SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

(MARK ONE)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 ON 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2002

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NO. 0-18492

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

NEW JERSEY	22-1899798
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
300 ATRIUM DRIVE, SOMERSET, NEW JERSEY	08873
(Address of principal executive offices)	(Zip Code)

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
NONE	

[Cover Page 1 of 2 Pages]

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

COMMON STOCK, $.001 PAR VALUE PER SHARE
(Title of class)

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 [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

At the close of our second quarter, March 31, 2002, the aggregate market value of the voting stock of TeamStaff, Inc. (consisting of Common Stock, $.001 par value per share) held by non-affiliates of the Registrant was approximately $50,445,000 based upon the closing sales price of $5.05 for such Common Stock on March 29, 2002 as reported by NASDAQ National Market. At the close of our fiscal year, September 30, 2002, the aggregate market value of the voting stock of TeamStaff, Inc. (consisting of Common Stock, $.001 par value per share) held by non-affiliates of the Registrant was approximately $28,424,000 based upon the average closing sales price of $2.90 for such Common Stock on said date as reported by NASDAQ National Market. On February 3, 2003 there were 15,771,986 shares outstanding of Common Stock of the Registrant.

DOCUMENTS INCORPORATED BY REFERENCE

None

[Cover Page 2 of 2 Pages]

PART I

ITEM 1. BUSINESS

INTRODUCTION

TeamStaff, Inc., a New Jersey corporation, was founded in 1969 as a payroll service company and has evolved into a leading provider of outsourced business solutions focusing on human resource services to a wide variety of industries in 50 states. TeamStaff's wholly-owned subsidiaries include TeamStaff Rx, Inc., DSI Staff ConnXions-Northeast Inc., DSI Staff ConnXions-Southwest Inc., TeamStaff Solutions, Inc., TeamStaff I, Inc., TeamStaff II, Inc., TeamStaff III, Inc., TeamStaff IV, Inc., TeamStaff V, Inc., TeamStaff VI, Inc., TeamStaff Insurance Services, Inc., TeamStaff VIII, Inc., Employer Support Services, Inc., TeamStaff IX, Inc., Digital Insurance Services, Inc., HR2, Inc., and BrightLane.com, Inc. When we use the term TeamStaff, sometimes we will mean TeamStaff and its subsidiaries.

TeamStaff provides a variety of employment related services through three business units: (1) Its TeamStaff Rx unit provides medical allied health professionals and nurses to doctors' offices and medical facilities throughout the United States on a temporary or permanent basis; (2) the professional employer organization, or PEO, division provides comprehensive human resource management and administrative services, including payroll administration and payroll tax filing, procurement and administration of employee benefit plans, procurement and administration of workers' compensation insurance, management of employment related risks, and assistance in compliance with employment-related laws and regulations; and (3) the payroll processing division provides customized payroll management and tax filing services to select industries, such as construction, and administers voucher disbursement programs for various public agencies. We believe our medical staffing subsidiary is one of the top providers in the niche medical imaging field. The PEO division currently services over 2000 client organizations with approximately 16,000 worksite employees and believes that it currently ranks, in terms of revenues, as one of the top 10 professional employer organizations in the United States. The payroll processing division processes payrolls for approximately 750 clients with more than 30,000 employees. BrightLane, an acquired business unit that is not engaged in the provision of employment related services, applies many of its core competencies towards internal technology enablement and the integration of various disparate systems used in TeamStaff's operating entities.

TeamStaff's corporate headquarters is in Somerset, New Jersey and it has five regional offices located in Houston, Texas; Northampton, Massachusetts; Alpharetta, Georgia; and Boca Raton and Clearwater, Florida and eight sales service centers in New York, New York; Houston, Texas; Boca Raton and Clearwater, Florida; Northampton and Woburn, Massachusetts; Alpharetta, Georgia; and Somerset, New Jersey.

TeamStaff, Inc. was organized under the laws of the State of New Jersey on November 25, 1969 and maintains its executive offices at 300 Atrium Drive, Somerset, New Jersey 08873 where its telephone number is (732) 748-1700.

RECENT DEVELOPMENTS

CHANGE IN ACCOUNTANTS; RESTATEMENT OF FISCAL YEAR 2001

On April 10, 2002, the Board of Directors of TeamStaff and its Audit Committee decided to change independent public accountants from Arthur Andersen LLP to PricewaterhouseCoopers, LLP for the fiscal year ending September 30, 2002. The change was made due to the uncertainties surrounding Arthur Andersen at the time. At a meeting held on December 10, 2002, prior to concluding their audit for fiscal 2002, PricewaterhouseCoopers expressed its opinion to the Audit Committee that there were material weaknesses in our system of internal controls, including the adequacy, competency and reliability of operational and financial information, information systems and finance personnel. PricewaterhouseCoopers further stated that information had come to its attention, that if further investigated may materially impact the fairness or reliability of the previously issued financial statements for fiscal year 2001 and/or the financial statements to be issued for fiscal year 2002. PricewaterhouseCoopers also stated that due to an accounting error in the treatment of a supplemental executive retirement plan, a restatement and a reaudit of fiscal 2001 would be required but it declined the engagement for the reaudit of fiscal year 2001.

In December 2002, PricewaterhouseCoopers further advised TeamStaff that it believed it would be essential to employ a new Chief Financial Officer and conditioned the continuance of its audit for fiscal 2002 on the employment of a new Chief Financial Officer. PricewaterhouseCoopers acknowledged that in view of the foregoing, it was likely that TeamStaff would be unable to make a timely filing of its annual report for fiscal year 2002.

Engagement of New Accountants; Removal of CFO

In response to the advice from PricewaterhouseCoopers, TeamStaff relieved its Chief Financial Officer, Donald T. Kelly, of his duties, and commenced a search for a new Chief Financial Officer. In light of the need to engage a new auditor for fiscal year 2001, the Audit Committee determined that TeamStaff's interests were best served by engaging new independent accountants willing to audit both fiscal 2001 and fiscal year 2002. On December 13, 2002 the audit committee dismissed PricewaterhouseCoopers and engaged Lazar Levine & Felix LLP to serve as TeamStaff's independent public accountants.

In conducting the audit for fiscal year ended September 30, 2002, Lazar expanded its testing of TeamStaff's internal controls, including information technology controls, to include the fiscal year ended September 30, 2001. This procedure was followed since the Arthur Anderson LLP work papers were not readily available for review by Lazar and to investigate the concerns regarding internal controls by PricewaterhouseCoopers. As a result of this expanded testing, no material weaknesses in the systems was revealed and, based on these results, Lazar concluded that only an audit of one restatement adjustment, as discussed below, was required and not a full reaudit of the fiscal 2001 consolidated financial statements.

Restatement of 2001

Prior to its dismissal, PricewaterhouseCoopers had advised the Audit Committee that, in PricewaterhouseCoopers' opinion, TeamStaff should not have applied pension plan accounting to its supplemental executive retirement plan adopted on October 1, 2000, resulting in a material error requiring the restatement of the fiscal year 2001 financial statements. This would have resulted in an additional after-tax charge to earnings of approximately $408,000 in fiscal year 2001. TeamStaff had engaged an independent firm to design the plan and had reviewed the plan's accounting treatment with Arthur Andersen prior to its certification of TeamStaff's fiscal year 2001 financial statements.

Lazar has advised the Audit Committee that it has undertaken its own analysis of the appropriate accounting treatment for the supplemental executive retirement plan. Lazar has determined that the plan is indeed a pension plan and TeamStaff has accounted for it as such. Nevertheless, Lazar has determined that a restatement of TeamStaff's fiscal 2001 financial statements is appropriate due to the omission of a note in the fiscal year 2001 consolidated financial statements containing certain required disclosures for the plan. Further, an adjustment in the expense calculation of the plan resulted in a reduction in net income after-tax for fiscal 2001 of $76,000 from $1,424,000 to $1,348,000.

Reconsideration of Status of CFO

In light of the foregoing, TeamStaff determined that the conclusions reached by PricewaterhouseCoopers concerning TeamStaff's internal controls and financial personnel were not supported by Lazar's independent analysis or TeamStaff's own assessment of its financial and operational systems. Mr. Kelly has remained an employee during this period, and as a result of the determinations made by Lazar regarding TeamStaff's internal controls and systems, and the results of its audit and review of the issues involved with the SERP plan and the restatement of the 2001 fiscal year, the Audit Committee and the Board of Directors are reviewing the status of Mr. Kelly's employment and whether the Company should reinstate Mr. Kelly or retain a new Chief Financial Officer.

NASDAQ DELISTING NOTICE AND HEARING

On January 16, 2003, we received notice from the NASDAQ Stock Market that an "E" would be appended to our trading symbol at the opening of business on January 21, 2003 due to the belated filing of our annual report on Form 10-K for fiscal year 2002. NASDAQ further advised us that TeamStaff's Common Stock would be delisted from trading on the NASDAQ National Market at the opening of business on January 27, 2003 unless we requested a hearing before the NASDAQ Stock Market. TeamStaff requested and was granted a hearing before a NASDAQ panel, which will be held on February 14, 2003. Any potential action on the listing of its stock will be postponed until a decision of the panel has been reached. We anticipate that the NASDAQ panel will reach a decision shortly after the hearing. There can be no assurance that NASDAQ will continue to allow for the listing of TeamStaff's common stock.

CORPORATE STAFFING CONCEPTS ACQUISITION

Effective January 2, 2002, TeamStaff acquired the accounts and related assets of Corporate Staffing Concepts LLC, a PEO entity operating primarily in western Massachusetts and Connecticut. The agreement provided that TeamStaff acquire the PEO related accounts of Corporate Staffing Concepts for $275,000, paid at closing, and stock, which would be paid in connection with an earn out in one year, based upon the number of worksite employees remaining from the accounts being acquired. Subsequent to the balance sheet date, on January 10, 2003, by mutual agreement, TeamStaff fully settled its earn out obligations to Corporate Staffing Concepts LLC by agreeing to pay the sum of $250,000 in cash and issue 27,500 shares of TeamStaff's Common Stock, for a total purchase price of $603,100.

SERVICES

I. MEDICAL STAFFING SERVICES

TeamStaff provides medical staffing services through its wholly owned subsidiary, TeamStaff Rx, Inc., which has more than 20 years of experience in placing temporary and permanent employees with specialized skills and talents to regional and national medical facilities. Temporary medical staffing enables clients to attain management and productivity goals by matching highly trained professional and technical personnel to specific staffing requirements.

TeamStaff Rx focuses its medical imaging and nurse staffing services in markets where it places employees on a temporary long-term assignment or on a permanent basis. They employ radiological technologists, diagnostic sonographers, cardiovascular technologists, radiation therapists, registered nurses and other medical professionals with hospitals, clinics and therapy centers throughout the United States. Clients whose staff requirements vary depending on the level of activity at their facility are able to secure the services of highly qualified individuals on an interim basis.

TeamStaff Rx's clients are dependent on temporary staffing to supplement various internal departments for staffing shortages due to vacations, medical leaves and other causes. TeamStaff Rx fills its clients' needs by providing qualified medical personnel on a weekly, monthly, quarterly or longer basis, depending upon a client's particular staffing objectives. TeamStaff Rx also provides targeted recruiting and placement for clients for permanent employees. Additionally, if an employee placed on temporary assignment ultimately is hired by the client on a permanent basis, TeamStaff Rx usually receives a recruitment fee from that client.

The current unprecedented shortage in the availability of professional medical imaging and nursing personnel has, in management's opinion, created a strong market opportunity for TeamStaff Rx. The Company believes that TeamStaff Rx is in a pivotal position to increase its market share based on its reputation and experience in the temporary medical staffing industry. During the fiscal year ended September 30, 2002, this unit generated $74,861,000 of revenue.

Our temporary staffing services provide clients the ability to "right size"; that is, to expand or reduce their workforces in response to changing business conditions. Management believes that these services provide numerous benefits to the client, such as saving the costs of salary and benefits of a permanent employee whose services are not needed throughout the year. The client also avoids the costs, uncertainty and delays associated with searches for qualified interim employees. TeamStaff Rx's temporary staffing services also allow a client to avoid administrative responsibility for payroll, payroll taxes, workers' compensation, unemployment and medical benefits for these interim employees.

Management believes that its temporary medical staffing services provide a client with an increased pool of qualified personnel. Since TeamStaff Rx's temporary staffing employees have access to a wide array of benefits, such as paid time off, health and life insurance, Section 125 premium conversion plans, and 401(k) retirement savings plans, TeamStaff believes it will be able to attract a sufficient pool of personnel to grow this business. These benefits provide temporary employees with the motivation of permanent workers without additional benefit and administrative costs to the client.

II. PROFESSIONAL EMPLOYER ORGANIZATION (PEO)

TeamStaff's largest business unit, from a revenue perspective, is its PEO services business. During the fiscal year ended September 30, 2002, this unit generated $586,150,000 of revenue. When a client utilizes TeamStaff's PEO services, the client administratively transfers all or essentially all of its employees to TeamStaff. TeamStaff thereby becomes a co-employer of the client's employees and is responsible for all human resource functions, including payroll, benefits administration, tax reporting and personnel record keeping. The client still manages the employees, determines compensation rates and assigns duties in the same fashion as any employer. The client is, however, relieved of certain reporting and tax filing requirements and other administrative tasks associated with employment. Moreover, because of economies of scale, TeamStaff is frequently able to negotiate favorable terms on workers' compensation coverage, health benefits, retirement programs, and other valuable services. The client company benefits because it can then offer its employees the same or similar benefits as larger companies and successfully compete in recruiting highly qualified personnel, as well as build the morale and loyalty of its staff.

As a PEO service provider, TeamStaff can offer the following benefits to its clients' employees:

COMPREHENSIVE MAJOR MEDICAL PLANS - Management believes that medical insurance costs have forced small employers to reduce coverage provided to its employees and to increase employee contributions. TeamStaff is able to leverage its large employee base and offer the clients' employees a variety of health coverage plans from traditional indemnity plans to Health Maintenance Organizations (HMO), Preferred Provider Organizations (PPO), and Point of Service Plans (POS).

DENTAL AND VISION COVERAGE - These types of benefits are generally beyond the reach of most small groups. As a result of economies of scale, a client of TeamStaff can usually obtain these benefits for their employees.

LIFE INSURANCE - Affordable basic coverage is available.

