claims abated. TeamStaff has retained the services of Ernst & Young LLP as a consultant to assist it in resolving certain of these matters with the IRS. 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 federal and state matters will be resolved favorably.

Comprehensive Income:

TeamStaff has cumulative comprehensive losses resulting from its Supplemental Executive Retirement Plan (See Note 9). When the Company's SERP obligations were measured at March 31, 2005, the recorded SERP liability exceeded the Projected Benefits Obligation. These changes resulted in comprehensive income net of tax for the three months ended March 31, 2005 and 2004 of $30,000 and $4,000, respectively, and for the six months ended March 31, 2005 and 2004 of $88,000 and $8,000, respectively. No other sources of comprehensive gains or losses occurred.

Workers' Compensation:

As discussed more fully below, TeamStaff's current workers' compensation insurance program is provided by Zurich American Insurance Company. The Zurich program originally covered the period from March 22, 2002 through March 31, 2003, inclusive. On March 28, 2003, TeamStaff renewed its workers' compensation program with Zurich for the period from April 1, 2003, through March 31, 2004, inclusive. The renewal program contained a large deductible feature of $0.5 million for each claim, with a maximum liability cap of the greater of 104.41% of manual premium or $15.6 million. The premium for the program was paid monthly based upon estimated payroll for the year and is subject to a policy year-end audit. The renewal program was collateralized by a letter of credit inuring to the benefit of Zurich, and cash held in a trust account with a third party. A letter of credit for $3.5 million was secured through Fleet Bank, as part of TeamStaff's line of credit. However, effective March 31, 2004, Zurich agreed to a reduction in the amount of the letter of credit to $1.8 million. As a result, on March 31, 2004, TeamStaff secured a new letter of credit in the amount of $1.8 million with SunTrust Bank. Effective March 31, 2005, Zurich withdrew the requirement for a letter of credit and $1.8 million of restricted cash held in the form of a certificate of deposit at SunTrust Bank was released to TeamStaff. Payments were made to the trust monthly based on projected claims for the year. 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. Claims handling services for the program are provided by GAB Robins, a third party administrator. On May 12, 2004, TeamStaff received $963,000 in return premiums from Zurich. At March 31, 2005, TeamStaff has a prepaid asset of $4.1 million for the premiums and the prepayments made to the trust for both years of the Zurich plan. TeamStaff estimates that, of this amount, approximately an additional $1.0 million in return premiums will be received within the next twelve months, and this is reflected on the balance sheet at March 31, 2005 as a current asset.

In conjunction with the sale of its PEO assets to GevityHR, Inc., TeamStaff requested and received a pro rata cancellation of this policy effective as of November 17, 2003. TeamStaff entered into a new workers' compensation program with Zurich covering TeamStaff's temporary employees and, as of January 1, 2004, its corporate employees. The program is managed by Cedar Hill and claims handling services are provided by GAB Robins. This program is a fully-insured, guaranteed

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cost program that contains no deductible or retention feature. This policy terminated April 1, 2004. Effective April 1, 2004, TeamStaff entered into a new workers' compensation program with Zurich, covering the period from April 1, 2004 through March 31, 2005, with the same terms as the previous policy. Effective April 1, 2005, TeamStaff renewed its workers' compensation program with Zurich, covering the period from April 1, 2005 through March 31, 2006, with the same terms as the previous policy.

As of March 31, 2005, 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 which may include loss data for claims incurred during prior policy periods. TeamStaff has encountered difficulties in receiving timely reporting of claims from CNA for the workers' compensation programs covering January 22, 2001, through March 22, 2002. CNA claims that TeamStaff owes approximately $4.4 million under the programs. TeamStaff is disputing certain of the amounts that CNA claims is due. TeamStaff's own analysis of its ultimate financial liability under the programs yields a substantially lower amount due under the programs. TeamStaff not only believes that its ultimate program expenses are dramatically lower than those calculated by CNA, but TeamStaff believes that its program expenses were exacerbated by CNA's claims handling practices. TeamStaff also filed a complaint with the New Jersey Division of Insurance, which referred the matter to the New Jersey Compensation Rating and Inspection Bureau. The New Jersey Compensation Rating and Inspection Bureau investigated the complaint and proposed a fine against CNA as well as a refund of $0.2 million in policy issuance costs to TeamStaff. The parties are in discussion in an effort to reach an amicable resolution. There can be no assurance that we will be successful in our efforts to settle this matter.

(3) PRIVATE PLACEMENT OFFERING:

TeamStaff entered into Securities Purchase Agreements as of November 5, 2004, with several accredited investors for the private sale, under Section 4(2) of the Securities Act of 1933 and/or Regulation D, of securities for an aggregate purchase price of $4.3 million. The offering consisted of the sale of 2,392,000 shares of Common Stock and 598,000 common stock warrants. The investors in the transaction received one three-year warrant to purchase an additional share of common stock at a price of $2.50 per share for every four shares of common stock purchased in the transaction.

Closing of the offering occurred on Wednesday, November 10, 2004. TeamStaff received net proceeds of approximately $4.0 million after payment of commissions and related offering expenses. SunTrust Robinson Humphrey Capital Markets and Maxim Group LLC served as selling agents on the Company's behalf and received combined commissions of 6.5% of the gross proceeds. The net proceeds will be used principally to fund the Company's internal growth initiatives and to execute on its strategy of completing complementary acquisitions in the temporary medical staffing industry.

The private placement was made only to accredited investors in a transaction exempt from the registration requirements of the Securities Act. The shares of common stock and warrants issued were restricted securities and were not registered under the Securities Act, or any state securities laws, and unless so registered, could not have been offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act and applicable state securities laws. On November 12, 2004, TeamStaff filed a Registration Statement on Form S-3 with the Securities and Exchange Commission providing for the resale by the investors of the securities sold in the offering. TeamStaff filed an amendment to the Registration Statement on January 14, 2005. The Securities and Exchange Commission declared the Registration Statement effective on January 31, 2005.

