

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2008

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

For the transition period from _____ to _____

Commission File No. 0-18492

TEAMSTAFF, INC.

(Exact name of registrant as specified in its charter)

New Jersey

(State or other jurisdiction of
incorporation or organization)

22-1899798

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

1 Executive Drive, Suite 130

Somerset, New Jersey

(Address of principal executive offices)

08873

(Zip Code)

(877) 523-9897

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES NO

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting Company

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 4,872,442 shares of Common Stock, par value \$.001 per share, were outstanding as of May 14, 2008.

TEAMSTAFF, INC.
FORM 10-Q
For the Quarter Ended March 31, 2008

Table of Contents

	<u>Page No.</u>
Part I — Financial Information	
Item 1. Financial Statements	
<u>Consolidated Balance Sheets as of March 31, 2008 (Unaudited) and September 30, 2007</u>	<u>3</u>
<u>(Unaudited) Consolidated Statements of Operations and Comprehensive Income (Loss) for the three months ended March 31, 2008 and 2007</u>	<u>5</u>
<u>(Unaudited) Consolidated Statements of Operations and Comprehensive Income (Loss) for the six months ended March 31, 2008 and 2007</u>	<u>6</u>
<u>(Unaudited) Consolidated Statements of Cash Flows for the six months ended March 31, 2008 and 2007</u>	<u>7</u>
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	<u>8</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>19</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>28</u>
<u>Item 4. Controls and Procedures</u>	<u>28</u>
Part II — Other Information	
<u>Item 1. Legal Proceedings</u>	<u>30</u>
<u>Item 1A. Risk Factors</u>	<u>31</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>32</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>32</u>
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	<u>32</u>
<u>Item 5. Other Information</u>	<u>32</u>
<u>Item 6. Exhibits</u>	<u>33</u>
<u>Signatures</u>	<u>34</u>
Exhibit 31.1	
Exhibit 32.1	

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

ASSETS	MARCH 31, 2008 (unaudited)	SEPTEMBER 30, 2007
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,140	\$ 592
Accounts receivable, net of allowance for doubtful accounts of \$20 and \$17 at March 31, 2008 and September 30, 2007, respectively	8,986	8,279
Prepaid workers' compensation	289	468
Assets held for sale	89	490
Other current assets	702	642
Total current assets	<u>11,206</u>	<u>10,471</u>
EQUIPMENT AND IMPROVEMENTS:		
Furniture and equipment	3,276	3,276
Computer equipment	580	561
Computer software	1,116	995
Leasehold improvements	41	41
	<u>5,013</u>	<u>4,873</u>
Less accumulated depreciation and amortization	<u>(4,291)</u>	<u>(4,132)</u>
Equipment and improvements, net	<u>722</u>	<u>741</u>
TRADENAME	4,569	4,569
GOODWILL	10,305	10,305
OTHER ASSETS	60	82
TOTAL ASSETS	<u>\$ 26,862</u>	<u>\$ 26,168</u>

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

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

LIABILITIES AND SHAREHOLDERS' EQUITY	MARCH 31, 2008	SEPTEMBER 30, 2007
	(unaudited)	
CURRENT LIABILITIES:		
Bank line of credit	\$ 524	\$ —
Notes payable	1,500	1,500
Current portion of capital lease obligations	67	63
Accrued payroll	2,346	1,581
Accrued pension liability	139	280
Accounts payable	3,400	3,727
Accrued expenses and other current liabilities	1,651	1,756
Liabilities from discontinued operations	185	263
Total current liabilities	<u>9,812</u>	<u>9,170</u>
CAPITAL LEASE OBLIGATIONS, net of current portion	163	183
ACCRUED PENSION LIABILITY, net of current portion	—	66
OTHER LONG TERM LIABILITIES, net of current portion	148	155
Total liabilities	<u>10,123</u>	<u>9,574</u>
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 4,853 and 4,823 at March 31, 2008 and September 30, 2007, respectively; outstanding 4,851 and 4,821 at March 31, 2008 and September 30, 2007, respectively	5	5
Additional paid-in capital	68,750	68,726
Accumulated deficit	(51,981)	(52,080)
Accumulated comprehensive losses	(11)	(33)
Treasury stock, 2 shares at cost at March 31, 2008 and September 30, 2007	(24)	(24)
Total shareholders' equity	<u>16,739</u>	<u>16,594</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 26,862</u>	<u>\$ 26,168</u>

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

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

	For the three months ended March 31,	
	2008	2007
REVENUES	\$ 17,307	\$ 17,045
DIRECT EXPENSES	14,379	14,565
Gross profit	2,928	2,480
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,693	3,421
DEPRECIATION AND AMORTIZATION	89	86
Income (loss) from operations	146	(1,027)
OTHER INCOME (EXPENSE):		
Interest income	3	11
Interest expense	(65)	(55)
Other income	28	46
Legal expense related to pre-acquisition activity of acquired company	(37)	—
	(71)	2
Income (loss) from continuing operations before tax	75	(1,025)
INCOME TAX (EXPENSE) BENEFIT	—	13
Income (loss) from continuing operations	75	(1,012)
(LOSS) INCOME FROM DISCONTINUED OPERATIONS:		
(Loss) income from operations, net of tax benefit of \$0 and \$0 for quarters ended March 31, 2008 and 2007, respectively	(11)	10
Net income (loss)	64	(1,002)
OTHER COMPREHENSIVE INCOME:		
Minimum pension liability adjustment	7	15
COMPREHENSIVE INCOME (LOSS)	<u>\$ 71</u>	<u>\$ (987)</u>
EARNINGS (LOSS) PER SHARE – BASIC AND DILUTED		
Income (loss) from continuing operations	\$ 0.01	\$ (0.21)
Income from discontinued operations	0.00	0.00
Net earnings (loss) per share	<u>\$ 0.01</u>	<u>\$ (0.21)</u>
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC	4,866	4,811
WEIGHTED AVERAGE NUMBER OF COMMON SHARES AND EQUIVALENTS OUTSTANDING – DILUTED	<u>4,882</u>	<u>4,811</u>

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

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

	For the six months ended March 31,	
	2008	2007
REVENUES	\$ 32,766	\$ 33,765
DIRECT EXPENSES	27,063	28,747
Gross profit	5,703	5,018
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	5,250	6,679
DEPRECIATION AND AMORTIZATION	178	177
Income (loss) from operations	275	(1,838)
OTHER INCOME (EXPENSE):		
Interest income	12	34
Interest expense	(101)	(112)
Other income	63	97
Legal expense related to pre-acquisition activity of acquired company	(138)	—
	(164)	19
Income (loss) from continuing operations before tax	111	(1,819)
INCOME TAX (EXPENSE) BENEFIT	—	108
Income (loss) from continuing operations	111	(1,711)
(LOSS) INCOME FROM DISCONTINUED OPERATIONS:		
(Loss) income from operations, net of tax benefit of \$0 and \$14 for 2008 and 2007, respectively	(12)	118
Income from disposal, net of tax expense of \$0 and \$48 for 2008 and 2007, respectively	—	77
	(12)	195
Net income (loss)	99	(1,516)
OTHER COMPREHENSIVE INCOME:		
Minimum pension liability adjustment	22	38
COMPREHENSIVE INCOME (LOSS)	\$ 121	\$ (1,478)
EARNINGS (LOSS) PER SHARE – BASIC AND DILUTED		
Income (loss) from continuing operations	\$ 0.02	\$ (0.35)
Income from discontinued operations	0.00	0.04
Net earnings (loss) per share	\$ 0.02	\$ (0.31)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC	4,863	4,812
WEIGHTED AVERAGE NUMBER OF COMMON SHARES AND EQUIVALENTS OUTSTANDING – DILUTED	4,868	4,812

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

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

	For the six months ended	
	March 31,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 99	\$ (1,516)
Adjustments to reconcile net income (loss) to net cash used in operating activities, net of divested businesses:		
Depreciation and amortization	178	177
Compensation expense related to director stock option grants	—	5
Compensation expense related to employee restricted stock grants	24	115
Provision for doubtful accounts	3	58
Gain on sale of DSI Payroll Services Division	—	(77)
Changes in operating assets and liabilities, net of acquired and divested businesses:		
Accounts receivable	(710)	(534)
Other current assets	119	220
Other assets	19	357
Accounts payable, accrued payroll, accrued expenses and other current liabilities	333	(321)
Other long term liabilities	(7)	—
Pension liability	(207)	(187)
Cash flows from discontinued operations	(50)	(89)
Net cash used in operating activities	<u>(199)</u>	<u>(1,792)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of equipment, leasehold improvements and software	(140)	(36)
Cash flows from discontinued operations	357	—
Net cash provided by (used in) investing activities	<u>217</u>	<u>(36)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Borrowings on revolving line of credit	18,168	2,446
Payments on revolving line of credit	(17,644)	(2,446)
Repayments on capital leases obligations	(16)	(27)
Net comprehensive income on pension	22	38
Cash flows from discontinued operations	—	(3)
Net cash provided by financing activities	<u>530</u>	<u>8</u>
Net increase (decrease) in cash and cash equivalents	548	(1,820)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	592	2,157
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 1,140</u>	<u>\$ 337</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for –		
Interest	\$ 30	\$ 113
Income taxes	<u>\$ 55</u>	<u>\$ 457</u>

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

TEAMSTAFF, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2008
(Unaudited)

(1) ORGANIZATION AND BUSINESS:

TeamStaff, Inc., a New Jersey corporation (“TeamStaff” or the “Company”), was founded in 1969 as a payroll service company and evolved into a national provider of temporary and permanent medical and administrative staffing services. Effective October 23, 2007, TeamStaff’s corporate headquarters is in Somerset, New Jersey. Previously, the Company’s corporate headquarters was located in Atlanta, Georgia. TeamStaff has offices located in Clearwater, Florida; Monroe, Georgia; and Somerset, New Jersey.

When we use the term “TeamStaff,” or the “Company” we mean TeamStaff and its subsidiaries. Currently, we operate only through the parent corporation, TeamStaff, Inc., and TeamStaff Rx, Inc. (“TeamStaff Rx”) and TeamStaff Government Solutions, Inc. (“TeamStaff GS”), two wholly-owned subsidiaries of TeamStaff, Inc. On February 12, 2008, the Company announced the name change of RS Staffing Services, Inc., a Monroe, Georgia-based provider of medical and office administration/technical professionals acquired in June 2005, to TeamStaff Government Solutions, Inc. The name change reflects the subsidiary’s expanding service offerings in providing staffing for government logistical support positions through its LogWorld GSA Schedule, as well as providing medical and office administration/technical professionals through nationwide FSS contracts. Team Staff’s other wholly-owned subsidiaries include DSI Staff ConnXions Northeast, Inc., DSI Staff ConnXions Southwest, Inc., TeamStaff Solutions, Inc., TeamStaff I, Inc., TeamStaff II, Inc., TeamStaff III, Inc., TeamStaff IV, Inc., TeamStaff VIII, Inc., TeamStaff IX, Inc., Digital Insurance Services, Inc., HR2, Inc. and BrightLane.com, Inc. As a result of the sale of our Professional Employer Organization (“PEO”) business in fiscal year 2004 and other Company business changes, these “other” subsidiaries are not actively operating. References in this filing to “TeamStaff,” the “Company,” “we,” “us” and “our” refer to TeamStaff, Inc. and its wholly owned subsidiaries.

TeamStaff provides specialized medical, nursing, logistics and administrative staffing services by supplying allied healthcare and nursing professionals, logistics and administrative personnel through two staffing subsidiaries. The Company’s TeamStaff Rx subsidiary, a Joint Commission on Accreditation of Healthcare Organizations (“JCAHO”) certified healthcare staffing firm, operates throughout the United States and specializes in providing travel allied medical employees and nurses (typically on a thirteen-week assignment basis), as well as permanent placement services. Allied medical staff includes MRI technicians, mammographers, dosimetrists, ultrasound staff and physicists. TeamStaff Rx places temporary employees for over 250 client facilities. The Company’s TeamStaff GS subsidiary specializes in providing medical, office administration, logistics and technical professionals through Federal Supply Schedule (“FSS”) contracts with both the United States General Services Administration (“GSA”) and United States Department of Veterans Affairs (“DVA”). TeamStaff GS places temporary employees at over 75 facilities.

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

Basis of Presentation

The consolidated financial statements included herein have been prepared by TeamStaff, without audit, pursuant to the applicable rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. TeamStaff believes that the disclosures are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in TeamStaff’s

latest annual report on Form 10-K. This financial information reflects, in the opinion of management, all adjustments necessary (consisting only of normal recurring adjustments) to present fairly the results for the interim periods. The results of operations and cash flows for such interim periods are not necessarily indicative of the results for the full year.

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

Certain prior period amounts have been reclassified to conform to the current period presentation and to reflect the Company's Nursing Innovations per diem nursing business as a discontinued operation (see Note 4 "— Discontinued Operations" below). All references to common stock, options, share based arrangements, exercise price, fair values and related data within this Form 10-Q have been retroactively amended so as to incorporate the effect of the one-to four reverse stock split effective April 21, 2008.

(2) SIGNIFICANT ACCOUNTING POLICIES:

Recently Issued Accounting Pronouncements Affecting the Company

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribes a recognition threshold of more-likely-than-not to be sustained upon examination. Measurement of the tax uncertainty occurs if the recognition threshold has been met. This Interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. TeamStaff conducts business solely in the U.S. and, as a result, files income tax returns for U.S., New Jersey and various other states and jurisdictions. In the normal course of business the Company is subject to examination by taxing authorities. At present, there are no ongoing income tax audits or unresolved disputes with the various tax authorities that the Company currently files or has filed with. Given the Company's substantial net operating loss carryforwards, which are subject to a full valuation allowance, as well as the historical operating losses in prior periods, the adoption of FIN 48 on October 1, 2007 did not have any effect on our financial position, results of operations or cash flows as of and for the six months ended March 31, 2008.

Revenue Recognition

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

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

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

Stock-Based Compensation

The Company's 2006 Long Term Incentive Plan (the "2006 Plan"), which is shareholder approved, permits the grant of stock options, stock appreciation rights, restricted stock, performance awards or other stock unit awards (collectively, "Awards") of up to 1,250,000 shares of common stock to all employees and non-employee directors. All Awards under the 2006 Plan are granted at the fair market value of the common stock at the grant date.

The Company's 2000 Employee Stock Option Plan (the "2000 Plan"), which is shareholder approved, permits the grant of options to purchase up to 428,571 shares of common stock to all employees as stock compensation. All stock options under the 2000 Plan are granted at the fair market value of the common stock at the grant date. Employee stock options vest ratably over a two-year period and expire 5 years from the grant date.

The Company's 2000 Non-Executive Director Stock Option Plan (the "Director Plan"), which is shareholder approved, permits the grant of options to non-employee directors of TeamStaff. Under the terms of the Director Plan, each non-executive director is automatically granted an option to purchase 1,250 shares upon joining the Board and each September 1st, pro rata, based on the time the director has served in such capacity during the previous year. The Director Plan also provides that directors, upon joining the Board, and for one (1) year thereafter, will be entitled to purchase restricted stock from TeamStaff at a price equal to 80% of the closing bid price on the date of purchase up to an aggregate purchase price of \$50,000.

Effective January 19, 2007, the Board of Directors changed the compensation terms for non-employee Board members. The Board agreed to forego all cash compensation in lieu of restricted stock grants. Each non-employee Board member received an initial grant under the Company's 2006 Plan of 3,750 shares of restricted stock following the 2007 annual meeting of shareholders. Additionally, for each Board committee on which such non-employee Board member served, the Board member received a grant of 625 shares of restricted stock following the 2007 annual meeting of shareholders. Fifty percent (50%) of all such shares of restricted stock shall vest when the volume-weighted average share price of the Company's common stock over any 20 consecutive trading days exceeds the price on the date of grant by 20% (reverse-split adjusted), with the remaining fifty percent (50%) vesting one year thereafter. Future annual grants shall be determined by the Company's Compensation Committee. Non-employee Board members also receive reimbursement of their Board-related travel, cell phone and similar expenses.

Effective as of October 1, 2007, our Board determined to reinstitute a cash compensation policy for non-executive directors. Accordingly, the Board established the following cash compensation terms for the members of the Board and committees: The annual director fee for our non-executive directors is \$15,000. The Chairman of the Board and the Audit Committee Chairman shall receive an additional \$3,500 per year. The Vice Chairman of the Board, Chairman of the Management Resources and Compensation Committee and Chairman of the Nominating and Corporate Governance Committee shall each receive an additional \$2,500 per year. Each non-executive director shall be awarded an annual grant of 3,750 shares of restricted common stock pursuant to the Company's 2006 Long Term Incentive Policy, provided that such award shall vest as follows: (A) 50% of the Award shall vest when the volume-weighted average share price over any 20 consecutive trading days exceeds the price per share of common stock on the date of grant by 20% (reverse-split adjusted); and (B) 50% of the Award shall vest one year from the vesting specified in (A) above. Each non-executive director shall be eligible for an additional annual grant of 1,250 shares of restricted stock for each committee membership held by a non-executive director under the Company's 2006 Plan, with such additional award to be fully vested on the date of grant. Reasonable and customary expenses incurred in attending the board and committee meetings are reimbursable.

In adopting Statement of Financial Accounting Standards ("FAS") No. 123 (revised 2004), Share-Based Payment ("FAS 123(R)", the Company applied the modified prospective approach to

transition. Under the modified prospective approach, the provisions of FAS 123(R) are to be applied to new awards and to awards modified, repurchased, or cancelled after the required effective date. Additionally, compensation cost for the portion of awards for which the requisite service has not been rendered that are outstanding as of the required effective date shall be recognized as the requisite service is rendered on or after the required effective date. The compensation cost for that portion of awards shall be based on the grant-date fair value of those awards as calculated for either recognition or pro-forma disclosures under FAS 123. Stock option compensation expense in 2007 is the estimated fair value of options granted amortized on a straight-line basis over the requisite service period for the entire portion of the award. As a result of the adoption of FAS 123(R), the Company's results for the three and six months ended March 31, 2007 includes share-based compensation expense for options totaling approximately \$2,000 and \$5,000. The Company did not recognize related tax benefits associated with its share-based compensation arrangements for the three and six months ended March 31, 2007. There was no share-based compensation expense for options for the three and six months ending March 31, 2008. As of March 31, 2008, there was no remaining unrecognized compensation expense related to non-vested stock option awards to be recognized during the current fiscal year.

During the three months ended March 31, 2008, TeamStaff did not grant any options, 500 options expired or were cancelled unexercised and no options were exercised. During the six months ended March 31, 2008, TeamStaff did not grant any options, 2,750 options expired or were cancelled unexercised and no options were exercised. There were 56,375 options outstanding as of March 31, 2008.

During the three months ended March 31, 2008, TeamStaff did not grant any shares of restricted stock. During the six months ended March 31, 2008, TeamStaff granted 30,000 shares of restricted stock (subject to certain performance based vesting requirements) to non-employee directors under its 2006 Plan as described above. The shares of restricted stock were awarded and valued at the closing price on the award date of \$3.36. In accordance with FAS 123(R) the Company will not recognize expense until it is probable that these conditions will be achieved. Such charges could be material in future periods. During the three and six months ended March 31, 2007, TeamStaff granted an aggregate of 57,500 shares of restricted stock at the closing price on the award date of \$4.28. The shares of common stock were to vest according to the following schedule: (a) 15,000 shares vested immediately; (b) 21,250 shares will vest on September 30, 2008, subject to the Company achieving four prior consecutive quarters of EBITDA profitability, and (c) 21,250 shares will vest on September 30, 2009 subject to at least a 50% improvement in EBITDA profitability in fiscal 2009 as compared to fiscal 2008. As of March 31, 2008, 17,500 of these shares have been cancelled. In accordance with FAS 123(R) the Company will not accrue expense until it is probable that these performance conditions will be achieved.

	Number Of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding, September 30, 2007	59,125	\$ 8.80	2.2	\$ —
Granted	—			
Exercised	—			
Cancelled	(2,750)	\$ 11.40		
Options outstanding, March 31, 2008	56,375	\$ 8.60	1.9	\$ —
Options exercisable March 31, 2008	56,375	\$ 8.60	1.9	\$ —

	Number Of Shares	Weighted Average Grant-Date Fair Value
Restricted stock outstanding, September 30, 2007	55,000	\$ 5.32
Granted	30,000	\$ 3.32
Cancelled	<u>(3,334)</u>	<u>\$ 6.80</u>
Restricted stock outstanding, March 31, 2008	<u>81,666</u>	<u>\$ 4.52</u>

As of March 31, 2008, approximately \$43,000 of unrecognized compensation costs related to non-vested restricted stock awards is expected to be recognized over a weighted average period of 1.1 years. This amount does not include compensation costs, if any, related to conditional restricted stock awards. In April 2008, subsequent to the balance sheet date, in connection with a new employment agreement for Chief Executive Officer Rick Filippelli, 25,000 shares of unvested conditional restricted stock were cancelled and 41,250 shares of restricted stock were awarded at the closing price on the award date of \$0.70.

Earnings (Loss) Per Share

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

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

(Amounts in thousands)	Three Months Ended March 31,		Six Months Ended March 31,	
	2008	2007	2008	2007
Weighted average number of common shares outstanding-basic	4,866	4,811	4,863	4,812
Incremental shares for assumed conversion of restricted stock	16	—	5	—
Weighted average number of common shares outstanding-diluted	4,882	4,811	4,868	4,812

Stock options, warrants and restricted stock outstanding at March 31, 2008 to purchase 56,375 shares of common stock and at March 31, 2007 to purchase 357,250 shares of common stock were not included in the computation of diluted earnings per share as the exercise price exceeded the fair market value of the common stock.

Income Taxes

Deferred tax assets and liabilities are determined based on temporary differences between income and expenses reported for financial reporting and tax reporting. The Company is required to record a valuation allowance to reduce its net deferred tax assets to the amount that it believes is more likely than not to be realized. In assessing the need for a valuation allowance, the Company historically had considered all positive and negative factors, including scheduled reversals of deferred tax liabilities, prudent and feasible tax planning strategies and recent financial performance. The Company determined that the negative factors, including historic and current taxable losses, as well as uncertainties and limitations related to the ability to utilize certain Federal and state net loss carry forwards, outweighed any objectively verifiable positive factors, and as such, concluded that a full valuation allowance against the deferred tax asset was necessary in fiscal 2006. For the year ended September 30, 2007, the Company did not record a tax benefit for net operating losses. The Company reduced the valuation allowance by \$30,000 and \$38,000 in the three and six months ended March 31, 2008, respectively, to offset the current periods' taxable income. Accordingly, there was no income tax provision for those periods. In prospective periods, there may be reductions to the valuation allowance to the extent that the Company concludes that it is more likely than not that all or

a portion of the deferred tax assets can be utilized (subject to annual limitations and prior to the expiration of net operating loss carryforwards.) The net carrying value of the deferred tax asset was \$0 (net of a valuation allowance of approximately \$11.8 million) at September 30, 2007 and March 31, 2008. The income tax benefit of \$108,000 for the six months ended March 31, 2007 is attributable to an over-accrual of estimated state taxes.

The Company has available approximately \$27.6 million in net operating loss carry forwards for U.S. tax return purposes that begin to expire in 2021 and continue to expire through 2027.

Accumulated Comprehensive Income (Loss) and Minimum Pension Liability Adjustment

A minimum pension liability adjustment is required when the actuarial present value of accumulated benefit obligation exceeds the plan assets and accrued pension liabilities. The minimum pension liability adjustment is recorded as a component of “Accumulated comprehensive losses” on the balance sheet and is reflected in the Statements of Operations and Comprehensive Income (Loss) as “Minimum pension liability adjustment”. The Company used a discount rate of 3.0% each to calculate the projected benefit obligation and the periodic benefit cost calculation for the three and six months ended March 31, 2008. The Company recorded a gain from such adjustment, of \$7,000 and \$15,000 for the three months ended March 31, 2008 and 2007, respectively and \$22,000 and \$38,000 for the six months ended March 31, 2008 and 2007, respectively. At March 31, 2008 and September 30, 2007, accumulated comprehensive loss on the balance sheet reflects the cumulative balance due to the minimum pension liability adjustment.

(3) RECENT EVENTS:

On April 17, 2008, the Company filed an amendment to its Amended and Restated Certificate of Incorporation in order to effect a one-for-four reverse split of the Company’s common stock. The reverse split was approved on April 17, 2008 at the Company’s annual meeting of shareholders and became effective on April 21, 2008, at which time the Company’s common stock began trading on The Nasdaq Global Market on a split-adjusted basis. The Company’s common stock will trade under the symbol “TSTFD” for a period of twenty trading days following the implementation of the reverse split to denote the reverse split, after which time the trading symbol will revert to “TSTF”. The Company will not issue any fractional shares resulting from the reverse split and will pay holders the cash value of fractional shares that would have otherwise been issued. As a result of the reverse stock split, each four shares of Common Stock will be combined and reclassified into one share of common stock. All references to common stock, options, share based arrangements, exercise price, fair values and related data within this Form 10-Q have been retroactively restated so as to incorporate the effect of this reverse stock split. On May 12, 2008, the Company announced that it was notified by The Nasdaq Stock Market that, as a result of the Company’s common stock closing at \$1.00 per share or more for a minimum of 10 consecutive trading days, it has regained compliance with the minimum bid price requirement for continued listing on the Nasdaq Global Market.

On April 17, 2008, the Company entered into a new employment agreement with its Chief Executive Officer and President, Rick J. Filippelli, the material terms of which were filed in Form 8-K on April 21, 2008. The employment agreement supersedes and replaces the letter agreement that the Company entered into with Mr. Filippelli dated as of February 14, 2007.

(4) DISCONTINUED OPERATIONS:

Based on an analysis of historical and forecasted results and the Company’s strategic initiative to focus on core business, in the fourth quarter of fiscal 2007, the Company approved and committed to a formal plan to divest the operations of the Nursing Innovations per diem nursing business (“Per Diem”), based at its Memphis, Tennessee location. In evaluating the facets of Per Diem’s operations, management concluded that this business component meets the definition of a discontinued operation (as defined in SFAS 144, “Accounting for the Impairment or Disposal of Long — Lived Assets”). Accordingly, the results of operations, cash flows and related assets and liabilities of Per Diem have been reclassified in the accompanying consolidated financial statements from those of continuing businesses.