SECTION 125 PREMIUM CONVERSION PLAN (Cafeteria Plan) - Employees can pay for benefits with pre-tax earnings, reduce their taxable income and FICA payments, and increase their take-home pay. Plans of this nature are typically not offered by small employers.

401(K) RETIREMENT PLANS - Management believes that most small employers do not provide any significant retirement benefits due to the administrative and regulatory requirements associated with the establishment and maintenance of retirement plans. TeamStaff enables small business owners to offer their employees retirement programs comparable to those of major corporations. Such plans can be used to increase morale, productivity and employee loyalty.

CREDIT UNION - TeamStaff provides an opportunity for employees to join a credit union, which may offer more attractive interest rates than offered at most banks.

PAYROLL SERVICES - With comprehensive PEO services, clients no longer incur the separate expense of payroll processing either through in-house staff or outside service. TeamStaff's PEO services include all payroll and payroll tax processing.

UNEMPLOYMENT COMPENSATION COST CONTROL - TeamStaff provides an unemployment compensation cost control program to aggressively manage unemployment claims and control employer costs.

HUMAN RESOURCES MANAGEMENT SERVICES - TeamStaff provides clients with expertise in areas such as personnel policies and procedures, hiring and firing, training, compensation and performance evaluation.

WORKERS' COMPENSATION PROGRAM - TeamStaff has a national workers' compensation policy, which can provide TeamStaff with a significant advantage in marketing its services, particularly in jurisdictions where workers' compensation policies are difficult to obtain at reasonable costs. TeamStaff also provides its clients, where applicable, with independent safety analyses and risk management services to reduce workers' injuries and claims along with reducing fraudulent claims.

Relieved of most employment related administrative tasks, TeamStaff's clients are able to focus on their core business. The client is also offered a broader benefits package for its assigned employees, a professionally managed workers' compensation insurance program, and savings in time and paperwork previously required in connection with personnel administration. These offerings improve employee retention and help control costs.

III. PAYROLL SERVICES

TeamStaff was originally established as a payroll service firm in 1969 and continues to provide payroll and tax reporting services to its clients. During the fiscal year ended September 30, 2002, this unit generated $4,954,000 of revenue. Historically, the payroll division has provided these services primarily to the construction industry and currently more than 75% of TeamStaff's approximately 750 payroll service clients are in the construction industry located in the greater New York metropolitan area. TeamStaff offers most, if not all, of what other payroll services provide, including the preparation of payroll checks, direct deposit, government compliance reports, workers' compensation reports and workers' compensation audit reports as required by New York State, quarter and year end tax reports, W-2's (including federal and state magnetic media), and remote processing (via modem) directly from the clients' offices as well as certified payrolls. Tax reporting services include the impounding of tax payments, timely deposit of tax liability, filing of payroll tax returns, distribution of quarter and year-end payroll tax statements and timely response to agency inquiries.

TeamStaff has developed a Disbursement Management program that provides processing and payment services for various governmental agencies and organizations in the New York metropolitan area. This program is part of the Payroll Services division. Disbursement Management processing and payment is different from TeamStaff's ordinary human resource outsourcing services. Individual recipients are not employees of the client or TeamStaff. Clients utilizing this program make payments to individuals or entities for the rendering of a variety of services. Ordinarily, these types of payments are made by the client internally through accounts payable or a similar department. The volume, frequency and complexity of these payments frequently drive a client to outsource this type of disbursement.

BRIGHTLANE SUBSIDIARY

Effective August 31, 2001, TeamStaff acquired BrightLane.com, Inc., a technology company founded in 1999 that provided an online business center. Focusing on the small business segment, BrightLane developed several patent-pending information exchange and transaction oriented software solutions to facilitate access across a variety of essential and Internet deliverable administrative products and services.

Since the acquisition, BrightLane has applied its core competencies mainly toward internal technology enablement and the integration of various disparate systems in TeamStaff's operating entities. Significant savings and operational efficiencies will be obtained by leveraging BrightLane's experienced technical staff and relationship with a state-of-the-art, highly secure data center to consolidate TeamStaff's numerous legacy operating platforms into the ScorPEO operating platform integrated into Lawson's finance and accounting system. Implementation efforts have begun and the project is anticipated to be complete during fiscal year 2003.

TeamStaff has leveraged Brightlane's technology and expertise as part of TeamStaff ConnXions, a new online business center for the exclusive use of TeamStaff's client companies and their employees. This service will aggregate the collective buying power of all of TeamStaff's clients to reduce operating expenses and negotiate purchase discounts generally unattainable on an individual basis and is intended to afford TeamStaff an ongoing revenue stream.

Under the terms of the purchase agreement, TeamStaff acquired all the stock of BrightLane.com through the issuance of 8,066,522 shares of TeamStaff common stock, valued at approximately $41,900,000. TeamStaff also incurred $2,705,000 of certain legal, accounting and investment banking expenses, resulting in a total purchase price of $44,605,000. The acquisition has been accounted for under the purchase method and the results of operations of the acquired company have been included in the statements of income since the date of the acquisition. The purchase price has been allocated based on the estimated fair value at the date of the acquisition as stated below:

Cash acquired	$ 12,325,000
Deferred tax asset	7,400,000
Investment in TeamStaff preferred stock	3,500,000
Other assets acquired	1,538,000
First Union relationship	6,900,000
Tradename	10,000
Goodwill	12,932,000
Total	$ 44,605,000

CUSTOMERS

TeamStaff's customer base consists of over 3,000 client companies, representing over 46,000 employees (including client employees who receive payroll services and are not considered TeamStaff co-employees) as of September 30, 2002. TeamStaff's client base is broadly distributed throughout a wide variety of industries; however, more than 75% of the customers in the payroll division are in the construction industry and substantially all of the customers of our TeamStaff Rx, Inc. subsidiary are engaged in the healthcare industry.

TeamStaff intends to maintain diversity within its client base to lower its exposure to downturns or volatility in any particular industry and help insulate it to some extent from general economic cycles. All prospective PEO customers are also evaluated individually on the basis of workers' compensation risk, group medical history, unemployment history and operating stability. No single client in any operating unit constitutes more than 5% of that unit's revenues.

SALES AND MARKETING

TeamStaff maintains sales and marketing personnel in all of its locations, which currently include New Jersey, New York, Texas, Florida, Georgia, and Massachusetts. Our sales and marketing personnel travel throughout the United States in an effort to expand our business.

TeamStaff and First Union Corporation (renamed Wachovia), a leading financial services company, have signed, effective August 31, 2001, an agreement to market TeamStaff's professional employer services to Wachovia's small business customers. The agreement calls for a two-year, extendable relationship in which TeamStaff will be an authorized marketer of professional employer services to Wachovia's business banking customers. This agreement presents TeamStaff with a significant opportunity to market its services to Wachovia's extensive customer base of over one million small businesses. At the same time it presents Wachovia an opportunity to offer a comprehensive outsourced human resource package to its clients. Wachovia owns approximately 20% of TeamStaff's stock.

TeamStaff has also formed a strategic alliance with Fleet Insurance Services, a Fleet Boston Financial company, effective November 1, 2002, to promote TeamStaff's PEO business in the Northeast. Fleet Insurance Services, headquartered in Cranford, New Jersey, is one of the largest regional insurance brokerage firms, with over 300 insurance professionals in 12 offices throughout Connecticut, Delaware, New Jersey, New York and Pennsylvania. Through the alliance, Fleet's insurance professionals will refer their small and mid-sized business clients and prospective clients to TeamStaff's PEO division. Fleet serves thousands of businesses that fit TeamStaff's PEO client profile. Management anticipates that this new relationship will generate substantial additional revenue in its Northeastern market. Fleet's insurance professionals will benefit from the alliance by being able to offer a comprehensive suite of human resource management services to their clients and prospective clients.

COMPETITION

The PEO industry consists of approximately 800 companies, most of which serve a single market or region. TeamStaff believes that there are several PEOs with annual revenues that exceed $500 million, four of which are publicly traded companies. Management believes, based on industry sources, that the largest PEO, in terms of revenue, is Administaff, Inc., with revenue in excess of $4 billion. TeamStaff considers its primary competition to be these large national and regional PEO providers, as well as the traditional form of employment of employees.

The payroll services industry is characterized by intense competition. The principal competitive factors are price and service. Management believes that Automatic Data Processing, Inc. and Paychex, Inc., which have purchased PEOs in Florida, are its major competitors. TeamStaff also competes with manual payroll systems sold by numerous companies, as well as other providers of computerized payroll services, including banks, and smaller independent companies. Some companies have in-house computer capability to generate their own payroll documents and reports. The increasing availability of personal computers at low cost may result in additional businesses acquiring such capabilities.

In TeamStaff's medical staffing business the primary competitors are CompHealth, Aureous, Resources On Call, Cross Country, Inc., AMN Healthcare Services, Inc. and Medical Staffing Network Holdings, Inc.

TeamStaff competes with these companies by offering customized products, personalized service, competitive prices and specialized personnel to satisfy a client's particular employee requirements. Management believes that its broad scope of human resource management services and its commitment to quality service differentiate it from its competition. Many companies compete in the various segments of the human resource and financial services marketplace. Management believes that its concentration on providing comprehensive outsourcing of human resource management services will set it apart from its competitors. While many of the PEOs entered the industry as a result of workers' compensation or health insurance problems, TeamStaff is establishing itself as a professional employer organization that will assist companies, small and large, with all of their human resource management challenges.

INDUSTRY/GOVERNMENT REGULATION

INTRODUCTION

TeamStaff's operations are affected by numerous federal and state laws relating to labor, tax and employment matters. By entering into a co-employer relationship with employees who work at client company locations (sometimes referred to as "worksite employees") as part of its PEO business, TeamStaff assumes certain obligations and responsibilities of an employer under these federal and state laws. Many of these federal and state laws were enacted prior to the development of nontraditional employment relationships, such as professional employer organizations, temporary employment, and outsourcing arrangements, and do not specifically address the obligations and responsibilities of nontraditional employers. In addition, the definition of "employer" under these laws is not uniform. Accordingly, the application of these laws to our business cannot be assured.

Some governmental agencies that regulate employment and labor laws have developed rules that specifically address labor and employment issues raised by the relationship among clients and PEOs. Existing regulations are relatively new and, therefore, their interpretation and application by administrative agencies and federal and state courts are limited or non-existent. The development of additional regulations and interpretations of existing regulations can be expected to evolve over time. The Company cannot predict with certainty the nature or direction of the development of federal, state and local regulations.

As an employer, TeamStaff is subject to all federal statutes and regulations governing its employer-employee relationships.

FEDERAL AND STATE EMPLOYMENT TAXES

TeamStaff assumes the sole responsibility and liability for the payment of federal and state employment taxes with respect to wages and salaries paid to its employees, including worksite employees. There are essentially three types of federal employment tax obligations: (i) withholding of income tax requirements; (ii) obligations under FICA; and, (iii) obligations under the Federal Unemployment Tax Act.

Under these statutes, employers have the obligation to withhold and remit the employer portion and, where applicable, the employee portion of these taxes. There is still considerable uncertainty as to the status of leased employees in relation to these statutes. While TeamStaff believes that it can assume the client company's withholding obligations, in the TeamStaff fails to meet these obligations, the client company may be held jointly and severally liable for these payments. These interpretive uncertainties may have an impact on our PEO business.

EMPLOYEE BENEFIT PLANS

TeamStaff offers various employee benefit plans to its full-time employees, including its worksite employees. These plans include a 401(k) Plan (a profit-sharing plan with a cash or deferred arrangement, or CODA, under Code Section 401(k)), a Section 125 plan, group health plans, dental insurance, a group life insurance plan and a group disability insurance plan. Generally, employee benefit plans are subject to provisions of both the Code and the Employee Retirement Income Security Act.

In order to qualify for favorable tax treatment under the Code, the plans must be established and maintained by an employer for the exclusive benefit of its employees. In addition to the employer/employee threshold, pension and profit-sharing plans, including plans that offer CODAs under Code Section 401(k) and matching contributions under Code Section 401(m), must satisfy certain other requirements under the Code. These other requirements are generally designed to prevent discrimination in favor of highly compensated employees to the detriment of non-highly compensated employees with respect to both the availability of, and the benefits, rights and features offered in qualified employee benefit plans.

Employee pension and welfare benefit plans are also governed by ERISA. ERISA defines "employer" as "any person acting directly as an employer, or indirectly in the interest of an employer, in relation to an employee benefit plan." ERISA defines the term "employee" as "any individual employed by an employer." A definitive judicial interpretation of "employer" in the context of a PEO arrangement has not been established, although the Internal Revenue Service released Rev. Proc. 2002-21 on April 24, 2002, to help clarify the ability of PEOs to maintain multiple employer 401(k) plans (like the Company's current active plan) for the benefit of worksite employees. If TeamStaff were found not to be an employer for ERISA purposes, its plans may not comply with ERISA and the level of services TeamStaff could offer may be adversely affected. Further, as a result of such findings, TeamStaff and its plans would not enjoy the preemption of state laws provided by ERISA and could be subject to varying state laws and regulations, as well as to claims based upon state common laws.

In addition to ERISA and the Code provisions discussed herein, issues related to the relationship between TeamStaff and its worksite employees may also arise under other federal laws, including other federal income tax laws.

IRS ISSUANCE OF REV. PROC. 2002-21

In April 2002, the IRS issued Rev. Proc. 2002-21. While Rev. Proc. 2002-21 is intended to describe the steps that may be taken to ensure the qualified status of defined contribution retirement plans maintained by PEO's for the benefit of worksite employees, there remain uncertainties regarding the operation and interpretation of that revenue procedure. Under Rev. Proc. 2002-21, if a PEO operates a multiple employer retirement plan in accordance with IRS Code Section 413(c), the IRS will not disqualify the retirement plan solely on the grounds that the plan violates or has violated the exclusive benefit rule. TeamStaff's current, active retirement savings plan is designed, and intended to be operated, in accordance with IRS Code Section 413(c). Rev. Proc. 2002-21 also provides that if a PEO's retirement savings plan is not operated as a multiple employer retirement savings plan, the plan risks disqualification for violation of the exclusive benefit rule unless a PEO either converts the plan to a multiple employer plan or terminates the plan by December 31, 2003 for calendar year plans. TeamStaff also maintains a "frozen" retirement savings plan that is not a multiple employer plan. The Company anticipates that it will terminate the "frozen" plan in accordance with Rev. Proc. 2002-21.