(4) BUSINESS COMBINATIONS:

Acquisition of Certain Assets of Nursing Innovations, Inc.:

On November 14, 2004, TeamStaff's medical staffing subsidiary, TeamStaff Rx, Inc., completed the purchase of certain of the assets of Nursing Innovations, Inc., a Memphis, Tennessee-based provider of

travel and per diem nurses and its affiliate, Vitriarc, Inc., which is engaged in permanent medical staffing. Nursing Innovations had offices in Memphis, Tennessee and New Orleans, Louisiana, which have become TeamStaff offices servicing the medical staffing division. TeamStaff Rx also acquired the goodwill of Nursing Innovations' principal shareholder, William L. Booth, related to the business. The combined purchase price was approximately $1.8 million, of which $180,000 has been placed in an escrow account for a period of one year following closing to provide security for the sellers' indemnification obligations. The purchase price is subject to downward adjustment based on the percentage of former Nursing Innovations business that successfully transfers to TeamStaff Rx. Additionally, TeamStaff entered into a two-year employment agreement with Mr. Booth pursuant to which Mr. Booth will oversee TeamStaff Rx's temporary nurse staffing business at an initial base salary of $100,000, increasing to $125,000 in the second year of the agreement's term. There are also certain deferred purchase price provisions which may increase the total purchase price based upon the performance of the former Nursing Innovations business during the two years following closing of the transaction.

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

(Amounts in thousands)		
Plant, property & equipment	$	185
Goodwill		1,681
Total assets acquired		1,866
Total liabilities assumed		—
Net assets acquired	$	1,866

Included in Goodwill is $66,000 of expenses directly related to the acquisition.

The following unaudited pro forma information presents a summary of consolidated financial results of operations of the Company and acquired companies as if the acquisition had occurred on October 1, 2003, the beginning of the earliest period presented.

	Three Months Ended March 31,		Six Months Ended March 31,	
	2005	2004	2005	2004
Revenues	$ 10,899	$ 12,781	$ 22,489	$ 25,876
Net loss	$ (621)	$ (881)	$ (945)	$ (2,864)
Earnings per share – basic and diluted	$ (0.03)	$ (0.05)	$ (0.05)	$ (0.16)

The number of common shares outstanding used to calculate pro forma earnings per share have been adjusted to include 2,392,000 shares issued as the source of financing for the Nursing Innovations acquisition, as if these shares had been outstanding as of the earliest period presented. (see note 3)

This table does not reflect cost savings of approximately $78,000 for the three months ended March 31, 2004, and $54,000 and $159,000 for the 6 months ended March 31, 2005 and 2004, respectively, that would have been eliminated due to cost synergies between the companies as part of the acquisition.

(5) <u>DISCONTINUED OPERATIONS:</u>

Effective November 17, 2003, TeamStaff sold certain of the assets of the subsidiaries through which it operated its professional employer organization ("PEO") business to Gevity HR, Inc. ("Gevity") for the sum of $9.5 million in cash, $2.5 million of which had been placed in escrow.

On April 23, 2004, TeamStaff and Gevity agreed that TeamStaff's share of the $2.5 million placed in escrow was $2.25 million. That amount was released from escrow for TeamStaff's benefit. When added to the $7.0 million previously paid by Gevity, the total purchase price paid was $9.25 million.

Concurrently, TeamStaff settled obligations to Gevity related to payroll for TeamStaff's internal employees under a co-employment arrangement of $1.2 million, and settled obligations predominantly related to PEO client payments received by TeamStaff during the period following the sale, offset in part by invoices paid by TeamStaff on Gevity's behalf, totaling $1.1 million. Additionally, effective May 2, 2004, TeamStaff sold certain of the assets of TeamStaff Solutions, Inc., the subsidiary through which it operated its temporary technical staffing business, to Metro Tech Consulting Services, Inc. for the sum of $65,000.

There were no revenues for the PEO segment for the three months ended March 31, 2005 and 2004. Net revenues for the PEO segment for the six months ended March 31, 2005 and 2004 were $0 and $11.6 million, respectively.

The following chart details assets and liabilities from discontinued operations:

(Amounts in thousands)	March 31, 2005	September 30, 2004
<u>ASSETS</u>	$ 0	$ 0
<u>LIABILITIES</u>		
Accrued expenses and other current liabilities	$ 699	$ 963
Total liabilities	$ 699	$ 963

Liability Balances (Amounts in thousands)	December 31, 2004 Balance	Expensed This Quarter	Paid This Quarter	March 31, 2005 Balance
Accrued expenses and other current liabilities	$ 766	$ —	$ (67)	$ 699
Total	$ 766	$ —	$ (67)	$ 699

(6) <u>COMMITMENT AND CONTINGENCY:</u>

New Lease Agreement:

On February 24, 2005, TeamStaff, Inc., as tenant, and The St. Joe Company, as landlord, entered into a lease for approximately 15,177 rentable square feet located at 18167 US 19 North, Clearwater, Florida. The lease is for a sixty-six month term, with an anticipated commencement date of September 1, 2005. The premises will be used primarily as office space for TeamStaff's medical staffing division. TeamStaff's current office lease in Clearwater, Florida expires August 31, 2005. The total value of the commitment over the life of the lease is $1.8 million.

Legal Proceeding:

In connection with TeamStaff's acquisition of BrightLane effective as of August 31, 2001, persons holding BrightLane options to acquire approximately 2.1 million BrightLane shares (the equivalent of approximately 481,000 TeamStaff shares) exercised their options. BrightLane made recourse loans of approximately $1.0 million principal amount to the holders of these options to assist them in payment of tax obligations incurred with exercise of the options. The loans were repayable upon the earlier of (i) sale of the TeamStaff shares or (ii) three years. The loans were secured by the shares that were received for the option exercise. As of March 31, 2005 approximately $0.7 million of these loans has been repaid or forgiven. All loans were to be repaid in cash with the exception of one loan. Under the terms of TeamStaff's employment agreement with a former executive officer of TeamStaff's BrightLane subsidiary, the loan ($131,000) was forgiven over a two-year period of time. We have commenced litigation against two of the persons who received loans and these persons filed counterclaims against BrightLane and our Chairman. The parties are currently discussing settlement of the suits. For the quarter ended March 31, 2005, TeamStaff recognized an expense in the amount of $190,000 representing a partial write-down of the original principal amount of the loan.

(7) <u>DEBT:</u>

TeamStaff had a letter of credit in the amount of $1.8 million issued by SunTrust Bank with respect to TeamStaff's workers' compensation program with Zurich effective March 21, 2004. The

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letter of credit was collateralized by a certificate of deposit for $1.8 million deposited at SunTrust. Effective March 31, 2005, Zurich withdrew the requirement for a letter of credit with respect to TeamStaff's workers' compensation policy and $1.8 million of restricted cash was released to TeamStaff.