Effective January 27, 2008, the Company sold substantially all of the assets of Per Diem to Temps, Inc. for \$447,000. The general terms of the transaction were an all-cash sale for \$447,000, subject to an escrow of \$90,000 for potential post-closing contingencies. Management believes that the Company will collect substantially all of the escrow in the fourth quarter of fiscal 2008.

Net revenues for Per Diem’s operations for the three months ended March 31, 2008 and 2007 were \$0.2 million and \$0.7 million, respectively. Net revenues for Per Diem’s operations for the six months ended March 31, 2008 and 2007 were \$0.7 million and \$1.5 million, respectively.

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

There were no net revenues for the DSI division for the three and six months ended March 31, 2008 and 2007.

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

	March 31, 2008	September 30, 2007
ASSETS		
Accounts receivable	\$ 89	\$ 257
Total current assets	89	257
Fixed assets	—	222
Accumulated depreciation	—	(156)
Net fixed assets	—	66
Goodwill and intangibles	—	167
Total assets	<u>\$ 89</u>	<u>\$ 490</u>
LIABILITIES		
Current portion capital leases	\$ —	\$ 9
Accrued expenses and other current liabilities	185	223
Total current liabilities	185	232
Long term capital leases	—	31
Total liabilities	<u>\$ 185</u>	<u>\$ 263</u>

Liability Balances (amounts in thousands)	September 30, 2007 Balance	Expensed This Year	Paid This Year	March 31, 2008 Balance
Current portion capital leases	\$ 9	\$ —	\$ (9)	\$ —
Accrued expenses and other current liabilities	223	—	(38)	185
Long term capital leases	31	—	(31)	—
Total	<u>\$ 263</u>	<u>\$ —</u>	<u>\$ (78)</u>	<u>\$ 185</u>

(5) COMMITMENTS AND CONTINGENCIES:

Payroll Taxes

TeamStaff has received notices from the Internal Revenue Service (“IRS”) claiming taxes, interest and penalties due related to payroll taxes predominantly from its former PEO operations.

TeamStaff has also received notices from the IRS reporting overpayments of taxes. Management believes that these notices are predominantly the result of misapplication of payroll tax payments between its legal entities. If not resolved favorably, the Company may incur interest and penalties. Until the sale of certain assets related to the PEO business in fiscal year 2004, TeamStaff operated through 17 subsidiaries, and management believes that the IRS has not correctly identified payments made through certain of the different entities, therefore leading to the notices. To date, TeamStaff has been working with the IRS to resolve these discrepancies and has had certain interest and penalty claims abated. TeamStaff has also received notices from the Social Security Administration claiming variances in wage reporting compared to IRS transcripts. TeamStaff believes the notices from the Social Security Administration are directly related to the IRS notices received. TeamStaff has retained the services of Ernst & Young LLP as a consultant to assist it in resolving certain of these matters with the IRS and Social Security Administration. TeamStaff believes that after the IRS applies all the funds correctly, any significant interest and penalties will be abated; however, there can be no assurance that each of these matters will be resolved favorably. In settling various years for specific subsidiaries with the IRS, the Company has received refunds for those specific periods; however, as the process of settling and concluding on other periods and subsidiaries is not yet completed and the potential exists for related penalties and interest, such amounts have been recorded in accounts payable in the accompanying balance sheets. Management believes that the ultimate resolution of these payroll tax matters will not have a significant adverse effect on its financial position or results of operations.

Legal Proceedings

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

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

The Company originally acquired RS Staffing Services in June 2005. As part of the purchase price of the acquisition, the Company issued to the former owners of RS Staffing Services a \$3.0 million promissory note, of which \$1.5 million was paid in June 2006. On May 31, 2007, the Company sent a notice of indemnification claim to the former owners for costs that have been incurred in connection with the investigation. Effective June 1, 2007, the Company and former owners of RS Staffing Services reached an agreement to extend the due date from June 8, 2007 to September 1, 2008 with respect to the remaining \$1.5 million note payable and accrued interest payable on June 8, 2007. As of March 31, 2008, the amount has not been settled. The Company recognized expenses related to legal representation and costs incurred in connection with the investigation in the amount of \$1.486 million during the fiscal year ended September 30, 2007, as a component of other income (expense). The Company recognized expenses related to legal representation and costs incurred in connection with the investigation in the amount of \$0.04 million and \$0.14 million during the three and six months ended March 31, 2008, as a component of other income (expense). Cumulative costs related to this matter approximate \$1.6 million. Pursuant to the acquisition agreement with RS Staffing Services, the Company has notified the former owners of RS Staffing Services that it is the Company's intention to

exercise its right to setoff the payment of such expenses against the remaining principal and accrued interest due to the former owners of RS Staffing Services.

The Company will pursue the recovery as a right of offset in future periods. Management has a good faith belief that the Company will recover such amounts; however, generally accepted accounting principles preclude the Company from recording an offset to the note payable to the former owners of RS Staffing Services until the final amount of the claim is settled and determinable. At present, no assurances can be given that the former owners of RS Staffing Services would not pursue action against us or that the Company will be successful in the offset of such amounts against the outstanding debt. Accordingly, the Company has expensed costs related to the investigation through March 31, 2008.

Potential Contractual Billing Adjustments

TeamStaff GS is seeking approval from the Federal government for retroactive billing rate increases associated with certain government contracts at which it has employees staffed on contract assignments. These adjustments are due to changes in the contracted wage determination rates for these contract employees. A wage determination is the listing of wage rates and fringe benefit rates for each classification of laborers which the Administrator of the Wage and Hour Division of the U.S. Department of Labor (“DOL”) has determined to be prevailing in a given locality. Contractors performing services for the Federal government are required to pay service employees in various classes no less than the wage rates and fringe benefits found prevailing in these localities. The Company estimates that such billings could approximate \$3.5 million to \$5.0 million, with corresponding gross profit estimated to be between \$525,000 and \$750,000. Collection of these amounts is conditional upon the development of supporting documentation and audit and approval of such documentation by the DOL, along with an executed modification of contract by the DVA. Once approved by the DOL, invoices are submitted to the DVA for approval and payment. The Company is currently in discussions with the DOL and government contracting personnel to obtain the appropriate approvals for such pay and billing adjustments for each affected federal government facility. The DOL approval process encompasses one facility at a time and, at March 31, 2008, requisite approvals had been obtained for two of the five affected facilities the Company services, resulting in revenue in the amount of \$1.5 million and gross profit of approximately \$0.3 million. Upon approval, wages are processed for payment to the employees. Until each site is reviewed by the DOL and the applicable claim for back wages is approved as fair and accurate, TeamStaff GS has no assurances that these amounts will be paid by the government. No assurances can be given that we will receive any additional billings from our government contracts or that if additional amounts are received, that the amount will be within the range specified above.

New Lease Agreement

On March 27, 2008, TeamStaff GS, as tenant and West Walton Properties, Inc., as landlord, entered into a lease for approximately 6,200 rentable square feet located at 3525 Highway 81 South, Loganville, Georgia. The lease is for an 84-month term, with a commencement date of June 1, 2008. The premises will be used primarily as office space for TeamStaff GS’s sales and administrative staff. The total value of the commitment over the life of the lease is approximately \$567,000. The current office lease in Monroe, Georgia expires on June 30, 2008.

(6) PREPAID WORKERS’ COMPENSATION:

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

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

inclusive. Payments for the policy were made to the trust monthly based on projected claims for the policy period. Interest on all assets held in the trust is credited to TeamStaff. Payments for claims and claims expenses are made from the trust. From time-to-time, trust assets have been refunded to the Company based on Zurich's and managers' overall assessment of claims experience and historical and projected settlements. In March 2008, Zurich reduced the collateral requirements on outstanding workers' compensation claims and released \$350,000 in trust account funds back to the Company. In fiscal years ended September 30, 2007 and 2006, Zurich reduced the collateral requirements on outstanding workers' compensation claims and released \$1.19 million and \$2.25 million, respectively, in trust account funds back to the Company. The final amount of trust funds that could be refunded to the Company is subject to a number of uncertainties (e.g. claim settlements and experience, health care costs, the extended statutory filing periods for such claims); however, based on a third party's study of claims experience, TeamStaff estimates that at March 31, 2008, the remaining prepaid asset of \$0.1 million will be received within the next twelve months. This is reflected on TeamStaff's balance sheet as of March 31, 2008 as a current asset, in addition to approximately \$150,000 related to current policy deposits.

As of March 31, 2008 the adequacy of the workers' compensation reserves (which are offset against the trust fund balances in prepaid assets) was determined, in management's opinion, to be reasonable. In determining our reserves we rely in part upon information regarding loss data received from our workers' compensation insurance carriers that may include loss data for claims incurred during prior policy periods. In addition, these reserves are for claims that have not been sufficiently developed, and such variables as timing of payments and investment returns thereon are uncertain or unknown, therefore actual results may vary from current estimates. TeamStaff will continue to monitor the development of these reserves, the actual payments made against the claims incurred, the timing of these payments, the interest accumulated in TeamStaff's prepayments and adjust the related reserves as deemed appropriate.

(7) DEBT:

Prior Facility

In connection with the acquisition of TeamStaff GS, formerly known as RS Staffing Services, TeamStaff secured financing with PNC Bank in the form of a \$7.0 million revolving credit facility ("PNC Credit Facility"). The PNC Credit Facility was provided by PNC Bank effective on June 8, 2005 to (i) provide for the acquisition of RS Staffing Services; (ii) refinance an outstanding senior loan facility; and (iii) provide ongoing working capital. Effective February 13, 2006, TeamStaff entered into an amendment to the revolving credit note, increasing the PNC Credit Facility to \$8.0 million. Revolving credit advances under the PNC Credit Facility accrued interest at either a PNC Bank internal rate that approximates the Prime Rate plus 25 basis points or LIBOR plus 275 basis points, whichever is higher. The PNC Credit Facility had a three-year life and contained term and line of credit borrowing options. The PNC Credit Facility was subject to certain restrictive covenants including a fixed charge coverage ratio if the Company failed to maintain invested cash and line availability minimum requirements. As of September 30, 2007, TeamStaff was in compliance with all loan covenants. The PNC Credit Facility was subject to acceleration upon non-payment or various other standard default clauses. In addition, the Company granted PNC Bank a lien and security interest on all of its assets. The PNC Credit Facility was paid off with the proceeds from the sale of DSI on May 31, 2006 and the line of credit was not drawn upon subsequently until February 8, 2007. The line of credit was not drawn upon from the second quarter of fiscal year 2007 until the first quarter of fiscal 2008. As of March 31, 2008, the outstanding principal balance under the PNC Credit Facility was \$0.5 million.

New Facility

On March 28, 2008, TeamStaff and its wholly-owned subsidiaries, TeamStaff Rx and TeamStaff GS entered into an Amended and Restated Loan and Security Agreement dated as of March 28, 2008 (the "Loan Agreement") with Business Alliance Capital Company ("BACC"), a division of Sovereign

Bank (the “Lender”). Pursuant to the Loan Agreement, the Lender (i) acquired by assignment from PNC all right, title and interest of PNC under the PNC Credit Facility, the PNC note and related loan documentation, and (ii) restructured the PNC Credit Facility into a \$3,000,000 three (3) year revolving credit facility. Effective April 1, 2008, BACC changed its name to Sovereign Business Capital.

Under the Loan Agreement, the Lender agreed to provide a revolving credit facility to the Company in an aggregate amount of up to \$3,000,000, subject to the further terms and conditions of the Loan Agreement. The loan is secured by a first priority lien on all of the Company’s assets.

The Company’s ability to request loan advances under the Loan Agreement is subject to computation of the Company’s advance limit and compliance with the covenants and conditions of the loan. The loan is for a term of 36 months and matures on March 31, 2011. Interest on the loan accrues on the daily unpaid balance of the loan advances at a per annum rate of one-quarter (.25%) percentage points above the Prime Rate in effect from time to time, but not less than five and one-half percent (5.5%) per annum. The Loan Agreement requires compliance with certain customary covenants including a debt service coverage ratio and restrictions on the Company’s ability to, among other things, dispose of certain assets, engage in certain transactions, incur indebtedness and pay dividends. The Loan Agreement also provides for customary events of default following which, the Lender may, at its option, accelerate the amounts outstanding under the Loan Agreement.

As of March 31, 2008, there was \$0.5 million of debt outstanding under the PNC Credit Facility and unused availability of \$2.5 million based upon the new \$3.0 million Loan Agreement with Sovereign Business Capital. Availability was limited to \$3.0 million due to the impending \$3.0 million successor Loan Agreement with Sovereign Business Capital. The PNC Credit Facility and related fees were paid in full with proceeds drawn from the Loan Agreement on April 1, 2008. The interest rate on the PNC Credit Facility effective at March 31, 2008 and 2007 was 7.25% and 8.5%, respectively. On April 2, 2008, the Company drew down \$0.6 million under the Loan Agreement with Sovereign Business Capital and used such funds to satisfy the outstanding principal and interest balance under the PNC Credit Facility and to pay certain expenses related to the execution and closing of the Loan Agreement.

Promissory Note (see Note (5) — “Legal Proceedings” above)

In connection with the acquisition of RS Staffing Services, TeamStaff issued two promissory notes to the former owners of RS Staffing Services as part of the acquisition price, in the aggregate principal amount of \$3.0 million. The notes bear interest at 5% per annum, and are subordinate to the financing provided by PNC Bank described above. One half of the principal (\$1.5 million) and interest (\$150,000) was due on June 8, 2006 and payment was made in the amount of \$1.65 million. The remaining principal and interest was due in June 2007. As described in Part II, Item 1 below, effective June 1, 2007, the Company and former owners of RS Staffing Services reached an agreement to extend the due date of the \$1.5 million note payable and accrued interest that was payable on June 8, 2007 until September 1, 2008.

Based on contractual terms of the initial agreement and the status of the parties’ discussions, long-term debt at March 31, 2008 and September 30, 2007 is classified as a current liability.

(8) STOCK WARRANTS:

The Company had no outstanding warrants during the three months ended March 31, 2008. During the six months ended March 31, 2008, no warrants were issued, warrants to purchase 149,500 shares of common stock expired unexercised and no warrants were exercised. During the three and six months ended March 31, 2007, no warrants were issued, no warrants expired unexercised and no warrants were exercised.

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

Forward Looking and Cautionary Statements

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

Other factors that could cause actual results to differ from those implied by the forward-looking statements in this Quarterly Report on Form 10-Q are set forth in our Annual Report on Form 10-K for the year ended September 30, 2007 and our other reports filed with the SEC. We undertake no obligation to update any forward-looking statement or statements in this filing to reflect events or circumstances that occur after the date on which the statement is made or to reflect the occurrence of unanticipated events.

Certain prior period amounts have been reclassified to conform to the current period presentation and to reflect the Company's Nursing Innovations per diem nursing business as a discontinued

operation. All references to common stock, options, share based arrangements, exercise price, fair values and related data within this Form 10-Q have been retroactively amended so as to incorporate the effect of the one-to-four reverse stock split effective April 21, 2008.

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 2007 Annual Report on Form 10-K as well as "Critical Accounting Policies" contained therein for a detailed discussion on the application of these and other accounting policies.

Recently Issued Accounting Pronouncements Affecting the Company

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribes a recognition threshold of more-likely-than-not to be sustained upon examination. Measurement of the tax uncertainty occurs if the recognition threshold has been met. This Interpretation also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. TeamStaff conducts business solely in the U.S. and, as a result, files income tax returns for U.S., New Jersey and various other states and jurisdictions. In the normal course of business the Company is subject to examination by taxing authorities. At present, there are no ongoing income tax audits or unresolved disputes with the various tax authorities that the Company currently files or has filed with. Given the Company's substantial net operating loss carryforwards, which are subject to a full valuation allowance, as well as the historical operating losses in prior periods, the adoption of FIN 48 on October 1, 2007 did not have any effect on our financial position, results of operations or cash flows as of March 31, 2008.

Revenue Recognition

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

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

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

Prepaid Workers' Compensation

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

As part of the Company's discontinued PEO operations, TeamStaff had a workers' compensation program with Zurich, which covered the period from March 22, 2002 through November 17, 2003, inclusive. Payments for the policy were made to the trust monthly based on projected claims for the policy period. Interest on all assets held in the trust is credited to TeamStaff. Payments for claims and claims expenses are made from the trust. From time-to-time, trust assets have been refunded to the Company based on Zurich's and managers' overall assessment of claims experience and historical and projected settlements. In March 2008, Zurich reduced the collateral requirements on outstanding workers' compensation claims and released \$350,000 in trust account funds back to the Company. In fiscal years ended September 30, 2007 and 2006, Zurich reduced the collateral requirements on outstanding workers' compensation claims and released \$1.19 million and \$2.25 million, respectively, in trust account funds back to the Company. The final amount of trust funds that could be refunded to the Company is subject to a number of uncertainties (e.g. claim settlements and experience, health care costs, the extended statutory filing periods for such claims); however, based on a third party's study of claims experience, TeamStaff estimates that at March 31, 2008, the remaining prepaid asset of \$0.1 million will be received within the next twelve months. This is reflected on TeamStaff's balance sheet as of March 31, 2008 as a current asset, in addition to approximately \$150,000 related to current policy deposits.

As of March 31, 2008 the adequacy of the workers' compensation reserves (which are offset against the trust fund balances in prepaid assets) was determined, in management's opinion, to be reasonable. In determining our reserves we rely in part upon information regarding loss data received from our workers' compensation insurance carriers that may include loss data for claims incurred during prior policy periods. In addition, these reserves are for claims that have not been sufficiently developed, and such variables as timing of payments and investment returns thereon are uncertain or unknown, therefore actual results may vary from current estimates. TeamStaff will continue to monitor the development of these reserves, the actual payments made against the claims incurred, the timing of these payments, the interest accumulated in TeamStaff's prepayments and adjust the related reserves as deemed appropriate.

Deferred Taxes

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

At March 31, 2008, the Company provided a 100% deferred tax valuation allowance of approximately \$11.8 million. In assessing the need for a valuation allowance, the Company historically has considered all positive and negative factors, including scheduled reversals of deferred tax liabilities, prudent and feasible tax planning strategies and recent financial performance. The Company determined that negative factors, including historic and current taxable losses, as well as uncertainties related to the ability to utilize certain Federal and state net loss carry forwards, outweighed any objectively verifiable positive factors, and as such, concluded that a valuation allowance was necessary. The Company is providing a 100% valuation allowance that it is more likely than not that it will not

be able to realize the full benefit of the deferred tax asset. The establishment of the deferred tax asset allowance does not preclude the Company from reversing any or all of the allowance in future periods if the Company believes the positive factors are sufficient enough to utilize the deferred tax asset, nor does it limit the ability to utilize losses for tax purposes, subject to loss carry forward limitations and periods permitted by law.

Overview

TeamStaff provides specialized medical, nursing, administrative and logistics staffing services and allied healthcare and nursing professionals and administrative personnel through two staffing subsidiaries. The Company's TeamStaff Rx subsidiary operates throughout the United States and specializes in providing travel allied medical employees and nurses (typically on a thirteen-week assignment basis), as well as permanent placement services. Allied medical staff includes MRI technicians, mammographers, dosimetrists, ultrasound staff and physicists. TeamStaff Rx places temporary employees for over 250 client facilities. The Company's TeamStaff GS subsidiary specializes in providing medical and office administration/technical professionals through Federal Supply Schedule ("FSS") contracts with both the United States General Services Administration ("GSA") and United States Department of Veterans Affairs ("DVA"). TeamStaff GS places temporary employees at over 75 facilities.

The Company has implemented several initiatives to position the staffing services subsidiaries for growth in fiscal 2008. Sales initiatives include assessing, restructuring and adding to its sales force and recruiting efforts, restructuring sales force incentive compensation to better reflect pay for performance and continued management of a pricing and gross margin improvement plan. The Company hired a Director of Sales experienced in allied and nurse travel staffing to oversee the sales efforts at TeamStaff Rx and a Director of Sales with government contract bid experience at TeamStaff GS. In addition, TeamStaff Rx hired several sales and recruiting managers experienced in the staffing industry as well as additional regional account managers to expand our geographic reach. TeamStaff Rx recently received Joint Commission on Accreditation of Healthcare Organizations ("JCAHO") certification which serves to validate the company's hiring practices and our commitment to providing quality healthcare services. The Company anticipates this Gold Seal will provide additional sales opportunities. In addition, as part of the marketing initiative, the Company hired an experienced Marketing Manager. Recent efforts to build marketing presence include the launching of new TeamStaff Rx, TeamStaff GS and corporate websites, implementing a print advertisement campaign, and revising our strategic marketing communications plan in an effort to attract allied medical and nurse travelers. Additionally we have added several marketing events to our tradeshow calendar in order to increase our brand recognition and participation in both the commercial and government sectors. This added exposure is allowing us to introduce our suite of offerings to an expanded market. We initiated a corporate branding campaign which will promote consistency and brand recognition as well as increase TeamStaff's visibility in the marketplace. In February 2008 we announced the renaming of RS Staffing Services, the Company's government staffing subsidiary, to TeamStaff Government Solutions. The name change reflects the subsidiary's expanding service offerings in providing staffing for government logistical support positions. The Company plans on expanding its reach within the government sector beyond VA opportunities by bidding on Department of Defense staffing contracts afforded to large businesses.

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

On January 31, 2008, we completed the sale of our per diem nurse staffing business located in Memphis, Tennessee and operating under the name of Nursing Innovations, to Temps, Inc. Under the terms of the definitive asset purchase agreement, effective as of January 27, 2008, we received a cash purchase price of \$447,000 for the acquired business and related assets, of which \$357,000 was paid at closing and \$90,000 was deposited in a required escrow account for six months. Payment of the escrow to TeamStaff will be subject to the downward adjustment for the amount of pre-closing accounts receivables uncollected by the purchaser during such six-month period. Management believes that the Company will collect substantially all of the escrow in the fourth quarter of fiscal 2008. As described in greater detail in Note 4 to our consolidated financial statements, the results of operations, cash flows and related assets and liabilities of our per diem nurse staffing business was reclassified in the accompanying consolidated financial statements from those of our continuing businesses.

Results of Operations

TeamStaff's revenues for the three months ended March 31, 2008 and 2007 were \$17.3 million and \$17.0 million, respectively, which represents an increase of \$0.3 million, or 1.5% over the prior fiscal year. Revenues for the three months ended March 31, 2008 and 2007 include \$13.8 million and \$11.2 million, respectively, related to TeamStaff GS. This subsidiary's revenues helped offset the decrease in revenues in the TeamStaff Rx travel allied and travel nursing subsidiary from the second fiscal quarter of 2007 to the second fiscal quarter of 2008. The decrease in revenue is in part due to the loss of certain clients. It is the Company's hope that the management changes made in fiscal 2007 and 2008, as well as a redirected sales focus, will help to reestablish relationships with some of these former clients.

TeamStaff's revenues for the six months ended March 31, 2008 and 2007 were \$32.8 million and \$33.8 million, respectively, which represents a decrease of \$1.0 million, or 3.0% over the prior fiscal year for the same reasons as discussed in the previous paragraph.

Direct expenses for the three months ended March 31, 2008 and 2007 were \$14.4 million and \$14.6 million, respectively, which represents a decrease of \$0.2 million, or 1.3%. This decrease is a result of direct cost control initiatives. As a percentage of revenue, direct expenses for the three months ended March 31, 2008 and 2007 were 83.1% and 85.5%, respectively. Direct expenses for the six months ended March 31, 2008 and 2007 were \$27.1 million and \$28.7 million, respectively, which represents a decrease of \$1.7 million, or 5.8%. This decrease is a result of direct cost control initiatives. As a percentage of revenue, direct expenses for the six months ended March 31, 2008 and 2007 were 82.6% and 85.1%, respectively.

Gross profits for the three months ended March 31, 2008 and 2007 were \$2.9 million and \$2.5 million, respectively, which represents an increase of \$0.4 million, or 18.0%. The improvement in gross margin is related primarily to increased pricing on contracts and direct cost control initiatives as well as reduced use of TeamStaff GS teaming partners (subcontractors) that are included as a direct expense. Gross profit, as a percentage of revenue, was 16.9% and 14.5% for the three months ended March 31, 2008 and 2007, respectively. Gross profits for the six months ended March 31, 2008 and 2007 were \$5.7 million and \$5.0 million, respectively, which represents an increase of \$0.7 million, or 13.7%. Gross profit, as a percentage of revenue, was 17.4% and 14.9% for the six months ended March 31, 2008 and 2007, respectively.

TeamStaff GS is seeking approval from the Federal government for retroactive billing rate increases associated with certain government contracts at which it has employees staffed on contract assignments. These adjustments are due to changes in the contracted wage determination rates for these contract employees. A wage determination is the listing of wage rates and fringe benefit rates for each classification of laborers which the Administrator of the Wage and Hour Division of the U.S. Department of Labor ("DOL") has determined to be prevailing in a given locality. Contractors performing services for the Federal government are required to pay service employees in various classes no less than the wage rates and fringe benefits found prevailing in these localities. The Company estimates that such billings could approximate \$3.5 million to \$5.0 million, with corresponding gross profit estimated to be between \$525,000 and \$750,000. Collection of these

amounts is conditional upon the development of supporting documentation and audit and approval of such documentation by the DOL, along with an executed modification of contract by the DVA. Once approved by the DOL, invoices are submitted to the DVA for approval and payment. The Company is currently in discussions with the DOL and government contracting personnel to obtain the appropriate approvals for such pay and billing adjustments for each affected federal government facility. The DOL approval process encompasses one facility at a time and, at March 31, 2008, requisite approvals had been obtained for two of the five affected facilities the Company services, resulting in revenue in the amount of \$1.5 million and gross profit of approximately \$0.3 million. Upon approval, wages are processed for payment to the employees. Until each site is reviewed by the DOL and the applicable claim for back wages approved as fair and accurate, TeamStaff GS has no assurances that these amounts will be paid by the government. No assurances can be given that we will receive any additional billings from our government contracts or that if additional amounts are received, that the amount will be within the range specified above.