STATE REGULATION

As an employer, TeamStaff is subject to all statutes and regulations governing the employer-employee relationship. Additionally, several states regulate TeamStaff's PEO, temporary and permanent staffing operations. For example, TeamStaff's PEO activities in the State of Texas are governed by the Staff Leasing Services Licensing Act, which regulates PEOs in the State of Texas. The Act, which became effective on September 1, 1993, established a mandatory licensing scheme for PEOs and expressly recognizes a licensee as the employer of the assigned employee for purposes of the Texas Unemployment Compensation Act and for other purposes. A TeamStaff subsidiary possesses a license to offer PEO services in the State of Texas.

While many states do not explicitly regulate PEOs, approximately 26 states have passed laws that have licensing, registration or certification requirements for PEOs and other states are considering such regulation. Such laws vary from state to state, but generally provide for monitoring the fiscal responsibility of PEOs. Whether or not a state has licensing, registration or certification requirements, the Company faces a number of other state and local regulations that could impact its operations. TeamStaff and/or a TeamStaff subsidiary is currently licensed, registered or certified in Arkansas, Colorado, Florida, Georgia, Illinois, Kentucky, Louisiana, Maine, Massachusetts, Minnesota, Nevada, New Hampshire, New Jersey, New Mexico, Rhode Island, South Carolina, Tennessee, Texas, Vermont, Virginia and Washington.

Additionally, an increasing number of states have adopted or are considering adopting licensing or registration requirements that affect TeamStaff's temporary medical staffing and permanent placement business, although fewer states require licensure or registration for TeamStaff's medical staffing business than its PEO business. These license and registration requirements generally provide for an evaluation of the operator's background and integrity and periodic or ongoing monitoring of the medical staffing firm's policies and practices. TeamStaff Rx is licensed or registered for its temporary technical staffing services in the following jurisdictions: Florida, Massachusetts, North Carolina and Rhode Island and has a license application pending in the State of New Jersey. TeamStaff Rx is licensed or registered for its temporary nursing business in California, Kentucky and North Carolina and has license applications pending in Massachusetts and Minnesota. TeamStaff Rx is licensed or registered for its permanent placement business in Massachusetts and North Carolina. We continue to review applicable statutes and regulations and prepare appropriate applications for filing.

INFORMATION AND TECHNOLOGY SYSTEMS

TeamStaff has recently completed an analysis of various human resource and payroll system vendors, including those that are licensors of TeamStaff's current systems, the purpose of which was to determine which provider would, in TeamStaff's estimation, be able to assist TeamStaff in attaining its goal of consolidating its PEO business onto a single Internet-based platform. TeamStaff has decided to consolidate its PEO business onto the "ScorPEO" software product licensed by F.W. Davison & Company. Three of TeamStaff's current PEO processing centers - Boca Raton, Florida; Houston, Texas; and Northampton, Massachusetts - currently utilize the ScorPEO product. TeamStaff plans to implement F.W. Davison & Company's "ScorPEO Web" application to provide its PEO clients and worksite employee's internet-based self-service capability. The Company anticipates that this consolidation and implementation project will be completed by the close of the second calendar quarter of 2003.

EMPLOYEES

As of December 31, 2002, TeamStaff employed 282 corporate (non worksite) employees, both full-time and part-time, including executive officers, a decrease from 286 during the previous fiscal year. TeamStaff also employs approximately 16,000 worksite employees (this number excludes payroll services employees) and approximately 700 temporary employees on client assignments. TeamStaff believes its relationship with its employees is satisfactory. None of TeamStaff's corporate employees is covered by a collective bargaining agreement.

RISK FACTORS

You should carefully consider the risks described below with respect to our operations, businesses and financial condition. The risks and uncertainties described below are not the only ones facing us. Other risks and uncertainties that we have not predicted or assessed may also adversely affect us. Some of the information in this filing contains forward-looking statements that involve substantial risks and uncertainties. You can identify these statements by forward-looking words such as "may," "will," "expect," "anticipate," "believe," "intend," "estimate," and "continue" or other similar words. You should read statements that contain these words carefully for the following reasons:

-- the statements may discuss our future expectations;

-- the statements may contain projections of our future earnings or of our financial condition; and

-- the statements may state other "forward-looking" information.

SAFE HARBOR STATEMENT

Certain statements contained herein constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. TeamStaff desires to avail itself of certain "safe harbor" provisions of the 1995 Reform Act and is therefore including this special note to enable it to do so. Forward-looking statements included in this Report on Form 10-K involve known and unknown risks, uncertainties, and other factors which could cause TeamStaff's actual results, performance (financial or operating) or achievements to differ from the future results, performance (financial or operating) or achievements expressed or implied by such forward-looking statements. Such future results are based upon management's best estimates based upon current conditions and the most recent results of operations. These risks include, but are not limited to, risks related to recently consummated acquisitions as well as future acquisitions, TeamStaff's ability to increase its revenues and produce net income, effects of competition and technological changes, risks related to exposure to personal injury and workers' compensation claims, risks that TeamStaff's insurers may not provide adequate coverage, risks associated with compliance with government regulations such as ERISA, state and local employment regulations and dependence upon key personnel.

We believe it is important to communicate our expectations to our investors. There may be events in the future, however, that we are not accurately able to predict or over which we have no control. The risk factors listed below, as well as any cautionary language in this filing, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. Before you invest in us, you should be aware that the occurrence of any of the events described in the risk factors below, elsewhere in this filing and other events that we have not predicted or assessed could have a material adverse effect on our earnings, financial condition or business. In such case, the price of our securities could decline and you may lose all or part of your investment.

WE MAY ACQUIRE ADDITIONAL COMPANIES, WHICH MAY RESULT IN ADVERSE EFFECTS ON OUR EARNINGS.

We may at times become involved in discussions with potential acquisition candidates. Any acquisition that we may consummate may have an adverse effect on our liquidity and earnings and may be dilutive to our earnings. In the event that we consummate an acquisition or obtain additional capital through the sale of debt or equity to finance an acquisition, our shareholders may experience dilution in their shareholders' equity. We have historically obtained growth through acquisitions of other companies and businesses. Under Statements of Financial Accounting Standards No.141, Business Combinations (SFAS No.141) and No. 142 Goodwill and Other intangible Assets implemented in June 2001, we are required to periodically review goodwill and indefinite life intangible assets for possible impairment. In the event that we are required to write down the value of any assets under these pronouncements, it may materially and adversely affect our earnings. See the more detailed discussion appearing as part of our Management Discussion and Analysis.

OUR FINANCIAL CONDITION MAY BE AFFECTED BY INCREASES IN HEALTH CARE AND WORKERS' COMPENSATION INSURANCE COSTS.

Health care insurance premiums and workers' compensation insurance coverage comprise a significant part of our PEO operating expenses. Accordingly, we use managed care procedures in an attempt to control these costs. Changes in health care and workers' compensation laws or regulations may result in an increase in our costs and we may not be able to immediately incorporate such increases into the fees charged to clients because of our existing contractual arrangements with clients. As a result, any such increases in these costs could have a material adverse effect on our financial condition, results of operations and liquidity.

OUR FINANCIAL CONDITION MAY BE AFFECTED BY RISKS ASSOCIATED WITH THE HEALTH AND WORKERS' COMPENSATION CLAIMS EXPERIENCE OF OUR CLIENTS.

Although we utilize only fully insured plans of health care and incur no direct risk of loss under those plans, the premiums that we pay for health care and workers' compensation insurance are directly affected by the claims experience of our clients. If the experience of the clients is unfavorable, the premiums that are payable by us will increase or coverage may become unavailable altogether. We may not be able to pass such increases onto our clients, which may reduce our profit margin. Increasing health care and workers' compensation premiums could also place us at a disadvantage in competing for new clients. In addition, periodic reassessments of workers' compensation claims of prior periods may require an increase or decrease to our reserves, and therefore may also affect our present and future financial condition.

OUR FINANCIAL CONDITION MAY BE AFFECTED BY INCREASES IN HEALTH INSURANCE PREMIUMS, UNEMPLOYMENT TAXES AND WORKERS' COMPENSATION RATES.

Health insurance premiums state unemployment taxes and workers' compensation rates are in part determined by our claims experience and comprise a significant portion of our direct costs. If we experience a large increase in claim activity, our unemployment taxes, health insurance premiums or workers' compensation insurance rates could increase. Although we employ internal and external risk management procedures in an attempt to manage our claims incidence, estimate claims expenses and structure our benefits contracts to provide as much cost stability as possible, we may not be able to prevent increases in claim activity, accurately estimate our claims expenses or pass the cost of such increases on to our clients. Since our ability to incorporate such increases into service fees to our clients is constrained by contractual arrangements with clients, a delay could result before such increases could be reflected in service fees. As a result, such increases could have a material adverse effect on our financial condition or results of operations.

SIGNIFICANT GROWTH THROUGH ACQUISITIONS MAY ADVERSELY AFFECT OUR MANAGEMENT AND OPERATING SYSTEMS.

We completed three significant acquisitions during the past four calendar years and may continue to pursue a strategy of acquiring compatible businesses in the future. Our growth is making significant demands on our management, operations and resources, including working capital. If we are not able to effectively manage our growth, our business and operations will be materially harmed. To manage growth effectively, we will be required to continue to improve our operational, financial and managerial systems, procedures and controls, and hire and train new employees while managing our current operations and employees. Historically, our cash flow from operations has been insufficient to expand operations. Sufficient capital may not be available in the future.

OUR PAYROLL BUSINESS MAY BE ADVERSELY AFFECTED IF THERE IS AN ECONOMIC DOWNTURN IN THE CONSTRUCTION BUSINESS.

Although we have expanded our services to a number of industries, our payroll service business continues to rely to a material extent on the construction industry in the greater New York City metropolitan area. During the last fiscal year, construction related business accounted for more than 75% of our payroll service business' total customers. Accordingly, if there is a slowdown in construction activities in this area, it will affect our revenues and profitability. Management believes its reliance on the construction business will continue to decline as its customer base expands and becomes more diversified.

OUR BUSINESS MAY BE ADVERSELY AFFECTED DUE TO ECONOMIC CONDITIONS IN SPECIFIC GEOGRAPHIC MARKETS.

While we have offices located in seven markets in five different states, the majority of our revenues are derived through our Florida, New Jersey and Texas operations. While we believe that our market diversification will eventually lessen this risk in addition to generating significant revenue growth, we may not be able to duplicate in other markets the revenue growth and operating results experienced in our Florida, New Jersey and Texas markets.

UNFAVORABLE INTERPRETATIONS OF GOVERNMENT LAWS MAY HARM OUR PEO OPERATIONS.

Our PEO operations are affected by many federal, state and local laws relating to labor, tax, insurance and employment matters and the provision of managed care services. Many of the laws related to the employment relationship were enacted before the development of alternative employment arrangements, such as those that we provide, and do not specifically address the obligations and responsibilities of non-traditional employers. The unfavorable resolution of unsettled interpretive issues concerning our relationship could have a material adverse effect on our results of operations, financial condition and liquidity. Uncertainties arising under the Internal Revenue Code of 1986 include, but are not limited to, the qualified tax status and favorable tax status of certain benefit plans we and other alternative employers provide. In addition, new laws and regulations may be enacted with respect to its activities, which may also have a material adverse effect on our business, financial condition, results of operations and liquidity.

IF GOVERNMENT REGULATIONS REGARDING PEOS, TEMPORARY AND PERMANENT STAFFING ARE IMPLEMENTED, OR IF CURRENT REGULATIONS ARE CHANGED, OUR BUSINESS COULD BE HARMED.

Because many of the laws related to the employment relationship were enacted prior to the development of professional employer organizations and other staffing businesses, many of these laws do not specifically address the obligations and responsibilities of non-traditional employers. Our operations are affected by numerous federal, state and local laws and regulations relating to labor, tax, insurance and employment matters. By entering into an employment relationship with employees who work at client locations, we assume obligations and responsibilities of an employer under these laws. Uncertainties arising under the Internal Revenue Code of 1986, include, but are not limited to, the qualified tax status and favorable tax status of certain benefit plans provided by our company and other alternative employers. The unfavorable resolution of these unsettled issues could have a material adverse effect on results of operations and financial condition. While many states do not explicitly regulate PEOs, approximately one-half of the states have enacted laws that have licensing; registration or certification requirements for PEOs, and several additional states are considering such laws. Such laws vary from state to state but generally provide for the monitoring of the fiscal responsibility of PEOs and specify the employer responsibilities assumed by PEOs. Additionally, many states require licensure or registration of entities providing temporary health care or nursing services as well as those offering permanent placement services. There can be no assurance that we will be able to comply with any such regulations, which may be imposed upon us now or in the future, and our inability to comply with any such regulations could have a material adverse effect on our results of operations and financial condition. In addition, there can be no assurance that existing laws and regulations which are not currently applicable to us will not be interpreted more broadly in the future to apply to our existing activities or that new laws and regulations will not be enacted with respect to our activities. Either of these changes could have a material adverse effect on our business, financial condition, results of operations and liquidity.

WE MAY NOT BE ABLE TO OBTAIN ALL OF THE LICENSES AND CERTIFICATIONS THAT WE NEED TO OPERATE.

State authorities extensively regulate the PEO, temporary medical staffing and permanent placement industry and some states require us to satisfy operating, licensing or certification requirements. If we are unable to obtain or maintain all of the required licenses or certifications that we need, we could experience material adverse effects to our results of operations, financial condition and liquidity.

HEALTH CARE OR WORKERS' COMPENSATION REFORM COULD IMPOSE UNEXPECTED BURDENS ON OUR ABILITY TO CONDUCT OUR BUSINESS.

Regulation in the health care and workers' compensation fields continues to evolve, and we cannot predict what additional government regulations affecting our business may be adopted in the future. Changes in any of these laws or regulations may adversely impact the demand for our services, require that we develop new or modified services to meet the demands of the marketplace, or require that we modify the fees that we charge for our services. Any such changes may adversely impact our competitiveness and financial condition.

IF WE LOSE OUR QUALIFIED STATUS FOR CERTAIN TAX PURPOSES, OUR BUSINESS WOULD BE ADVERSELY AFFECTED.