TeamStaff entered into several new capital leases with interest rates ranging from 4.1% to 6.8%. Long-term debt at March 31, 2005 consists of the following:

(Amounts in thousands)	March 31, 2005
Total lease payments due	$ 456
Less interest	(31)
Capital lease obligation	425
Less current portion	(184)
Long-term debt	$ 241

Maturities of long-term debt as of March 31, 2005 are as follows:

(Amounts in thousands)

12 Months Ending March 31, 2005		
2006	$	184
2007		109
2008		63
2009		55
2010		14
Total	$	425

(8) STOCK OPTIONS AND WARRANTS:

During the quarter ended March 31, 2005, TeamStaff granted 105,000 options at an average price of $1.73 per share, 4,742 options expired or were cancelled unexercised, and no options were exercised. During the six months ended March 31, 2005, TeamStaff granted 285,000 options at an average price of $1.94 per share, 91,941 options expired or were cancelled unexercised, and no options were exercised. During the quarter ended March 31, 2004, TeamStaff did not grant any options, 89,311 options expired or were cancelled unexercised, and no options were exercised. During the six months ended March 31, 2004, TeamStaff granted 50,000 options at an average price of $2.08 per share, 225,925 options expired or were cancelled unexercised, and no options were exercised.

During the quarter ended March 31, 2005, no warrants were issued, no warrants expired unexercised, and no warrants were exercised. During the six months ended March 31, 2005, TeamStaff granted warrants to purchase 598,000 shares of common stock in conjunction with a private placement stock offering (See Note 3). The cash received from the transaction has been allocated among common stock and warrants based on the relative fair market value of the components. During the six months ended March 31, 2005, no warrants were issued, no warrants expired unexercised, and no warrants were exercised. During the quarter ended March 31, 2004, no warrants were issued, 21,428 warrants expired unexercised, and no warrants were exercised. During the six months ended March 31, 2004, no warrants were issued, 21,428 warrants expired unexercised, and no warrants were exercised.

(9) SUPPLEMENTAL RETIREMENT PLAN:

Effective October 1, 2000, TeamStaff adopted a non-qualified Supplemental 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 the 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 the 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 the SERP in complete satisfaction of TeamStaff's obligations under the 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 totaling $0.3 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 2005.

Components of Net Periodic Benefit Cost:
(Amounts in thousands)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2005	2004	2005	2004
Interest cost	$ 8	$ 21	$ 17	$ 41
Amortization of net loss	16	15	35	30
Settlement charges	35	119	113	188
Total pension cost	$ 59	$ 155	$ 165	$ 259

(10) SEGMENT REPORTING:

As a part of continuing operations, TeamStaff operates two different lines of business: medical staffing and payroll services.

TeamStaff currently provides temporary and permanent staffing for allied healthcare professionals and nurses with hospitals, clinics and therapy centers. Medical staffing enables clients to attain management and productivity goals by matching highly trained professionals and technical personnel to specific project requirements.

Through its Payroll Services business segment, TeamStaff provides payroll and related services to its clients. Approximately 75% of these clients are engaged in construction and related industries. Services provided include payroll check processing via web, phone or fax, federal and state quarterly and year end tax compliance reports, W-2 processing, and comprehensive financial management reports including certified payroll reports and custom software interfaces.

All corporate expenses, interest expense, as well as depreciation on corporate assets and miscellaneous charges, are reflected in a separate unit called Corporate. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. TeamStaff evaluates the performance of its business lines based on pre-tax income. TeamStaff has no revenue derived from outside the United States.

The following table represents the financial results for each of TeamStaff's segments:

(In thousands)	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004	Six Months Ended March 31, 2005	Six Months Ended March 31, 2004
Medical Staffing:				
Revenues:	$ 9,854	$ 7,784	$ 18,751	$ 16,237
Income before tax:	$ 390	$ 245	$ 681	$ 371
Payroll Services:				
Revenues:	$ 1,045	$ 1,014	$ 2,349	$ 2,300
Income before tax:	$ 264	$ 331	$ 843	$ 959
Corporate:				
Revenues:	$ —	$ —	$ —	$ —
Loss before tax:	$ (1,601)	$ (1,628)	$ (3,104)	$ (3,251)
Consolidated:				
Revenues:	$ 10,899	$ 8,798	$ 21,100	$ 18,537
Loss before tax:	$ (947)	$ (1,052)	$ (1,580)	$ (1,921)

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

Forward Looking and Cautionary Statements

Certain statements contained herein constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "1995 Reform Act"). TeamStaff, Inc. 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 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. Such future results are managements best estimates based upon current conditions and the most recent results of operations. These risks include, but are not limited to, risks associated with risks undertaken in connection with acquisitions, risks from potential workers' compensation claims, increased insurance costs and required payments, risks from employer/employee related suits such as discrimination or wrongful termination, risk associated with medical professional liability claims, risks associated with payroll and employee related taxes which may require unanticipated payments by TeamStaff, liabilities associated with TeamStaff's status under certain federal and state employment laws as a co-employer, effects of competition, TeamStaff's ability to implement its internet based business and technological changes, and dependence upon key personnel. These and other risks are stated in detail in our Report on Form 10-K for the fiscal year ended September 30, 2004 and other reports and filings made by TeamStaff.

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 2004 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

For the three and six months ended March 31, 2005, TeamStaff operated two different lines of business, temporary staffing and payroll services, from which it derived substantially all of its revenue.

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.

The Medical Staffing 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, included in revenue related to Medical Staffing are commissions from permanent placements. Commissions from permanent placements result from the successful placement of a medical staffing employee to a customer's workforce as a permanent employee.

The payroll services revenue is recognized as service is rendered and consists primarily of administrative service fees charged to clients for the processing of paychecks as well as preparing quarterly and annual payroll related reports.

In connection with its discontinued operation, TeamStaff's professional employer organization division revenues were derived from its PEO division billings, net of worksite employee payroll costs (net method), which included payroll taxes, benefit costs, workers' compensation charges and administrative fees. The net method was used because TeamStaff was not generally responsible for the output and quality of work performed by the worksite employees. These amounts are reflected as part of income (loss) from discontinued operations in the consolidated financial statements.

Workers' Compensation

TeamStaff's current workers' compensation insurance provider is Zurich American Insurance Company. The program is managed by Cedar Hill Insurance Agency, Inc., whose duties include underwriting analysis, loss control services, and other program management services.