Selling, general and administrative (“SG&A”) expenses for the three months ended March 31, 2008 and 2007 were \$2.7 million and \$3.4 million, respectively, which represents a decrease of \$0.7 million, or 21.3%. Adjusted for severance expense included in the three months ended March 31, 2007 and positive workers compensation adjustments in the three months ended March 31, 2008, SG&A expenses decreased \$0.2 million, or 6%. The Company continues with its cost saving initiatives, which have resulted in reduced headcount and employee related expenses, as well as lower G&A costs. Despite an increase in new business expense of \$0.1 million, or 45%, overall SG&A expense declined period over period. This increased spending is related to increased sales staff and marketing efforts. The Company seeks continued elimination of overhead costs deemed to be non-essential to growth or infrastructure. SG&A expenses for the six months ended March 31, 2008 and 2007 were \$5.3 million and \$6.7 million, respectively, which represents a decrease of \$1.4 million, or 21.4%. Adjusted for severance expense included in the six months ended March 31, 2007 and positive workers compensation adjustments in the six months ended March 31, 2008, SG&A expenses decreased \$0.9 million, or 14%.

Depreciation and amortization was \$0.1 million for each of the three months ended March 31, 2008 and 2007 and \$0.2 million for each of the six months ended March 31, 2008 and 2007.

Income from operations for the three months ended March 31, 2008 was \$0.1 million compared to a loss from operations for the three months ended March 31, 2007 of \$1.0 million. This represents an improvement of \$1.1 million from the second fiscal quarter of 2007 to the second fiscal quarter of 2008. Income from operations for the six months ended March 31, 2008 was \$0.3 million compared to a loss from operations for the six months ended March 31, 2007 of \$1.8 million. This represents an improvement of \$2.1 million in results from operations for the six months year over year.

Other income, which is comprised primarily of late fee income in the TeamStaff Rx subsidiary and interest income for the three months ended March 31, 2008 and 2007 was \$31,000 and \$57,000, respectively, representing a decrease of \$26,000. This is a result of decreased late fee income in the second fiscal quarter of 2008 due to a reduction in accounts receivable in the TeamStaff Rx subsidiary and second fiscal quarter 2007 interest earned on the cash proceeds of the sale of the DSI Payroll Services division. Other income for the six months ended March 31, 2008 and 2007 was \$75,000 and \$131,000, respectively, representing a decrease of \$56,000.

Interest expense for the three months ended March 31, 2008 and 2007 was \$65,000 and \$55,000, respectively, representing an increase of \$10,000 due primarily to increased borrowing in the second fiscal quarter of 2008 compared to 2007. Interest expense for the six months ended March 31, 2008 and 2007 was \$101,000 and \$112,000, respectively.

The Company recorded other expense of \$0.04 million for the three months ended March 31, 2008 and \$0.1 million for the six months ended March 31, 2008, related to legal representation and investigation costs incurred in connection with the Federal Grand Jury subpoena issued to our subsidiary formerly known as RS Staffing Services on April 17, 2007. The subpoena requested

production of certain documents dating back to 1997. The Company acquired RS Staffing effective as of June 2005. These expenses are classified as non-operating expense because the subpoena relates to activity prior to the acquisition.

Beginning in fiscal 2006, the Company provided a 100% deferred tax valuation allowance because it believes that it cannot be considered more likely than not that it will be able to realize the full benefit of the deferred tax asset. The Company determined that negative evidence, including historic and current taxable losses, as well as uncertainties related to the ability to utilize certain federal and state net loss carry forwards, outweighed any objectively verifiable positive factors, and as such, concluded that a valuation allowance was necessary. In assessing the need for a valuation allowance, the Company historically has considered all positive and negative evidence, including scheduled reversals of deferred tax liabilities, prudent and feasible tax planning strategies and recent financial performance. The Company reduced the valuation allowance by \$30,000 and \$38,000 in the three and six months ended March 31, 2008 respectively, to offset the current periods' taxable income. Accordingly, there was no income tax provision for those periods. Income tax benefit from continuing operations for the three and six months ended March 31, 2007 was \$13,000 and \$0.1 million, respectively, as a result of adjustments in amounts accrued for tax provisions or settlements for fiscal year 2006 when the final federal and state returns were prepared and filed.

Income from continuing operations for the three months ended March 31, 2008 was \$75,000, or \$0.01 per basic and diluted share, as compared to a loss from continuing operations for the three months ended March 31, 2007 of \$1.0 million, or \$(0.21) per basic and diluted share. Income from continuing operations for the six months ended March 31, 2008 was \$0.1 million, or \$0.02 per basic and diluted share, as compared to a loss from continuing operations for the six months ended March 31, 2007 of \$1.7 million, or \$(0.35) per basic and diluted share.

Loss from operations of the discontinued per diem business unit for the three months ended March 31, 2008 was \$0.01 million with no impact on basic and diluted earnings per share, as compared to income from operations of the discontinued per diem business unit, for the three months ended March 31, 2007 of \$0.01 million, with no impact on basic or diluted earnings per share. Loss from operations of the discontinued per diem business unit for the six months ended March 31, 2008 was \$0.01 million with no impact on basic and diluted earnings per share, as compared to income from operations of the discontinued per diem business unit, for the six months ended March 31, 2007 of \$0.1 million, \$0.04 per basic and diluted share. There was no income from disposal for each of the three months ended March 31, 2008 and 2007. Income from disposal, net of tax, of \$0.1 million for the six months ended March 31, 2007 is a result of the release of \$125,000 escrow related to the sale of the DSI Payroll Services division.

Net income for the three months ended March 31, 2008 was \$0.06 million, or \$0.01 per basic and diluted share, as compared to a net loss of \$1.0 million, or \$(0.21) per basic and diluted share, for the three months ended March 31, 2007. This represents an improvement of \$1.1 million in net income from the second fiscal quarter of 2007 to the second fiscal quarter of 2008. Net income for the six months ended March 31, 2008 was \$0.1 million, or \$0.02 per basic and diluted share, as compared to a net loss of \$1.5 million, or \$(0.31) per basic and diluted share, for the six months ended March 31, 2007. This represents an improvement of \$1.6 million in net income.

Liquidity and Capital Resources; Commitments

Net cash used in operating activities for the six months ended March 31, 2008 was \$0.2 million primarily as a result of an increase in accounts receivable, offset by the timing of accounts receivable collections and \$0.35 million in cash received from Zurich related to the reduction in collateral requirements on outstanding workers' compensation claims. Net cash used in operating activities for the six months ended March 31, 2007 was \$1.8 million. Losses from continuing operations as well as increased accounts receivable and decreased current liabilities contributed to the use of cash during the six months ended March 31, 2007. This was partially offset by \$0.76 million in cash received from Zurich related to the reduction in collateral requirements on outstanding workers' compensation claims.

Cash provided by investing activities for the six months ended March 31, 2008 was \$0.2 million as a result of proceeds from the sale of Per Diem, offset in part by cash used for the purchases of technology equipment and software. Cash used in investing activities for the six months ended March 31, 2007 was \$0.04 million for the purchase of telephone and technology equipment.

Cash provided by financing activities for the six months ended March 31, 2008 was \$0.5 million, primarily as a result of borrowing on the PNC Credit Facility. Cash provided by financing activities for the six months ended March 31, 2007 approximated zero.

Prior Facility

In connection with the acquisition of TeamStaff GS, formerly known as RS Staffing Services, TeamStaff secured financing with PNC Bank in the form of a \$7.0 million revolving credit facility (“PNC Credit Facility”). The PNC Credit Facility was provided by PNC Bank effective on June 8, 2005 to (i) provide for the acquisition of RS Staffing Services; (ii) refinance an outstanding senior loan facility; and (iii) provide ongoing working capital. Effective February 13, 2006, TeamStaff entered into an amendment to the revolving credit note, increasing the PNC Credit Facility to \$8.0 million. Revolving credit advances under the PNC Credit Facility accrued interest at either a PNC Bank internal rate that approximates the Prime Rate plus 25 basis points or LIBOR plus 275 basis points, whichever is higher. The PNC Credit Facility had a three-year life and contained term and line of credit borrowing options. The PNC Credit Facility was subject to certain restrictive covenants including a fixed charge coverage ratio if the Company failed to maintain invested cash and line availability minimum requirements. As of September 30, 2007, TeamStaff was in compliance with all loan covenants. The PNC Credit Facility was subject to acceleration upon non-payment or various other standard default clauses. In addition, the Company granted PNC Bank a lien and security interest on all of its assets. The PNC Credit Facility was paid off with the proceeds from the sale of DSI on May 31, 2006 and the line of credit was not drawn upon subsequently until February 8, 2007. The line of credit was not drawn upon from the second quarter of fiscal year 2007 until the first quarter of fiscal 2008. As of March 31, 2008, the outstanding principal balance under the PNC Credit Facility was \$0.5 million.

New Facility

On March 28, 2008, TeamStaff and its wholly-owned subsidiaries, TeamStaff Rx and TeamStaff GS entered into an Amended and Restated Loan and Security Agreement dated as of March 28, 2008 (the “Loan Agreement”) with Business Alliance Capital Company (“BACC”), a division of Sovereign Bank (the “Lender”). Pursuant to the Loan Agreement, the Lender (i) acquired by assignment from PNC all right, title and interest of PNC under the PNC Credit Facility, the PNC note and related loan documentation, and (ii) restructured the PNC Credit Facility into a \$3,000,000 three (3) year revolving credit facility. Effective April 1, 2008, BACC changed its name to Sovereign Business Capital.

Under the Loan Agreement, the Lender agreed to provide a revolving credit facility to the Company in an aggregate amount of up to \$3,000,000, subject to the further terms and conditions of the Loan Agreement. The loan is secured by a first priority lien on all of the Company’s assets.

The Company’s ability to request loan advances under the Loan Agreement is subject to computation of the Company’s advance limit and compliance with the covenants and conditions of the loan. The loan is for a term of 36 months and matures on March 31, 2011. Interest on the loan accrues on the daily unpaid balance of the loan advances at a per annum rate of one-quarter (.25%) percentage points above the Prime Rate in effect from time to time, but not less than five and one-half percent (5.5%) per annum. The Loan Agreement requires compliance with certain customary covenants including a debt service coverage ratio and restrictions on the Company’s ability to, among other things, dispose of certain assets, engage in certain transactions, incur indebtedness and pay dividends. The Loan Agreement also provides for customary events of default following which, the Lender may, at its option, accelerate the amounts outstanding under the Loan Agreement.

Availability under the Loan Agreement is directly related to the successful assignment of certain accounts receivable. Certain government accounts of TeamStaff GS are required to execute

“Acknowledgements of Assignment.” There can be no assurance that every TeamStaff GS government account will execute the documentation to effectuate the assignment and secure availability. The failure of government third parties to sign the required documentation could result in a decrease in availability under the Loan Agreement.

As of March 31, 2008, TeamStaff had unrestricted cash and cash equivalents of \$1.1 million and net accounts receivable of \$9.0 million. TeamStaff also had unused availability under the PNC Credit Facility of \$2.5 million based upon the new \$3.0 million Loan Agreement with Sovereign Business Capital. Availability was limited to \$3.0 million due to the impending \$3.0 million successor Loan Agreement with Sovereign Business Capital. As of March 31, 2008, TeamStaff had working capital of \$1.4 million. The Company believes that, along with cash on hand, the availability under the existing revolving line of credit will provide sufficient liquidity over the next twelve months. On April 2, 2008, the Company drew down \$0.6 million under the Loan Agreement with Sovereign Business Capital and used such funds to satisfy the outstanding principal and interest balance under the PNC Credit Facility and to pay certain expenses related to the execution and closing of the Loan Agreement.

Obligations	Total	Payments Due By Period		
		Less than 1 year	1-3 years	4-5 years
(Amounts in thousands)				
Long-term debt(1)	\$ 2,254	\$ 2,091	\$ 160	\$ 3
Operating leases(2)	1,836	470	1,069	297
Pension liability(3)	139	139	—	—
Severance liability(4)	57	57	—	—
Total Obligations	\$ 4,286	\$ 2,757	\$ 1,229	\$ 300

- (1) Represents bank line of credit, the maximum amount of notes payable related to acquisition of TeamStaff GS, and capital lease obligations.
- (2) Represents lease payments net of sublease income.
- (3) Represents pension liabilities for the former Chief Executive Officer and former Chief Financial Officer.
- (4) Represents severance payments related to former employees.

In addition, subsequent to March 31, 2008, we entered into a new employment agreement with our Chief Executive Officer and President, Rick J. Filippelli. The employment agreement supersedes and replaces the letter agreement that the Company entered into with Mr. Filippelli dated as of February 14, 2007. The term of the agreement is effective as of October 1, 2007 and expires September 30, 2009. Under the employment agreement, Mr. Filippelli will receive a base salary of \$280,000. In addition, Mr. Filippelli will have an opportunity to earn a cash bonus of up to 70% of his base salary for each fiscal year of employment in the discretion of the Management Resources and Compensation Committee of the Board of Directors. In the event of the termination of employment by us without “cause” or by Mr. Filippelli for “good reason,” as those terms are defined in the employment agreement, or in the event his employment is terminated due to his disability, he would be entitled to: (a) a severance payment of 12 months of base salary; (b) continued participation in our health and welfare plans for a period not to exceed 18 months from the termination date; and (c) all compensation accrued but not paid as of the termination date. In addition, in the event of termination for disability, he would also receive a pro-rata bonus, as described below. In addition, in the event of the termination of his employment due to his death, Mr. Filippelli’s estate would be entitled to receive: (a) all compensation accrued but not paid as of the termination date; (b) continued participation in our health and welfare plans for a period not to exceed 18 months from the termination date; and (c) payment of a “Pro Rata Bonus”, which is defined as an amount equal to the maximum bonus he had an opportunity to earn multiplied by a fraction, the numerator of which shall be the number of days from the commencement of the fiscal year to the termination date, and the

denominator of which shall be the number of days in the fiscal year in which Mr. Filippelli was terminated. In the event that within 180 days of a “Change in Control” as defined in the employment agreement, (a) Mr. Filippelli’s employment is terminated, or (b) his status, title, position or responsibilities are materially reduced and he terminates his employment, the Company shall pay and/or provide to him: (A) (i) the accrued compensation; (ii) the continuation benefits; and (iii) as severance, base salary for a period of 12 months; and (B) The conditions to the vesting of any outstanding incentive awards granted to Mr. Filippelli shall be deemed void and all such incentive awards shall be immediately and fully vested and exercisable and any options granted to him shall remain exercisable for the duration of their term.

As previously reported, Mr. Filippelli was granted 41,250 shares (on a post-split basis) of restricted stock under the agreement with the following vesting schedule: 33.3% of the restricted shares vest on the date of the agreement, and the remaining shares vest in two equal annual installments on September 30, 2008 and 2009, upon satisfaction of the performance targets and other key objectives established by the Board’s Management Resources and Compensation Committee.

Off-Balance Sheet Arrangements

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

Effects of Inflation

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

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

TeamStaff does not undertake trading practices in securities or other financial instruments and therefore does not have any material exposure to interest rate risk, foreign currency exchange rate risk, commodity price risk or other similar risks, which might otherwise result from such practices. TeamStaff is not materially subject to fluctuations in foreign exchange rates, commodity prices or other market rates or prices from market sensitive instruments. TeamStaff has a material interest rate risk with respect to our prior workers’ compensation programs. In connection with TeamStaff’s prior workers’ compensation programs, prepayments of future claims were deposited into trust funds for possible future payments of these claims in accordance with the policies. The interest income resulting from these prepayments is for the benefit of TeamStaff, and is used to offset workers’ compensation expense. If interest rates in these periods decrease, TeamStaff’s workers’ compensation expense would increase because TeamStaff would be entitled to less interest income on the deposited funds. Further, and as discussed elsewhere in this filing, as of March 28, 2008, TeamStaff has a new \$3.0 million revolving credit facility with Sovereign Business Capital under which revolving credit advances bear interest at the Prime Rate in effect from time to time plus 25 basis points. The Loan Agreement has a three-year life and contains term and line of credit borrowing options. The Loan Agreement is subject to certain restrictive covenants, including a debt service coverage ratio. The Loan Agreement is subject to acceleration upon non-payment or various other standard default clauses. Material increases in the Prime Rate could have a material adverse effect on our results of operations, the status of the Loan Agreement as well as interest costs.

ITEM 4: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company’s Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such

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

Based on their evaluation, as of March 31, 2008, the Company's Chief Executive Officer and the Company's Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our President and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Changes in Internal Controls

There have been no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the Company's second quarter ended March 31, 2008, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II — OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

RS Staffing Services, Inc.

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

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

The Company originally acquired RS Staffing Services in June 2005. As part of the purchase price of the acquisition, the Company issued to the former owners of RS Staffing Services a \$3.0 million promissory note, of which \$1.5 million was paid in June 2006. On May 31, 2007, the Company sent a notice of indemnification claim to the former owners for costs that have been incurred in connection with the investigation. Effective June 1, 2007, the Company and former owners of RS Staffing Services reached an agreement to extend the due date from June 8, 2007 to September 1, 2008 with respect to the remaining \$1.5 million note payable and accrued interest payable on June 8, 2007. As of March 31, 2008, the amount has not been settled. The Company recognized expenses related to legal representation and costs incurred in connection with the investigation in the amount of \$1.486 million during the fiscal year ended September 30, 2007, as a component of other income (expense). The Company recognized expenses related to legal representation and costs incurred in connection with the investigation in the amount of \$0.04 million and \$0.14 million during the three and six months ended March 31, 2008, as a component of other income (expense). Pursuant to the acquisition agreement with RS Staffing Services, the Company has notified the former owners of RS Staffing Services that it is the Company's intention to exercise its right to setoff the payment of such expenses against the remaining principal and accrued interest due to the former owners of RS Staffing Services.

The Company will pursue the recovery as a right of offset in future periods. Management has a good faith belief that the Company will recover such amounts; however, generally accepted accounting principles preclude the Company from recording an offset to the note payable to the former owners of RS Staffing Services until the final amount of the claim is settled and determinable. At present, no assurances can be given that the former owners of RS Staffing Services would not pursue action against us or that the Company will be successful in the offset of such amounts against the outstanding debt. Accordingly, the Company has expensed costs related to the investigation through March 31, 2008.

Other Matters

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

In connection with its medical staffing business, TeamStaff is exposed to potential liability for the acts, errors or omissions of its temporary medical employees. The professional liability insurance policy provides up to \$5,000,000 aggregate coverage with a \$2,000,000 per occurrence limit. Although TeamStaff believes the liability insurance is reasonable under the circumstances to protect it from liability for such claims, there can be no assurance that such insurance will be adequate to cover all potential claims.

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

ITEM 1A: RISK FACTORS

Our operating results and financial condition have varied in the past and may in the future vary significantly depending on a number of factors. Except for the historical information in this report, the matters contained in this report include forward-looking statements that involve risks and uncertainties. The following factors, among others, could cause actual results to differ materially from those contained in forward-looking statements made in this report and presented elsewhere by management from time to time. You are referred to Item 1A ("Risk Factors") of our Annual Report on Form 10-K for the fiscal year ended September 30, 2007 for a discussion of the risks associated with our business, financial condition and results of operations. Such factors, among others, may have a material adverse effect upon our business, results of operations and financial condition. Other than the risk factor set forth below, we believe there have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2007.

Our new credit facility is secured by a lien on substantially all of our assets and if we are unable to make the scheduled principal and interest payments on the facility or maintain compliance with other debt covenants, we may default on the facility.

TeamStaff completed a \$3.0 million revolving credit facility by BACC, a division of Sovereign Bank, effective on March 28, 2008. Revolving credit advances bear interest at the per annum rate of Prime Rate plus 25 basis points, but not less than 5.5% per annum. The facility has a three-year life and contains term and line of credit borrowing options. On April 2, 2008, the Company drew down \$0.6 million under the Loan Agreement with Sovereign Business Capital and used such funds to satisfy the outstanding principal and interest balance under the PNC Credit Facility and to pay certain expenses related to the execution and closing of the Loan Agreement (See "Part I — Financial Information, Item 2 — Management's Discussion and Analysis of Financial Condition and Results of Operation — New Facility" above).

The facility is subject to certain restrictive covenants, including minimum debt service coverage ratio and restrictions on the Company's ability to, among other things, dispose of certain assets, engage in certain transactions, incur indebtedness and pay dividends. In addition, the line of credit is secured by a lien on substantially all of our assets. Due to these covenants and restrictions, our operations may be affected in several ways. For instance, a portion of our cash flow from operations will be dedicated to the payment of the principal and interest on our indebtedness and as referenced above, our ability to enter into certain transactions, incur additional indebtedness and dispose of certain assets may be limited. The facility is subject to acceleration upon non-payment or various other standard default clauses. Material increases in the Prime Rate could have a material adverse effect on our results of operations, the status of the revolving credit facility, as well as interest costs. Failure to pay revolving credit advances or any failure to comply with applicable restrictive covenants would have a material adverse effect on our business in that we could be required to repay the outstanding balance in advance or sell assets in order to repay the outstanding amount. In addition, the Lender could seize the collateral securing the loan facility.

Further, availability under the line is directly related to the successful assignment of certain accounts receivable. Certain government accounts of TeamStaff GS are required to execute "Acknowledgements of Assignment." There can be no assurance that every TeamStaff GS government account will execute the documentation to effectuate the assignment and secure

availability. The failure of government third parties to sign the required documentation could result in a decrease in availability under the line of credit, which would materially affect the Company's business.

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

None.

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

None.

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

On April 17, 2008, prior to approval of the reverse split, TeamStaff held its Annual Meeting of Shareholders. The record date for shareholders eligible to vote was February 28, 2008. As of the record date there were 19,403,366 shares of common stock issued and outstanding. Voting of the shares of common stock was on a non-cumulative basis. 14,324,976 shares were voted at the Annual Meeting.

The first matter before the shareholders was the election of two persons as Class III directors for a term of three years. The persons nominated for election were Martin J. Delaney and Rick J. Filippelli. Both nominees were elected to the Board of Directors. The results of the vote were:

<u>Nominees</u>	<u>Votes Cast For</u>	<u>Withheld Authority to Vote</u>
Martin J. Delaney	14,164,346	160,630
Rick J. Filippelli	14,172,231	152,745

The second matter voted upon was the approval of an amendment to the Company's Certificate of Incorporation to effect a reverse split of the Company's outstanding common stock. The amendment was approved by the shareholders. The results of the vote were:

<u>Votes Cast For</u>	<u>Votes Cast Against</u>	<u>Abstentions</u>
13,776,570	546,248	2,158

ITEM 5: OTHER INFORMATION

On May 12, 2008, we announced that we were notified by The Nasdaq Stock Market that, as a result of our common stock closing at \$1.00 per share or more for a minimum of 10 consecutive trading days, we have regained compliance with the minimum bid price requirement for continued listing on the Nasdaq Global Market.

ITEM 6: EXHIBITS

Exhibit No.	Description
10.1	Lease dated as of March 27, 2008 between TeamStaff Government Solutions, Inc. and West Walton Properties, Inc.
10.2	Amended and Restated Loan and Security Agreement dated March 28, 2008 between TeamStaff, Inc. and Business Alliance Capital Company, a division of Sovereign Bank.
10.3	Amended and Restated Revolving Credit Master Promissory Note dated March 28, 2008 between TeamStaff, Inc. and Business Alliance Capital Company, a division of Sovereign Bank.
31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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

TEAMSTAFF, INC.

/s/ Rick Filippelli

Rick Filippelli
Chief Executive Officer
(Principal Executive Officer)

/s/ Cheryl Presuto

Cheryl Presuto
Chief Financial Officer
(Principal Accounting Officer)

Dated: May 15, 2008

**COMMERCIAL LEASE CONTRACT
WITH PURCHASE OPTION**

THIS LEASE (the "Lease") is made this 27th day of March, 2008, by and between West Walton Properties, Inc., first party, (hereinafter called "Landlord"); having an address of 3869 Highway 81 South, Loganville, Georgia 30052, and Teamstaff Government Solutions, Inc., second party, (hereinafter called "Tenant"); having an address of 533 Plaza Drive, Monroe, Georgia 30655.

WITNESSETH:

1. **PREMISES** - The Landlord, for and in consideration of the rents, covenants, agreements, and stipulations hereinafter mentioned, reserved, and contained, to be paid, kept and performed by the Tenant, has leased and rented, and by these presents does lease and rent, unto the Tenant, and the Tenant hereby agrees to lease and take upon the terms and conditions which hereinafter appear, the following described property (exclusive of any easement for light or air), hereinafter called "Premises," to wit:

3525 Highway 81 South, Loganville, GA 30052, aka Unit 101 of Lakeside Commons. Unit is approximately 6,200 square feet (more or less).

2. **TERM AND PREPARATION OF PREMISES**

A. The term of this Lease shall commence on the Lease Commencement Date, as hereinafter defined, and shall end at midnight on the last day of the month that is **7 years** after the Commencement Date, unless modified as hereinafter provided. The "Commencement Date" shall mean the date, which is **June 1, 2008**, provided Landlord has delivered Premises to Tenant on such date in accordance with this agreement.

B. Subject to Landlord delivering the Premises to Tenant with all building systems in good working order, Tenant agrees to accept the Premises under the provisions of the Lease "WHERE IS, AS IS", subject to this Agreement.

C. All attached improvements shall become the property of Landlord upon Lease termination or completion. Tenant must submit plans and obtain approval for any structural changes to Premises.

D. Tenant may move furniture and fixtures into Premises beginning April 14th, 2008. Tenant shall be responsible for electricity and water for the building from the date that furniture is moved in forward. Tenant agrees to give notice to Landlord 7 days before such date. Tenant shall be responsible for any left, loss or damage to items moved to Premises.