The Internal Revenue Service established an Employee Leasing Market Segment Group for the purpose of identifying specific compliance issues prevalent in certain segments of the PEO industry. One issue that arose in the course of these reviews is whether PEOs should be considered the employers of worksite employees under Internal Revenue Code provisions applicable to employee benefit plans, which would permit PEOs to offer benefit plans that qualify for favorable tax treatment to worksite employees. If the IRS concludes that PEOs are not employers of worksite employees for purposes of the Internal Revenue Code, we would need to respond to the following adverse implications:

- the tax-qualified status of our 401(k) plan could be revoked and our Cafeteria Plan may lose its favorable tax status;

- worksite employees would not be able to continue to participate in such plans or in other employee benefit plans;

- we may no longer be able to assume the client company's federal employment tax withholding obligations;

- - if such a conclusion were applied retroactively, then employees' vested account balances in the 401(k) plan would become taxable immediately, we would lose our tax deduction to the extent contributions were not vested, the plan trust would become a taxable trust and penalties, and additional taxes for prior periods could be assessed.

In such a circumstance, we would face the risk of client dissatisfaction as well as potential litigation, and our financial condition; results of operations and liquidity could be materially adversely affected.

In April 2002, IRS issued Rev. Proc. 2002-21. While Rev. Proc. 2002-21 is intended to describe the steps that may be taken to insure the qualified status of defined contribution retirement plans maintained by PEOs for the benefit of worksite employees, there remain uncertainties regarding the operation and interpretation of that revenue procedure. Under Rev. Proc. 2002-21, if a PEO operates a multiple employer retirement plan in accordance with IRS Code Section 413(c), the IRS will not disqualify the retirement plan solely on the grounds that the plan violates or has violated the exclusive benefit rule. TeamStaff's current active retirement savings plan is designed, and intended to be operated, in accordance with IRS Code Section 413(c). Rev. Proc. 2002-21 also provides that if a PEO's retirement savings plan is not operated as a multiple employer retirement savings plan, the plan risks disqualification for violation of the exclusive benefit rule unless a PEO either converts the plan to a multiple employer plan or terminates the plan by December 31, 2003 for calendar year plans. TeamStaff also maintains a "frozen" retirement savings plan that is not a multiple employer plan. TeamStaff anticipates that it will terminate the "frozen" plan in accordance with Rev. Proc. 2002-21. If TeamStaff is unable to complete termination of that plan in accordance with Rev. Proc. 2002-21, we could face the risk of client dissatisfaction as well as potential litigation, and our financial condition, results of operations and liquidity could be materially adversely affected.

WE ARE LIABLE FOR THE COSTS OF WORKSITE EMPLOYEE PAYROLL AND BENEFITS AND BEAR THE RISK IF SUCH COSTS EXCEED THE FEES PAYABLE TO US BY OUR CLIENTS.

Under our standard client service agreement, we become a co-employer of worksite employees and assume the obligations to pay the salaries, wages and related benefit costs and payroll taxes of such worksite employees. We assume these obligations as a principal, not merely as an agent, of the client company. If a client company does not pay us, or if the costs of benefits provided to worksite employees exceeds the fees paid by a client company, our ultimate liability for worksite employee payroll and benefits costs could have a material adverse effect on our financial condition or results of operations. Our obligations include responsibility for

- - payment of the salaries and wages for work performed by worksite employees, regardless of whether the client company makes timely payment to us of the associated service fee; and

- - periodic reassessments of workers' compensation claims of prior periods may require an increase or decrease to our reserves, and therefore may also affect our present and future financial conditions; and

- - providing benefits to worksite employees even if the costs we incur to provide those benefits exceed the fees paid by the client company.

WE BEAR THE RISK OF NONPAYMENT FROM OUR CLIENTS AND THE POSSIBLE EFFECTS OF BANKRUPTCY FILINGS BY CLIENTS.

To the extent that any client experiences financial difficulty, or is otherwise unable to meet its obligations as they become due, our financial condition and results of operations could be adversely affected. For work performed prior to the termination of a client agreement, we may be obligated, as an employer, to pay the gross salaries and wages of the client's worksite employees and the related employment taxes and workers' compensation costs, whether or not our client pays us on a timely basis, or at all. A significant increase in our uncollected account receivables may have a material adverse effect on our earnings and financial condition.

To the extent that TeamStaff extends credit to its clients under its client service agreements, or is liable for employee payroll and related expenses, and the client files for protection under the bankruptcy laws, TeamStaff may be unable to collect the funds owed to it from the client. As a result, TeamStaff may be required to pay payroll and related expenses without reimbursement. In addition, although TeamStaff believes that its client service agreements should be terminable by it once a client enters bankruptcy, there is a risk that a bankruptcy court may not agree and would require TeamStaff to continue to perform services for such client, thereby increasing the risk that TeamStaff would be unable to collect funds from the client. Therefore, the filing for bankruptcy by a significant client, or a number of clients, may have a material adverse effect upon TeamStaff's financial condition.

WE MAY BE HELD LIABLE FOR THE ACTIONS OF OUR CLIENTS AND EMPLOYEES AND THEREFORE INCUR UNFORESEEN LIABILITIES.

A number of legal issues with respect to the co-employment arrangements among PEOs and temporary staffing firms, their clients and worksite employees remain unresolved. These issues include who bears the ultimate liability for violations of employment and discrimination laws. As a result of our status as a co-employer, we may be liable for violations of these or other laws despite contractual protections. While our client service agreements generally provide that the client is to indemnify us for any liability caused by the client's failure to comply with its contractual obligations and the requirements imposed by law, we may not be able to collect on such a contractual indemnification claim and may then be responsible for satisfying such liabilities. In addition, worksite employees may be deemed to be our agents, which could make us liable for their actions.

OUR STAFFING OF HEALTHCARE PROFESSIONALS EXPOSES US TO POTENTIAL MALPRACTICE LIABILITY.

Through our TeamStaff Rx subsidiary, we engage in the business of providing temporary healthcare professionals. The placement of such employees increases our potential liability for negligence and professional malpractice of those employees. Although we are covered by Professional Malpractice liability insurance, which we deem reasonable under the circumstances, not all of the potential liability we face will be fully covered by insurance. Any significant adverse claim, which is not covered by insurance, may have a material adverse effect on us.

WE MAY BE LIABLE FOR THE ACTIONS OF PEO WORKSITE EMPLOYEES OR CLIENTS AND OUR INSURANCE POLICIES MAY NOT BE SUFFICIENT TO COVER SUCH LIABILITIES.

Our PEO client services agreement establishes a contractual division of responsibilities between our company and each client for various human resource matters, including compliance with and liability under various governmental laws and regulations. However, we may be subject to liability for violations of these or other laws despite these contractual provisions, even if we do not participate in such violations. Although such client agreements generally provide that the client indemnify us for any liability attributable to the client's failure to comply with its contractual obligations and to the requirements imposed by law, we may not be able to collect on such a contractual indemnification claim, and thus may be responsible for satisfying such liabilities. In addition, worksite employees may be deemed to be our agents, subjecting us to liability for the actions of such worksite employees. As an employer, we, from time to time, may be subject in the ordinary course of our business to a wide variety of employment-related claims such as claims for injuries, wrongful death, harassment, discrimination, wage and hours violations and other matters. Although we carry $2 million of general liability insurance, with no deductible, and carry $3 million of employment practices liability insurance, with a deductible that varies in accordance with a client's size, there can be no assurance that any such insurance we carry will be sufficient to cover any judgments, settlements or costs relating to any present or future claims, suits or complaints. There also can be no assurance that sufficient insurance will be available to us in the future and, if available, on satisfactory terms. If the insurance we carry is not sufficient to cover any judgments, settlements or costs relating to any present or future claims, suits or complaints, then our business and financial condition could be materially adversely affected.

OUR CLIENTS MAY BE HELD LIABLE FOR EMPLOYMENT TAXES, WHICH COULD DISCOURAGE SOME COMPANIES FROM TRANSACTING BUSINESS WITH US.

Pursuant to the PEO client service agreement, we assume responsibility and liability for the payment of federal employment taxes imposed under the Internal Revenue Code with respect to wages and salaries paid to our worksite employees as well as various state payroll tax obligations. While the client service agreement provides that we have the sole legal responsibility for making these tax contributions, the Internal Revenue Service or applicable state taxing authority could conclude that such liability cannot be completely transferred to us. Accordingly, in the event that we fail to meet our tax withholding and payment obligations, the client company may be held jointly and severally liable. There are essentially three types of federal employment tax obligations:

- income tax withholding requirements;

- - obligations under the Federal Income Contribution Act; and

- - obligations under the Federal and States Unemployment Tax Acts.

While this interpretive issue has not, to our knowledge, discouraged clients from enrolling with us, it is possible that a definitive adverse resolution of this issue would not do so in the future.

WE MAY NOT BE FULLY COVERED BY THE INSURANCE WE PROCURE.

Although we carry liability insurance, the insurance we purchase may not be sufficient to cover any judgments, settlements or costs relating to any present or future claims, suits or complaints. In addition, sufficient insurance may not be available to us in the future on satisfactory terms or at all. If the insurance we carry is not sufficient to cover any judgments, settlements or costs relating to any present or future claims, suits or complaints, our business, financial condition, results of operations and liquidity could be materially adversely affected.

IF WE WERE NOT ABLE TO RENEW ALL OF THE INSURANCE PLANS, WHICH COVER WORKSITE EMPLOYEES, OUR BUSINESS WOULD BE ADVERSELY IMPACTED.

The maintenance of health and workers' compensation insurance plans that cover worksite employees is a significant part of our business. If we were unable to secure such renewal contracts, our business would be adversely affected. The current health and workers' compensation contracts are provided by vendors with whom we have an established relationship and on terms that we believe to be favorable. While we believe that renewal contracts could be secured on competitive terms without causing significant disruption to our business, there can be no assurance in this regard.

OUR BUSINESS WILL SUFFER IF OUR SERVICES ARE NOT COMPETITIVE.

Each of the payroll, temporary employee placement and the professional employer industries are characterized by vigorous competition. Since we compete with numerous entities that have greater resources than us in each of our business lines, our business will suffer if we are not competitive with respect to each of the services we provide. We believe that our major competitors with respect to payroll and tax services are Automatic Data Processing, Inc., Ceridian Corp. and Paychex, Inc. Our major competitors with respect to temporary medical staffing resources are Aureous and Comp Health. Our major competitors with respect to professional employer services are ADP Total Source, Gevity HR and Administaff, Inc. These companies may have greater financial and marketing resources than we. We also compete with manual payroll systems and computerized payroll services provided by banks, and smaller independent companies.

IF WE CANNOT OBTAIN SUFFICIENT LEVELS OF TEMPORARY EMPLOYEES, OUR BUSINESS MAY BE AFFECTED.

TeamStaff Rx is a temporary employment agency, which depends on a pool of qualified temporary employees willing to accept assignments for our clients. Its business is materially dependent upon the continued availability of such qualified medical temporary personnel. Our inability to secure temporary medical personnel would have a material adverse effect on our business.

OUR CLIENT AGREEMENTS ARE TERMINABLE AND IF A SIGNIFICANT NUMBER OF CLIENTS DO NOT RENEW THEIR CONTRACTS, OUR BUSINESS MAY SUFFER.

Our standard PEO client agreement provides for successive one-year terms, subject to termination by us or by the client upon 60 days' written notice prior to the expiration of the then-current one-year term. A significant number of terminations by clients could have a material adverse effect on our financial condition, results of operations and liquidity.

IF WE ARE UNABLE TO RENEW OR REPLACE CLIENT COMPANIES, OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS WILL BE ADVERSELY AFFECTED.

Our standard PEO client service agreement is subject to non-renewal on 60 days notice by either us or the client. Accordingly, the nature of the client service agreement makes us vulnerable to potential cancellations by existing clients, which could materially and adversely affect our financial condition and results of operations. In addition, our results of operations are dependent in part upon our ability to retain or replace our client companies upon the termination or cancellation of the client service agreement. Clients may determine to cancel their relationship with us for numerous reasons, including economic factors. It is possible that the number of contract cancellations will increase in the future.

SINCE WE HAVE NOT PAID DIVIDENDS ON OUR COMMON STOCK, YOU CANNOT EXPECT DIVIDEND INCOME FROM AN INVESTMENT IN OUR COMMON STOCK.

We have not paid any dividends on our common stock since our inception and do not contemplate or anticipate paying any dividends on our common stock in the foreseeable future. Future potential lenders may prohibit us from paying dividends without its prior consent. Therefore, holders of our common stock may not receive any dividends on their investment in us. Earnings, if any, will be retained and used to finance the development and expansion of our business.

WE HAVE OUTSTANDING SHARES OF RESTRICTED STOCK, WHICH IF SOLD IN THE OPEN MARKET, MAY ADVERSELY AFFECT ITS STOCK PRICE.

Of the 15,771,986 shares outstanding as of February 3, 2003, the Company has outstanding 6,125,764 shares, which may be deemed "restricted stock." All of these "restricted shares" are presently eligible for resale under Rule 144 or in connection with registration statements that have been filed by the Company to allow for the resale of the securities. These restricted shares include the 3,334,117 shares owned by Wachovia (First Union Private Capital) and the 2,256,488 shares owned by Nationwide Insurance, both of which acquired the shares in connection with TeamStaff's acquisition of BrightLane in August, 2001. Possible or actual sales of the Company's common stock by its present shareholders under Rule 144 or registration statements may have a depressing effect on the price of the TeamStaff's common stock in the open market.

WE MAY ISSUE PREFERRED STOCK WITH RIGHTS SENIOR TO OUR COMMON STOCK, WHICH MAY ADVERSELY IMPACT THE VOTING AND OTHER RIGHTS OF THE HOLDERS OF OUR COMMON STOCK.

Our certificate of incorporation authorizes the issuance of "blank check" preferred stock with such designations, rights and preferences as may be determined from time to time by our board of directors up to an aggregate of 5,000,000 shares of preferred stock. Accordingly, our board of directors is empowered, without stockholder approval, to issue preferred stock with dividend, liquidation, conversion, voting or other rights, which would adversely affect the voting power or other rights of the holders of our common stock. In the event of issuance, the preferred stock could be utilized, under certain circumstances, as a method of discouraging, delaying or preventing a change in control of our company, which could have the effect of discouraging bids for our company and thereby prevent stockholders from receiving the maximum value for their shares. Although we have no present intention to issue any shares of our preferred stock, in order to discourage or delay a change of control of our company, we may do so in the future. In addition, we may determine to issue preferred stock in connection with capital raising efforts.