The Zurich program originally covered the period from March 22, 2002 through March 31, 2003, inclusive. On March 28, 2003, TeamStaff renewed its workers' compensation program with Zurich for the period from April 1, 2003, through March 31, 2004, inclusive. The renewal program contained a large deductible feature of $0.5 million for each claim, with a maximum liability cap of the greater of 104.41% of manual premium or $15.6 million. The premium for the program was paid monthly based upon estimated payroll for the year and is subject to a policy year-end audit. The renewal program was collateralized by a letter of credit inuring to the benefit of Zurich, and cash held in a trust account with a third party. A letter of credit for $3.5 million was secured through Fleet Bank, as part of TeamStaff's line of credit. However, effective March 31, 2004, Zurich agreed to a reduction in the amount of the letter of credit to $1.8 million. As a result, on March 31, 2004, TeamStaff secured a new letter of credit in the amount of $1.8 million with SunTrust Bank. Effective March 31, 2005, Zurich withdrew the requirement for a letter of credit and $1.8 million of restricted cash held in the form of a certificate of deposit at SunTrust Bank was released to TeamStaff. Payments were made to the trust monthly based on projected claims for the year. 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. Claims handling services for the program are provided by GAB Robins, a third party administrator. On May 12, 2004, TeamStaff received approximately $1.0 million in return premiums from Zurich. At March 31, 2005, TeamStaff has a prepaid asset of $4.1 million, for the premiums and the prepayments made to the trust for both years of the Zurich plan. TeamStaff estimates that, of this amount, approximately an additional $1.0 million in return premiums will be received within the next twelve months, and this is reflected on the balance sheet at March 31, 2005 as a current asset.

In conjunction with the sale of its PEO assets to Gevity, TeamStaff requested and received a pro rata cancellation of this policy effective as of November 17, 2003. TeamStaff entered into a new workers' compensation program with Zurich covering TeamStaff's temporary employees and, as of January 1, 2004, its corporate employees. The program is managed by Cedar Hill and claims handling services for the program are provided by GAB Robins. This program is a fully-insured, guaranteed cost program that contains no deductible or retention feature. This policy terminated April 1, 2004. Effective April 1, 2004, TeamStaff entered into a new workers' compensation program with Zurich, covering the period from April 1, 2004 through March 31, 2005, with the same terms as the previous policy. Effective April 1, 2005, TeamStaff renewed its workers' compensation program with Zurich, covering the period from April 1, 2005 through March 31, 2006, with the same terms as the previous policy.

As of March 31, 2005, 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 which may include loss data for claims incurred during prior policy periods. TeamStaff has encountered difficulties in receiving timely reporting of claims from CNA for the workers' compensation programs covering January 22, 2001, through March 22, 2002. CNA claims that TeamStaff owes approximately $4.4 million under the programs. TeamStaff is disputing certain of the amounts that CNA claims is due. TeamStaff's own analysis of its ultimate financial liability under the programs yields a substantially lower amount due under the programs. TeamStaff not only believes that its ultimate program

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expenses are dramatically lower than those calculated by CNA, but TeamStaff believes that its program expenses were exacerbated by CNA's claims handling practices. TeamStaff also filed a complaint with the New Jersey Division of Insurance, which referred the matter to the New Jersey Compensation Rating and Inspection Bureau. The New Jersey Compensation Rating and Inspection Bureau investigated the complaint and proposed a fine against CNA as well as a refund of $0.2 million in policy issuance costs to TeamStaff. The parties are in discussion in an effort to reach an amicable resolution. There can be no assurance that we will be successful in our efforts to settle this matter. In the future, similar problems from our insurance carriers may result in adjustments to our reserves. 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, 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.

Results of Continuing Operations

TeamStaff's revenues for the three months ended March 31, 2005 and 2004 were $10.9 million and $8.8 million, respectively, which represents an increase of $2.1 million, or 23.9%, from second fiscal quarter 2004 to second fiscal quarter 2005. The Medical Staffing division revenues for the three months ended March 31, 2005 and 2004 were $9.9 million and $7.8 million, respectively, which represents an increase of $2.1 million, or 26.6% from second fiscal quarter 2004 to second fiscal quarter 2005. Revenues for the second quarter of fiscal 2005 include $3.6 million related to the acquisition of certain of the assets of Nursing Innovations, a Memphis, Tennessee-based provider of travel and per diem nurses on November 14, 2004 (See Note 4). This helped offset a decrease in the allied healthcare portion of our Medical Staffing division. The Payroll Services division revenues for the three months ended March 31, 2005 and 2004 were virtually unchanged at $1.0 million. TeamStaff's revenues for the six months ended March 31, 2005 and 2004 were $21.1 million and $18.5 million, respectively, which represents an increase of $2.6 million , or 13.8%, from fiscal year 2004 to fiscal year 2005.

We believe hospitals continue to focus on cost efficiencies by placing greater reliance on existing full time staff. This, in turn, has led to less demand for temporary health care professionals. We also believe that, during the recent economic downturn, certain healthcare providers who once traveled for temporary assignments have taken full time jobs, which they view as being more stable or secure. This has provided facilities with a greater pool of full time staff on which to rely. Additionally, we believe the continued lack of growth in hospital admissions nationwide during our second fiscal quarter may have had an adverse impact on demand for our temporary medical staffing services for this period. Longer term, we believe the demand for temporary medical personnel will increase, driven in part, by an aging population and an improving economy, although we continued to see suppressed demand for certain temporary allied healthcare professionals in our second fiscal quarter. We believe demand will increase as more states introduce legislation for mandatory minimum nurse to patient ratios and overtime limitations. The acquisition of certain of the assets of Nursing Innovations provides TeamStaff with the opportunity to benefit from these industry changes that, we believe, impact our temporary nurse staffing business most significantly. We continue to see an increase in demand for travel nurses. We believe our radiation therapy services, which are a key component of our allied segment, will experience a similar increase in demand as travel nurses, as it relies on many of the

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same business fundamentals. Additionally, we continue to expand our sales and marketing efforts in order to increase our contact with current and prospective clients.

Direct expenses for the three months ended March 31, 2005 and 2004 were $8.3 million and $6.9 million, respectively, which represents an increase of $1.4 million, or 20.3%. This increase is a direct result of increased revenues. As a percentage of revenue, direct expenses for the three months ended March 31, 2005 and 2004 were 75.9% and 78.1%, respectively. Direct expenses for the six months ended March 31, 2005 and 2004 were $15.9 million and $14.4 million, respectively, which represents an increase of $1.5 million, or 10.4%. As a percentage of revenue, direct expenses for the six months ended March 31, 2005 and 2004 were 75.3% and 77.6%, respectively.