3. **RENTAL** - The Tenant agrees to pay to the Landlord promptly on the first day of each month in advance, during the term of this Lease, a monthly rental ("Base Rent") of SEE Exhibit A. Tenant shall pay all rent and other sums of money as shall become due from and payable by Tenant to Landlord under this Lease at the times and in the manner provided in this Lease, without notice, demand, set-off or counterclaim. As used in this Lease, the term "Rent" shall mean the Base Rent and Additional Rent (as hereinafter defined), if any.

The aforesaid payments of rent are to be made to:

P.O. Box 2655
Loganville, Georgia 30052

4. **LATE PAYMENTS** - If any installments of Base Rent or Additional Rent under this Lease are not paid within seven (7) days after the date such payment is due, Tenant shall pay to Landlord a late charge equal to 5% of the delinquent amount, and interest on the delinquent amount at the rate of 10% per annum until paid (the "Default Rate").

5. **ADVANCE RENT** - None paid.

6. **SECURITY DEPOSIT** - Tenant has deposited with Landlord the sum of SIX THOUSAND AND 00/100 DOLLARS (\$6,000.00), receipt of which is hereby acknowledged. Said deposit shall be held by Landlord without interest as security for the faithful performance by Tenant of all the terms and covenants

of this Lease by Tenant to be observed and performed. In the event Tenant fails to perform or observe any of the agreements, covenants, conditions and provisions of this Lease to be performed or observed by it, then, at Landlord's option, Landlord may, but shall not be obligated to, apply the security deposit, or so much thereof as may be necessary, to remedy any such failure by Tenant. Tenant shall within 10 days upon written request pay to Landlord any sum necessary to restore the security deposit to the full amount specified above. In the event of a sale, assignment, or other transfer of Landlord's interest in the Premises, or a lease by Landlord of its interest in the Building, Landlord shall have the right to transfer the security deposit to the transferee, and subject to Landlord providing Tenant with written evidence of such transfer, Landlord shall be relieved of all liability to Tenant for the return of such security deposit. Tenant shall look solely to the transferee for the return of such security deposit. In the event of a permitted assignment under this Lease by Tenant, the security deposit shall be held by Landlord as a deposit made by the permitted assignee and Landlord shall have no further liability with respect to the return of said security deposit to the original Tenant.

7. TAXES

A. Landlord shall pay before they become delinquent all taxes, assessments and governmental charges of any kind and nature whatsoever lawfully levied or assessed against the Premises and/or Building or any portion thereof (all of which real estate taxes, assessments, levies, charges and costs, excluding any late charges or penalties that may be imposed for Landlord's failure to make payments on account of the foregoing in a timely manner, are hereafter collectively referred to as "Taxes"), and Tenant shall reimburse Landlord, as Additional Rent, for Tenant's share of any such Taxes paid with respect to any tax year falling within the term of this Lease (prorated for any partial years).

B. As additional rent, Tenant shall pay Landlord the annual real estate taxes and assessments assessed and levied against the Premises as per the Lakeside Commons Condominium Associations, Inc.'s Declaration attached hereto as Exhibit "B", on the first (1st) day of each month, in advance, in a sum equal to 1/12th of the annual real estate taxes and assessments due and payable for the then calendar year. If at a time a payment is required the amount of the real estate taxes and assessments for the then calendar year shall not be known, Tenant shall pay Landlord, as additional rent, 1/12th of the real estate taxes and assessments for the preceding calendar year; and upon ascertaining the real estate taxes and assessments for the current calendar year, Tenant shall pay Landlord any difference upon demand, or if Tenant shall be entitled to a credit, Landlord shall credit the excess against the next monthly installment(s) of additional rent falling due. Additional rent based upon real estate taxes and assessments payable for the first and last years of the lease term shall be adjusted and pro rated, so that Landlord shall be responsible for Landlord's pro rated share for the period prior to and subsequent to the lease term and Tenant shall pay Landlord its pro rated share for the lease term. Landlord's estimate of Tenant's Proportionate Share of Taxes for the current year for the Premises and/or Building is Six Hundred Seventy Five Dollars (\$675) per month. For the first 3 years of the lease, the maximum annual amount of real estate taxes that Tenant shall be responsible for is \$9,000 per year (or \$750 per month).

C. Tenant shall be liable for all taxes assessed against and levied upon the trade fixtures, furnishings, equipment and all other personal property of Tenant contained in the Premises.

D. For any given tax year, Landlord shall have the right, but not the obligation, to contest the validity or amount of the Taxes by appropriate proceedings brought by Landlord or its tax consultant and, if Tenant consents in writing, the costs thereof shall be included in the Taxes. Landlord shall have the sole, absolute and unrestricted right to settle any contest, proceeding or action brought by Landlord upon whatever terms Landlord may, in its sole discretion, determine.

E. Provided this Lease is not previously cancelled or terminated, and there shall be no Event of Default, or an event that with the giving of notice or the lapse of time, or both, would constitute an Event of Default, for any given tax year in which Landlord has elected not to contest the validity or amount of the Taxes, Tenant shall have the right, but not the obligation, to contest the validity or amount of the Taxes by appropriate proceedings brought by Tenant or its tax consultant at its own expense. Except as set forth below, Landlord shall not be required to join in any such contest brought by Tenant. If required by law, Landlord shall, upon written request of Tenant, join in the Tax Appeal or permit the Tax Appeal to be brought in Landlord's name, and Landlord shall reasonably cooperate with Tenant, at the cost and expense of Tenant. Tenant shall have the sole, absolute and unrestricted right to settle any contest, proceeding or action brought by Tenant; provided, however that Tenant shall pay any increase that may result in real estate taxes or assessments as a consequence of the Tax Appeal, which payment obligations shall survive the expiration or earlier termination of this Lease.

8. ADDITIONAL RENT - Any amounts that Tenant assumes or agrees to pay to Landlord under the provisions of this Lease, including, without limitation, any sums that may become due by reason of any Default of Tenant or failure on Tenant's part to comply with the agreements, terms, covenants and

conditions of this Lease to be performed by Tenant, and any charges or expenses incurred by Landlord on behalf of Tenant under the terms of this Lease shall be considered "Additional Rent" payable in the same manner and upon the same terms and conditions as the Base Rent reserved hereunder except as set forth herein to the contrary. Any failure on the part of Tenant to pay such Additional Rent when and, as the same shall become due shall entitle Landlord to the remedies available to it for non-payment of Base Rent. Tenant's obligations for payment of Additional Rent shall begin to accrue on the Lease Commencement Date. In accordance with this Section 8, Landlord shall bill to Tenant as Additional Rent any dues, fees, or assessment by the **Lakeside Commons Condominium Association, Inc., as per the Declaration attached hereto as Exhibit "B"**, and Tenant acknowledges that said dues, fees, or assessments are Additional Rent. Association dues shall not exceed \$10,500 per year (or \$875 per month) during the first 3 years of the lease.

9. **UTILITY BILLS** - Tenant shall pay for all water, sewer, gas, electricity, fuel, light, heat, power bills, sprinkler system service charges (if any) and other utilities serving the Premises, or used by Tenant in connection therewith, other than as covered by the Common Area Maintenance Fees. If Tenant does not pay the same directly to the applicable utility company, Landlord may pay the same and such payment, together with a reasonable administrative charge by Landlord, shall be added to the Rent for the Premises. If any of such utility services are not separately metered to the Premises, Tenant shall pay to Landlord, as Additional Rent, a reasonable proportion of the total cost of all charges jointly metered with other premises, plus a reasonable administrative charge by Landlord, all as reasonably determined by Landlord based on Tenant's actual usage and consumption of such service. With respect to water and sewer charges for multi-tenant buildings, Landlord's reasonable determination will take into account whether Tenant or the other tenants of the Building consume water for manufacturing or other uses, other than water consumed for general office uses.

10. **USE OF THE PREMISES** - The Premises shall be used for office/medical purposes and no other purposes, without the express written consent of Landlord, such consent shall not be unreasonably withheld. The Premises shall not be used for any illegal purposes; nor in any manner that violates the protective covenants for the premises set forth as EXHIBIT "B" hereof, and by this reference made a part hereof, or any other restrictions of public record with respect to the Premises or which create any nuisance or trespass; nor in any manner to vitiate the insurance or increase the rate of insurance on the Premises. Without Landlord's prior written consent, Tenant shall not receive, store or otherwise handle any product, material or merchandise which is explosive or highly flammable, except for material or merchandise used in the ordinary course of Tenant's business.

11. **CONDITION, REPAIR, REPLACEMENT AND MAINTENANCE OF THE PREMISES.**

(a) **Landlord's Obligations.** Subject to Landlord delivering the Premises to Tenant with all building systems in good working order, Tenant acknowledges acceptance of the Premises AS IS WHERE IS. Landlord shall make all structural and extraordinary repairs, consistent with industry standards, to keep the Building (including the Premises and the Building systems) in reasonably good order and repair, excluding, however, repairs which Tenant is obligated to make pursuant to paragraph 11(b) of this Lease. Lakeside Commons Condominium Association, Inc. may have certain responsibilities for exterior repairs and maintenance but such responsibilities shall not affect Landlord's obligation to Tenant pursuant to this paragraph. For any repairs deemed to be the responsibility of Landlord, Landlord's liability with respect to any defects, repairs or maintenance shall be limited to the cost of such repairs or maintenance or the curing of such defect. Landlord shall provide a one time credit of up to \$10,000 carpet credit after the 3rd year of the lease. This credit is only to be used to carpet the previously carpeted areas of the building in a like or similar carpet to what is already in place, color and style to be submitted to Landlord for approval. Landlord's approval will not be unreasonably withheld. Landlord reserves the right to review bills for carpet and installation as well as insurance credentials for the installation company. Carpet Credit option shall expire after year 4 of the Lease.

(b) **Tenant's Obligations.**

(i) **Repairs.** Tenant shall, at Tenant's own expense, keep and maintain all parts of the Premises (except those for which Landlord or the Lakeside Commons Condominium Association, Inc. is expressly responsible under the terms of this Lease), including, without limitation, (a) any approved alterations, (b) the internal electrical systems servicing the Premises, (c) all plumbing fixtures and lines servicing the Premises from the point of entry, (d) the life safety and emergency power and/or other systems to the point at which same join the main vertical risers for the Building and (e) Tenant's Property; provided however, that Tenant shall not be responsible for exterior or structural repairs unless the need for same arises out of (i) the making, installation, use, operation, or existence of alterations by or on behalf of Tenant other than any alterations to be performed by Landlord, (ii) the moving of Tenant's Property and/or other materials, supplies, etc. in or out of the Building or Premises, (iii) the negligence of willful misconduct of Tenant or Tenant's employees.

(ii) **No Damage to Walls.** Tenant shall not damage any wall or disturb the integrity and support provided by any wall and shall, at its own expense, promptly repair and replace any damage or injury to any wall caused by Tenant or its agents, employees or invitees.

12. INSURANCE

A. During the term of this Lease, Tenant shall provide and keep in force, at its own expense, the following insurance:

(1) commercial general liability insurance, with contractual liability broad from general liability endorsement, relating to Tenant's business carried on, in or from the Premises, for personal and bodily injury and death, and damage to others' property, with limits of not less than \$1,000,000.00 for any one accident or occurrence; and

(2) all risk or fire insurance (including standard extended coverage and coverage for leakage from fire protective devices and other water damage) relating to Tenant's fixtures, furnishings, and all personal property of Tenant in the Premises on a full replacement cost basis; and

(3) workmen's compensation insurance as required by applicable law.

B. The Lakeside Commons Condominium Association, Inc. insures certain areas of the Premises. Tenant acknowledges that Landlord is entitled to any and all proceeds from said insurance and Tenant's remedy for any claims based on damages covered by the insurance shall be as described in Section 14 of this Lease.

C. Prior to the commencement of the Lease term and thereafter, at least fifteen (15) days prior to the expiration date of any policy required of Tenant, if requested by Landlord in writing, Tenant agrees to deliver to Landlord a certificate evidencing the insurance coverage required of Tenant under this Lease. Said certificate shall confirm that Landlord, its managing agent, and the holders of any Security Deeds are named as additional insureds. The policies required to be carried by Tenant pursuant to the terms of this Lease shall be issued by a stock or mutual company, licensed to do business in the State of Georgia.

13. **WAIVER OF SUBROGATION** - Landlord shall waive all rights of recovery and all causes of action against Tenant for any loss occurring to the Premises resulting from any of the perils insured against under such policy or policies of insurance carried by Landlord regardless of cause, including the negligence of Tenant, but only to the extent of any recovery received by Landlord under such policy or policies of insurance (or alternatively, to the extent of any recovery that could have been received under the insurance required by Section 12.B. above, if such insurance is not being carried in breach of such obligations). Conversely, Tenant shall waive all rights of recovery and all causes of action against Landlord regardless of cause, including the negligence of Landlord, to the extent of any recovery received under such policy or policies of insurance carried by Tenant (or alternatively, to the extent of any recovery that could have been received under the insurance required by Section 12.A. above, if such insurance is not being carried in breach of such obligations), and Tenant will also cause these policies of insurance to include an endorsement to that effect.

14. DESTRUCTION OF, OR DAMAGE TO PREMISES

A. If the Premises is damaged in part or whole from any cause and the Premises can be substantially repaired and restored within 120 days after the date of the damage using standard working methods and procedures, Landlord shall at its expense promptly and diligently repair and restore the Premises to substantially the same condition as existed before the damage. Such repair and restoration shall be Substantially Complete (as defined herein below) within 120 days after the date of the damage. Nevertheless, if the repair and restoration of the Premises is not Substantially Complete within 120 days as aforesaid, then the Tenant may cancel this Lease within 30 days after the expiration of the 120-day period. The Tenant may not cancel this Lease if the Tenant's willful misconduct in its capacity as Tenant under this Lease was the sole cause of the damage and Landlord is promptly and diligently repairing and restoring the Premises.

B. If the Premises cannot be repaired and restored within such 120-day period, then either party may, within 10 business days after the parties determine that the repairs and restoration cannot be timely made (as prescribed in Section 14.B.), cancel this Lease by giving notice to the other party.

C. **Determining the Extent of Damage.** If the parties cannot agree in writing whether the repairs and restoration described in section 14.A. were Substantially Complete within 120 days as required under Section 14.B., then the determination will be submitted to dispute resolution procedures under Section 20.

D. Abatement. Unless the damage is caused solely by the Tenant's willful misconduct, Base Rent and Additional Rent shall abate in proportion to the part of the Premises that is unfit for use by the Tenant. The abatement shall consider the nature and extent of interference to the Tenant's ability to conduct business in the Premises and the need for access and essential services. The abatement shall continue from the date of damage until 10 business days after the repairs and restoration to the Premises were Substantially Complete and Landlord has given notice to the Tenant that the repairs and restoration have been so completed, or until the Tenant again uses the Premises or the part rendered unusable, whichever first occurs.

E. The Tenant's Personal Property. Notwithstanding anything else in this Section 14, Landlord shall not be obligated to repair or restore damage to the Tenant's trade fixtures, furniture, equipment or other personal property, unless the damage thereto was caused by Landlord's negligence or misconduct.

F. Damage to Building. If:

- (i) more than 40% of the square feet of the Building is so damaged as to be untenantable and Landlord decides not to repair and restore the Building,
- (ii) any mortgagee of the Building shall not allow insurance proceeds to be used for repair and restoration,
- (iii) the damage is not covered by Landlord's insurance required by section 12 (b); or
- (iv) the damage occurs during the final year of the Term,

then either party may cancel this Lease by notice to the other party within 15 days after the date of damage. Such notice shall specify the cancellation date, which shall be the date the casualty occurred, however no partial months rent credit shall be due to Tenant unless covered by insurance.

G. Cancellation. If either party cancels this Lease as permitted by section 14, then this Lease shall end on the day specified in the cancellation notice. Base Rent and Additional Rent and other charges shall be payable up to the cancellation date and shall account for any abatement. Landlord shall promptly refund to the Tenant any prepaid, unaccrued and Additional Rent, accounting for any abatement, less any sum then owing by the Tenant to Landlord.

H. For purposes of this Section 14, the terms "Substantially Complete" and "Substantial Completion" mean:

- (i) full completion of Landlord's improvements so that (A) the Tenant can use the Premises for its intended purposes without material interference with the Tenant's conduct of its ordinary business activities therein and (B) the only incomplete items are minor or insubstantial details of construction, mechanical adjustments or finishing touches like touch-up plastering or painting;
- (ii) issuance of a permanent certificate of occupancy by the responsible agency or agencies of where the Property is situated;
- (iii) the Tenant, its employees, agents and invitees have ready access to the Building and the Premises through all common areas, including the parking lot;
- (iv) any fixtures and equipment to be installed by Landlord have been installed and are in good operating order; including but not limited to the security system, the entry card system (cards will have to be ordered at Tenants expense) and the software for the entry card system.
- (v) the Premises are ready for the installation of any equipment, furniture or fixtures that the Tenant intends to install;
- (vi) the following systems have been installed and are in good operating order: HVAC, utilities and plumbing serving the Premises; and
- (vii) the Premises are broom clean.

15. INDEMNITY

A. Subject to Section 13. above, Tenant agrees to indemnify and hold Landlord, Landlord's agents, and their respective agents, employees, contractors, officers, directors, shareholders, partners and principals (disclosed or undisclosed) harmless from and against any and all losses, costs, liabilities, claims, damages, expenses (including, without limitation, reasonable attorneys' fees), penalties or fines incurred in connection with, arising out of or resulting from: (i) any Default by Tenant in the performance of any of the terms, covenants or conditions of this Lease on Tenant's part to be kept, observed or performed, or (ii) the use or occupancy, or manner of use or occupancy, of the Premises by Tenant or any person claiming or entering the Premises by, through or under Tenant, or (iii) any acts, omissions or negligence of Tenant, its sublessees, assignees, licensees or concessionaires or any of their respective contractors, agents, employees, guests or invitees. The foregoing indemnification shall not include loss of profits or other consequential damages incurred by Landlord.

B. Subject to Section 13. above, Landlord agrees to indemnify and hold Tenant, Tenant's agents, and their respective agents, employees, contractors, officers, directors, shareholders, partners and principals (disclosed or undisclosed) harmless from and against any and all losses, costs, liabilities, claims, damages, expenses (including, without limitation, reasonable attorneys' fees), penalties or fines incurred in connection with, arising out of or resulting from: (i) any Default by Landlord in the performance of any of the terms, covenants or conditions of this Lease on Landlord's part to be kept, observed or performed, or (ii) any acts, omissions or negligence of Landlord, its licensees, agents, employees, guests or invitees.

16. **GOVERNMENTAL ORDERS** – Subject to Landlord delivering the Premises to Tenant in compliance with all applicable codes, Tenant agrees, at its own expense, to promptly comply with all requirements of any legally constituted public authority made necessary by reason of Tenant's occupancy of said Premises, including but not limited to, the providing of fire extinguishers in accordance with said requirements. Landlord agrees to promptly comply with any such other requirements if not made necessary by reason of Tenant's occupancy. It is mutually agreed, however, between Landlord and Tenant, that if in order to comply with such requirements, the cost to Landlord or Tenant, as the case may be, shall exceed a sum equal to one year's Rent, then Landlord or Tenant who is obligated to comply with such requirements is privileged to terminate this Lease by giving written notice of termination to the other party, by registered mail, which termination shall become effective sixty (60) days after receipt of such notice, and which notice shall eliminate necessity of compliance with such requirement by party giving such notice, unless the party receiving such notice of termination shall, before the termination becomes effective, pay to the party giving notice all costs of compliance in excess of one year's Rent, or secure payment of said sum in a manner that is satisfactory to the party giving notice.

17. CONDEMNATION

A. If a portion of the Premises is taken so that ingress to and egress from the Premises is materially reduced, or the whole or any substantial portion of the Premises is taken for any public or quasi-public use under governmental law, ordinance or regulation, or by right of eminent domain, or by private purchase in lieu thereof, this Lease shall terminate and the rent shall be abated during the unexpired portion of this Lease, effective when the physical taking of the Premises shall occur. In the event of a partial taking, If less than a substantial part of the Premises is taken, or a portion of the Premises is taken so that ingress to and egress from the Premises is materially reduced, for any public or quasi-public use under any governmental law, ordinance or regulation, or by right of eminent domain, or by private purchase in lieu thereof, and in Tenant's reasonable opinion the Premises are still suitable for Tenant's business purposes, the Lease term shall not terminate, but the fixed annual rent and additional rent payable hereunder during the unexpired portion of the Lease term shall be reduced to such extent as may be fair and reasonable under all of the circumstances.

B. In the event of any taking, Landlord shall be entitled to any and all compensation, damages, income, Rent, awards or interest therein whatsoever which may be paid or made in connection therewith. Tenant shall have no claim against Landlord or the condemning authority for the value of any unexpired term of this Lease or otherwise. Tenant shall have the right to claim from the condemning authority and prove Tenant's right to an award for the unamortized trade fixtures, alterations, additions and improvements paid for by Tenant, and for its moving expenses. In the event of a partial taking of the Premises, which does not result in a termination of this Lease, the Rent thereafter to be paid shall be ratably reduced based on the amount of square footage of the Premises so taken.

18. ASSIGNMENT AND SUBLETTING

A. Tenant may not, without the prior written consent of Landlord, assign this Lease or any interest hereunder, or sublease the Premises or any part thereof, or permit the use of the Premises by any party other than Tenant; provided, however, Tenant shall have the right to assign this Lease to a corporation, partnership, or other business entity owned or controlled by Tenant at the time of said assignment.

B. Landlord agrees that its consent to any request of assignment or subletting shall not be unreasonably conditioned, delayed or withheld.

C. If the Lease is assigned or if the Premises are subleased to others, then fifty percent (50%) of any increase in Rent over the Rent being paid by Tenant under this Lease or any extension or renewal hereof shall be payable to Landlord. Consent to one or more assignments or subleases shall not destroy or waive this provision.

D. Subtenants and assignees shall become directly liable to Landlord for all obligations of Tenant hereunder without relieving Tenant's liability under this Lease which shall continue notwithstanding such assignment or subletting. For any sublease of more than twenty-five percent (25%) of the Premises, Tenant shall promptly reimburse Landlord for Landlord's costs and expenses not to exceed \$500 per occurrence, including, reasonable attorneys' fees, in reviewing, approving or documenting any proposed assignment or subletting. Any attempted assignment or subletting made in violation of this Section 18 shall be void and of no force or effect, and shall constitute an Event of Default under this Lease.

19. TENANT'S DEFAULT; LANDLORD'S REMEDIES

A. In the event Tenant shall fail to pay when due, any installment of Base Rent, Additional Rent or any other amount or charge required to be paid by Tenant hereunder (all of which obligations of Tenant shall bear interest at the Default Rate from the date due until paid in full) and such failure is not cured within five (5) days after written notice thereof from Landlord; or if Tenant shall materially Default in performing any of the covenants, terms or provisions of this Lease (other than the payment, when due, of any of Tenant's monetary obligations hereunder) or any of the rules and regulations now or hereafter reasonably established and uniformly enforced by Landlord to govern the operation of the Project and Tenant fails to cure such Default within thirty (30) days after written notice thereof from Landlord; or if there shall occur any event described as an Event of Default by Tenant under this Lease; or if Tenant or any guarantor of Tenant's obligations shall file a petition or be adjudged bankrupt or insolvent under any applicable federal or state bankruptcy or insolvency law or admit that it cannot meet its financial obligations as they become due; or a receiver or trustee shall be appointed for all or substantially all of the assets of Tenant or any guarantor of Tenant's obligations; or Tenant shall make a transfer to defraud creditors or shall make an assignment for the benefit of creditors; or Tenant shall do or permit to be done any act which results in a lien being filed against the Premises or Building, which lien is not removed or bonded over in accordance with Georgia law within thirty (30) days after written notice thereof by Landlord to Tenant or such shorter period as required by the holder of any Security Deed; then, and in any of said events (referred to herein as a "Default" or "Event of Default"), Landlord, at its option may pursue any one or more of the remedies set forth in Section 19.B. without any further notice or demand whatsoever. Landlord shall only be obligated to give written notices of Default and opportunity to cure to Tenant two (2) times in any period of twelve (12) consecutive months in the event of the reoccurrence of any Default.

B. Upon the occurrence of an Event of Default as described in Section 19.A., Landlord shall have the option to do and perform any one or more of the following in addition to, and not in limitation of, any other remedy or right permitted it by law or in equity or by this Lease:

(1) Commence dispossession proceedings with or without the termination of this Lease. In the absence of Landlord's electing to terminate the Lease, Tenant shall remain liable for the payment of all Rents accruing after any writ of possession as to the Premises is issued to Landlord.

(2) Commence proceedings against Tenant for all amounts owed by Tenant to Landlord, whether as Base Rent, Additional Rent, damages or otherwise.

(3) Terminate the Lease, in which event Tenant shall immediately surrender the Premises to Landlord. Landlord may declare to be due and payable immediately the amount of all loss and damage which Landlord may suffer by reason of the termination of the term under this Section 19. or otherwise which loss and damage shall include, without limitation, an amount which, at the date of the termination, represents the present value, as computed using an eight percent (8%) per annum discount rate, of the excess, if any, of (i) the Base Rent, Additional Rent and all other amounts which would have otherwise been payable hereunder during the remainder of the term of this Lease over (ii) the aggregate reasonable net rental value of the Premises for the same period, after deducting the then reasonable rental value of the Premises and all expenses expected to be incurred in re-letting the Premises. Upon the acceleration of such amounts, Tenant agrees to pay the same at once, in addition to all Base Rent, Additional Rent and all other amounts theretofore due; provided, however, that such payment shall not constitute a penalty or forfeiture, but shall constitute liquidated damages for Tenant's failure to comply with the terms and provisions of this Lease (Landlord and Tenant agreeing that Landlord's actual damages in such event are impossible to ascertain and that the amount set forth above is a reasonable estimate thereof).