ANTI-TAKEOVER PROVISIONS IN OUR ARTICLES OF INCORPORATION MAKE A CHANGE IN CONTROL OF OUR COMPANY MORE DIFFICULT.

The provisions of our articles of incorporation and the New Jersey Business Corporation Act, together or separately, could discourage potential acquisition proposals, delay or prevent a change in control and limit the price that certain investors might be willing to pay in the future for our common stock. Among other things, these provisions:

- require certain supermajority votes;

- establish certain advance notice procedures for nomination of candidates for election as directors and for shareholders' proposals to be considered at shareholders' meetings; and

- divide the board of directors into three classes of directors serving staggered three-year terms.

Pursuant to our articles of incorporation, the board of directors has authority to issue up to 5,000,000 preferred shares without further shareholder approval. Such preferred shares could have dividend, liquidation, conversion, voting and other rights and privileges that are superior or senior to our common stock. Issuance of preferred shares could result in the dilution of the voting power of our common stock, adversely affecting holders of our common stock in the event of its liquidation or delay, and defer or prevent a change in control. In certain circumstances, such issuance could have the effect of decreasing the market price of our common stock. In addition, the New Jersey Business Corporation Act contains provisions that, under certain conditions, prohibit business combinations with 10% shareholders and any New Jersey corporation for a period of five years from the time of acquisition of shares by the 10% shareholder. The New Jersey Business Corporation Act also contains provisions that restrict certain business combinations and other transactions between a New Jersey corporation and 10% shareholders.

ITEM 2. PROPERTIES

OPERATION AND FACILITIES

TeamStaff currently has processing centers in Somerset, New Jersey; Houston, Texas; Northampton, Massachusetts; and Clearwater and Boca Raton, Florida. TeamStaff also has sales service centers that are located in New York, New York; Somerset, New Jersey; Clearwater and Boca Raton Florida; Alpharetta, Georgia; Houston, Texas; and Woburn and Northampton, Massachusetts. A sales service center is an office used primarily or partially for sales efforts and client services.

TeamStaff leases its 19,883 square foot corporate headquarters in Somerset, New Jersey, as well as offices in Clearwater and Boca Raton, Florida; Alpharetta, Georgia; Houston, Texas; New York City; and Woburn and Northampton, Massachusetts. The facilities provide sufficient capacity to meet demands for the foreseeable future. In the fiscal year ended September 30, 2002, TeamStaff's total lease expenses were $1,796,000.

Although TeamStaff's offices are equipped with various software and computer systems, TeamStaff is currently evaluating all systems including hardware and will upgrade accordingly.

The following is summary information on TeamStaff's facilities:

LOCATION	APPROXIMATE SQUARE FEET	EXPIRATION DATE	TERMS
2 Northpoint Drive Suite 760 Houston, TX	4,610	7/31/04	$ 7,107 per month
1901 Ulmerton Road Suite 800/450 Clearwater, FL	32,405	5/31/05	$ 60,652 per month
Corporate Headquarters 300 Atrium Drive Somerset, NJ	15,244	9/30/07	$ 26,677 per month
Corporate Headquarters 300 Atrium Drive Somerset, NJ	4,639	5/30/04	$ 5,000 per month
245 Fifth Avenue, Suite 701 New York, NY	3,560	7/31/06	$ 12,502 per month
2650 N. Military Trail Suite 300 Boca Raton, FL 33431	10,823	7/31/07	$ 12,176 per month
800 West Cummings Park Suite 1500 Woburn, MA	1,900	9/14/05	$ 4,533 per month

3650 Mansell Road Suite 200 Alpharetta, GA	11,848	11/15/04	$ 22,848 per month
136 West Street Northampton, MA	3,148	9/30/05	$ 2,890 per month

ITEM 3. LEGAL PROCEEDINGS

In July 2000, TeamStaff made claims for indemnification against the selling shareholders of the TeamStaff Companies (the Sellers), which were acquired by TeamStaff in January 1999. The claims consisted of various potential liabilities and expenses incurred based on breaches of representations and warranties contained in the acquisition agreement. The Sellers disputed these claims and attempted to assert claims of their own. On January 12, 2001, TeamStaff entered into a settlement agreement with the Sellers. Under the settlement agreement, the Sellers agreed to be liable and responsible for certain potential liabilities estimated at approximately $540,000 and agreed that 55,000 shares of TeamStaff common stock, which had been held in escrow since the acquisition, were to be cancelled and TeamStaff agreed to release 29,915 escrow shares to the Sellers. TeamStaff retains 75,000 shares in escrow to provide security for the Seller's obligations. Each party agreed to release each other from all other claims under the acquisition agreements. No third parties have contacted TeamStaff seeking payment in the last fiscal year for these potential liabilities. In the event that TeamStaff incurs liability to third parties with respect to the claims, TeamStaff would declare an event of default under the settlement agreement and seek collection from the Sellers.

TeamStaff's subsidiary, BrightLane, is party to a suit brought by one of its former shareholders (Atomic Fusion, Inc. v. BrightLane.com, Inc. Civil Action No ONS02246OE, Fulton County State Court, Georgia). The plaintiff seeks damages for alleged unpaid contractual services provided to BrightLane, alleging that the shares (both in number and value) of BrightLane stock provided to the plaintiff in payment of services were inadequate to pay for the alleged agreed upon value of services. TeamStaff and BrightLane intend to defend themselves vigorously in this matter and believes that they have meritorious and valid defenses to plaintiff's claims. In addition, the former shareholders of BrightLane have placed approximately 158,000 shares in escrow to provide indemnification for any claims made by TeamStaff under the acquisition agreement, subject to a $300,000 threshold. In the event the threshold is reached, some or all of these shares may be canceled in an amount equal to the amount of any claim or expense in excess of the threshold. Under the terms of the agreements between TeamStaff and BrightLane, the value of the shares held in escrow is $8.10/share. It is possible that an award in favor of Atomic Fusion would result in monetary damages against TeamStaff, which could not be recovered under the indemnification provisions because cancellation of the shares in escrow is the sole method of satisfying these indemnification obligations.

As a commercial enterprise and employer and in connection with its businesses as a professional employer organization, payroll services and temporary and permanent staffing, TeamStaff is engaged in litigation from time to time during the ordinary course of business in connection with employee suits, workers' compensation and other matters. Generally, TeamStaff is entitled to indemnification or repayment from its PEO clients for claims brought by worksite employees related to their employment. However, there can be no assurance that the client employer will have funds or insurance in amounts to cover any damages or awards, and as co-employer, TeamStaff may be subject to liability.

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

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

No matters were submitted to shareholders in the fourth fiscal quarter 2002.

PART II

ITEM 5. MARKET OF AND DIVIDENDS ON THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

A. PRINCIPAL MARKET

TeamStaff's Common Stock is traded in the over-the-counter market and included in the National Market System of the National Association of Securities Dealers, Inc. ("NASDAQ") under the symbol "TSTF." Effective June 2, 2000 TeamStaff effected a reverse stock split at a rate of one (1) new share for each existing 3.5 shares of TeamStaff common stock. All common shares and per share amounts reflected in this report in the accompanying financial statements have been adjusted retroactively to affect the reverse stock split. TeamStaff started trading on the National Market in June 2001. Prior to that date, TeamStaff was trading on the SmallCap market system.

B. MARKET INFORMATION

The range of high and low sales prices for TeamStaff's Common Stock for the periods indicated below are:

COMMON STOCK

FISCAL YEAR 2000	HIGH	LOW
1st Quarter	$ 5.03	$ 2.62
2nd Quarter	7.66	4.38
3rd Quarter	7.33	3.50
4th Quarter	3.81	2.25

FISCAL YEAR 2001	HIGH	LOW
1st Quarter	6.12	2.41
2nd Quarter	6.19	4.50
3rd Quarter	8.69	4.59
4th Quarter	10.34	5.75

FISCAL YEAR 2002	HIGH	LOW
1st Quarter	7.49	5.16
2nd Quarter	6.35	3.88
3rd Quarter	6.85	4.60
4th Quarter	7.64	2.66

FISCAL YEAR 2003	HIGH	LOW
1st Quarter	4.05	2.47

The above quotations, reported by NASDAQ, represent prices between dealers and do not include retail mark-ups, markdowns or commissions. Such quotations do not necessarily represent actual transactions. On February 3, 2003, TeamStaff's Common Stock had a closing price of $3.07 per share.

On January 16, 2003, TeamStaff received notice from the NASDAQ Stock Market that an "E" would be appended to its symbol at the opening of business on January 21, 2003 due to the belated filing of TeamStaff's annual report on Form 10-K for fiscal year 2002. NASDAQ further advised TeamStaff that its Common Stock would be delisted from trading on the NASDAQ National Market at the opening of business on January 27, 2003 unless TeamStaff requested a hearing before the NASDAQ Stock Market. TeamStaff requested and was granted a hearing before a NASDAQ panel, which will be held on February 14, 2003. Any potential action on the listing of its stock will be postponed until a decision of the panel has been reached. TeamStaff anticipates that the NASDAQ panel will reach a decision shortly after the hearing. There can be no assurance that NASDAQ will agree to continue the listing of TeamStaff common stock.

C. DIVIDENDS

TeamStaff has not declared any cash dividends on its common stock since inception, and has no present intention of paying any cash dividends on its common stock in the foreseeable future.

D. APPROXIMATED NUMBER OF EQUITY SECURITY HOLDERS

Effective August 31, 2001, TeamStaff acquired all of the capital stock of BrightLane. As contemplated under the agreements governing the transaction, TeamStaff agreed to issue 8,216,522 shares of its Common Stock in exchange for all of the outstanding capital stock of BrightLane. The issuance of 8,216,522 shares includes the issuance of 158,000 shares into escrow to provide for potential indemnification to TeamStaff for claims against Brightlane covered by the acquisition agreements and is before deduction for fractional shares, which were paid in cash. As of February 3, 2003, not all of the BrightLane shareholders had submitted their capital stock for exchange.

As of February 3, 2003, there were 15,771,986 shares outstanding held of record by 301 persons. TeamStaff believes it has approximately 2,900 beneficial owners of its common stock.

E. SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

TeamStaff has five equity compensation plans, all of which were approved by its Board of Directors and its shareholders. There are no equity based plans, which have not been approved by shareholders. All option grants made to executive officers and directors, including those to the Chief Executive Officer under employment agreements, are made under the plans referenced below. The stock option plans under which options are outstanding are:

The 1990 Employee Stock Option Plan
The 1990 Non-Executive Director Option Plan
The 1990 Senior Management Plan
The 2000 Employee Stock Option Plan
The 2000 Non-Executive Director Option Plan

Options are no longer being issued under the 1990 Employee Stock Option Plan, the 1990 Non-Executive Director Option Plan or the 1990 Senior Management Plan and no options were issued under these plans during the fiscal years ended September 30, 2001 or 2002.

EQUITY COMPENSATION PLAN INFORMATION

PLAN CATEGORY	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	WEIGHED AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	NUMBER OF SECURITIES REMAINING AVAILABLE FOR FUTURE ISSUANCES UNDER EQUITY COMPENSATION PLANS (EXCLUDING SECURITIES REFLECTED IN COLUMN (a))
Equity Compensation Plans Approved by Security Holders	1,098,926	$ 4.97	904,106
Equity Compensation Plans Not Approved by Security Holders	0	0	0

ITEM 6. SELECTED FINANCIAL DATA

	2002(4)	2001(3) As Restated	2000(2)	1999(1)	1998
Revenues	$665,965,000	$649,727,000	$447,743,000	$244,830,000	$139,435,000
Direct Expenses	632,320,000	621,630,000	426,987,000	228,294,000	129,747,000
Gross Profit	33,645,000	28,097,000	20,756,000	16,536,000	9,688,000
Selling, General & Administrative Expenses (includes Depreciation and Amortization)	29,734,000	24,819,000	18,338,000	13,305,000	8,050,000
Income From Operations	3,911,000	3,278,000	2,418,000	3,231,000	1,638,000
Income Before Extraordinary Item	3,075,000	1,702,000	951,000	1,776,000	2,703,000
Extraordinary Item Net of Tax	-	(354,000)	-	-	-
Net Income	$ 3,075,000	$ 1,348,000	$ 951,000	$ 1,776,000	$ 2,703,000
Earnings per share - Basic					
Income before extraordinary item	$ .19	$ .20	$ .12	$ .25	$ .49
Extraordinary item	-	(.04)	-	-	-
Net Income	$ .19	$ .16	$ .12	$ .25	$ .49
Earnings per share - Diluted					
Income before extraordinary item	$ .19	$ .19	$ .12	$ .25	$ .49
Extraordinary item	-	(.04)	-	-	-
Net Income	$ .19	$ .15	$ .12	$ .25	$ .49
Weighed average shares outstanding: Basic	16,013,546	8,693,243	7,954,176	7,127,806	5,506,256
Diluted	16,183,466	8,907,282	7,990,912	7,145,390	5,543,799
BALANCE SHEET DATA:					
Assets	$ 93,966,000	$ 91,860,000	$49,514,000	$36,382,000	$ 16,648,000
Liabilities	29,227,000	30,717,000	31,455,000	19,417,000	8,774,000
Long-Term Liabilities	1,418,000	1,197,000	6,222,000	4,502,000	2,981,000
Working Capital	15,976,000	12,740,000	3,065,000	2,968,000	3,319,000
Shareholders' Equity	$ 64,739,000	$ 61,143,000	$ 18,059,000	$ 16,965,000	$ 7,874,000

(1) On January 25, 1999, the Company acquired 10 entities operating under the tradename "TeamStaff Companies" through the issuance of 2,352,381 shares of our common stock and $3.2 million in cash in exchange for all capital stock of the TeamStaff Companies and for the repayment of debt.

(2) On April 8, 2000, the Company acquired the assets of the Synadyne division of Outsource International, Inc. for $3,500,000.

(3) On August 31, 2001, the Company acquired BrightLane through the issuance of approximately 8,066,522 shares of our common stock for all capital stock of BrightLane.