Gross profits for the three months ended March 31, 2005 and 2004 were $2.6 million and $1.9 million, respectively, which represents an increase of $0.7 million, or 36.6%. This increase is attributable to the growth by acquisition in our Medical Staffing business as well as more prudent expense management and selected price increases in both the Medical Staffing and Payroll Services division. Gross profits, as a percentage of revenue, increased to 24.1% from 21.9%, for the three months ended March 31, 2005 and 2004, respectively. This increase is primarily due to improved margins in the Medical Staffing division from 17.0% in the second fiscal quarter of 2004, to 20.1% in the second fiscal quarter of 2005. Gross profits for the six months ended March 31, 2005 and 2004 were $5.2 million and $4.2 million, respectively, which represents an increase of $1.0 million, or 25.6%. Gross profits, as a percentage of revenue, increased to 24.7% from 22.4%, for the six months ended March 31, 2005 and 2004, respectively.

Operating expenses for the three months ended March 31, 2005 and 2004 were $3.4 million and $2.9 million, respectively, which represents an increase of $.5 million, or 18.9%. This increase includes $0.2 million of non- recurring write-offs of notes receivable related to TeamStaff's acquisition of BrightLane in 2001. Operating expenses related to Nursing Innovations, which was acquired on November 14, 2004, for the three months ended March 31, 2005 were $0.5 million. After adjusting for operating expenses in the second fiscal quarter 2005 related to Nursing Innovations and the non-recurring write-off, expenses for the quarter decreased 5.0% from 2004 to 2005. Operating expenses, as a percentage of revenue, were 31.5% and 32.8%, for the three months ended March 31, 2005 and 2004, respectively. Operating expenses for the six months ended March 31, 2005 and 2004 were $6.6 million and $6.0 million, respectively. Operating expenses, as a percentage of revenue, were 31.1% and 32.2%, for the six months ended March 31, 2005 and 2004, respectively.

Depreciation and amortization for the three months ended March 31, 2005 and 2004 was $184,000 and $115,000, respectively. Depreciation and amortization for the six months ended March 31, 2005 and 2004 was $332,000 and $187,000. This increase is due to additional depreciation related to capital leases as well as fixed assets acquired as part of the acquisition of certain of the assets of Nursing Innovations.

Other income, which is comprised of interest income and expense, and late fee income, for the three months ended March 31, 2005 and 2004 was $40,000 and $24,000, respectively, representing an increase of $16,000. Other income for the six months ended March 31, 2005 and 2004 was $100,000 and $73,000, respectively.

Income tax benefit from continuing operations for each of the three months ended March 31, 2005 and 2004 was $0.4 million. Income tax benefit from continuing operations for the six months ended March 31, 2005 and 2004 was $0.6 million and $0.7 million, respectively. These tax benefits are a result of losses from operations.

Loss from continuing operations for the three months ended March 31, 2005 was $0.6 million, or $(0.03) per fully diluted share, as compared to loss from continuing operations for the three months ended March 31, 2004 of $0.7 million, or $(0.04) per fully diluted share. Loss from continuing operations for the six months ended March 31, 2005 was $1.0 million, or $(0.06) per fully diluted share, as compared to loss from continuing operations for the six months ended March 31, 2004 of $1.2 million, or $(0.08) per fully diluted share.

Loss from discontinued operations, net of tax, for the three months ended March 31, 2005 was negligible at $36,000, with no impact on earnings per fully diluted share, as compared to loss from

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discontinued operations, net of tax, for the three months ended March 31, 2004 of $0.3 million, or $(0.02) per fully diluted share. Loss from operations from the discontinued business unit, net of tax, for the three months ended March 31, 2005 and 2004 was $36,000 and $0.3 million, respectively. Loss on disposal, net of tax, for the three months ended March 31, 2005 and 2004, was $0 and $4,000, respectively. Loss from discontinued operations, net of tax, for the six months ended March 31, 2005 and 2004 was $0.2 million and $1.6 million respectively. Loss from operations from the discontinued business unit, net of tax, for the six months ended March 31, 2005 and 2004 was $0.2 million and $0.9 million respectively. In the first six months of fiscal 2005, the loss was due to previously unbilled legal fees and non-cancelable software licenses related to the discontinued business unit. In the first six months of fiscal 2004, TeamStaff generated revenue from the discontinued business unit for only the first six weeks, while certain costs associated with the operation of that business unit continued throughout the period. Loss on disposal, net of tax, for the six months ended March 31, 2005 and 2004 was $1,000 and $0.8 million, respectively. For the first six months of fiscal 2004, the loss is attributable to the writedown of goodwill and fixed assets, salary, severance and stay bonus payouts to affected employees, accruals for losses from lease obligations in offices no longer used by TeamStaff's continuing operations offset by estimated sublease of unoccupied office space, investment banking fees and other expenses required to dispose of the discontinued business unit.

Net loss for the three months ended March 31, 2005 was $0.6 million, or ($0.03) per fully diluted share, as compared to a net loss of $1.0 million, or $(0.06) per fully diluted share, for the three months ended March 31, 2004. Net loss for the six months ended March 31, 2005 was $1.2 million, or $(0.07) per fully diluted share, as compared to a net loss of $2.8 million, or $(0.18) per full diluted share, for the six months ended March 31, 2004.

Liquidity and Capital Resources

Net cash used in operating activities for the six months ended March 31, 2005 was $1.2 million compared to $0.9 in the six months ended March 31, 2004. Use of cash during the six months ended March 31, 2005 includes increased accounts receivable of $1.8 million primarily due to the operations of Nursing Innovations subsequent to its acquisition on November 14, 2004, increased accrued payroll of $0.7 million, and losses in continuing and discontinued operations, offset by a decrease of $1.8 million in restricted cash related to the release of the letter of credit requirement from Zurich for TeamStaff's workers' compensation policy.

Cash used in investing activities for the six months ended March 31, 2005 was $1.9 million compared to virtually $0.0 in the six months ended March 31, 2004. Use of cash was primarily for the purchase of certain of the assets of Nursing Innovations.

Cash provided by financing activities for the six months ended March 31, 2005 was $4.0 million compared to virtually $0.0 in the six months ended March 31, 2004. During the first fiscal quarter of 2005, TeamStaff entered into Securities Purchase Agreements with several accredited investors for the private sale under Section 4(2) of the Securities Act of 1933 and/or Regulation D of securities for an aggregate purchase price of $4.3 million. The offering consisted of the sale of 2,392,000 shares of Common Stock and 598,000 common stock warrants. The investors in the transaction received one three-year warrant to purchase an additional share of common stock at a price of $2.50 per share for every four shares of common stock purchased in the transaction. Closing of the offering occurred on Wednesday, November 10, 2004. TeamStaff received net proceeds of approximately $4.0 million, after payment of commissions and related offering expenses. SunTrust Robinson Humphrey Capital Markets and Maxim Group LLC served as selling agents on TeamStaff's behalf and received combined commissions of 6.5% of the gross proceeds.