(4) Upon any termination of Tenant's right to possession only, without termination of the Lease, Landlord may, at Landlord's option, enter into the Premises, remove Tenant's signs and other evidences of tenancy, and take and hold possession thereof as provided below, without such entry and possession terminating the Lease or releasing Tenant, in whole or in part, from any obligation hereunder.

In any such case, Landlord may relet the Premises on behalf of Tenant for such term or terms (which may be greater or less than the period which would otherwise have constituted the balance of the term of the Lease) and on such terms and conditions (which may include reasonable concessions of free rent and alteration, repair and improvement of the Premises as long as such concessions are reasonably consistent with current market conditions) as Landlord, in its reasonable discretion, may determine and receive directly the Rent by reason of the reletting. Tenant agrees to pay Landlord on demand any deficiency that may arise by reason of any reletting of the Premises. Landlord shall make reasonable efforts to relet the Premises following termination; provided, however, that no failure of Landlord to relet the Premises shall operate to relieve Tenant of any liability under this Lease. Tenant shall instead remain liable for all Rent and for all such expenses.

(5) Change the locks or otherwise enter upon and take possession of the Premises without the requirement of resorting to the dispossessory procedures set forth in O.C.G.A. 44-7-50, and without being liable for prosecution of any claim for damages or for trespass or other tort.

(6) Do or cause to be done whatever Tenant is obligated to do under the terms of this Lease, in which case Tenant agrees to reimburse Landlord. Tenant agrees that Landlord shall not be liable for any damages resulting to Tenant from effecting compliance with Tenant's obligations under this Section 19., except caused by the negligence of Landlord.

(7) Enforce the performance of Tenant's obligations hereunder by injunction or other equitable relief (which remedy may be exercised upon any breach or Default or any threatened breach or Default of Tenant's obligations hereunder).

20. DISPUTE RESOLUTION - No administrative or judicial proceeding shall be commenced to enforce the provisions of this Lease or make any determination hereunder (until after the parties shall have attempted without success to resolve the dispute consensually by means of an informal process involving the services of a neutral mediator experienced in mediation, early neutral evaluation, mini-trial or comparable alternate dispute resolution procedure.

21. Notices. All notices, consents, demands, communications or approvals required or permitted by this Lease shall be in writing and shall be delivered personally or delivered by certified or registered mail, return receipt requested, addressed as follows:

If to Landlord: West Walton Properties, Inc.
P.O. Box 2655
Loganville, GA 30052

If to Tenant: Teamstaff Government Solutions, Inc.
3525 Highway 81 South, Unit 101
Loganville, GA 30052

With copy to: Teamstaff, Inc.
2 Executive Drive
Suite 130
Somerset, NJ 08873
866-352-5304

Landlord and Tenant may, by notice given in the same manner set forth above, designate a different address to which subsequent notices shall be sent. Notice shall be deemed given when delivered, if delivered personally or by reputable overnight delivery service that provides proof of delivery, or when mailed if sent by certified or registered mail, return receipt requested.

22. REMOVAL OF FIXTURES - Tenant shall prior to the expiration of the term of this Lease or any extension thereof, remove all fixtures and equipment which Tenant has placed in the Premises; provided, however, that Tenant shall not remove: (i) air conditioning, air ventilating and heating fixtures, except for such systems installed as part of the manufacturing process of the Tenant; (ii) lighting fixtures; and (iii) carpeting. Upon removal of said fixtures and equipment, which Tenant removes as set forth in the preceding sentence, Tenant shall repair all damage to the Premises caused by such removal. Notwithstanding the foregoing to the contrary, Tenant shall not be responsible to repair normal wear and tear.

23. RIGHT OF LANDLORD TO ENTER PREMISES - Without any abatement of Rent, Landlord and its agents, employees and independent contractors, shall have the right to enter the Premises at such times as Landlord deems reasonably necessary or desirable for any one (1) or more of the following purposes: (i) to inspect and examine same, (ii) to make such repairs, additions, alterations, and improvements

as Landlord desires to make to the Building and/or the Building Common Areas or common facilities thereof, (iii) to exhibit said Premises to prospective purchasers or lenders, and (iv) to exhibit said Premises to prospective tenants during the last nine (9) months of the term of this Lease or at any time that Tenant is in Default. Except in the event of an emergency, Landlord agrees to provide to Tenant reasonable prior oral notification of any such entry, and to use reasonable efforts to minimize any interference with Tenant's normal business operations and to enter only during normal business hours. In the event of emergency if Tenant is in Default hereunder, or if otherwise necessary to prevent injury to person or damage to property, such entry to the Premises may be made by force without any liability whatsoever on the part of Landlord for damage resulting from such forcible entry.

24. EXTERIOR SIGNS - Tenant shall place no signs upon the outside walls or roof of the Premises except with the written consent of the Landlord, such consent shall not be unreasonably withheld. Further, Tenant shall place no signs, either permanent or temporary, upon surrounding property, however Tenant shall be allowed a space on the monument sign at the entrance to the property with the Tenant responsible for the cost of this sign. Tenant shall be responsible to Landlord for any damage caused by the installation, use or maintenance of said signs, and Tenant agrees upon removal of said signs to repair all damage incident to such removal. At the Landlord's discretion, Tenant shall remove said sign at its sole cost and expense upon termination of this Lease. Tenant acknowledges and agrees that said sign must conform to any requirements in the covenants as found in Exhibit A and that any costs associated with obtaining the necessary permission shall be the sole cost of Tenant. However, consent from the Lakeside Commons Condominium Association, Inc. does not waive the necessity of obtaining permission from Landlord.

25. CARDING FOR RENT OR SALE - Landlord may card the Building or Premises "For Sale" or "For Lease" at any time during the final six (6) months of this lease. Any signage shall be in a tasteful and reasonable nature so as not to detract from Tenant's business.

26. EFFECT OF TERMINATION OF LEASE - All obligations of Tenant hereunder not fully performed as of the expiration or termination of the term of this Lease shall survive the expiration or earlier termination of the term hereof, including, without limitation, all payment obligations with respect to Rent and all rights, obligations and indemnities in favor of Landlord.

27. SUBORDINATION AND ATTORNMENT; ESTOPPEL CERTIFICATES

A. This Lease and all rights of Tenant hereunder are and shall be subject and subordinate to any mortgage, deed to secure debt, deed of trust, ground lease or other instrument in the nature thereof (herein called "Security Deed") which may now or hereafter affect Landlord's fee title to the Premises and/or Building; provided, however, that if the holder of any Security Deed elects to have this Lease prior to the lien of such holder's Security Deed, and gives written notice thereof to Tenant, this Lease shall be deemed prior to such Security Deed.

B. Tenant shall upon request from Landlord at any time and from time to time execute, acknowledge and deliver to Landlord a written statement certifying as follows: (i) that this Lease is unmodified and in full force and effect (or if there has been modification thereof, that the same is in full force and effect as modified and stating the nature thereof); (ii) that to the best of its knowledge there are no uncured Defaults on the part of Landlord (or if any such Default exists, the specific nature and extent thereof); (iii) the date to which any Rent and other charges have been paid in advance, if any; and (iv) such other matters as Landlord may reasonably request.

28. QUIET ENJOYMENT - Upon paying the rents and other sums required of Tenant under the Lease and faithfully and fully performing the terms, conditions and covenants of the Lease on Tenant's part to be performed, Tenant shall peaceably and quietly have, hold and enjoy the Premises for the Lease term.

29. CONSTRUCTION OF THIS AGREEMENT - No failure of Landlord to exercise any power given Landlord hereunder, or to insist upon strict compliance by Tenant with its obligation hereunder, and no custom or practice of the parties at variance with the terms hereof shall constitute a waiver of Landlord's right to demand exact compliance with the terms hereof. Time is of the essence of this Lease.

30. HOLDING OVER - If Tenant remains in possession of the Premises after expiration of the term hereof, without Landlord's acquiescence and without any express agreement of the parties, Tenant shall be a tenant at sufferance at a Rent rate equal to one hundred fifty percent (150%) of the Rent rate in effect at end of Lease; and there shall be no renewal of this Lease by operation of law.

31. ATTORNEYS' FEES AND HOMESTEAD - If any Rent owing under this Lease is collected by or through an attorney at law, Tenant agrees to pay actual, reasonable attorneys' fees, not to exceed fifteen percent (15%) thereof, as well as all court costs, filing fees or other out of pocket charges incurred by Landlord in connection with such attempted collection. Tenant waives all homestead rights and exemptions, which he may have under any law as against any obligation owing under this Lease. Tenant hereby assigns to Landlord its homestead and exemption.

32. ENVIRONMENTAL MATTERS - The term "Hazardous Substances" as used in this Lease shall mean pollutants, contaminants, toxic or hazardous wastes, or any other substances, the removal of which is required or the use of which is restricted, prohibited or penalized by any "Environmental Law," which term shall mean any federal, state or local law or ordinance relating to pollution or protection of the environment. Tenant hereby agrees that (i) no activity will be conducted on the Premises that will produce any Hazardous Substance, except for such activities that are part of the ordinary course of Tenant's business activities that are consistent with Tenant's permitted uses under Section 10. of this Lease (the "Permitted Activities") provided said Permitted Activities are conducted in accordance with all Environmental Laws and have been expressly approved in advance in writing by Landlord; (ii) the Premises will not be used in any manner for the storage of any Hazardous Substances except for the storage of such materials that are used in the ordinary course of Tenant's business (the "Permitted Materials") and expressly approved in advance in writing by Landlord, provided such Permitted Materials are properly stored in a manner and location meeting all Environmental Laws and in quantities that do not exceed the amounts approved in writing by Landlord; (iii) no portion of the Premises will be used as a landfill or a dump; (iv) Tenant will not install any underground tanks of any type except as needed for the treatment of corn water run-off; (v) Tenant will not allow any surface or subsurface conditions to exist or come into existence that constitute, or with the passage of time may constitute, a public or private nuisance; (vi) Tenant will not permit any Hazardous Substances to be brought onto the Premises, except for the Permitted Materials described above, and if so brought or found located thereon, the same shall be immediately removed, with proper disposal, and all required cleanup procedures shall be diligently undertaken pursuant to all Environmental Laws. If, at any time during or after the term of this Lease, the Premises is found to be so contaminated or subject to said conditions directly as a result of Tenant's occupancy and use of the premises, Tenant agrees to indemnify and hold Landlord harmless from all claims, demands, actions, liabilities, costs, expenses, damages and obligations of any nature arising from or as a result of the use of the Premises by Tenant. The foregoing indemnification shall survive the termination or expiration of this Lease. Notwithstanding the foregoing to the contrary, Landlord shall indemnify Tenant against any and all damages as a result of hazardous materials that are on-site prior to the Commencement Date, none of which are known to exist at this time.

33. SERVICE OF NOTICE - Tenant hereby appoints as its agent to receive service of all dispossessory or distraint proceedings and notices thereunder, and all notices required under this Lease, the person in charge of the Premises at the time, or occupying said Premises. A copy of all notices under this Lease shall also be sent to Tenant's last known address, if different from said Premises.

34. EXCULPATION OF LANDLORD - The obligations contained in this Lease to be performed by Landlord shall be binding on Landlord and its successors and assigns, only during their respective periods of ownership. Tenant further agrees that Landlord's obligations and liability to Tenant with respect to this Lease shall be limited solely to Landlord's equity interest in the Premises including casualty and condemnation awards, and Tenant shall look solely to such interest for the satisfaction of any claim, judgment or decree requiring the payment of money by Landlord based on any Default under this Lease, and no other property or assets of Landlord, its affiliates, successors, partners, shareholders, subsidiaries, or assigns, shall be subject to levy, execution or other enforcement procedures for the satisfaction of any such claim, judgment, injunction or decree.

35. DEFINITIONS - The term "Landlord" and "Tenant" includes male and female, singular and plural, corporation, partnership or individual, as may fit the particular parties. If this Lease shall be validly assigned or the Premises validly sublet, the term "Tenant" shall include such assignee or sublessee, as to the Premises covered by such assignment or sublease.

36. AGENCY DISCLOSURE - Tenant and Landlord each represents and warrants to the other that Timothy J. Farley of Carter & Associates, LLC has represented Tenant in this lease contract. Each party agrees to indemnify and hold the other hereunder harmless from and against any claim for any such commissions, fees or other form of compensation by any such third party claiming through the indemnifying party, including, without limitation, any and all claims, causes of action, damages, costs and expenses (including attorneys' fees), associated therewith.

37. SEVERABILITY AND INTERPRETATION - If any clause or provision of this Lease shall be deemed illegal, invalid or unenforceable under present or future laws effective during the term of this Lease, then and in that event, the remainder of this Lease shall not be affected by such illegality, invalidity or unenforceability. Should any of the provisions of this Lease require judicial interpretation, it is agreed that the court interpreting or construing the same shall not apply a presumption that the terms of any such

provision shall be more strictly construed against one party by reason of the rule of construction that a document is to be construed most strictly against the party who itself or through its agent prepared the same, it being agreed that the agents of all parties have participated in the preparation of this Lease. The captions used in this Lease are for convenience only and shall be considered to be of no effect in the construction of any provision of this Lease. In the event that any time period under this Lease shall expire on a Saturday, Sunday or legal holiday, then the date of expiration of such period shall be extended to 5:00 p.m. E.S.T. on the next succeeding business day.

38. GEORGIA LAW - The laws of the State of Georgia shall govern the interpretation, validity, performance and enforcement of this Lease.

39. EXECUTION AND PUBLIC RECORDS - This Lease may be executed in any number of counterparts, each of which shall be deemed an original and any of which shall be deemed to be complete in itself and may be introduced into evidence or used for any purpose without the production of the other counterparts. No modification or amendment of this Lease shall be binding upon the parties unless such modification or amendment is in writing and signed by Landlord and Tenant.

40. SUBMISSION OF LEASE - The submission of this Lease for examination does not constitute an offer to lease and this Lease shall be effective only upon execution hereof by Landlord and Tenant and upon execution of any required Lease guaranty attached hereto.

41. ENTIRE AGREEMENT - This Lease contains the entire agreement between the parties hereto and no representation or warranty or agreement, oral or otherwise, between the parties not embodied herein shall be of any force or effect. No modification, amendment or alterations of this Lease shall be effective unless same shall be in writing and signed by Landlord and Tenant. If any special stipulations are attached to this Lease, then insofar as such stipulations conflict with any of the foregoing provisions, the stipulations shall control.

42. TENANT'S OPTION TO PURCHASE - At any time between the Commencement Date and One year from Commencement Date, May 31, 2009 (the "Purchase Window Period"), Tenant shall have first right of refusal to purchase the Leased Premises from Landlord. The purchase price to be paid by Tenant to Landlord for the purchase of the Leased Premises shall be \$975,000 (the "Purchase Price") during the Purchase Window Period. In order to exercise the option, Tenant shall notify the Landlord in writing and deposit with Landlord the sum of \$ 10,000 (the "Deposit"). Upon payment of the Deposit, Tenant shall have 30 days to close on the Purchase (the "Closing Date"). At closing, the Tenant shall be credited with the amount of the Deposit and any Security Deposit being held by Landlord. Failure to close by the Closing Date shall result in the forfeiture of the Deposit. The Parties agree that an Atlanta Commercial Board of Realtors' standard commercial sales agreement or similar agreement (the "Commercial Sales Agreement") shall be signed by both parties within a reasonable time after notification of the Tenant's right to exercise the option.

IN WITNESS WHEREOF, the parties herein have hereunto set their hands and seals the day and year first above written.

Signed, sealed and delivered as of the ____ day of _____, 2008, as to Landlord, in the presence of:

West Walton Properties, Inc. as Landlord a Georgia corporation

Unofficial Witness

By: _____
Name: _____
Title: _____

Notary Public

Signed, sealed and delivered as of the ____ day of _____, 2008, as to Tenant, in the presence of:

Teamstaff Government Solutions, Inc. a Georgia corporation

Unofficial Witness

By: _____
Name: _____
Title: _____

Notary Public

[CORPORATE SEAL]

EXHIBIT "A"

Base Rent Payment Schedule

Year 1 - \$6,000 per month*

Year 2 - \$6,250 per month

Year 3 - \$6,500 per month

Year 4 - \$6,750 per month

Year 5 - \$7,000 per month

Year 6 - \$7,250 per month

Year 7 - \$7,500 per month

- The first month's rent shall be reduced by the purchase price of the furniture that is currently on-site. The furniture that is in the Boardroom, the reception area and the kitchen. The purchase price shall be \$500. Items are listed as follows:

- Refrigerator
 - Sofa
 - Coffee table
 - Side Table
 - Chair
 - Conference Table
 - Lamps
 - Other –
-

AMENDED AND RESTATED
LOAN AND SECURITY AGREEMENT

This AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT is entered into as of March 28, 2008 between BUSINESS ALLIANCE CAPITAL COMPANY, a division of Sovereign Bank, a federal savings bank (BACC), with an office located at 214 Carnegie Center, Suite 302, Princeton, New Jersey 08540 and TEAMSTAFF INC., a New Jersey corporation ("TSI"), TEAMSTAFF RX, INC., a Texas corporation ("RX"), and TEAMSTAFF GOVERNMENT SOLUTIONS, INC., a Georgia corporation ("TSG") formerly known as RS Staffing Services, Inc. (TSI, RX, and TGS hereinafter sometimes individually *Borrower* and collectively *Borrowers*), with their chief executive office located at 1 Executive Drive, Suite 130, Somerset, New Jersey 08873.

RECITALS

A. Borrower has heretofore obtained an Eight Million Dollar (\$8,000,000.00) revolving credit facility from PNC Bank, National Association ("PNC") currently evidenced by an Amended, Restated and Substituted Promissory Note in the principal sum of Eight Million Dollars (\$8,000,000.00) dated February 13, 2006 (the "PNC Note"), and secured by a security interest in the accounts receivable and inventory and other assets of Borrower pursuant to a Revolving Credit and Security Agreement dated June 8, 2005, as amended from time to time (the "PNC Loan Agreement") and other loan documents, including, but not limited to the documents by Borrower identified on Exhibit A annexed hereto (the "PNC Loan Documents").

B. Borrower has requested that BACC acquire by assignment from PNC all right title and interest of PNC under the PNC Note, the PNC Loan Agreement, and the other PNC Loan Documents.

C. Borrower has also requested that BACC restructure the credit facility acquired from PNC into a Three Million Dollar (\$3,000,000.00) three (3) year revolving credit facility, and to amend and restate the PNC Loan Agreement so as to set forth the terms and conditions of said restructured revolving credit facility.

NOW THEREFORE, in consideration of these premises, the parties adopt the foregoing recitals and agree the PNC Loan Agreement is amended and restated as so amended, to read as follows:

1. DEFINITIONS AND CONSTRUCTION

1.1 Terms. As used in this Agreement, the following terms shall have the following meanings:

Accounts means, in addition to the definition of accounts in the Code, all presently existing and hereafter arising accounts receivable, contract rights, health-care-insurance receivables, and all other forms of obligations owing to Borrower arising out of the sale, lease, license or assignment of goods or other property, or the rendition of services by Borrower, whether or not earned by performance, all credit insurance, guaranties, and other security therefor, as well as all merchandise returned to or reclaimed by Borrower and Borrower's Books relating to any of the foregoing.

Advances means all loans, advances and other financial accommodations by BACC to or on account of the Borrower, including those under this Agreement.

Agreement means collectively this Amended and Restated Loan and Security Agreement, any concurrent or subsequent rider to this Loan and Security Agreement, and any extensions, supplements, amendments, addenda or modifications to or in connection with this Loan and Security Agreement or any such rider.

Authorized Officer means any officer or other representative of Borrower authorized in a writing delivered from time to time to BACC to transact business with BACC.

BACC means Business Alliance Capital Company, a division of Sovereign Bank, its successors and assigns.

BACC Expenses means all of the following: costs and expenses (whether taxes, assessments, insurance premiums or otherwise) required to be paid by Borrower under any of the Loan Documents which are paid or advanced by BACC; filing, recording, publication, appraisal and search fees paid or incurred by BACC in connection with BACC's transactions with Borrower; costs and expenses incurred by BACC in the disbursement or collection of funds to or from Borrower or its account debtors; charges resulting from the dishonor of checks; costs and expenses incurred by BACC to correct any default or enforce any provision of the Loan Documents, or in gaining possession of, maintaining, handling, preserving, storing, shipping, selling, preparing for sale, or advertising to sell the Collateral, or any portion thereof, irrespective of whether a sale is consummated; and costs and expenses incurred by BACC in enforcing or defending the Loan Documents or otherwise exercising its rights and remedies upon the existence of an Event of Default, including, but not limited to, costs and expenses incurred in connection with any proceeding, suit, enforcement of judgment, or appeal; and BACC's reasonable attorneys' fees and expenses, including allocated fees of in-house counsel, incurred in advising, structuring, drafting, reviewing, administering, amending, modifying, terminating, enforcing, defending, or otherwise representing BACC concerning the Loan Documents or the Obligations.

Borrower's Books means all of Borrower's books and records including all of the following: ledgers; records indicating, summarizing, or evidencing Borrower's assets or liabilities, or the Collateral; all information relating to Borrower's business operations or financial condition; and all computer programs, disk or tape files, printouts, runs, or other computer prepared information, and the facilities containing such information.

Business Day means any day which is not a Saturday, Sunday, or other day on which banks in the State of New Jersey are authorized or required to close.

Change of Control means (a) the occurrence of any event (whether in one or more transactions) which results in a transfer of control of any Borrower or (b) any merger or consolidation of or with any Borrower or sale of all or substantially all of the property or assets of any Borrower. For purposes of this definition, "control of any Borrower" shall mean the power, direct or indirect (x) to vote 50% or more of the equity interests having ordinary voting power for the election of directors (or the individuals performing similar functions) of any Borrower or (y) to direct or cause the direction of the management and policies of any Borrower by contract or otherwise.

Chattel Paper shall have the same meaning ascribed to such term in the Code.

Code means the New Jersey Uniform Commercial Code, as amended or revised from time to time.

Collateral means all assets of the Borrower, whether now owned or existing, or hereafter acquired or arising, and wherever located, including, without limitation, all of the following assets, properties and interests in property of Borrower: all Accounts; all Equipment; all Commercial Tort Claims, all General Intangibles; all Chattel Paper; all Inventory; all Negotiable Collateral; all Investment Property, all Financial Assets, all Letter of Credit Rights, all Supporting Obligations, all Deposit Accounts, all money or any assets of Borrower which hereafter come into the possession, custody, or control of BACC; all proceeds and products, whether tangible or intangible, of any of the foregoing, including proceeds of insurance covering any or all of the foregoing, and any and all tangible or intangible property resulting from the sale, lease, license or other disposition of the foregoing, or any portion thereof or interest therein, and all proceeds thereof, and any other assets of Borrower or any Guarantor which may be subject to a lien in favor of BACC as security for the Obligations.

Commercial Tort Claims shall have the meaning ascribed to such term in the Code.

Daily Balance means the amount of the Obligations owed at the end of a given day.

Debt Service Coverage Ratio means at any date the ratio of (A) the net of (1) EBITDA minus (2) all distributions, cash taxes, and unfunded capital expenditures during the number of months used in determining EBITDA divided by (B) the sum of (1) current portion of debt and capital lease obligations that should be paid during the subject number of months, plus (2) all interest expense for the subject number of months.

Deposit Account shall have the meaning ascribed to such term in the Code.

Documents shall have the meaning ascribed to such term in the Code.

EBITDA means any at date the sum of (A) net after tax income for applicable number of months ending on said date, excluding any extraordinary and nonoperating income for said number of months, plus (B) any interest, income taxes, depreciation, depletion, amortization, and other non-cash charges for such number of months to the extent they were deducted from gross income to calculate net income, plus, but without duplication (C) any extraordinary and nonoperating cash received during said number of months.

Eligible Accounts means those Accounts created by Borrower in the ordinary course of business, which are and at all times shall continue to be acceptable to BACC in all respects; provided, however, that standards of eligibility may be fixed and revised from time to time by BACC in BACC's exclusive judgment. In determining such acceptability and standards of eligibility, BACC may, but need not, rely on agings, reports and schedules of Accounts furnished by Borrower, but reliance by BACC thereon from time to time shall not be deemed to limit BACC's right to revise standards of eligibility at any time as to both Borrower's present and future Accounts. In general, an Account shall not be deemed eligible unless: (1) the Account debtor on such Account is and at all times continues to be acceptable to BACC, and up to credit limits acceptable to BACC, and (2) such Account complies in all respects with the representations, covenants and warranties hereinafter set forth. Except in BACC's sole discretion, Eligible Accounts shall not include any of the following (a) Accounts which the Account debtor has failed to pay within ninety (90) days of invoice date, and all Accounts owed by any Account debtor that has failed to pay twenty-five percent (25%) or more of its Accounts owed to Borrower within ninety (90) days of invoice date; (b) Accounts with respect to which goods are sold on a bill and hold basis or placed on consignment or for a guaranteed sale, or which contain other terms by reason of which payment by the Account debtor may be conditional; (c) Accounts with respect to which the Account debtor is not a resident of the United States unless the Account is supported by foreign credit insurance or a letter of credit, in both instances satisfactory to and assigned to BACC; (d) Accounts with respect to which the Account debtor is the United States or any department, agency or instrumentality of the United States, any State of the United States or any city, town, municipality or division thereof (each such Account a "Government Contract Account") unless all notices/filings have been made and acknowledged under the Federal Assignment of Claims Act or comparable state or other statute; (e) Accounts with respect to which the Account debtor is an officer, employee or agent of, or subsidiary of, related to, affiliated with or has common shareholders, officers or directors with Borrower; (f) Accounts with respect to which Borrower is or may become liable to the Account debtor for goods sold or services rendered by the Account debtor to Borrower or otherwise; (g) Accounts with respect to an Account debtor whose total obligations to Borrower exceed fifteen percent (15%) of all Eligible Accounts or such other percentage as BACC may, from time to time, agree to in writing as to a particular Account debtor (the applicable percentage the "Concentration Percentage"), to the extent such obligations exceed the applicable Concentration Percentage; (h) Accounts with respect to which the Account debtor disputes liability or makes any claim with respect thereto, or is subject to any insolvency proceeding, or becomes insolvent, fails or goes out of business; (i) the Account arises out of a contract or purchase order for which a surety bond was issued on behalf of Borrower; (j) Accounts in which BACC does not have first priority and exclusive perfected security interest; (k) Accounts where the Account Debtor is in a jurisdiction for which Borrower is required to file a notice of business activities or similar report and Borrower has not filed such report within the time period required by applicable law; (1) any Account as to which an invoice has not been issued to the Account debtor; or (m) any Account which represents a progress billing on a contract which has not been fully completed by Borrower, or (n) Accounts representing permanent placement of personal.