(4) On January 2, 2002, the Company acquired the assets of Corporate Staffing Concepts, LLC for a down payment of $275,000 and an earnout payment on January 10, 2003, of $250,000 in cash and 27,500 shares of TeamStaff common stock.

ITEM 7. MANAGEMENTS' DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD LOOKING AND CAUTIONARY STATEMENTS

Certain statements contained herein constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "1995 Reform Act"). TeamStaff, Inc. desires to avail itself of certain "safe harbor" provisions of the 1995 Reform Act and is therefore including this special note to enable TeamStaff to do so. Forward-looking statements included in this report involve known and unknown risks, uncertainties, and other factors which could cause TeamStaff's actual results, performance (financial or operating) or achievements to differ from the future results, performance (financial or operating) or achievements expressed or implied by such forward-looking statements. Such future results are managements best estimates based upon current conditions and the most recent results of operations. These risks include, but are not limited to, risks associated with risks undertaken in connection with acquisitions, risks from potential workers' compensation claims, increased insurance costs and required payments, risks from employer/employee related suits such as discrimination or wrongful termination, risks associated with payroll and employee related taxes which may require unanticipated payments by TeamStaff, liabilities associated with TeamStaff's status under certain federal and state employment laws as a co-employer, effects of competition, TeamStaff's ability to implement its internet based business and technological changes, and dependence upon key personnel.

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.

REVENUE RECOGNITION

TeamStaff operates three different lines of business from which it derives substantially all of its revenue: medical staffing, professional employer organization (PEO) and payroll services.

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

PEO revenue is recognized as service is rendered. The PEO revenue consists of charges by TeamStaff for the wages and employer payroll taxes of the worksite employees, the administrative service fee, workers' compensation charges, and the health and retirement benefits provided to the worksite employees. These charges are invoiced to the client at the time of each periodic payroll. TeamStaff negotiates the pricing for its various services on a client-by-client basis based on factors such as market conditions, client needs and services requested, the client's workers' compensation experience, the type of client business and the required resources to service the account, among other factors. Because the pricing is negotiated separately with each client and varies according to circumstances, TeamStaff's revenue, and therefore its gross margin, will fluctuate based on TeamStaff's client mix.

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

In accordance with Emerging Issues Task Force No. 99-19 "Reporting Revenue Gross as a Principal versus Net as an Agent," TeamStaff recognizes all amounts billed to its PEO and medical staffing customers as gross revenue because TeamStaff is at risk for the payment of its direct costs, whether or not its customers pay TeamStaff on a timely basis or at all. TeamStaff assumes a significant amount of other risks and liabilities as a co-employer of its worksite employees, and employer of its medical 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 worksite and medical employees which have not yet been billed to the customer as of the end of the accounting period.

Direct costs of services are reflected in TeamStaff's Statement of Income as "direct expenses" and are reflective of the type of revenue being generated. PEO direct costs of revenue include wages paid to worksite employees, employment related taxes, costs of health and welfare benefit plans, and workers' compensation insurance costs. Direct costs of the medical staffing business include wages, employment related taxes and reimbursable expenses. Payroll services' direct costs includes salaries and supplies associated with the processing of the payroll service.

GOODWILL AND INTANGIBLE ASSETS

Beginning October 1, 2001, with the adoption of Statement of Accounting Standards No. 142, Goodwill and Other Intangible Assets, TeamStaff no longer amortizes goodwill or indefinite life intangible assets. Based upon the new standard, TeamStaff will review its goodwill and other intangible assets for possible impairment or loss of value. TeamStaff determined that no impairment of goodwill or intangible assets existed as of the date of adoption or for the fiscal year ended September 30, 2002.

WORKERS' COMPENSATION

As of March 22, 2002, TeamStaff's insurance provider is Zurich American Insurance Company and the program is managed by Cedar Hill Insurance Agency, Inc. This policy covers its corporate employees, the worksite employees co-employed by TeamStaff and its PEO clients, and the temporary employees employed by TeamStaff to fulfill various client-staffing assignments. TeamStaff does not provide workers' compensation to non-employees of TeamStaff.

The Zurich program covers the period March 22, 2002 through April 1, 2003, inclusive. The program contains a large deductible feature of $500,000 for each claim, with no maximum liability cap. The premium for the program is paid on a monthly basis based on estimated payroll for the year and is subject to a year-end audit. The Zurich deductible program is collateralized by a letter of credit, inuring to the benefit of Zurich American Insurance Company, and cash held in a trust account with a third party. The letter of credit for $4,150,000 has been secured through Fleet National Bank, as part of TeamStaff's line of credit Payments will be made to the trust on a monthly basis based on projected claims for the year. Interest on all assets held in the trust is credited to TeamStaff. Payments for claims and claims expenses will be made from the trust. Payments to the trust may be adjusted from time to time based on program experience. Claims handling services are provided by a third party administrator assigned by Cedar Hill. Additionally, TeamStaff has outsourced its underwriting and program management for the Zurich program to Cedar Hill Insurance Agency, Inc. and The Hobbs Group, the Company's workers' compensation insurance broker. At September 30, 2002, the Company has a prepaid current asset of $2,341,000 for the premium and the prepayments made to the trust.

TeamStaff's primary workers' compensation insurance provider from January 22, 2001 through March 21, 2002, was Continental Assurance (CNA). This policy covered its corporate employees, the worksite employees co-employed by TeamStaff and its PEO clients, and the temporary employees employed by TeamStaff to fulfill various client-staffing assignments.

The CNA policy originally covered the period from January 22, 2001, through January 21, 2002, but was extended to March 21, 2002. It was a large deductible program ($250,000 for each claim) with a maximum liability cap. The premium for the policy was paid monthly based upon estimated payroll for the year and was subject to a year-end audit by the provider. TeamStaff also maintained a separate policy insuring a portion of the maximum deductible cap, which it may be required to pay if claims exceed a determined number. The policy, including the extension, insures payment of the maximum cap in excess of the first $2,093,000, which TeamStaff pays, up to $8,663,000. Once the $8,663,000 is exceeded, TeamStaff pays 89.5% of paid claims up to $12,133,000. If the claims and fixed costs under the policy are less than the amounts TeamStaff paid, plus investment returns thereon, the insurer will refund the difference to TeamStaff.

As part of the two-month extension, which was negotiated in January 2002, TeamStaff was required to pay $495,000, which CNA asserted was owed to cover costs for claims incurred during the policy years 1997 - 1999. As previously disclosed, TeamStaff had received a release for those periods from CNA in January 2001, when TeamStaff accepted CNA as its new insurance carrier. TeamStaff has denied CNA's claim and to date, has received $224,000 back from the original $495,000 payment. It is TeamStaff's belief that the remaining funds, as well as certain policy issuance charges, should be returned as well. Should TeamStaff be unsuccessful in receiving a refund of all monies paid, it will be required to absorb these claims. However, TeamStaff has a liability on its books for the estimated claims for the two-month extension, which exceeds the $271,000 disputed amount. Accordingly, TeamStaff plans to offset this amount from any monies owed CNA. On January 27, 2003, the Company filed a complaint of unfair or deceptive acts or practices in the business of insurance against CNA with the New Jersey Division of Insurance.

TeamStaff maintained a separate policy for certain of the business of its subsidiary, HR2, Inc., which had provided that TeamStaff was only responsible for the audited premium for each policy period. This policy ended on December 31, 2001. From January 1, 2002 through March 21, 2002, these employees were covered under the CNA policy.

On August 7, 2002, TeamStaff entered into an agreement with a prior workers' compensation and employer's liability insurance carrier fully and finally settling all loss and expense charges for four years of coverage, from 1996 to 2000, through the insurance carrier in exchange for an immediate payment by TeamStaff. Pursuant to the agreement, the insurance carrier agreed that no more recalculations would be done for any of TeamStaff's workers' compensation programs with the carrier. As a result of the final adjustment, TeamStaff reduced its reserve for workers' compensation, which resulted in a decrease in direct expenses of $2,661,000.

TeamStaff records in direct expenses a monthly charge based upon its estimate of the year's ultimate fully developed claims plus the fixed costs charged by the insurance carrier to support the program. This estimate is established each quarter based in part upon information provided by the TeamStaff's insurers, internal analysis and its insurance broker. TeamStaff's internal analysis includes quarterly review of open claims and review of historical claims related to the workers' compensation programs. While management uses available information, including nationwide loss ratios, to estimate ultimate claims, future adjustments may be necessary based on actual claims. Since the recorded ultimate expense is based upon a ten-year projection of actual claims payment and the timing of these payments, as well as the interest earned on TeamStaff's prepayments, TeamStaff relies on actuarial tables to estimate its ultimate expense.

TeamStaff's clients are billed at fixed rates, which are determined when the contract is negotiated with the client. The fixed rates include charges for workers' compensation, which are based upon TeamStaff's assessment of the costs of providing workers' compensation to the client. If TeamStaff's costs for workers' compensation for the workers' compensation policy year are greater than the costs that are included in the client's contractual rate, TeamStaff is unable to recover these excess charges from the clients. TeamStaff reserves the right in its contracts to increase the workers' compensation charges on a prospective basis only and may do so when its workers' compensation policy is renewed or when workers' compensation rates are increased by state agencies.

As of September 30, 2002, the adequacy of the workers' compensation reserves was determined, in management's opinion, to be reasonable. However, since these reserves are for claims that have not been sufficiently developed due to their relatively young age, and such variables as timing of payments and investment returns thereon are uncertain or unknown, actual results may vary from current estimates. TeamStaff will continue to monitor the development of these reserves, the actual payments made against the claims incurred, the timing of these payments, the interest accumulated in TeamStaff's prepayments and adjust the reserves as deemed appropriate.

EMPLOYEE PENSION PLAN

Effective October 1, 2000, TeamStaff adopted a non-qualified, supplemental executive retirement plan. As of September 30, 2002, only two officers were covered under the SERP plan. TeamStaff records annual amounts relating to this plan in accordance with calculations which include various actuarial assumptions, such as discount rates and assumed rates of return. TeamStaff reviews its actuarial assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is deemed appropriate to do so.

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.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to pay its service fees. The Company believes that the success of its PEO business is heavily dependent on its ability to collect these service fees for several reasons, including (i) the large volume and dollar amount of transactions processed by the Company, (ii) the periodic and recurring nature of payroll, upon which the service fees are based, and (iii) the fact that the Company is at risk for the payment of its direct costs regardless of whether its clients pay their service fees. To mitigate this risk, the Company has established very tight credit policies. The Company generally requires its clients to pay their service fees no later than one day prior to the applicable payroll date. In addition, the Company maintains the right to terminate its Client Service Agreement and associated worksite employees or to require prepayment, letters of credit or other collateral upon deterioration in a client's financial position or upon nonpayment by a client. As a result of these efforts, the outstanding balance of accounts receivable and subsequent losses related to customer nonpayment have historically been very low as a percentage of revenues. However, if the financial condition of the Company's customers were to deteriorate rapidly, resulting in nonpayment, the Company's accounts receivable balances could grow and the Company could be required to provide for additional allowances, which would decrease net income in the period that such determination was made.

FISCAL YEAR 2002 AS COMPARED TO FISCAL YEAR 2001 AS RESTATED

The results below reflect a restatement of the balance sheet and statement of income for the September 30, 2001 fiscal year end. As discussed in Note 12 of the financial statements included in this Form 10-K, the restatement has been required in order to properly reflect certain footnote disclosures and adjustments regarding the Company's supplemental executive retirement plan adopted on October 1, 2000.

TeamStaff's revenues for the fiscal years ended September 30, 2002 and 2001 were $665,965,000 and $649,727,000 respectively, which represents an increase of $16,238,000 or 2.5%. While our Medical Staffing business continued its strong growth, growing $10,419,000, or 16.2%, over last year, PEO revenues grew $5,477,000, or 0.9%, over the same period last year. The modest growth in revenue in PEO is principally the result of two factors: the sale of our El Paso based PEO business in September 2001 and the loss of a major customer. In fiscal 2001, the El Paso business accounted for approximately $27,700,000 in PEO revenue. In addition, a large customer in our Boca Raton, Florida PEO region filed for bankruptcy protection in the fourth quarter of fiscal 2001 and we ceased providing services to the entity effective in July 2001. This resulted in a loss in revenue of approximately $23,900,000. Our PEO revenue growth is also being affected in part by the program, begun in the second fiscal quarter of 2002, to review the profitability of all PEO clients and effect price increases where appropriate to meet a targeted level of profitability. This loss in business was somewhat offset by revenue generated by our acquisition of the assets of Corporate Staffing Concepts in January of 2002, which generated revenue of $17.9 million.

Direct expenses were $632,320,000 for the fiscal year ended September 30, 2002 and $621,630,000 for the comparable period last year, representing an increase of $10,690,000 or 1.7%. As a percentage of revenue, direct expenses for 2002 and 2001 were 95.0% and 95.7%, respectively. This decrease is due primarily to the settlement of approximately four years of workers' compensation programs with one of our former insurance carriers resulting in a reduction of direct expense by $2,661,000. In addition, the Medical Staffing business made up a larger percentage of TeamStaff's consolidated revenue this year versus fiscal 2001, with its lower direct expenses as a percentage of its revenue. In the fiscal year ended September 30, 2002, the Medical Staffing business made up 11.2% of TeamStaff's consolidated revenue versus 9.9% in the fiscal year ended September 30, 2001.

Included in fiscal 2002 direct expenses is a charge of approximately $760,000, incurred in the fourth fiscal quarter, to increase the workers' compensation reserves for the CNA policy period from January 22, 2001 to March 21, 2002. In the third fiscal quarter ended June 30, 2002,TeamStaff took a $200,000 charge to increase its workers' compensation reserves for the same policy period. At that time, we believed that TeamStaff's reserves for this policy period were adequate to cover future loss development. However, in the fourth fiscal quarter, we determined that CNA had not been reflecting actual losses from claims on its monthly reports on a timely basis. As a result, based upon the loss runs received from CNA in the fourth calendar quarter, TeamStaff was required to increase its reserves to cover the more current exposure. We have attempted, unsuccessfully, to get any response from CNA management to resolve this issue. On January 27, 2003, TeamStaff filed a complaint of unfair or deceptive acts or practices in the business of insurance against CNA with the New Jersey Division of Insurance. Although TeamStaff has increased its workers' compensation loss reserves to reflect this potential liability, we presently do not plan to fund the losses until the matter is resolved with CNA. In the fiscal year ended September 30, 2001, TeamStaff recorded a $582,000 workers' compensation charge to increase our workers' compensation reserve for the policy period covering August 1, 1999 to January 21, 2001. This coverage was with another insurer with whom TeamStaff settled all liability for future adjustments in August 2002.