As of March 31, 2005, TeamStaff had unrestricted cash and cash equivalents of $3.9 million and net accounts receivable of $4.8 million. As of March 31, 2005, TeamStaff had working capital of $5.7 million. Management believes its existing cash and funds generated by operations will be sufficient to support cash needs for at least the next twelve months.

Effects of Inflation

Inflation and changing prices have not had a material effect on TeamStaff's net revenues and results of operations in the last three fiscal years, 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 has no material interest rate risk, except with respect to our prior workers' compensation programs, and is not materially subject to fluctuations in foreign exchange rates, commodity prices or other market rates or prices from market sensitive instruments. 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.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures:

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of our "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rule 13a-15(e)) as of the end of the period covered by this report on Form 10-Q. Based on their evaluation, which included an evaluation of the disclosure controls and procedures both in place and implemented with respect to the business of Nursing Innovations that we purchased on November 14, 2004, our Chief Executive Officer and Chief Financial Officer have concluded that as of March 31, 2005, our disclosure controls and procedures are effective to ensure that all material information required to be filed in this Quarterly Report on Form 10-Q has been made known to them.

Changes in Internal Controls:

There has been no change in our internal controls over financial reporting identified in connection with our evaluation referred to above that has materially affected, or that is reasonably likely to materially affect, our internal control over financial reporting.

Part II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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 and TeamStaff agreed to release 29,915 escrow shares to the Sellers. TeamStaff retains 75,000 shares in escrow to provide security for the Seller's obligations. Each party agreed to release each other from all other claims under the acquisition agreements. No third parties have contacted TeamStaff seeking payment in the last fiscal year for these potential liabilities. In the event that TeamStaff incurs liability to third parties with respect to the claims, TeamStaff would declare an event of default under the settlement agreement and seek collection from the Sellers.

TeamStaff's subsidiary, BrightLane, is party to a suit brought by one of its former shareholders (Atomic Fusion, Inc. v. BrightLane.com, Inc. Civil Action No ONS02246OE, Fulton County State Court, Georgia). The plaintiff seeks damages for alleged unpaid contractual services provided to BrightLane, alleging that the shares (both in number and value) of BrightLane stock provided to the plaintiff in payment of services were inadequate to pay for the alleged agreed upon value of services. In connection with TeamStaff's acquisition of Brightlane, the former shareholders of BrightLane were required to place approximately 158,000 shares in escrow to provide indemnification for any claims made by TeamStaff under the acquisition agreement, subject to a $0.3 million threshold. Some or all of these shares may be canceled in an amount equal to the amount of any claim or expense in excess of the threshold. Under the terms of the agreements between TeamStaff and BrightLane, the value of the shares held in escrow is $8.10 per share. On November 20, 2003, the Fulton County Superior Court (to which the action was transferred) awarded summary judgment in BrightLane's favor on all counts of Atomic Fusion's complaint except for a beach of contract claim. A trial was held on Atomic Fusion's breach of contract claim before a jury over four days, from August 16 through August 19, 2004. The jury returned a verdict in Atomic Fusion's favor, awarding $534,246 in damages and $116,849 in attorney's fees, for a total verdict of $651,095, including interest and costs. BrightLane has filed a motion for judgment notwithstanding the verdict, which currently is pending before the court. BrightLane believes that the jury's award of damages and attorneys fees was not supported by Georgia law. BrightLane also has filed a motion to recover certain of its attorneys' fees expended in pursuing its motion for summary judgment. This motion also is pending before the court. Depending upon the outcome of these motions, BrightLane intends to appeal the jury's verdict on liability or damages or both.

In connection with TeamStaff's acquisition of BrightLane effective as of August 31, 2001, persons holding BrightLane options to acquire approximately 2.1 million BrightLane shares (the equivalent of approximately 481,000 TeamStaff shares) exercised their options. BrightLane made recourse loans of approximately $1.0 million principal amount to the holders of these options to assist them in payment of tax obligations incurred with exercise of the options. The loans were repayable upon the earlier of (i) sale of the TeamStaff shares or (ii) three years. The loans were secured by the shares that were received for the option exercise. As of March 31, 2005 approximately $0.7 million of these loans has been repaid or forgiven. All loans were to be repaid in cash with the exception of one loan. Under the terms of TeamStaff's employment agreement with a former executive officer of TeamStaff's BrightLane subsidiary, the loan ($131,000) was forgiven over a two-year period of time. We have commenced litigation against two of the persons who received loans and these persons filed counterclaims against BrightLane and our Chairman. The parties are currently discussing settlement of the suits. For the quarter ended March 31, 2005, TeamStaff recognized an expense in the amount of $190,000 representing a partial write-down of the original principal amount of the loan.

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. Although TeamStaff believes it has procured insurance that 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 2. UNREGISTERED SALES OF SECURITIES AND USE OF PROCEEDS

On July 22, 1999, the Board of Directors authorized the repurchase up to 3% of the outstanding shares of TeamStaff's common stock. On November 19, 2002, the Board of Directors authorized an additional repurchase of up to $1.0 million in common stock. Since inception we have repurchased 581,470 shares at an average cost of $4.18 per share for a total cost of $2.4 million. No shares were repurchased during the quarter ended March 31, 2005. As of March 31, 2005, TeamStaff retired 574,470 of the 581,470 shares of treasury stock. We do not currently have any plans to repurchase our securities.

The Registrant previously reported the sale of equity securities on Form 8-K dated November 12, 2004. See the description contained in the Form 8-K or also in the notes to financial statements above which are incorporated by reference to this Item 2. No securities were sold by TeamStaff during the most recent fiscal quarter.

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 AND REPORTS ON FORM 8-K

(a) Exhibits

10.1 Form of Director Plan Non-Qualified Stock Option Agreement dated as of March 31, 2005 between TeamStaff, Inc. and Peter Black.

31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

The following reports were filed during the quarter ended March 31, 2005.