Eligible Unnoticed Government Contract Account means an Account which would be an Eligible Account except that it is an Unnoticed Government Contract Account.

Equipment means in addition to the definition of equipment in the Code, all of Borrower's present and hereafter acquired equipment, machinery, machine tools, motors, furniture, furnishings, fixtures, motor vehicles, rolling stock, processors, tools, pans, dies, jigs, goods (other than consumer goods or farm products) and any interest in any of the foregoing, and all attachments, accessories, accessions, replacements, substitutions, additions, and improvements to any of the foregoing, wherever located.

ERISA means the Employee Retirement Income Security Act of 1974, as amended, and the regulations thereunder.

ERISA Affiliate means each trade or business (whether or not incorporated and whether or not foreign) which is or may hereafter become a member of a group of which Borrower is a member and which is treated as a single employer under ERISA Section 4001(b)(1), or IRC Section 414.

Event of Default means the events specified in Section 8, below.

Financial Assets shall have the meaning ascribed to such term in the Code.

Future Eligible Government Contract Account means an Account which would be an Eligible Account except that it is an Unnoticed Government Contract Account and the contract under which said Account is generated was awarded to Borrower after the date of this Agreement and less than ninety (90) days have elapsed from the date of the award of said contract, provided that any invoices issued by Borrower for any such Account have a remittance address to a lockbox/blocked account established by BACC.

General Intangibles means in addition to the definition of general intangibles in the Code, all of Borrower's present and future general intangibles and other personal property (including choses or things in action, goodwill, patents, trade names; trademarks, service marks, copyrights, blueprints, drawings, purchase orders, customer lists, monies due or recoverable from pension funds, route lists, infringement claims, computer programs, computer discs, computer tapes, Borrower's Books, literature, reports, catalogs, deposit accounts, insurance premium rebates, tax refunds, and tax refund claims) other than goods and Accounts.

Government Contract Account shall have the meaning ascribed to said term in the definition of Eligible Accounts.

Guarantor means each person or entity which guarantees the Obligations or issues a validity guaranty relating to the Collateral or pledges any assets to BACC as additional security for the Obligations.

Insolvency Proceeding means any proceeding commenced by or against any person or entity under any provision of the federal Bankruptcy Code, as amended, or under any other state or federal insolvency law, including assignments for the benefit of creditors, formal or informal moratoria, compositions, or extensions generally with its creditors.

Instruments shall have the meaning ascribed to such term in the Code.

Inventory means, in addition to the definition of inventory in the Code, all present and future inventory in which Borrower has any interest, including goods held for sale or lease or to be furnished under a contract of service, Borrower's present and future raw materials, work in process, finished goods, tangible property, stock in trade, wares, and materials used in or consumed in Borrower's business, goods which have been returned to, repossessed by, or stopped in transit by Borrower, packing and shipping materials, wherever located, any documents of title representing any of the above, and Borrower's Books relating to any of the foregoing.

Investment Property shall have the meaning ascribed to such term in the Code.

IRC means the Internal Revenue Code of 1986, as amended, and the regulations thereunder.

Letter of Credit Rights shall have the meaning ascribed to such term in the Code.

Loan Documents means, collectively, this Agreement, any Note or Notes, any security agreements, pledge agreements, mortgages, deeds of trust or other encumbrances or agreements which secure the Obligations, and any other agreement entered into between Borrower and BACC or by Borrower or a Guarantor in favor of BACC relating to or in connection with this Agreement or the Obligations, as each of same may be amended, modified, renewed, extended or substituted from time to time.

Multiemployer Plan means a *multiemployer plan* as defined in ERISA Sections 3(37) or 4001(a)(3) or IRC Section 414(f).

Negotiable Collateral means all of Borrower's present and future letters of credit, notes, drafts, Instruments, Documents, leases, and Chattel Paper.

Note means any promissory note made by Borrower to the order of BACC concurrently herewith or at any time hereafter.

Obligations means all loans, Advances, debts, liabilities (including all interest and amounts charged to the Obligations pursuant to any agreement authorizing BACC to charge the Obligations), obligations, lease payments, guaranties, covenants, and duties owing by Borrower to BACC of any kind and description (whether pursuant to or evidenced by the Loan Documents or by any other agreement between BACC and Borrower, and irrespective of whether for the payment of money), whether made or incurred prior to, on, or after the Termination Date, direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising, including all obligations under swap agreements, as defined in 11 USC §101, between Borrower and Sovereign Bank, whenever executed, and further including any debt, liability or obligation owing from Borrower to others which BACC may obtain by assignment or otherwise, and all interest thereon and all BACC Expenses.

Payroll Reserve Amount means an amount determined by BACC from time to time as anticipated to be equal to the average payroll of Borrower for temporary staffing employees for each payroll payment period, excluding any one time non-recurring retroactive pay increases, said Payroll Reserve Amount initially being in the amount of Seven Hundred Thousand Dollars (\$700,000.00).

Plan means any plan described in ERISA Section 3(2) maintained for employees of Borrower or any ERISA Affiliate, other than a Multiemployer Plan.

Prime Rate means that rate designated by Sovereign Bank, or any successor thereof, from time to time as its prime rate, which shall not necessarily constitute its lowest available rate.

Revolving Credit Facility means the revolving credit facility provided for in Section 2.1 hereof.

Subordinated Indebtedness means any indebtedness of any Borrower to a third party which indebtedness is subordinated to the Obligations of Borrower to BACC including, without limitation the indebtedness of Borrower to Roger Staggs and E. Barry Durham arising from the purchase by TSI of the capital stock of RS Staffing Services, Inc.

Supporting Obligation shall have the same meaning ascribed to such term in the Code.

Tax Reserve Amount means an amount determined by BACC from time to time as anticipated to be equal to the amount Borrower may need to pay to the Internal Revenue Service and/or Social Security Administration on account of the matters set forth on Exhibit 5.18 annexed hereto, said Tax Reserve Amount initially being in the amount of One Million Eight Hundred Forty Thousand Dollars (\$1,840,000.00).

Term means the period from the date of the execution and delivery by BACC of this Agreement through and including the later of (a) the Termination Date and (b) the payment and performance in full of the Obligations.

Termination Date means (a) March 31, 2011 (the period through such date the "Initial Term"), unless such date is extended pursuant to Section 3.1 hereof, and if so extended on one or more occasions the last date of the last such extension, or (b) if earlier terminated by BACC pursuant to Section 9.1 hereof, the date of such termination.

Unnoticed Government Contract Account means an Account which is a Government Contract Account, and as to which the required notices/filings have not been made and acknowledged.

1.2 Construction. Unless the context of this Agreement clearly requires otherwise, references to the plural include the singular and to the singular include the plural. The words *hereof*, *herein*, *hereby*, *hereunder*, and similar terms in this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. Section, subsection, clause and exhibit references are to this Agreement unless otherwise specified. Words importing a particular gender mean and include every other gender.

1.3 Accounting Terms. All accounting terms not specifically defined herein shall be construed in accordance with generally accepted accounting principles (GAAP) as in effect from time to time. When used herein, the term financial statements shall include the notes and schedules thereto.

1.4 Exhibits. All of the exhibits, addenda or riders attached to this Agreement shall be deemed incorporated herein by reference.

1.5 Code. Any terms used in this Agreement which are defined in the Code shall be construed and defined as set forth in the Code, unless otherwise defined herein.

2. ADVANCES AND TERMS OF PAYMENT

2.1 Revolving Advances; Advance Limit. Upon the request of Borrower, made at any time from and after the date hereof until the Termination Date, and so long as no Event of Default has occurred, BACC may, in its sole and absolute discretion, make Advances in an amount up to (a) eighty five percent (85%) of the aggregate outstanding amount of Eligible Accounts, plus (b) the lesser of (i) seventy percent (70%) of the aggregate outstanding amount of Future Eligible Unnoticed Government Contract Accounts or (ii) Five Hundred Thousand Dollars (\$500,000.00), plus (c) the lesser of (i) seventy percent (70%) of the aggregate outstanding amount of Eligible Unnoticed Government Contract Accounts, or (ii) One Hundred Thousand Dollars (\$100,000.00) minus (d) the Payroll Reserve Amount in effect from time to time, and further minus (c) the Tax Reserve Amount in effect from time to time; provided, however, that in no event shall the aggregate amount of the outstanding Advances under the Revolving Credit Facility be greater than, at any time, the amount of Three Million Dollars (\$3,000,000.00) or such other Dollar amount as BACC and Borrower may agree to in writing from time to time (said dollar limit the *Advance Limit*). Borrower may from time to time apply to BACC for an increase in the Advance Limit based upon Borrower's projection of a need for an increase in the Advance Limit because of additional contracts awarded or anticipated may be awarded to Borrower and/or proposed acquisitions by Borrower and/or other factors, and with Borrower acknowledging that any increase in the Advance Limit shall be in the sole and absolute discretion of BACC and on such terms and conditions as BACC may require. BACC may create additional reserves against, or reduce its advance percentage based on Eligible Accounts without declaring an Event of Default if it determines, in its good faith discretion, that such reserves or reduction is necessary, including, without limitation, to protect its interest in the Collateral and/or against diminution in the value of any Collateral, and/or to insure the prospect of payment or performance by Borrower of its Obligations to BACC are not impaired. The outstanding balance, if any, of the loans acquired by BACC from PNC shall be deemed to be Advances under this Section 2.1.

2.2 Overadvances. All Advances shall be added to and be deemed part of the Obligations when made. If, at any time and for any reason, the aggregate amount of the outstanding Advances under the Revolving Credit Facility exceeds the dollar or percentage limitations contained in Section 2.1 (an *Overadvance*) then Borrower shall, upon demand by BACC, immediately pay to BACC, in cash, the amount of such Overadvance. Without affecting Borrower's obligation to immediately repay to BACC the amount of each Overadvance, Borrower shall pay BACC a fee (the *Overadvance Fee*) in an amount to be agreed upon between BACC and Borrower, but not less than \$500.00 per occurrence of an Overadvance, plus interest on the Overadvance amount at the Default Rate set forth below.

2.3 Authorization to Make Advances. BACC is hereby authorized to make the Advances based upon telephonic or other instructions received from anyone purporting to be an Authorized Officer, or, at the discretion of BACC, if such Advances are necessary to satisfy any Obligations. All requests for Advances shall specify the date on which such Advance is to be made (which day shall be a Business Day) and the amount of such

Advance. Requests received after 12:00 p.m. Eastern time on any day shall be deemed to have been made as of the opening of business on the immediately following Business Day. All Advances made under this Agreement shall be conclusively presumed to have been made to, at the request of, and for the benefit of Borrower when deposited to the credit of Borrower or otherwise disbursed in accordance with the instructions of Borrower or in accordance with the terms and conditions of this Agreement. Unless otherwise requested by Borrower, all Advances shall be made by a wire transfer to the deposit account of Borrower designated on schedule 2.3 annexed hereto, or such other account as Borrower shall notify BACC in writing. Borrower shall pay to BACC a funds transfer fee of \$25.00 for each Advance. Said fees shall be payable on the first day of each month of the Term for all Advances made during the preceding month.

2.4 Interest.

A. Except where specified to the contrary in the Loan Documents interest shall accrue on the Daily Balance of the Obligations at the per annum rate of one quarter percentage point (.25%) above the Prime Rate in effect from time to time, but not less than five and one half percent (5.5%). The Obligations shall, at the option of BACC, from and after the occurrence of an Event of Default, and without constituting a waiver of any such Event of Default, and if the Obligations are not paid in full by the Termination Date, and without waiving the maturity of the Obligations on the Termination Date, bear interest at the per annum rate of four and one quarter percentage points (4.25%) above the Prime Rate (the "Default Rate"). All interest payable under the Loan Documents shall be computed on the basis of a three hundred sixty (360) day year for the actual number of days elapsed on the Daily Balance. Interest as provided for herein shall continue to accrue until the Obligations are paid in full.

B. The interest rate payable by Borrower under the terms of this Agreement shall be adjusted in accordance with any change in the Prime Rate from time to time on the date of any such change. All interest payable by Borrower shall be due and payable on the first day of each calendar month during the Term. BACC may, at its option, add such interest and all BACC Expenses to the Obligations, and such amount shall thereafter accrue interest at the rate then applicable under this Agreement. Notwithstanding anything to the contrary contained in the Loan Documents, the minimum monthly interest payable by Borrower on the Advances shall be calculated on a minimum Daily Balance of Two Hundred Fifty Thousand Dollars (\$250,000.00) through September 30, 2008, and Five Hundred Thousand Dollars (\$500,000.00) thereafter.

C. In no event shall interest on the Obligations exceed the highest lawful rate in effect from time to time. It is not the intention of the parties hereto to make an agreement which violates any applicable state or federal usury laws. In no event shall Borrower pay or BACC accept or charge any interest which, together with any other charges upon the principal or any portion thereof, exceeds the maximum lawful rate of interest allowable under any applicable state or federal usury laws. Should any provision of this Agreement or any existing or future Notes or Loan Documents between the parties be construed to require the payment of interest or any other fees or charges which could be construed as interest which, together with any other charges upon the principal or any portion thereof and any other fees or charges which could be construed as interest, exceeds the maximum lawful rate of interest, then any such excess shall be applied to the remaining principal balance of the Obligations, if any, and the remainder refunded to Borrower.

D. Notwithstanding the foregoing, for purposes of this Agreement, it is the intention of Borrower and BACC that "interest" shall mean, and be limited to, any payment to BACC which compensates it for extending credit to Borrower, for making available to Borrower a revolving credit facility during the term of this Agreement and for any default or breach by Borrower of a condition upon which credit was extended. Borrower and BACC agree that, for the sole purpose of calculating the "interest" paid by Borrower to BACC, it is the intention of Borrower and BACC that interest shall mean and include, and be expressly limited to, any interest accrued on the aggregate outstanding balance of the Obligations during the term hereof pursuant to Sections 2.4(A) and 2.4(B); and any Overadvance Fee, Facility Fee, and late fees charged to Borrower during the term hereof. Borrower and BACC further agree that it is their intention that the following fees shall not constitute "interest": any servicing Fees, any Examination Fees, any attorney fees incurred by BACC, any premiums or commissions attributable to insurance guaranteeing repayment, finders' fees, credit report fees, appraisal fees or fees for document preparation or notarization. To the extent, however, that New Jersey law excludes from the calculation of "interest" any fees defined herein as interest, or includes as interest any fees or other sums which are intended not to constitute interest New Jersey law shall supersede and prevail and all such interest shall be subject to paragraph 2.4(C) above.

2.5 Collection of Accounts. BACC or a BACC designee may, at any time, with or without notice to Borrower, notify customers or Account debtors or other obligors that the Accounts or other Collateral have been assigned to BACC, and that BACC has a security interest in them and collect the Accounts and other Collateral directly, and add the collection costs and expenses to the Obligations, but, unless and until BACC does so or gives Borrower other written instructions, Borrower shall notify all Account debtors and other obligors to remit payments on Accounts and other Collateral to a lockbox to be designated by BACC, and with payments to be made by wire transfer, ACH or other electronic means, to an account designated by BACC. All such payments remitted to the lockbox or made by wire transfer, ACH or other electronic means, shall be credited to a deposit account of BACC and into which account remittances from account debtors or obligors of other clients of BACC may be credited. If, notwithstanding any notices that may be sent to Account debtors, Borrower obtains payment on any Account or other Collateral, including, without limitation, collections under credit card sales, Borrower shall receive all such payments on Accounts and other Collateral and other proceeds, including cash, in trust for BACC and immediately deliver said payments to BACC in their original form as received from the Account debtor or other obligor, together with any necessary endorsements.

2.6 Crediting Payments. The receipt of any item of payment by BACC shall, for the sole purpose of determining availability under the revolving credit facility provided for herein, subject to final payment of such item, be provisionally applied to reduce the Obligations on the date of receipt of such item by BACC, but the receipt of such an item of payment shall for all other purposes in determining the Daily Balance, including without limitation for the purpose of calculation of interest on the Obligations, not be deemed to have been paid to BACC until one (1) Business Day after the date of BACC's actual receipt of such item of payment. Notwithstanding anything to the contrary contained herein, payments received by BACC after 11:00 a.m. Eastern time shall be deemed to have been received by BACC as of the opening of business on the immediately following Business Day.

2.7 Facility Fee. In consideration of BACC's entering into this Agreement, Borrower shall pay BACC an annual facility fee (the *Facility Fee*). The initial Facility Fee shall be one half percent (.5%) of the Advance Limit which Facility Fee shall be payable contemporaneous with the execution hereof. On each annual anniversary of the date hereof Borrower shall pay to BACC a Facility Fee of four tenths percent (.4%) of the Advance Limit plus the then outstanding principal balance of any term loans and Advances other than under the Revolving Credit Facility. The Facility Fee shall be deemed to have been fully earned upon the execution hereof for the entire Initial Term.

2.8 Unused Line Fee. Commencing on the first Business Day of the first month hereafter, and on the first Business Day of each month thereafter, Borrower shall pay BACC an unused line fee (the *Unused Line Fee*) in an amount equal to thirty eight one hundredths percent (.38%) on a per annum basis of the difference between the average Daily Balance of the Advances under the Revolving Credit Facility during the month and the Advance Limit. Borrower shall also pay to BACC on the Termination Date an Unused Line Fee equal to thirty eight one hundredths percent (.38%) on a per annum basis of the difference between the average Daily Balance of the Advances under the Revolving Credit Facility and the Advance Limit during the time period from the date after the end of the last month for which an Unused Line Fee was paid, and the Termination Date.

2.9 Field Examination Fee. Borrower shall pay BACC a fee (the *Field Examination Fee*) in an amount equal to Eight Hundred Fifty Dollars (\$850.00) per day per examiner, plus out-of-pocket expenses for each examination of Borrower's Books or the other Collateral performed by BACC or its designee, provided that so long as no Event of Default exists, nor any event which with the giving of notice or passage of time or both would become an Event of Default, and provided further Borrower has not made a request for Advances beyond the lending parameters set forth in Section 2.1 hereof or other requests outside of the ordinary course of business, Borrower shall not be obligated to pay for more than four (4) such examinations during each year of the Term.

2.10 Late Reporting Fee. Borrower shall pay to BACC a fee in an amount equal to Fifty Dollars (\$50.00) per document per day for each Business Day any report, financial statement or schedule required by this Agreement to be delivered to BACC, is past due, and such report, etc., is not furnished to BACC with in three (3) Business Days after notice by BACC to Borrower that such report, etc. is past due, in which event the late reporting fee may be assessed retroactively to the date the report, etc. was due.

2.11 Monthly Statements. BACC may render monthly statements to Borrower of all Obligations, including statements of all principal, interest and BACC Expenses, and Borrower shall have fully and irrevocably waived all objections to such statements and the contents thereof unless, within thirty (30) days after receipt, Borrower shall deliver to BACC, by registered, certified or overnight mail as set forth in Section 12 hereof, written objection to such statement specifying the error or errors, if any, contained therein.

3. TERM

3.1 Term and Renewal Date. This Agreement shall become effective upon execution by BACC and continue in full force through the Initial Term and from year to year thereafter (a "Renewal Term") if BACC, at its option, in writing agrees to extend the Term for one (1) year from the then Termination Date, provided that Borrower has not exercised its termination right in accordance with this Section 3.1. Borrower may terminate the Term on the then Termination Date by giving BACC at least sixty (60) days prior written notice by registered or certified mail, return receipt requested. In addition, BACC shall have the right to terminate this Agreement immediately at any time upon the occurrence of an Event of Default. No such termination shall relieve or discharge Borrower of its duties, Obligations and covenants hereunder until all Obligations have been paid and performed in full, and BACC's continuing security interest in the Collateral shall remain in effect until the Obligations have been fully and irrevocably paid and satisfied in cash or cash equivalent. On the Termination Date of this Agreement, the Obligations shall be immediately due and payable in full. Expressly in addition to all rights and remedies available to BACC, if the term of this Agreement is not renewed and the Obligations are not paid in full by the Termination Date, then Borrower shall also pay to BACC, as part of the Obligations, a fee of two percent (2%) of the Advance Limit plus the then outstanding principal balance of any term loans and Advances other than under the revolving credit facility provided for in Section 2.1 hereof

3.2 Termination Fee. If the Term is terminated by BACC upon the occurrence of an Event of Default, or is terminated by Borrower except as provided in Section 3.1, in view of the impracticability and extreme difficulty of ascertaining actual damages and by mutual agreement of the parties as to a reasonable calculation of BACC's lost profits as a result thereof, in addition to payment of all principal, interest, fees, expenses and other Obligations, Borrower shall pay BACC upon the effective date of such termination a fee in an amount equal to: (a) three percent (3%) of the Advance Limit plus the then outstanding principal balance of any term loans or Advances other than under the Revolving Credit Facility, if such termination occurs on or prior to the first (1st) anniversary of the commencement date of the Initial Term; (b) two percent (2%) of the Advance Limit plus the then outstanding principal balance of any term loans or Advances other than under the Revolving Credit Facility if such termination occurs after the first (1st) anniversary of the commencement date of the Initial Term and on or prior to the second (2nd) anniversary of the commencement date of the Initial Term, or (c) one percent (1%) of the Advance Limit plus the then outstanding principal balance of any term loans or Advances other than under the Revolving Credit Facility if such termination occurs after the second (2nd) anniversary of the commencement date of the Initial Term and on or prior to the then Termination Date. Such fee shall be presumed to be the amount of damages sustained by BACC as the result of termination and Borrower acknowledges that it is reasonable under the circumstances currently existing. The fee provided for in this Section 3.2 shall be deemed included in the Obligations.

4. CREATION OF CONTINUING SECURITY INTEREST

4.1 Grant of Continuing Security Interest. Borrower hereby grants to BACC a continuing security interest in all presently existing and hereafter acquired or arising Collateral in order to secure prompt repayment of the Obligations and in order to secure prompt performance by Borrower of each and all of its covenants and Obligations under the Loan Documents and otherwise. BACC's continuing security interest in the Collateral shall attach to all Collateral without further act on the part of BACC or Borrower.

4.2 Negotiable Collateral. In the event that any Collateral, including proceeds, is evidenced by or consists of Negotiable Collateral, Borrower shall notify BACC and upon the request of BACC, immediately endorse and assign such Negotiable Collateral to BACC and deliver physical possession of such Negotiable Collateral to BACC.

4.3 Delivery of Additional Documentation Required. Borrower shall execute and deliver to BACC concurrently with Borrower's execution and delivery of this Agreement and at any time thereafter at the request of BACC, all security agreements, chattel mortgages, pledges, assignments, endorsements of certificates of title, applications for title, affidavits, reports, notices (including, without limitation, notices of assignment under the Federal Assignment of Claims Act), schedules of accounts, letters of authority, and all other documents that BACC may request, in form satisfactory to BACC, to perfect and maintain perfected BACC's continuing security interests in the Collateral and in order to fully consummate all of the transactions contemplated under the Loan Documents, and Borrower hereby authorizes BACC to file and/or record such financing statements and other documents as BACC deems necessary to perfect and maintain BACC's continuing security interest in the Collateral, and agrees any such financing statement may contain an "all asset" or "all property" description of the Collateral, and Borrower hereby ratifies any such financing statement or other document heretofore filed by BACC.

4.4 Power of Attorney. Borrower hereby irrevocably makes, constitutes and appoints BACC (and any person designated by BACC) as Borrower's true and lawful attorney-in-fact with power to sign the name of Borrower on any of the above described documents or on any other similar documents to be executed, recorded or filed in order to perfect or continue perfected BACC's continuing security interest in the Collateral. In addition, Borrower hereby appoints BACC (and any person designated by BACC) as Borrower's attorney-in-fact with power to: (a) sign Borrower's name on verifications of Accounts and other Collateral, and on notices to Account debtors; (b) send requests for verification of Accounts and other Collateral; (c) endorse Borrower's name on any checks, notes, acceptances, money orders, drafts or other forms of payment or security that may come into BACC's possession; (d) upon the occurrence of an Event of Default and BACC's exercise of its right to accelerate the maturity of the Obligations, notify the post office authorities to change the address for delivery of Borrower's mail to an address designated by BACC, to receive and open all mail addressed to Borrower, and to retain all mail relating to the Collateral and forward all other mail to Borrower; (e) upon the occurrence of an Event of Default and BACC's exercise of its right to accelerate the maturity of the Obligations make, settle and adjust all claims under Borrower's policies of insurance, endorse the name of Borrower on any check, draft, instrument or other item of payment for the proceeds of such policies of insurance and make all determinations and decisions with respect to such policies of insurance. The appointment of BACC as Borrower's attorney-in-fact and each and every one of BACC's rights and powers, being coupled with an interest, is irrevocable so long as any Accounts in which BACC has a continuing security interest remain unpaid and until all of the Obligations have been fully repaid and performed.

4.5 Right To Inspect. BACC shall have the right at any time or times hereafter during Borrower's usual business hours, or during the usual business hours of any third party having control over Borrower's Books, to inspect Borrower's Books in order to verify the amount or condition of, or any other matter relating to, the Collateral or Borrower's financial condition. BACC also shall have the right at any time or times hereafter during Borrower's usual business hours to inspect, examine and appraise the Inventory, the Equipment and other Collateral and to check and test the same as to quality, quantity, value and condition.