Gross profit was $33,645,000 and $28,097,000 for the fiscal years ended September 30, 2002 and 2001, respectively, representing an increase of $5,548,000 or 19.8%. Gross profit, as a percentage of revenue, was 5.1% and 4.3% for the fiscal years ended September 30, 2002 and 2001, respectively. The increase in the gross profit percentage is primarily due to the $2,661,000 insurance settlement previously mentioned offset by the $960,000 charge mentioned above, the continued growth in the Medical Staffing business and the increased profitability in the PEO business. As previously stated, TeamStaff reflected a $582,000 workers' compensation charge in the third fiscal quarter of 2001, to increase reserves to the maximum limit for the policy periods from August 1, 1999 through January 21, 2001 based upon the increased development of incurred losses.

Selling, general and administrative (SG&A) expenses for the fiscal years ended September 30, 2002 and 2001 were $28,321,000 and $23,395,000, respectively, representing an increase of $4,926,000 or 21.1%. As a percentage of revenue, SG&A expenses increased to 4.3% in the fiscal year ended September 30, 2002 versus 3.6% in the fiscal year ended September 30, 2001. Of this increase, $1,815,000 was due to the acquisition of BrightLane, while $352,000 was due to the acquisition of certain assets from Corporate Staffing Concepts LLC . The SG&A expenses in the Medical Staffing business grew by $1,135,000, in order to support its growing business. Corporate overhead grew by $2,035,000 which was mainly due to: $159,000 in acquisition costs incurred in two aborted PEO acquisition efforts; $400,000 in staff additions; $175,000 due to a bonus given to the Chief Executive Officer upon the successful negotiation of TeamStaff's new workers' compensation policy; $240,000 due to investment banking fees and related costs incurred with respect to the analysis of strategic alternatives associated with the Medical Staffing business; $283,000 in higher corporate insurance associated with the growth of TeamStaff as well as due to much higher rate increases throughout the insurance market; and $329,000 in costs associated with TeamStaff's year-end accounting issues associated with the restatement of 2001 and the hiring of new auditors. Excluding the SG&A expenses from the acquisition of Corporate Staffing Concepts, PEO SG&A expenses were $389,000 lower than last year.

Depreciation and amortization for the fiscal years ended September 30, 2002 and 2001 were $1,413,000 and $1,424,000, respectively, representing a decrease of $11,000 or 0.8%. As a result of implementing SFAS No.142 as of October 1, 2001, TeamStaff has ceased amortizing any indefinite life intangible assets and goodwill. In the fiscal year ended September 30, 2001, we amortized $948,000 in intangible assets and goodwill. This decrease was substantially offset by depreciation expense from the software and hardware acquired in the BrightLane transaction.

Interest and other income for the fiscal years ended September 30, 2002 and 2001 were $1,117,000 and $959,000, respectively, representing an increase of $158,000 or 16.5%. Of this increase, $218,000 relates to increased late payment fee income in the Medical Staffing business, and $60,000 reflects the referral fees TeamStaff is receiving as a result of the referral to a third party of certain of the former Medical Staffing business when we closed our Houston Medical Staffing service office in April 2002. This was reduced somewhat by lower interest rates on overnight investments.

Interest and other expense were $168,000 in the fiscal year ended September 30, 2002 as compared to $1,274,000 in fiscal year ended September 30, 2001, representing a decrease of $1,106,000 or 86.8%. These decreases were due to the retirement of our debt facility with FINOVA Capital effected August 31, 2001.

Income tax expense, before the impact of an extraordinary item, for the fiscal year ended September 30, 2002 was $1,785,000 versus $1,261,000 fiscal 2001. The fiscal 2002 and 2001 income tax expenses were reduced by $239,000 and $218,000, respectively, in tax credits that are available to us. TeamStaff's effective tax rate was 36.7% and 42.6% for the fiscal years ended September 30, 2002 and 2001, respectively. The decrease in the effective tax rate relates primarily to non-deductible goodwill, which, as of October 1, 2001, is no longer amortized as a result of implementing SFAS No. 142.

Income before extraordinary item for the fiscal years ended September 30, 2002 and 2001 were $3,075,000 and $1,702,000, respectively, representing an increase of $1,373,000 or 80.7%. As mentioned above, this favorable improvement was due to the favorable settlement of workers' compensation claims offset by an increase in our CNA workers' compensation reserves. In addition, TeamStaff incurred additional one-time selling, general and administrative costs as discussed above. All business units' profitability increased over last year as reported in TeamStaff's Segment Reporting disclosure.

The extraordinary item net of taxes pertains to the unamortized financing costs and fees, associated with the FINOVA loans, written off when these loans were retired early in April and August 2001. These loans had a remaining life at the time of payment of approximately two years (April 2003).

Net income for the fiscal year ended September 30, 2002 was $3,075,000, or $0.19 per fully diluted share, as compared to $1,348,000, or $0.15 per fully diluted share, for the fiscal year ended September 30, 2001.

FISCAL YEAR 2001 AS RESTATED AS COMPARED TO FISCAL YEAR 2000

The results below reflect a restatement of the balance sheet and statement of income for the September 30, 2001 fiscal year end. As discussed in Note 12 in the financial statements included in this Form 10-K, the restatement has been required in order to properly reflect certain footnote disclosures and adjustments regarding the Company's supplemental executive retirement plan adopted on October 1, 2000.

Our revenues for the fiscal year ended September 30, 2001 were $649,727,000 as compared to fiscal year 2000 of $447,743,000, which represents an increase of $201,984,000 or 45.1%. Driving this growth was the performance of our "TeamStaff SB" division (formerly operated as the "Synadyne" division) and our HR2 subsidiary that were acquired in April and October 2000, respectively, and therefore not fully included in the prior year's figures. These two acquisitions accounted for $111,932,000 and $37,206,000 of the revenue growth for the year. Internal growth accounted for the remaining $52,846,000 increase in revenue, representing an increase of 11.8% over fiscal 2000. Our TeamStaff Rx division accounted for $22,000,000 of this growth increase and again experienced a strong year.

Direct expenses for fiscal 2001 were $621,630,000 as compared to $426,987,000 for fiscal 2000, which represents an increase of $194,643,000 or 45.6%, in line with our revenue growth. As a percentage of revenue, direct expenses for the fiscal years 2001 and 2000 were 95.7% and 95.4% respectively.

Gross profits were $28,097,000 and $20,756,000 for fiscal years 2001 and 2000, respectively, representing an increase of $7,341,000 or 35.4%. Gross profits, as a percentage of revenue, were 4.3% and 4.6% for the fiscal years 2001 and 2000, respectively. Workers' compensation profit increased slightly over last year, despite recording a $582,000 charge in this year's third fiscal quarter to increase our loss reserves to the maximum liability for the policy periods ending July 31, 2000 and January 21, 2001. Additionally, due to administrative challenges and difficulties associated with multiple software platforms, we failed to terminate benefit coverage for worksite employees of the PEO operations on a timely basis. This resulted in unrecoverable benefit losses of approximately $500,000.

Selling, general and administrative expenses ("SG&A") for fiscal 2001 increased $6,390,000, or 37.6%.

This increase is attributed to the Synadyne acquisition ($2,544,000), the HR2 acquisition ($683,000), the BrightLane acquisition ($288,000), the $142,000 in expenses incurred in an aborted acquisition and the $72,000 in costs incurred in our listing with the Nasdaq National Market. After adjusting for these aforementioned increases, SG&A increased $2,661,000, or 15.7% over the same period last year. Of this increase, $1,172,000 was due to our medical staffing business, which grew revenue by approximately $22,000,000. SG&A expenses as a percentage of revenue were 3.6% and 3.8% for the fiscal years 2001 and 2000 respectively.

Depreciation and amortization increased $91,000, or 6.8%, in fiscal 2001 primarily due to amortization of goodwill from the acquisitions of the assets of Synadyne in April 2000 and the stock of HR2 in October 2001, offset by a reduction in depreciation expense from assets that were fully depreciated in fiscal 2001.

Interest income in fiscal 2001 increased $327,000, or 56%, due to increased late payment fees, as well as the continuing increase in TeamStaff's cash flow.

Interest expense in fiscal 2001 decreased $327,000,or 20.4%, due to retirement of the FINOVA debt in April and August 2001.

Income tax expense, before the impact of an extraordinary item, for fiscal 2001 was $1,261,000 versus $428,000 in fiscal 2000. The higher expense is associated with the higher level of earnings. The fiscal 2001 and 2000 income tax expenses were reduced by $218,000 and $374,000, respectively, in tax credits that are available to us. TeamStaff's effective tax rate for fiscals 2001 and 2000 were 42.5% and 31.0% respectively. The lower effective tax rate in fiscal 2000 is attributed to the tax credits that made up a larger percentage of income tax expense in fiscal 2000 then in fiscal 2001.

Income before extraordinary item was $1,702,000 versus $951,000 in fiscal 2000, representing a growth of $751,000, or 79%. The performance of our temporary staffing and payroll services business continues to drive the earnings of TeamStaff. Income before taxes and extraordinary items for the temporary staffing and payroll services businesses were $7,697,000 and $1,794,000, respectively. PEO continues to be the major growth area and one in which we continue to concentrate our efforts. The loss before income taxes for PEO, as reflected in the Segment Reporting Note 9 contained in our financial statements, was $9,000. Included in this loss is the $200,000 in losses suffered by our El Paso office (sold in September 2001), as well as the unrecoverable benefit losses discussed above.

The extraordinary item net of taxes pertains to the unamortized financing costs and fees, associated with the FINOVA loans, written off when these loans were retired early in April and August 2001. These loans had a remaining life at the time of payment of approximately two years (April 2003).

Net income for fiscal 2001 was $1,348,000 versus $951,000 in fiscal 2000, representing a growth of $397,000, or 41.8%. This increase in earnings is attributable to the reasons elaborated above.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities for the fiscal year 2002 was $1,176,000 compared to $3,871,000 during fiscal 2001. The decrease in cash from operations compared to last year relates primarily to timing of payments in this period versus the same period last year in accounts payable, accrued payroll and expenses. The timing and amounts of such payments can vary significantly based on various factors, including the day of the week on which a month ends and the existence of holidays on or immediately following a month end. In addition there was an increase in other current assets of $3,545,000 primarily resulting from prepayments to our workers' compensation insurance carrier and a lower increase in accounts receivable than the prior period due to the change in payment terms in a market segment of the PEO business, offset to some extent by the continued earnings improvement of the Company.

Cash used in investing activities of $2,910,000 was primarily related to: costs incurred for the licensing of the Lawson financial system amounting to $814,000; capitalized internally developed software of $566,000; other computer hardware and software acquisitions of $408,000; and capital additions associated with the move to our new PEO location in Boca Raton, Florida of $246,000. Cash invested in acquisitions of $727,000 was due to the purchase of the assets of Corporate Staffing Concepts amounting to $282,000 and additional charges to goodwill associated with the acquisition of BrightLane of $440,000, which were related to adjustments of estimates for professional services and employment contracts.

The cash provided by financing activities of $464,000 included the tax benefit resulting from stock options exercised in connection with the acquisition of BrightLane, recorded as additional paid in capital, offset substantially by the repurchase of $1,146,000 of the Company's stock.

As of September 30, 2002, the Company had cash and cash equivalents of $12,455,000 and net accounts receivable of $24,569,000.

Management of the Company believes that its existing cash will be sufficient to support cash needs for the next twelve months. The amount of available cash includes cash held for future payroll and other related taxes payable on a quarterly basis.

On July 22, 1999, the Board of Directors authorized the Company to repurchase up to 3% of the outstanding shares of the Company's common stock. Since inception through September 30, 2002, the Company has repurchased 330,256 shares at an average cost of $4.99 per share. These share repurchases are reflected as treasury shares in the Company's financial statements and will eventually be retired. During the fiscal year ended September 30, 2002, 242,945 shares were purchased at a cost of $1,146,000. In November 2002, the Board of Directors authorized an additional purchase of up to $1,000,000 in stock.

On April 9, 2002, the Company entered into a revolving loan facility with Fleet National Bank (Fleet). The total outstanding loan amount cannot exceed at any one time the lesser of $7,000,000 or the sum of 85% of qualified accounts receivable, less an amount reserved by Fleet to support ACH processing exposure. The interest rate is either the Fleet prime rate or LIBOR, at the discretion of the Company, and is currently 4.25%. The facility is collateralized by substantially all of the assets of the Company, including its accounts receivables. The facility is subject to certain covenants including, but not limited to, interest rate coverage of 2.0 to 1.0, total liabilities to tangible net worth ratio of 2.0 to 1.0, and minimum working capital of $10,000,000. As of September 30, 2002, there was no amount outstanding on the credit facility. The Company has an outstanding letter of credit of $4,150,000 under the facility for the Company's workers' compensation policy, as previously mentioned.

Inflation and changing prices have not had a material effect on the Company's net revenues and results of operations in the last three fiscal years, as the Company has been able to modify its prices and cost structure to respond to inflation and changing prices.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

During June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations (SFAS No. 141) and No. 142, Goodwill and Other Intangible Assets (SFAS No. 142). SFAS No. 141 changes the accounting for business combinations, requiring that all business combinations be accounted for using the purchase method and that intangible assets be recognized as assets apart from goodwill if they arise from contractual or other legal rights, or if they are separable or capable of being separated from the acquired entity and sold, transferred, licensed, rented or exchanged. SFAS No. 141 is effective for all business combinations initiated after June 30, 2001. SFAS No. 142 specifies the financial accounting and reporting for acquired goodwill and other intangible assets. Goodwill and indefinite life intangible assets will not be amortized but rather will be tested at least annually for impairment. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. However, early adoption is allowed and the Company has adopted SFAS No. 142 as of October 1, 2001.