Date of Report	Item Reported
January 5, 2005	Item 5 Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers (in connection with an independent member of the Board of Directors named as a TeamStaff employee)
January 31, 2005	Item 8 Other Events (in connection with the effectiveness of TeamStaff's registration statement)
February 14, 2005	Item 2 Results of Operations and Financial Condition; Item 9 Financial Statements and Exhibits (in connection with TeamStaff's earnings release for the fiscal quarter ended December 31, 2004)
February 24, 2005	Item 1 Entry into Material Definitive Agreement; Item 9 Financial Statements and Exhibits (in connection with entry into occupancy lease for Clearwater, Florida office space)
March 10, 2005	Item 8 Other Events (in connection with the departure of TeamStaff's Vice President, General Counsel and Secretary, Edmund C. Kenealy)
March 30, 2005	Item 5 Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers (in connection with the appointment of a new member to TeamStaff's Board of Directors)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TEAMSTAFF, INC.
(Registrant)

/s/ T. Kent Smith
T. Kent Smith
President and Chief Executive Officer

/s/ Rick Filippelli
Rick Filippelli
Vice President, Finance and Chief Financial Officer

Date: May 13, 2005

TEAMSTAFF, INC.

2000 DIRECTOR PLAN OPTION
NON-QUALIFIED STOCK OPTION AGREEMENT

Name: Peter Black
Date of Grant: 3/30/2005
Option No.: DO-67
Number of Options: 5,000
Exercise Price Per Share: $1.43

We are pleased to notify you that in accordance with the terms of the 2000 Non-Executive Director Stock Option Plan (the "Plan") of TEAMSTAFF, INC. (the "Company") a stock option to purchase 5,000 shares of the Common Stock $.001 par value per share of the Company has been granted to you under the Plan. This option may be exercised only upon the terms and conditions set forth below. The following is a brief summary of the Plan and this Option is subject to all of the terms and conditions of the Plan.

1. Purpose of Option

The purpose of the Plan under which this stock option has been granted is to enable the Company to attract and retain the services of qualified independent persons to serve on the Company's Board of Directors by providing an opportunity to acquire a proprietary interest in the Company.

2. Acceptance of Option Agreement

Your acceptance of this stock option agreement will indicate your acceptance of and your agreement to be bound by its terms and the terms of the Plan. It imposes no obligation upon you to purchase any of the shares subject to the option. Your obligation to purchase shares can arise only upon your exercise of the option in the manner set forth in paragraph 4 hereof. This stock option agreement shall be subject in all respects to the terms and conditions of the Plan and in the event of any question or controversy relating to the terms of the Plan, the decision of the Board of Directors shall be final.

3. When Option May Be Exercised; Vesting

Except as otherwise provided herein, **this option shall be exercisable at any time after the first anniversary of the Date of Grant and prior to the Expiration Date**, as hereafter defined and except as provided in Sections 7 and 8 hereof. This option may not be exercised for less than ten shares at any one time (or the remaining shares then purchasable if less than ten) and expires at 5:00 pm (eastern standard time) on March 30, 2010 (the "Expiration Date") whether or not it has been duly exercised, unless sooner terminated as provided in paragraphs 7, 9 or 13 hereof. This option does not vest, and therefore may not be exercised (except as otherwise provided in Sections 7, 8 and 9 hereof) until one year from the date of issuance.

4. Exercise Procedure

This option is exercisable by a written notice signed by you and delivered to the Company at its executive offices, signifying your election to exercise the option. The notice must state the number of shares of Common Stock you are exercising under this option and must contain a statement by you (in the form annexed to this option) that such shares are being acquired by you for investment and not with a view to their distribution or resale (unless a Registration Statement covering the shares purchasable has been declared effective by the Securities and Exchange Commission).

Payment shall be either (i) in cash, or by certified or bank cashier's check payable to the order of the Company, free from all collection charges; (ii) by delivery of shares of Common Stock of the

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Company already owned by the optionee for at least six months prior to the date of exercise, which Common Stock shall be valued at fair market value on the date of exercise; or (iii) by a combination of the methods of payment specified in (i) and (ii) above.

For purposes of this Section 4, the fair market value per share of Stock shall be: (i) if the Common Stock is traded on a national securities exchange or on the NASDAQ National Market System ("NMS"), the per share closing price of the Common Stock on the principal securities exchange on which they are listed or on NMS, as the case may be, on the date of exercise (or if there is no closing price for such date of exercise, then the last preceding business day on which there was a closing price); or (ii) if the Common Stock is traded in the over-the-counter market and quotations are published on the NASDAQ quotation system (but not on NMS), the closing bid price of the Common Stock on the date of exercise as reported by NASDAQ (or if there are no closing bid prices for such date of exercise, then the last preceding business day on which there was a closing bid price); or (iii) if the Common Stock is traded in the over-the-counter market but bid quotations are not published on NASDAQ, the closing bid price per share for the Common Stock as furnished by a broker-dealer which regularly furnishes price quotations for the Common Stock.

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

5. Issuance of Shares

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

6. No Rights as Shareholder

Until the date that the conditions to exercise are, in the Company's sole determination, satisfied, you (or such other person as may be entitled to exercise this option) shall have none of the rights of a shareholder with respect to Common Stock upon exercise of this option.

7. Termination of Directorship and Options

Nothing in this option agreement shall entitle you to continue to serve as a director. If your service as a member of the Board of Directors of the Company is terminated for any reason other than by death or retirement, this option shall lapse and expire the earlier of seven months from the date such termination or the Expiration Date; provided, however, in the event that the directorship is terminated prior to the date that the option may be first exercised as set forth in Section 3 hereof, the option shall be exercisable commencing on the date of termination until a date which is seven months after termination.

8. Acceleration of Options

Notwithstanding any contrary installment period with respect to this option and unless the Board of Directors determine other wise, this outstanding option shall become exercisable in full for the aggregate number of shares covered thereby in the event: (i) the Board of Directors (or, if approval of the stockholders is required as a matter of law, the stockholders of the Company) shall approve (a) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of Common Stock would be converted into cash, securities or other property, other than a merger of the Company in which the holders of Common Stock immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger, or (b) any sale, lease, exchange, or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company, or (c) the adoption of any plan or proposal for the liquidation or dissolution of the Company; or (ii) any person (as such term is defined in Sections 13(d)(3) and 14(d)(2) of the

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Securities Exchange Act of 1934, as amended (the "Exchange Act")), corporation or other entity (other than the Company or any employee benefit plan sponsored by the Company or any Subsidiary) (a) shall purchase any Common Stock (or securities convertible into the Company's Common Stock) for cash, securities or any other consideration pursuant to a tender offer or exchange offer, without the prior consent of the Board of Directors, or (b) shall become the "beneficial owner" (as such term is defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing twenty-five percent (25%) or more of the combined voting power of the then outstanding securities of the Company ordinarily (and apart from rights accruing under special circumstances) having the right to vote in the election of Directors (calculated as provided in paragraph (d) of such Rule 13(d)(3) in the case of rights to acquire the Company's Securities); or (iii) during any period of two consecutive years or less, individuals who at the beginning of such period constitute the entire Board of Directors shall cease for any reason to constitute a majority thereof unless the election, or the nomination for election by the Company's stockholders, of each new director was approved by a vote of at least a majority of the directors then still in office. Notwithstanding the foregoing, if the acceleration of this option, either alone or together with other payments which the holder has the right to receive from the Company, would constitute an "excess parachute payment" as defined in Section 280G of the Code , such acceleration shall be reduced to the largest amount as will result in no portion of the acceleration under this Section 8 being subject to the excise tax imposed by Section 4999 of the Code.