5. REPRESENTATIONS AND WARRANTIES AND COVENANTS

Borrower represents and warrants to BACC, and covenants, the following and acknowledges:

5.1 No Prior Encumbrances; Security Interests. Borrower has good and marketable title to the Collateral, free and clear of liens, claims, security interests or encumbrances, except for the security interests to be satisfied from the proceeds of the first Advances hereunder, the continuing security interests granted to BACC by Borrower, and those disclosed on Schedule 5.1 annexed hereto. Other than those expressly permitted by this Agreement, Borrower will not create or permit to be created any security interest, lien, pledge, mortgage or encumbrance on any Collateral or any of its other assets.

5.2 Bona Fide Accounts. All Accounts represent bona fide sales or leases of goods and/or services for which Borrower has an unconditional right to payment and as to which the goods have been delivered to the customer and/or the services rendered, as applicable. None of the Accounts are subject to any rights of offset, counterclaim, cancellation or contractual rights of return.

5.3 [this section intentionally left blank].

5.4 Location of Inventory and Equipment. The Inventory, if any, and Equipment is not now and shall not at any time or times hereafter be stored with a bailee, warehouseman, processor, or similar party. Borrower shall keep the Inventory and Equipment only at its address set forth on the first page hereof and at the locations set forth in the perfection certificate annexed hereto. If any of the Inventory and Equipment is located at a premises not owned by Borrower, Borrower shall cause the landlord of such premises, or other party having an interest in said premises, to execute and deliver to BACC a landlord waiver and subordination, or similar agreement, satisfactory in form and substance to BACC.

5.5 [this section intentionally left blank].

5.6 Retail Accounts. No Accounts arise from the sale of goods or rendition of services for personal, family or household purposes.

5.7 Relocation of Chief Executive Office. The chief executive office of Borrower and the location of all books and records of Borrower relating to the Collateral is at the address indicated on the first page of this Agreement and Borrower will not, without thirty (30) days' prior written notice to BACC and compliance with Section 4.3 hereof, relocate such office.

5.8 Due Incorporation and Qualification. Borrower is, and shall at all times hereafter, be a corporation duly organized and existing under the laws of the state of its incorporation as set forth on the first page hereof, and Borrower is, and shall at all times hereafter be, qualified and licensed to do business and is in good standing in any state in which the conduct of its business or its ownership of assets requires that it be so qualified. Borrower's organizational identification number as issued by the state in which it is incorporated is set forth in the perfection certificate annexed hereto.

5.9 Actual and Fictitious Name. Borrower's exact name is set forth on the first page hereof and except as set forth in the Perfection Certificates annexed hereto or on Exhibit 5.9 annexed hereto, Borrower has not changed its name within the last five (5) years. Borrower is conducting its business under the trade or fictitious name(s) set forth in the perfection certificate annexed hereto, and no others. Borrower has complied with the fictitious name laws of all jurisdictions in which compliance is required in connection with its use of such name(s).

5.10 Permits and Licenses. Borrower holds all licenses, permits, franchises, approvals and consents required for the conduct of its business and the ownership and operation of its assets.

5.11 Due Authorization. Borrower has the right and power and is duly authorized to enter into the Loan Documents to which it is a party.

5.12 Compliance with Articles; Bylaws. The execution by Borrower of the Loan Documents to which it is a party does not constitute a breach of any provision contained in Borrower's Certificate or Articles of Incorporation or its Bylaws, nor does it constitute an event of default under any material agreement to which Borrower is now or may hereafter become a party.

5.13 Litigation. Except as disclosed on Exhibit 5.13 annexed hereto there are no actions, proceedings or claims pending by or against Borrower, whether or not before any court or administrative agency and Borrower has no knowledge or notice of any pending, threatened or imminent litigation, governmental investigations, or claims, complaints, actions, or prosecutions involving Borrower, except for ongoing collection matters in which Borrower is the plaintiff. If any such actions, proceedings or claims presently exist or arise during the Term, Borrower shall promptly notify BACC in writing and shall, from time to time, notify BACC of all material events relating thereto.

5.14 Accuracy of Information and No Material Adverse Change in Financial Statements. All information furnished by Borrower to BACC, and all statements made by Borrower to BACC, including, without limitation, information set forth in any loan application, client profile, and in the annexed perfection certificate, are true, accurate and complete in all respects and do not contain any misstatement of fact or omit to state any facts necessary to make the statements or information contained therein not misleading. All financial statements relating to Borrower which have been or may hereafter be delivered to BACC (i) have been prepared in accordance with GAAP; (ii) fairly present Borrower's financial condition as of the date thereof and Borrower's results of operations for the period then ended; and (iii) disclose all contingent obligations of Borrower. In addition no material adverse change in the financial condition of Borrower has occurred since the date of the most recent of such financial statements.

5.15 Solvency. Borrower is now, and shall be at all times through the Term, solvent and able to pay its debts (including trade debts) as they mature.

5.16 ERISA. Neither Borrower or any ERISA Affiliate, nor any Plan is or has been in violation of any of the provisions of ERISA, any of the qualification requirements of IRC Section 401 (a), or any of the published interpretations thereof. No lien upon the assets of Borrower has arisen with respect to any Plan. No *prohibited transaction* within the meaning of ERISA Section 406 or IRC Section 4975(c) has occurred with respect to any Plan. Neither Borrower nor any ERISA Affiliate has incurred any withdrawal liability with respect to any Multiemployer Plan. Borrower and each ERISA Affiliate have made all contributions required to be made by them to any Plan or Multiemployer Plan when due. There is no accumulated funding deficiency in any Plan, whether or not waived.

5.17 Environmental Laws and Hazardous Materials. Borrower has complied, and at all times through the Term will comply, with all Environmental Laws. Borrower has not and will not cause or permit any Hazardous Materials to be located, incorporated, generated, stored, manufactured, transported to or from, released, disposed of, or used at, upon, under, or within any premises at which Borrower conducts its business, or in connection with Borrower's business. To the best of Borrower's knowledge, no prior owner or operator of any premises at which Borrower conducts its business has caused or permitted any of the above to occur at, upon, under, or within any of the premises. Borrower will not permit any lien to be filed against the Collateral or any part thereof under any Environmental Law, and will promptly notify BACC of any proceeding, inquiry or claim relating to any alleged violation of any Environmental Law, or any alleged loss, damage or injury resulting from any Hazardous Material. BACC shall have the right to join and participate in, as a party if it so elects, any legal or administrative proceeding initiated with respect to any Hazardous Material or in connection with any Environmental Law. "Hazardous Material" includes without limitation any substance, material, emission, or waste which is or hereafter becomes regulated or classified as a hazardous substance, hazardous material, toxic substance or solid waste under any Environmental Law, asbestos, petroleum products, urea formaldehyde, polychlorinated biphenyls (PCBs), radon, and any other hazardous or toxic substance, material, emission or waste. Environmental Law means the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, the Resource Conservation and Recovery Act of 1976, the Hazardous Materials Transportation Act, the Toxic Substances Control Act, the regulations pertaining to such statutes, and any other safety, health or environmental statutes, laws, regulations or ordinances of the United States or of any state, county or municipality in which Borrower conducts its business or the Collateral is located.

5.18 Tax Compliance. Borrower has filed all tax returns required to be filed by it and has paid all taxes due and payable on said returns and on any assessment made against it or its assets. Except as disclosed on Exhibit 5.18 annexed hereto there is no claim from any taxing authority that any taxes are owing by Borrower. Borrower shall promptly notify BACC, in writing, of all material developments with regard to the tax claims identified on Exhibit 5.18, and at least once every month a report from Borrower's consultants, Ernst and Young, Inc. as to the status of said claims.

5.19 Reliance by BACC; Cumulative. Each warranty, representation and agreement contained in this Agreement shall be automatically deemed repeated by Borrower with each request for an Advance and shall be conclusively presumed to have been relied on by BACC regardless of any investigation made or information possessed by BACC. The warranties, representations and agreements set forth herein shall be cumulative and in addition to any and all other warranties, representations and agreements which Borrower shall now or hereafter give, or cause to be given, to BACC.

5.20 Use of Proceeds. The proceeds of the initial Advance will be used by Borrower for the purposes set forth on Schedule 5.20 annexed hereto. Absent BACC's written consent to the contrary the proceeds of Advances after the initial Advance will be used by Borrower solely for working capital purposes for the conduct of business consistent with the present nature of the business of Borrower.

5.21 Motor Vehicles and Intellectual Property. The perfection certificate annexed hereto identifies all motor vehicles, patents, patent applications, copyrights, trademarks, trade-names and other intellectual property, registered or unregistered, owned by Borrower. Borrower will promptly notify BACC of all motor vehicles or intellectual property hereafter owned by Borrower, and the status of all patent applications and the issuance of patents, and all copyrights registrations, and in accordance with Section 4.3 hereof, will cooperate with BACC in taking all actions required by BACC to have a perfected security interest or lien on such motor vehicles and intellectual property.

5.22 Commercial Tort Claims. Borrower does not, as of the date hereof, have any Commercial Tort Claims against any third parties. If Borrower does hereafter have any such Commercial Tort Claims Borrower shall furnish BACC with prompt written notice thereof, and in accordance with Article 4 hereof, execute and deliver such supplemental documents and cooperate with BACC in tacking all action required by BACC to have a perfected security interest or lien on such Commercial Tort Claims.

5.23 Subsidiaries. Attached to the attached perfection certificate of TSI is a schedule of all subsidiaries of TSI as of the date hereof. Borrower represents that all of said entities, other than RX and RS, are inactive entities, and have only minimal, if any, assets. Borrower covenants each of said entities, other than RX and RS, will remain inactive and Borrower will not transfer or assign any of Borrower's assets, customers, or business to said entities.

6. AFFIRMATIVE COVENANTS

Borrower covenants and acknowledges that during the Term Borrower shall comply with all of the following:

6.1 Collateral and Other Reports. Borrower shall at least once every week and each time it requests an Advance under the Revolving Credit Facility furnish to BACC a borrowing base report satisfactory in form and substance to BACC, and report to BACC all sales and Accounts arising since its most recent report to BACC and shall execute and deliver to BACC, no later than the fifteenth (15th) day of each month during the Term, a detailed aging of the Accounts, a reconciliation statement and a summary aging, by vendor, of all accounts payable of Borrower and any book overdraft. Borrower shall also furnish to BACC within two (2) Business Days following the payroll period pay date with respect to each of Borrower's payroll periods a payroll summary in form satisfactory to BACC, including, without limitation, gross payroll and payroll tax liability for said payroll period, Borrower shall further deliver to BACC, as BACC may from time to time require, collection reports, sales journals, invoices, original delivery receipts, customers' purchase orders, shipping instructions, bills of lading and other documentation respecting shipment arrangements, and other matters requested by BACC. Absent such a request by BACC, copies of all such documentation shall be held by Borrower as custodian for BACC. Borrower shall at all times provide BACC with all current "passwords" or similar access requirements relative to all computer systems available to Borrower with its Account debtors so as to enable BACC to have access to said computer systems so as to verify the status of Accounts owing to Borrower from said Account debtors.

6.2 Returns. Returns, credits, and allowances, if any, as between Borrower and any Account debtors, shall be permitted on the same basis and in accordance with the usual customary practices of Borrower as they exist at the date of the execution and delivery of this Agreement. If at any time prior to the occurrence of an Event of Default any Account debtor returns any Inventory to Borrower, or asserts it is entitled to a credit, Borrower shall promptly determine the reason for such return or credit, and, if Borrower accepts such return or agrees a credit is owing, issue a credit memorandum (with a copy to be sent to BACC) in the appropriate amount to such Account debtor. Borrower shall promptly notify BACC of all returns, and assertions of credits, and recoveries and of all disputes and claims.

6.3 Government Contracts. Borrower shall promptly notify BACC of all contracts hereafter entered into or awarded to Borrower, and shall comply with its obligations under Section 4.3 hereof with respect to said contracts, including, without limitation, the execution, delivery and transmittal to all required parties of assignments and notices of assignment to BACC of said contracts as required under the Federal Assignment of Claims Act or other applicable laws, rules and regulations.

6.4 Financial Statements, Reports, Certificates. Borrower shall deliver to BACC: (a) as soon as available, but in any event within thirty (30) days after the end of each month during the Term, a preliminary balance sheet and preliminary profit and loss statement prepared by Borrower covering Borrower's operations during such period; and (b) as soon as available, but in any event within forty five (45) days after the end of each fiscal quarter during the Term, a balance sheet and profit and loss statement prepared by Borrower covering Borrower's operations during such quarter, and (c) as soon as available, but in any event within ninety (90) days after the end of each of Borrower's fiscal years, financial statements of Borrower for each such fiscal period, audited on an unqualified basis by independent certified public accountants acceptable to BACC. Such financial statements shall include a balance sheet and profit and loss statement, and the accountants' management letter, if any, and shall be prepared in accordance with GAAP. Together with the financial statements as of the end of each fiscal quarter Borrower shall deliver to BACC a compliance certificate, in form satisfactory to BACC, setting forth the calculation of the Debt Service Coverage Ratio as of the end of such fiscal quarter. To extent the financial statements of Borrower are prepared on a consolidated or combined basis, they shall include consolidating/combining schedules as applicable. Together with the above, Borrower shall also deliver Borrower's Form 10-Qs, 10-Ks or 8-Ks, if any, as soon as the same become available, and any other report reasonably requested by BACC relating to the Collateral and the financial condition of Borrower and a certificate signed by its chief financial officer to the effect that all reports, statements or computer prepared information of any kind or nature delivered or caused to be delivered to BACC under this Section 6.4 fairly present its financial condition and that there exists on the date of delivery of such certificate to BACC no condition or event which constitutes an Event of Default.

6.5 Tax Returns, Receipts. Borrower shall deliver to BACC copies of each of its future federal income tax returns, and any amendments thereto, within thirty (30) days of the filing thereof. Borrower further shall promptly deliver to BACC, upon request, satisfactory evidence of Borrower's payment of all withholding and other taxes required to be paid by it.

6.6 Guarantor Reports. Borrower agrees to cause each Guarantor to deliver to BACC (a) its annual financial statements as soon as available and in any event within ninety (90) days of each fiscal year end, and (b) copies of all federal and state income tax returns as soon as the same are available and in any event no later than thirty (30) days after the same are required to be filed by law.

6.7 Title to Equipment. Upon BACC's request, Borrower shall immediately deliver to BACC, properly endorsed, any and all evidences of ownership of, certificates of title, or applications for title to any items of Equipment.

6.8 Maintenance of Equipment. Borrower shall keep and maintain the Equipment in good operating condition and repair, and shall make all necessary replacements thereto so that its value and operating efficiency shall at all times be maintained and preserved. Borrower shall not permit any item of Equipment to become a fixture to real estate or an accession to other property, and the Equipment is now and shall at all times remain Borrower's personal property.

6.9 Taxes. All Federal, state and local assessments and taxes, whether real, personal or otherwise, due or payable by, or imposed, levied or assessed against Borrower or any of its assets or in connection with Borrower's business shall hereafter be paid in full, before they become delinquent or before the expiration of any extension period. Borrower shall make due and timely payment or deposit of all federal, state and local taxes, assessments or contributions required of it by law, and will furnish to BACC, on demand, appropriate evidence of the payment or deposit thereof.

6.10 Insurance. Borrower, at its expense, shall keep and maintain insurance to protect the Collateral against all risk of loss covered under a Special property form (If any of the tangible Collateral is located in a flood zone, Borrower must also have flood insurance. Borrowers with Collateral in California must also insure against the peril of earthquakes.) The coverage shall be written on a replacement cost basis. The property limit(s) shall be no less than those necessary to satisfy the coinsurance requirement contained in the insurance policy. The Borrower, at its expense, shall keep and maintain Business Income Coverage. The Business Income Coverage shall insure against loss covered under a Special policy form. The limit must contemplate a benefit period of no less than twelve months and meet the minimum limit needed to satisfy the coinsurance requirement contained in the policy. The Business Income coverage can be written on an agreed amount basis, or with a coinsurance percentage from 80% to 100%. All policies of insurance covering business personal property and business income shall contain a Lender's Loss Payable endorsement in a form satisfactory to BACC. All policies insuring real property on which BACC has a mortgage or other lien shall contain a Mortgage endorsement in form satisfactory to BACC. Either, or both, form(s) shall contain a waiver of warranties. All proceeds payable under such policies shall be payable to BACC and applied to the Obligations. Borrower shall cause to be delivered to BACC a properly executed Evidence of Property Insurance form along with a copy of the Lender's Loss Payable and/or Mortgage endorsement(s) as applicable, in advance of the loan closing date and thereafter at least thirty (30) days prior to the expiration date(s) of the policy(ies). All Mortgage and Lender's Loss Payable endorsements shall contain the following address for notification purposes, or such other address as BACC may, from time to time, notify Borrower:

Business Alliance Capital Company
214 Carnegie Center, Suite 302
Princeton, New Jersey 08540
Attn: Operations Department

Borrower, at its expense, shall keep and maintain Commercial General Liability Coverage insuring against all risks relating to or arising from Borrower's ownership and use of the Collateral and its other assets, its products, and its operations. BACC, its directors, officers and employees shall be named as additional insureds for Commercial General Liability on Borrower's policy. Borrower shall cause to be delivered to BACC a properly executed Certificate of Insurance, containing the required additional insured wording, before the loan closing and thereafter at least thirty (30) days prior the expiration date of the policy. Along with the Certificate of Insurance, Borrower shall also deliver a copy of the General Liability endorsement whereby BACC, et. al., are added to the policy as additional insureds.

All required policies shall be in such form, with such companies and in such amounts as may be satisfactory to BACC. All policies shall contain a 30 day notice for cancellation or non-renewal. BACC reserves the right to change insurance specifications at any time.

6.11 BACC Expenses. Borrower shall immediately and without demand reimburse BACC for all BACC Expenses and Borrower hereby authorizes the payment of such BACC Expenses.

6.12 Compliance With Law. Borrower shall comply, in all material respects, with the requirements of all applicable laws, rules, regulations and orders of governmental authorities relating to Borrower and the conduct of its business.

6.13 Accounting System. Borrower at all times hereafter shall maintain a standard and modern system of accounting in accordance with GAAP with ledger and account cards or computer tapes, disks, printouts and records pertaining to the Collateral containing such information as may from time to time be requested by BACC.

7. NEGATIVE COVENANTS

Borrower covenants and acknowledges that during the Term Borrower shall not undertake any of the following without the prior written consent of BACC:

7.1 Extraordinary Transactions and Disposal of Assets. (A) Enter into any transaction not in the ordinary and usual course of its business as conducted on the date hereof, including but not

limited to the sale, lease, disposal, movement, relocation or transfer, whether by sale or otherwise, of any its assets other than sales of Inventory in the ordinary and usual course of its business as presently conducted; (B) incur (i) any indebtedness for borrowed money or purchase money indebtedness, or (ii) any other indebtedness outside the ordinary and usual course of its business as conducted on the date hereof, except for renewals or extensions of existing debts permitted by BACC; (C) make any advance or loan to any third party; or (D) grant a lien on any of its assets except (i) in favor of BACC, or (ii) the continuing security interests, if any, set forth on Schedule 5.1.

7.2 Change Name, etc. Change its name, business structure, jurisdiction of incorporation or formation as applicable, or identity, or add any new fictitious name without providing BACC with not less than ten (10) days prior written notice thereof and complying with Borrower's obligations under Section 4.3 hereof.

7.3 Merge, Acquire. Merge, acquire, or consolidate with or into any other business organization without the prior written consent of BACC, and if BACC gives such consent, on terms and conditions determined by BACC.

7.4 Guaranty. Guaranty or otherwise become in any way liable with respect to the obligations of any third party, except by endorsement of instruments or items of payment for deposit to the account of Borrower for negotiation and delivery to BACC.

7.5 Restructure. Make any change in its financial structure or business operations.

7.6 Prepayments. Prepay any existing indebtedness owing to any third party other than trade payables.

7.7 [this section intentionally left blank].

7.8 Compensation. Pay total cash compensation, including salaries, withdrawals, fees, bonuses, commissions, drawing accounts, management fees or other payments, whether direct or indirect, in money or otherwise, (but specifically excluding there from any stock or option awards or any cash paid with respect to taxes attributable to such stock or option awards) during any fiscal year to its CEO and CFO in an aggregate amount in excess of one hundred ten percent (110%) of the total cash compensation paid in the prior fiscal year, provided that for the fiscal year ending September 30, 2008 the total cash compensation for said CEO and CFO may be up to the amounts set forth on Exhibit 7.8 annexed hereto.

7.9 Loans and Advances. Make any loans, advances or extensions of credit to any officer, director, executive employee or shareholder of Borrower (or any relative of any of the foregoing), or to any entity which is a subsidiary of, related to, affiliated with or has common shareholders, officers or directors with Borrower.

7.10 Capital Expenditures. Make any plant or fixed capital expenditure, or any commitment therefor, or purchase or lease any real or personal assets or replacement Equipment in excess of One Hundred Thousand Dollars (\$100,000.00) for any individual transaction or where the aggregate amount of such transactions in any fiscal year exceeds Five Hundred Thousand Dollars (\$500,000.00).

7.11 [this section intentionally left blank].

7.12 Distributions. Make any distribution or declare or pay any dividends (in cash or in stock) on, or purchase, acquire, redeem or retire any of its capital stock, of any class, whether now or hereafter outstanding.

7.13 Accounting Methods. Modify or change its method of accounting or enter into, modify or terminate any agreement presently existing or at any time hereafter entered into with any third party for the preparation or storage of Borrower's records of Accounts and financial condition without said party agreeing to provide BACC with information regarding the Collateral or Borrower's financial condition. Borrower waives the right to assert a confidential relationship, if any, it may have with any such third party in connection with any information requested by BACC hereunder, and agrees that BACC may contact any such party directly in order to obtain such information.

7.14 Business Suspension. Suspend or go out of business.

7.15 Financial Covenants.

Debt Service Coverage Ratio. Allow its Debt Service Coverage Ratio, calculated as of the end of each fiscal quarter, to be less than 1.05 to 1.0.

Compliance with the aforesaid Debt Service Coverage Ratio shall be tested first for the six (6) month period ending March 31, 2008, and thereafter at the end of each fiscal quarter for the number of fiscal quarters from and including October 1, 2007 until the number of months in such testing period is twelve (12) months, and thereafter, it shall be tested on a rolling twelve (12) month basis. Notwithstanding the foregoing, if Borrower proposes to make a payment on account of any Subordinated Indebtedness Borrower shall furnish to BACC at least five (5) Business Days prior written notice thereof, and a compliance certificate showing the Debt Service Coverage Ratio of Borrower for the twelve (12) months ending as of the most recent month end, and compliance with the Debt Service Coverage Ratio shall be tested for the twelve (12) months endings as of the recent month end.

8. EVENTS OF DEFAULT

The occurrence of any one or more of the following events shall constitute an Event of Default by Borrower hereunder:

8.1 Failure to Pay. Borrower's failure to pay when due and payable, or when declared due and payable, any portion of the Obligations (whether principal, interest, taxes, BACC Expenses, or otherwise);

8.2 Failure to Perform. Borrower's or a Guarantor's failure to perform, keep or observe any term, provision, condition, representation, warranty, covenant or agreement contained in this Agreement, in any of the Loan Documents or in any other present or future agreement between Borrower, and/or a Guarantor and BACC;

8.3 Misrepresentation. Any misstatement or misrepresentation now or hereafter exists in any warranty, representation, statement, aging or report made to BACC by, Borrower and/or a Guarantor or any officer, employee, agent or director thereof, or if any such warranty, representation, statement, aging or report is withdrawn by such person;

8.4 Material Adverse Change. There is a material adverse change in Borrower's, or a Guarantor's, business or financial condition;

8.5 Material Impairment. There is a material impairment of the prospect of repayment of the Obligations or a material impairment of BACC's continuing security interests in the Collateral;

8.6 Levy or Attachment. Any material portion of Borrower's assets is attached, seized, subjected to a writ or distress warrant or is levied upon, or comes into the possession of any judicial officer or assignee;

8.7 Insolvency by Borrower or Guarantor. An Insolvency Proceeding is commenced by Borrower or by a Guarantor;

8.8 Insolvency Against Borrower or Guarantor. An Insolvency Proceeding is commenced against Borrower or a Guarantor;

8.9 Injunction Against Borrower. Borrower is enjoined, restrained or in any way prevented by court order from continuing to conduct all or any material part of its business;

8.10 Government Action or Lien.

A. A notice of lien, levy or assessment is filed of record with respect to any of Borrower's or a Guarantor's assets by the United States Government, or any department, agency or instrumentality thereof, or by any state, county, municipal or other governmental agency, or any taxes or debts owing at any time hereafter to any one or more of such entities becomes a lien, whether choate or otherwise, upon any of Borrower's or a Guarantor's assets and the same is not paid on the payment date thereof;

B. The indictment or threatened indictment of any Borrower under any criminal statute, or commencement of criminal or civil proceeding against any Borrower, including, without limitation, any such proceeding in which the penalties or remedies sought or available include forfeiture of any of the property of Borrower which BACC believes may have a material adverse effect on the Collateral or Borrower's business.

8.11 Judgment. A judgment is entered against Borrower or a Guarantor;

8.12 Default to Third Party. There is a default in any material agreement to which Borrower or a Guarantor is a party or by which binds Borrower or a Guarantor or any of their assets;

8.13 Subordinated Debt Payments. Borrower makes any payment on account of any Subordinated Indebtedness, except to the extent such payment is made in compliance with the terms of the this Agreement and is allowed under any subordination agreement entered into in favor of BACC;

8.14 Termination of Guarantor. A Guarantor dies or terminates its guaranty;

8.15 Change in Management. If Borrower fails to have an active chief executive officer acceptable to BACC, Borrowers' current chief executive officer, Rick J. Filippelli being acceptable to BACC.

8.16 ERISA Violation. A *prohibited transaction* within the meaning of ERISA Section 406 or IRC Section 1975(c) shall occur with respect to a Plan which could have a material adverse effect on the financial condition of Borrower; any lien upon the assets of Borrower in connection with any Plan shall arise; Borrower or any ERISA Affiliate shall completely or partially withdraw from a Multiemployer Plan and such withdrawal could, in the opinion of BACC, have a material adverse effect on the financial condition of Borrower. Borrower or any of its ERISA Affiliates shall fail to make full payment when due of all amounts which Borrower or any of its ERISA Affiliates may be required to pay to any Plan or any Multiemployer Plan as one or more contributions thereto; Borrower or any of its ERISA Affiliates creates or permits the creation of any accumulated funding deficiency, whether or not waived; the voluntary or involuntary termination of any Plan which termination could, in the opinion of BACC, have a material adverse effect on the financial condition of Borrower or Borrower shall fail to notify BACC promptly and in any event within ten (10) days of the occurrence of an event which constitutes an Event of Default under this clause or would constitute an Event of Default upon the exercise of BACC's judgment; or

8.17 Loss of License, etc. If any license, permit, distributor, franchise or similar agreement, necessary for the continued operation of Borrower's ordinary course of business is revoked, suspended or terminated.

8.18 Other Agreements with BACC or Bank. A default under any other obligation by Borrower in favor of BACC or Sovereign Bank, including obligations under any "swap agreement" (as defined in 11 USC §101) or under any instrument securing or evidencing such obligation, whether or not such obligation is otherwise secured, which default is not cured within any applicable grace or cure period.

8.19 Change of Control. Any Change of Control shall occur.

Notwithstanding anything contained in this Agreement to the contrary, BACC shall refrain from exercising its rights and remedies and an Event of Default shall not be deemed to have occurred by reason of the occurrence of any of the events set forth in Sections 8.6, 8.8, 8.10 or 8.11 hereof if, within ten (10) days from the date thereof, the same is released, discharged, dismissed, bonded against or satisfied; provided, however, BACC shall not be obligated to make Advances to Borrower during such periods.

9. BACC'S RIGHTS AND REMEDIES

9.1 Rights and Remedies. Upon the occurrence of an Event of Default, BACC may, at its election, without notice of such election and without demand, do any one or more of the following:

- (a) Declare all Obligations, whether evidenced by the Loan Documents or otherwise, immediately due and payable in full;
- (b) Cease advancing money or extending credit to or for the benefit of Borrower under the Loan Documents or under any other agreement between Borrower and BACC;
- (c) Terminate this Agreement as to any future liability or obligation of BACC, but without affecting BACC's rights and security interest in the Collateral and without affecting the Obligations;
- (d) Settle or adjust disputes and claims directly with Account debtors for amounts and upon terms which BACC considers advisable and, in such cases, BACC will credit the Obligations with the net amounts received by BACC in payment of such disputed Accounts, after deducting all BACC Expenses;
- (e) Cause Borrower to hold all returned Inventory in trust for BACC, segregate all returned Inventory from all other property of Borrower or in Borrower's possession and conspicuously label said returned Inventory as the property of BACC;
- (f) Without notice to or demand upon Borrower or a Guarantor, make such payments and do such acts as BACC considers necessary or reasonable to protect its security interest in the Collateral. Borrower shall assemble the Collateral if BACC so requires and deliver or make the Collateral available to BACC at a place designated by BACC. Borrower authorizes BACC to enter any premises where the Collateral is located, to take and maintain possession of the Collateral, or any part of it, and to pay, purchase, contest or compromise any encumbrance, charge or lien on the Collateral which in BACC's determination appears to be prior or superior to its security interest or lien, and to pay all expenses incurred in connection therewith;
- (g) Ship, reclaim, recover, store, finish, maintain, repair, prepare for sale, lease, license or other disposition, advertise for sale, lease, license or other disposition, and sell, lease, license or otherwise dispose (in the manner provided for herein or in the Code) the Collateral. BACC is hereby granted a license or other right to use, without charge, Borrower's labels, patents, copyrights, rights of use of any name, trade secrets, trade names, trademarks, service marks, and advertising matter, or any asset of a similar nature, pertaining to the Collateral, in completing the production of, advertising for sale, lease, license or other disposition, and sale, lease, license or other disposition of the Collateral. Borrower's rights under all licenses and all franchise agreements shall inure to BACC's benefit;
- (h) Sell, lease, license or otherwise dispose of the Collateral at either a public or private proceeding, or both, by way of one or more contracts or transactions, for cash or on terms, in such manner and at such places (including Borrower's premises) as BACC determines is commercially reasonable. It is not necessary that the Collateral be present at any such sale;
- (i) BACC shall give notice of the disposition of the Collateral as follows:
 - (1) To Borrower and all other parties entitled to receive a notice of disposition under the Code a written request for notice, a notice in writing of the time and place of public sale or other disposition or, if the sale or other disposition is a private sale or some other disposition other than a public sale is to be made, then the time on or after which the private sale or other disposition is to be made;

(2) The notice hereunder shall be personally delivered or mailed, postage prepaid, to Borrower as provided in Section 12 hereof, at least ten (10) calendar days before the date fixed for the sale or other disposition, or at least ten (10) calendar days before the date on or after which the private sale or other disposition is to be made, unless the Collateral is perishable or threatens to decline speedily in value. Notice to persons other than Borrower claiming an interest in the Collateral shall be sent to such addresses as is required or authorized under the Code;

(j) BACC may credit bid and purchase at any public sale:

(k) Any deficiency that exists after disposition of the Collateral, as provided herein, shall be immediately paid by Borrower. Any excess will be remitted without interest by BACC to the party or parties legally entitled to such excess; and

(l) In addition to the foregoing, BACC shall have all rights and remedies provided by law (including those set forth in the Code) and any rights and remedies contained in any Loan Documents and all such rights and remedies shall be cumulative.

9.2 No Waiver. No delay on the part of BACC in exercising any right, power or privilege under any Loan Document shall operate as a waiver, nor shall any single or partial exercise of any right, power or privilege under such Loan Documents or otherwise, preclude other or further exercise of any such right, power or privilege.

10. TAXES AND EXPENSES REGARDING THE COLLATERAL.

If Borrower fails to pay any monies (whether taxes, assessments, insurance premiums or otherwise) due to third persons or entities, or fails to make any deposits or furnish any required proof of payment or deposit, or fails to perform any of Borrower's other covenants under any of the Loan Documents, then in its discretion and without prior notice to Borrower, BACC may do any or all of the following: (a) make any payment which Borrower has failed to pay or any part thereof; (b) set up such reserves in Borrower's loan account as BACC deems necessary to protect BACC from the exposure created by such failure; (c) obtain and maintain insurance policies of the type described in Section 6.10 hereof and take any action with respect to such policies as BACC deems prudent; or (d) take any other action deemed necessary to preserve and protect its interests and rights under the Loan Documents. Any payments made by BACC shall not constitute: (a) an agreement by BACC to make similar payments in the future or (b) a waiver by BACC of any Event of Default. BACC need not inquire as to, or contest the validity of, any such expense, tax, security interest, encumbrance or lien and the receipt of notice for the payment thereof shall be conclusive evidence that the same was validly due and owing.

11. WAIVERS

11.1 Demand, Protest. Borrower waives demand, protest, notice of protest, notice of default or dishonor, notice of payment and nonpayment, notice of any default, notice of intention to accelerate, notice of acceleration, and notice of nonpayment at maturity and acknowledges that BACC may compromise, settle or release, without notice to Borrower, any Collateral and/or guaranties at any time held by BACC. Borrower hereby consents to any extensions of time of payment or partial payment at, before or after the Termination Date.

11.2 No Marshaling. Borrower, on its own behalf and on behalf of its successors and assigns hereby expressly waives all rights, if any, to require a marshaling of assets by BACC or to require that BACC first resort to some portion(s) of the Collateral before foreclosing upon, selling or otherwise realizing on any other portion thereof.

11.3 BACC's Non-Liability for Inventory or Equipment or for Protection of Rights. So long as BACC complies with its obligations, if any, under Section 9-207 of the Code, BACC shall not in any way or manner be liable or responsible for: (a) the safekeeping of the Inventory or Equipment; (b) any loss or damage thereto occurring or arising in any manner or fashion from any cause; (c) any diminution in the value thereof; or (d) any act or default of any carrier, warehouseman, bailee, forwarding agency or other person whomsoever. All risk of loss, damage or destruction of the Inventory or Equipment shall be borne by Borrower. BACC shall have no obligation to protect any rights of Borrower against any person obligated on any Collateral

11.4 Limitation of Damages. In any action or other proceeding against BACC under this Agreement or relating to the transactions between BACC and Borrower, Borrower waives the right to seek any consequential or punitive damages.

12. NOTICES

Unless otherwise provided herein, all consents, waivers, notices or demands by any party relating to the Loan Documents shall be in writing and (except for financial statements and other informational documents which may be sent by first-class mail, postage prepaid) shall be telecopied (followed up by a mailing), personally delivered or sent by registered or certified mail, postage prepaid, return receipt requested, or by receipted overnight delivery service to Borrower or to BACC, as the case may be, at their addresses set forth below

If to Borrower:	Teamstaff Inc. 1 Executive Drive, Suite 130 Somerset, NJ 08873 Attn: Rick J. Filippelli, CEO Fax #: (866) 415-3534
With a copy of any Notice of default to:	Becker & Poliakoff, LLP 45 Broadway, 11 th Floor New York, NY 10006 Attn: Victor J. DiGioia, Esq. Fax # (212) 557-0295
If to BACC:	Business Alliance Capital Company 214 Carnegie Center, Suite 302 Princeton, New Jersey 08540 Attn: General Counsel Fax # (609) 514-1137

Any party may change the address at which it is to receive notices hereunder by notice in writing in the foregoing manner given to the other. All notices or demands sent in accordance with this Section 12 shall be deemed received on the earlier of the date of actual receipt or five (5) calendar days after the deposit thereof in the mail or on the date telecommunicated if telecopied.

13. DESTRUCTION OF BORROWER'S DOCUMENTS

All documents, schedules, invoices, agings or other papers delivered to BACC may be destroyed or otherwise disposed of by BACC four (4) months after they are delivered to or received by BACC, unless Borrower requests, in writing, the return of the said documents, schedules, invoices or other papers and makes arrangements, at Borrower's expense, for their return.

14. GENERAL PROVISIONS

14.1 Effectiveness. This Agreement shall be binding and deemed effective when executed by Borrower and executed and delivered by BACC.

14.2 Successors and Assigns. This Agreement shall bind and inure to the benefit of the respective successors and assigns of each of the parties; **provided, however,** that Borrower may not assign this Agreement or any rights hereunder and any prohibited assignment shall be absolutely void. No consent to an assignment by BACC shall release Borrower from its Obligations. Without notice to or the consent of Borrower, BACC may assign this Agreement and its rights and duties hereunder and BACC reserves the right to sell, assign, transfer, negotiate or grant participations in all or any part of, or any interest in BACC's rights and benefits hereunder. In connection therewith, BACC may disclose all documents and information which BACC now or hereafter may have relating to Borrower or Borrower's business. Borrower hereby consents to, and authorizes BACC to, prepare and distribute a "tombstone", to issue a press release, or otherwise disseminate information to newspapers, trade journals, and other sources, describing the nature of, and closing of the credit facilities provided for herein, which may include Borrower's name as well as other general information about Borrower and the credit facilities, but only after Borrower has notified BACC that Borrower has made all filings required by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, relating to disclosure of the credit facilities provided for herein, have been satisfied. Borrower and BACC do not intend any of the benefits of the Loan Documents to inure to any third party, and no third party shall be a third party beneficiary hereof or thereof.

14.3 Section Headings. Headings and numbers have been set forth herein for convenience only.

14.4 Interpretation. Neither this Agreement nor any uncertainty or ambiguity herein shall be construed or resolved against BACC or Borrower, whether under any rule of construction or otherwise. On the contrary, this Agreement has been reviewed by each party and shall be construed and interpreted according to the ordinary meaning of the words used so as to fairly accomplish the purposes and intentions of the parties hereto.

14.5 Severability of Provisions. Each provision of this Agreement shall be severable from every other provision of this Agreement for the purpose of determining the legal enforceability of such provision.

14.6 Amendments in Writing. This Agreement cannot be changed or terminated orally. This Agreement supersedes all prior agreements, understandings and negotiations, if any, all of which are merged into this Agreement. **THIS AGREEMENT, TOGETHER WITH THE OTHER LOAN DOCUMENTS, REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES REGARDING THE SUBJECT MATTER HEREIN AND THEREIN, AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES HERETO. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.**

14.7 Counterparts and Facsimile Signatures. This Agreement may be executed in any number of counterparts each of which, when executed and delivered, shall be deemed to be an original and all of which, when taken together, shall constitute but one and the same Agreement. Any signature to a Loan Document delivered by a party via telecopy transmission or other electronic means shall be deemed to be an original signature.

14.8 Indemnification. BORROWER HEREBY INDEMNIFIES, PROTECTS, DEFENDS AND SAVES HARMLESS BACC AND ANY MEMBER, OFFICER, DIRECTOR, OFFICIAL, AGENT, EMPLOYEE AND ATTORNEY OF BACC, AND THEIR RESPECTIVE HEIRS, SUCCESSORS AND ASSIGNS (COLLECTIVELY, THE "INDEMNIFIED PARTIES"), FROM AND AGAINST ANY AND ALL LOSSES, DAMAGES, EXPENSES OR LIABILITIES OF ANY KIND OR NATURE AND FROM ANY SUITS, CLAIMS OR DEMANDS, INCLUDING REASONABLE COUNSEL FEES INCURRED IN INVESTIGATING OR DEFENDING SUCH CLAIM, SUFFERED BY ANY OF THEM AND CAUSED BY, RELATING TO, ARISING OUT OF, RESULTING FROM, OR IN ANY WAY CONNECTED WITH THE LOAN DOCUMENTS AND THE TRANSACTIONS CONTEMPLATED THEREIN OR THE COLLATERAL (UNLESS CAUSED BY THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF THE INDEMNIFIED PARTIES) INCLUDING, WITHOUT LIMITATION: (A) LOSSES, DAMAGES, EXPENSES OR LIABILITIES SUSTAINED BY BACC IN CONNECTION WITH ANY ENVIRONMENTAL CLEANUP OR OTHER REMEDY REQUIRED OR MANDATED BY ANY ENVIRONMENTAL LAW; (B) ANY UNTRUE STATEMENT OF A MATERIAL FACT CONTAINED IN INFORMATION SUBMITTED TO BACC BY BORROWER OR A GUARANTOR OR THE OMISSION

OF ANY MATERIAL FACT NECESSARY TO BE STATED THEREIN IN ORDER TO MAKE SUCH STATEMENT NOT MISLEADING OR INCOMPLETE; (C) THE FAILURE OF BORROWER OR A GUARANTOR TO PERFORM ANY OBLIGATIONS REQUIRED TO BE PERFORMED BY BORROWER OR A GUARANTOR UNDER THE LOAN DOCUMENTS; AND (D) THE OWNERSHIP, CONSTRUCTION, OCCUPANCY, OPERATIONS, USE AND MAINTENANCE OF ANY OF BORROWER'S OR A GUARANTOR'S ASSETS. THE PROVISIONS OF THIS PARAGRAPH 14.8 SHALL SURVIVE TERMINATION OF THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS.

14.9. Joint and Several Obligations; Dealings with Multiple Borrowers. If more than one person or entity is named as Borrower hereunder, all Obligations, representations, warranties, covenants and indemnities set forth in the Loan Documents to which such person or entity is a party shall be joint and several. BACC shall have the right to deal with any individual of any Borrower with regard to all matters concerning the rights and obligations of BACC and Borrower hereunder and pursuant to applicable law with regard to the transactions contemplated under the Loan Documents. All actions or inactions of the officers, managers, members and/or agents of any Borrower with regard to the transactions contemplated under the Loan Documents shall be deemed with full authority and binding upon all Borrowers hereunder. Each Borrower hereby appoints each other Borrower as its true and lawful attorney-in-fact, with full right and power, for purposes of exercising all rights of such person hereunder and under applicable law with regard to the transactions contemplated under the Loan Documents. The foregoing is a material inducement to the agreement of BACC to enter into this Agreement and to consummate the transactions contemplated hereby. The Borrowers represents they are operated as part of one consolidated business entity and are directly dependent upon each other for an in connection with their respective business activities financial resources. Each Borrower will receive a direct economic and financial benefit from the Obligations incurred under this Agreement and the incurrence of such Obligations is in the best interests of each Borrower.

14.10. Setoff Borrower hereby grants to BACC, a lien, security interest and right of setoff as security for all Obligations to BACC, upon and against all deposits, credits, collateral and property, now or hereafter in the possession, custody, safekeeping or control of Sovereign Bank, or any entity under the control of Sovereign Bank, or its parent entities, or in transit to any of them. At any time, without demand or notice, BACC may setoff the same or any part thereof and apply the same to the Obligations of Borrower, even though unmatured and regardless of the adequacy of any other collateral securing the Obligations. **ANY AND ALL RIGHTS TO REQUIRE BACC TO EXERCISE ITS RIGHTS OR REMEDIES WITH RESPECT TO ANY OTHER COLLATERAL WHICH SECURES THE OBLIGATIONS, PRIOR TO EXERCISING ITS RIGHTS OF SETOFF WITH RESPECT TO SUCH DEPOSITS, CREDITS OR OTHER PROPERTY OF THE BORROWER ARE HEREBY KNOWINGLY, VOLUNTARILY AND IRREVOCABLY WAIVED.**

15. CHOICE OF LAW, VENUE AND JURY TRIAL WAIVER

THE VALIDITY OF THE LOAN DOCUMENTS, THEIR CONSTRUCTION, INTERPRETATION, AND ENFORCEMENT AND THE RIGHTS OF THE PARTIES HERETO SHALL BE DETERMINED UNDER, GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF NEW JERSEY, WITHOUT REGARD TO PRINCIPLES OF CONFLICTS OF LAW. THE PARTIES AGREE THAT ALL ACTIONS OR PROCEEDINGS ARISING IN CONNECTION WITH THE LOAN DOCUMENTS SHALL BE TRIED AND LITIGATED ONLY IN THE STATE COURTS LOCATED IN THE COUNTY OF MERCER, STATE OF NEW JERSEY, THE FEDERAL COURTS WHOSE VENUE INCLUDES THE STATE OF NEW JERSEY, OR AT THE SOLE OPTION OF BACC, IN ANY OTHER COURT IN WHICH BACC SHALL INITIATE LEGAL OR EQUITABLE PROCEEDINGS AND WHICH HAS SUBJECT MATTER JURISDICTION OVER THE MATTER IN CONTROVERSY. **BORROWER AND BACC EACH WAIVES, TO THE EXTENT PERMITTED UNDER APPLICABLE LAW, THE RIGHT TO A TRIAL BY JURY** IN ANY PROCEEDING UNDER THE LOAN DOCUMENTS OR RELATING TO THE DEALINGS OF BORROWER AND BACC AND ANY RIGHT EACH MAY HAVE TO ASSERT THE DOCTRINE OF "FORUM NON CONVENIENS" OR TO OBJECT TO VENUE TO THE EXTENT ANY PROCEEDING IS BROUGHT IN ACCORDANCE WITH THIS SECTION 15.

16. NO ORAL AGREEMENTS. THIS AGREEMENT, TOGETHER WITH THE OTHER LOAN DOCUMENTS, REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES REGARDING THE SUBJECT MATTER HEREIN AND THEREIN AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES HERETO. THERE ARE NO UNWRITTEN ORAL AGREEMENTS.

[balance of this page intentionally left blank]

Borrower and BACC have executed and delivered this Agreement at BACC's place of business in Princeton, New Jersey as of the date first above written.

**BORROWER HEREBY
ACKNOWLEDGES AND AGREES
THAT THIS AGREEMENT CONTAINS
CERTAIN INDEMNIFICATION
PROVISIONS (INCLUDING, WITHOUT
LIMITATION, THOSE CONTAINED IN
SECTION 14.8 OF THIS AGREEMENT)
WHICH, IN CERTAIN
CIRCUMSTANCES, COULD INCLUDE
AN INDEMNIFICATION BY
BORROWER OF BACC FROM
CLAIMS OR LOSSES ARISING AS A
RESULT OF BACC'S OWN
NEGLIGENCE.**

TEAMSTAFF INC.
a New Jersey corporation

Signed by: /s/ Rick J. Filippelli
Print Name: Rick J. Filippelli
Title/Capacity: President

TEAMSTAFF RX, INC.
a Texas corporation

Signed by: /s/ Rick J. Filippelli
Print Name: Rick J. Filippelli
Title/Capacity: President

TEAMSTAFF GOVERNMENT SOLUTIONS, INC.
a Georgia corporation

Signed by: /s/ Rick J. Filippelli
Print Name: Rick J. Filippelli
Title/Capacity: President

BUSINESS ALLIANCE CAPITAL COMPANY
Division of Sovereign Bank, a federal savings bank

Signed by: /s/ William F. Seibold
Print Name: William F. Seibold
Title/Capacity: SR. V.P

**AMENDED AND RESTATED
REVOLVING CREDIT MASTER
PROMISSORY NOTE**

\$3,000,000.00

Princeton, New Jersey

March 28, 2008

FOR VALUE RECEIVED, the undersigned **TEAMSTAFF INC.**, a New Jersey corporation, **TEAMSTAFF RX, INC.**, a Texas corporation, and **TEAMSTAFF GOVERNMENT SOLUTIONS, INC.**, a Georgia corporation (individually and collectively "Borrower") jointly and severally promise to pay to the order of **BUSINESS ALLIANCE CAPITAL COMPANY, A DIVISION OF SOVEREIGN BANK** (herein called "BACC") at 214 Carnegie Center, Suite 302, Princeton, New Jersey, 08540, or such other address as BACC may notify Borrower, such sum up to Three Million and 00/100 (\$3,000,000.00) Dollars, together with interest as hereinafter provided, as may be outstanding on Advances by BACC to Borrower under Paragraph 2.1 of the Amended and Restated Loan and Security Agreement dated March 28, 2008 between BACC and Borrower (said Agreement as amended or modified from time to time the "Loan Agreement"). Capitalized terms not otherwise defined herein have the meanings set forth in the Loan Agreement. The Loan Agreement is incorporated herein as though fully set forth and Borrower acknowledges its reading and execution. The principal amount due hereunder shall be paid to BACC on March 31, 2011 or as may otherwise be provided for in the Loan Agreement.

On the first day of each month hereafter, Borrower shall pay BACC accrued interest, computed on the basis of a 360 day year, for the actual number of days elapsed, on the daily unpaid balance of the Advances, at the per annum rate of one quarter (.25%) percentage points above the Prime Rate in effect from time to time, but not less than five and one-half percent (5.5%) per annum. If there is a change in the Prime Rate, the rate of interest on the Advances shall be changed accordingly as of the date of the change in the Prime Rate, without notice to Borrower.

To secure the payment of this Note and the Obligations, Borrower has granted to BACC a continuing security interest in and lien on the Collateral.

In addition to all remedies provided by law upon default on payment of this Note, or upon an Event of Default, BACC may, at its option:

(1) Declare this Note and the Obligations immediately due and payable;

(2) Collect interest on this Note at the default rate set forth in the Loan Agreement from the date of such Event of Default, and if this Note is referred to an attorney for collection, collect reasonable attorneys' fees; and

(3) Exercise any and all remedies provided for in the Loan Agreement.

This Note amends and restates that certain Amended, Restated and Substituted Revolving Credit Note of Borrower to PNC Bank, National Association ("PNC"), in the principal sum of Eight Million Dollars (\$8,000,000.00) dated February 13, 2006, which was assigned by PNC to BACC with the consent of Borrower, and is not intended as a novation of said note or the loans evidenced thereby.

BORROWER WAIVES PRESENTMENT FOR PAYMENT, PROTEST AND NOTICE OF PROTEST FOR NON-PAYMENT OF THIS NOTE AND TRIAL BY JURY IN ANY ACTION UNDER OR RELATING TO THIS NOTE AND THE ADVANCES EVIDENCED HEREBY.

THIS NOTE, TOGETHER WITH THE OTHER LOAN DOCUMENTS, REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES REGARDING THE SUBJECT MATTER HEREIN AND THEREIN AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES HERETO. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

TEAMSTAFF INC.

By: Rick J. Filippelli
Name: Rick J. Filippelli
Title: President

TEAMSTAFF RX, INC.

By: Rick J. Filippelli
Name: Rick J. Filippelli
Title: President

TEAMSTAFF GOVERNMENT SOLUTIONS, INC.

By: Rick J. Filippelli
Name: Rick J. Filippelli
Title: President

CERTIFICATIONS

I, Rick J. Filippelli, certify that:

1. I have reviewed this quarterly report on Form 10-Q of TeamStaff, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;
 - b) *{Paragraph omitted in accordance with SEC transition instructions contained in SEC Release 34-47986}*;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2008

/s/ Rick J. Filippelli

Rick J. Filippelli
Chief Executive Officer

CERTIFICATIONS

I, Cheryl Presuto, certify that:

1. I have reviewed this quarterly report on Form 10-Q of TeamStaff, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;
 - b) *{Paragraph omitted in accordance with SEC transition instructions contained in SEC Release 34-47986}*;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2008

/s/ Cheryl Presuto
Cheryl Presuto
Chief Financial Officer

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

In connection with the Quarterly Report of TeamStaff, Inc. ("TeamStaff") on Form 10-Q for the period ending March 31, 2008 as filed with the Securities and Exchange Commission on the date hereof, the undersigned, being, Rick J. Filippelli, Chief Executive Officer, and Cheryl Presuto, Chief Financial Officer and Principal Accounting Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: May 15, 2008

/s/ Rick J. Filippelli

Rick J. Filippelli

Chief Executive Officer

(Principal Executive Officer)

/s/ Cheryl Presuto

Cheryl Presuto

Chief Financial Officer

(Principal Accounting Officer)

This Certification is being furnished solely to accompany the Form 10-Q pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed "filed" by TeamStaff for purposes of Section 18 of the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of the Form 10-Q, irrespective of any general incorporation language contained in such filing. A signed original of this written statement required by Section 906 has been provided to TeamStaff and will be retained by TeamStaff and furnished to the Securities and Exchange Commission or its staff upon request.