9. Death

If you die while serving as a member of the Board of Directors of the Company, any option which was exercisable by you at the date of your death may be exercised by your legatee or legatees under your Will, or by your personal representatives or distributees, within one year from the date of your death, but in no event after the Expiration Date.

10. Non-Transferability of Option

This option shall not be transferable except by will or the laws of descent and distribution, and may be exercised during your lifetime only by you. Notwithstanding the foregoing, any proposed transfer shall be subject to the Internal Revenue Code, the rules and regulations promulgated thereunder and the federal securities laws and regulations.

11. Adjustments Upon Changes in Capitalization

If at any time after the date of grant of this option, the Company shall, by stock dividend, split-up, combination, reclassification or exchange, or through merger or consolidation, or otherwise, change its shares of Common Stock into a different number or kind or class of shares or other securities or property, then the number of shares covered by this option and the price of each such share shall be proportionately adjusted for any such change by the Board of Directors whose determination shall be conclusive. Any fraction of a share resulting from any adjustment shall be eliminated through the payment of cash based upon the fair market value (determined in accordance with the definition in Section 4) of the Common Stock.

13. Withholding

The Company shall have the power and the right to deduct or withhold, or require an Optionee to remit to the Company as a condition precedent for the fulfillment of any Option Exercise, an amount sufficient to satisfy Federal, state, and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising as a result of the exercise of Options. Whenever Shares are to be issued or cash paid to a Optionee upon exercise of an Option, the Company shall have the right to require the Optionee to remit to the Company, as a condition of exercise of the Option, an amount sufficient to satisfy federal, state and local withholding tax requirements at the time of exercise.

14. Tax Treatment

This option is not intended to qualify for "incentive stock option" treatment under the provisions of Section 422A of the Internal Revenue Code of 1986, as amended. You are urged to

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consult with your individual tax advisor prior to exercising this option. As a condition to the exercise of this option, you agree to notify TeamStaff promptly upon the sale or other disposition of the shares of Common Stock you received upon exercise of this option.

Sincerely yours,

TEAMSTAFF, INC.

By: ______________________________

T. Kent Smith
President and Chief Executive Officer

Corporate Seal

____

Rick J. Filippelli
Vice President, Finance and Chief Financial Officer

OPTION EXERCISE FORM

TO: TeamStaff, Inc.
300 Atrium Drive
Somerset, NJ 08873
Attn: Chief Financial Officer

Gentlemen:

The undersigned holder hereby irrevocably elects to exercise the right to purchase _________ shares of Common Stock covered by this Option Agreement according to the conditions hereof and herewith makes full payment of the Exercise Price of such shares as follows (PLEASE CHOOSE FORM OF PAYMENT).

____. **Cash Purchase**. The undersigned hereby elects to pay the exercise price in cash, and encloses a CERTIFIED CHECK OR BANK CASHIER'S CHECK (or has wired payment) in the amount of $____________.

____. **Cashless Exercise**. The undersigned hereby delivers ____________ shares of Common Stock of TeamStaff, Inc. in accordance with Section 4 of the Option Agreement. The undersigned represents that he/she has owned the shares being delivered for at least six months prior to the date of exercise.

____. **Combination of Cash and Cashless**. The undersigned hereby elects to pay the exercise price in cash and stock, and encloses a CERTIFIED CHECK BANK CASHIER'S CHECK (or has wired payment) in the amount of $____________and hereby delivers ____________ shares of Common Stock of TeamStaff, Inc. in accordance with Section 4 of the Option Agreement. The undersigned represents that he/she has owned the shares being delivered for at least six months prior to the date of exercise.

The undersigned understands and agrees that the Company shall have the power and the right to deduct or withhold, or require an Optionee to remit to the Company as a condition precedent for the fulfillment of any Option exercise, an amount sufficient to satisfy Federal, state, and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising as a result of this Option. Whenever Shares are to be issued or cash paid to an Optionee upon exercise of an Option, the Company shall have the right to require the Optionee to remit to the Company, as a condition of exercise of the Option, an amount sufficient to satisfy federal, state and local withholding tax requirements at the time of exercise.

Further, the undersigned hereby covenants and agrees to promptly notify the Company of the sale of any Shares during the one year period commencing on the date hereof.

The Shares are being acquired by the undersigned for investment purposes, and not with a view to their distribution or resale unless otherwise permitted under law.

Kindly deliver to the undersigned a certificate representing the Shares as follows.

INSTRUCTIONS FOR DELIVERY

Name: ____
(please type or print in block letters)

Address: ______________________________

____

____

Social Security No.: ___________________________

Dated: ___________________________

Signature ______________________

Print Name: ____________________

EXHIBIT 31.1

CERTIFICATIONS

I, T. Kent Smith, certify that:

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

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

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

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

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

   b) [RESERVED]

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

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

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

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

Date: May 13, 2005

/s/ T. Kent Smith
T. Kent Smith
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATIONS

I, Rick J. Filippelli, certify that:

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

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

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

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

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

   b) [RESERVED]

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

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

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

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

Date: May 13, 2005

/s/ Rick J. Filippelli
Rick J. Filippelli
Vice President, Finance and Chief Financial Officer

EXHIBIT 32.1

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

In connection with the Quarterly Report of TeamStaff, Inc (the Company) on Form 10-Q for the period ending March 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, being, T. Kent Smith, Chief Executive Officer of the Company, and Rick J. Filippelli, Chief Financial Officer of the Company, respectfully, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: May 13, 2005

/s/ T. Kent Smith
Chief Executive Officer

/s/ Rick J. Filippelli
Chief Financial Officer