SFAS No. 142 requires that the useful lives of intangible assets acquired on or before June 30, 2001 be reassessed and the remaining amortization periods adjusted accordingly. Previously recognized intangible assets deemed to have indefinite lives should be tested for impairment. The Company's intangible assets consist primarily of the TeamStaff trade name and the First Union/Wachovia Relationship. This relationship requires First Union/Wachovia to promote TeamStaff's services to its banking customers throughout the United States. The Company's First Union relationship and TeamStaff tradename have indefinite lives and are no longer being amortized effective October 1, 2001 because they are expected to generate cash flows indefinitely. The effect of not amortizing goodwill and intangible assets on income before income taxes and net income for the fiscal year ended September 30, 2002 is $948,000 and $778,000, respectively. The Company estimates that net income and diluted earnings per share after extraordinary items would have been approximately $2,126,000 and $0.24, respectively, for the fiscal year ended September 30, 2001 had the provisions of the new standard been applied as of October 1, 2000. The Company estimates that net income and diluted earnings per share would have been approximately $1,680,000 and $0.21, respectively, for the fiscal year ended September 30, 2000 had the provisions of the new standard been applied as of October 1, 1999. The Company tested its intangible assets during the first quarter of fiscal year 2002, as required by SFAS No. 142, and there was no impairment. The Company has tested its goodwill for impairment during the second quarter of fiscal 2002 as required by SFAS No. 142 and there is no impairment. The Company again tested its intangibles and goodwill as of September 30, 2002, and there is no impairment. As of September 30, 2002, total goodwill was $27,167,000 consisting of $25,462,000 and $1,705,000 for the PEO and Medical Staffing segments respectively. Goodwill for the fiscal year ended September 30, 2002 increased $726,000. The increase, all of which related to PEO operations, resulted primarily from the acquisition of Corporate Staffing Concepts, LLC and additional costs associated with the BrightLane acquisition.

In June 2001, the Financial Accounting Standards Board issued SFAS No. 143, Accounting for Asset Retirement Obligations. SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs and is effective for the fiscal years beginning after June 15, 2002. Management does not expect the impact of SFAS No. 143 to be material to the Company's consolidated financial statements.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, and establishes a single accounting model for the impairment or disposal of long-lived assets. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. Management does not expect the impact of SFAS No. 144 to be material to the Company's consolidated financial statements.

On May 1, 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 is effective for the Company's fiscal year beginning October 1, 2002. The Company anticipates no impact from this standard on the Company's financial statements.

On July 30, 2002, the FASB issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"), that is applicable to exit or disposal activities initiated after December 31, 2002. This standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. This standard does not apply where SFAS 144 is applicable.

On December 31, 2002, the FASB issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure" ("SFAS 148"), that is applicable to financial statements issued for fiscal years ending after December 15, 2002. In addition, interim disclosure provisions are applicable for financial statements issued for interim periods beginning after December 15, 2002. This standard amends SFAS 123 and provides guidance to companies electing to voluntarily change to the fair value method of accounting for stock-based compensation. In addition, this standard amends SFAS 123 to require more prominent and more frequent disclosures in financial statements regarding the effects of stock-based compensation.

ITEM 7a QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company 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. The Company has no material interest rate risk, except with respect to our workers' compensation programs, and is not materially subject to fluctuations in foreign exchange rates, commodity prices or other market rates or prices from market sensitive instruments. In connection with TeamStaff's workers' compensation programs, prepayments of future claims are 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 future periods decrease, TeamStaff's workers' compensation expense would increase because TeamStaff would be entitled to less interest income on the deposited funds.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

See attached Financial Statements beginning on page F-1 attached to this report on Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

TeamStaff has previously reported on Forms 8-K under the Securities and Exchange Act of 1934 changes in its independent public accountants during the fiscal year ended September 30, 2002 and a subsequent change on December 13, 2003, which is part of the current fiscal year ending September 30, 2003.

These reports on Form 8-K reflected:

1. On April 10, 2002, the Board of Directors of TeamStaff and its Audit Committee decided to no longer engage Arthur Andersen LLP as TeamStaff's independent public accountants and engaged PricewaterhouseCoopers, LLP to serve as its independent public accountants for the fiscal year ending September 30, 2002.

2. On December 13, 2002, the Audit Committee of TeamStaff dismissed PricewaterhouseCoopers LLP as the Company's independent public accountants and subsequently engaged Lazar Levine & Felix LLP to serve as the Company's independent public accountants.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS

The executive officers and directors of TeamStaff as of February 3, 2003 are as follows:

NAME	AGE	OFFICE
T. Stephen Johnson	53	Chairman of the Board of Directors Class 1
Karl W. Dieckmann	74	Vice-Chairman Class 2
Martin Delaney	59	Director Class 3
Benjamin J. Dyer	54	Director Class 2
Rocco J. Marano	74	Director Class 3
Elizabeth Hoaglin	57	President, TeamStaff Rx, Inc.
Donald W. Kappauf	56	President, Chief Executive Officer, Director Class 2
Edmund Kenealy	40	Vice President, General Counsel
Wayne Lynn	58	Chief Operating Officer, PEO Division
Gerard A. Romano	45	Corporate Controller

Our board is classified into three classes which are each elected in staggered three year terms.

Martin J. Delaney joined the Board of Directors in July 1998. Mr. Delaney is an attorney and a prominent healthcare executive who began his hospital management career in 1971 as an Assistant Administrator at Nassau County Medical Center. He has been a director of a large regional Health Maintenance Organization on Long Island, the Hospital Association of New York State, the Greater New York Hospital Association, and chairman of the Nassau-Suffolk Hospital Council. He has been President, CEO and a director of Winthrop University Hospital, Winthrop South Nassau University Health Care Systems, and the Long Island Health Network. He has a graduate degree in health care management from The George Washington University and a law degree from St. John's University. He has been admitted to practice in New York State and federal courts.

Karl W. Dieckmann, a Director of the Company since April 1990, had been Chairman of the Board from November 1991 until September 2001 and has been Vice Chairman since September 2001. From 1980 to 1988, Mr. Dieckmann was the Executive Vice President of Science Management Corporation and managed the Engineering, Technology and Management Services Groups. From 1948 to 1980, Mr. Dieckmann was employed by the Allied Signal Corporation (now Honeywell Corporation) in various capacities including President, Semet Solvay Division; Executive Vice President, Industrial Chemicals Division; Vice President Technical -- Fibers Division; Group General Manager -- Fabricated Products Division; and General Manager -- Plastics Division, as well as various positions with the Chemicals Division.

Benjamin J. Dyer joined the Board of Directors in December 2002. Mr. Dyer is currently a general partner of Cordova Intellimedia Ventures and is President of Innovations Publishing, LLC, an Atlanta based company, which provides a subscription-based online catalog of emerging technology ventures. He also chairs the editorial boards of Catalyst and Business-to-Business magazines in Atlanta. In the 1980s Mr. Dyer served as chairman and CEO of Comsell, Inc., a pioneering multimedia development firm and was president and a director of the de novo Enterprise National Bank. Mr. Dyer founded Intellimedia Sports, Inc. in 1992 to create the ESPN-branded sports instruction category in the CD-ROM industry. He was earlier a founder of Peachtree Software, Inc. and served as its President from 1977 to September 1983. He currently serves on a number of private boards including eBroadcasters, PMFM, Quellan and FundRaisingInfo.com. He concentrates his community activities on higher education and has been president of the Georgia Tech Alumni Association, a director of the Georgia Tech Foundation and chairman of the Alumi Advisory Board for Tech's School of Industrial & Systems Engineering. He is currently Chairman of the Georgia Tech Research Corporation and serves on the advisory boards of the Georgia Tech Research Institute and Georgia State University's Robinson College of Business. Mr. Dyer holds a Bachelors degree in Industrial Engineering from Georgia Tech and an MBA in finance from Georgia State University

Elizabeth L. Hoaglin joined the Company as President of the TeamStaff Rx Division in 1994, when the Company acquired RADS Technology, Inc. ("RADS"), of which she was President and founder. Ms. Hoaglin established RADS in 1980 in Clearwater, FL. This was the first temporary staffing firm that specialized in placing radiology professionals. In 1983, RADS began providing traveler technologists to hospitals and clinics nationwide. In 1984, RADS began staffing radiation therapy, providing a niche market for Therapists, Dosimetrists and Medical Physicists. Prior to starting RADS, Ms. Hoaglin was a Radiological Technologist herself, graduating from Saint Anthony's Hospital in St. Petersburg, Florida. Ms. Hoaglin worked as a technologist for major hospitals and physicians office for over fifteen years. Ms. Hoaglin is active in numerous professional, business and civic organizations and frequently writes articles for publication in the radiology industry's journals.

T. Stephen Johnson has been Chairman of the Board of TeamStaff since September 2001. He has served as Chairman of T. Stephen Johnson & Associates, Inc., financial services consulting firm, and its related entities since inception in 1986. Mr. Johnson is a long-time banking consultant and Atlanta entrepreneur who has advised and organized dozens of community banks throughout the Southeast. He is Chairman Emeritus and a Director of Netbank, the largest and most successful Internet-only bank, as well as Chairman and principal owner of Bank Assets, Inc., a provider of benefit programs for directors and officers of financial institutions. Mr. Johnson is Chairman of the Board of Directo, Inc., a company specializing in providing financial services for unbanked individuals and Vice Chairman of Florida Bank.

Donald W. Kappauf became President and Chief Executive Officer of the Company on December 16, 1997. Mr. Kappauf joined the Company in 1990 and has held several senior management positions including Division President and Executive Vice President. From 1988 to 1990, Mr. Kappauf was President of Perm Staff/Temp Staff in Princeton, New Jersey. He was Assistant Vice President of SMC Engineering and then President of SMC Personnel Support.

Edmund C. Kenealy has been Vice President, General Counsel of the Company since November 2001. Mr. Kenealy joined the Company as Vice President, Legal & Regulatory Affairs (PEO Division) in October 2000 upon its acquisition of HR2, Inc., where he was Vice President, General Counsel and Vice President, Operations. Prior to joining HR2, Inc. in April 1998, Mr. Kenealy was Assistant General Counsel of ManagedComp, Inc. from 1993 to 1998. He was previously associated with the Boston offices of Nutter, McClennen & Fish and Skadden, Arps, Slate, Meagher & Flom. He is a graduate of Dartmouth College and the Vanderbilt University School of Law. He is admitted to practice in Massachusetts and the District of Columbia.

Wayne R. Lynn joined the Company as Area Vice President in October 2000, when the Company acquired HR2, Inc., of which he was Chief Executive Officer and a principal owner. In March 2002, Mr. Lynn was appointed Chief Operating Officer of the Company's PEO Division. Prior to his 7-year involvement in the PEO industry, Mr. Lynn was engaged in the insurance industry for more than 20 years. He served as President and CEO of Founders Financial Corporation, a publicly owned insurance holding company, from 1981 to 1987 and as President and CEO of Capital Investors Life Insurance Company from 1987 to 1994. He also served on the Board of Directors of Gulf/Bay Bank of Tampa, Florida, and South Trust Bank of Florida. Mr. Lynn is a graduate of the U.S. Naval Academy, the U.S. Navy Supply Corps School, and the U.S. Navy Transportation Management School. Mr. Lynn has also completed numerous graduate level business management courses at the California State University at Hayward, California. He has held licenses to sell Life, Health, and Property/Casualty Insurance, Variable Annuities and Securities. He is currently licensed as an insurance third-party administrator.

Rocco Marano served as member of the Board of Directors from July 1999 thru September 2001. He rejoined the Board of Directors in November 2002. Mr. Marano, a prominent telecommunications executive, is the retired chairman and President of Bellcore, Inc. a Bell Communications research and engineering entity formerly owned by the seven Bell regional communications companies. His present additional board affiliations include computer Horizons Corp. He has also served as Chairman of Horizon Blue Cross/Blue Shield of New Jersey.

Gerard A. Romano has been Corporate Controller of TeamStaff since he joined the Company in September 2001. Prior to joining TeamStaff, he was Vice President of Administration at Jet Aviation from December of 2000 to September of 2001. Prior to Jet Aviation, he was employed by the PQ Corporation from January of 1980 through December of 2000, where he held various positions including Vice President and Chief Financial Officer of PQ's European Joint Venture, Akzo-PQ Silica, Director of Corporate Development and Director of Financial Planning and Analysis. He is a graduate of William Paterson University.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION IN COMPENSATION DECISIONS

Steven Johnson, Karl W. Dieckmann and Martin J. Delaney served on the Compensation Committee during the last fiscal year ended September 30, 2002. There are no interlocks between TeamStaff's Directors and Directors of other companies.

MEETINGS OF THE BOARD OF DIRECTORS AND COMMITTEES

During the fiscal year ended September 30, 2002, the Board of Directors met on 8 occasions, one of which was by telephone conference call.

The Board of Directors has four committees: Audit, Compensation, Executive and Nominating Committees.

For the fiscal year ended September 30, 2002, the members of the committees, and a description of the duties of the Committees were as follows:

Audit Committee. TeamStaff's audit committee acts to:(i) review with management the finances, financial condition and interim financial statements of TeamStaff; (ii) review with TeamStaff's independent auditors the year-end financial statements; and (iii) review implementation with the independent auditors and management any action recommended by the independent auditors and the retention and termination of the Company's independent auditors. During the fiscal year ended September 30, 2002, the audit committee met on six occasions.

The audit committee adopted a written charter governing its actions effective June 14, 2000. During the fiscal year, the members of the audit committee were Donald McLeod, Martin Delaney and Susan Wolken. All three of these members of TeamStaff's audit committee were "independent" within the definition of that term as provided by Rule 4200(a)(14) of the listing standards of the National Association of Securities Dealers. Donald McCleod and Susan Wolken have resigned from the Board and are no longer members of the audit committee. Audit committee members as of February 3, 2003 are Martin Delaney, Karl W. Dieckmann, T. Stephen Johnson, and Rocco J. Marano. Martin Delaney was elected as its chairman.

Compensation Committee. The compensation committee functions include administration of TeamStaff's 2000 Employee Stock Option Plan and Non-Executive Director Stock Option Plan and negotiation and review of all employment agreements of executive officers of the Company. The compensation committees' members are Karl W. Dieckmann, T. Stephen Johnson and Martin J. Delaney. Karl W. Dieckmann was elected as its chairman. During the fiscal year ended September 30, 2002, the committee met on 4 occasions.

Nominating Committee. The nominating committee functions include the review of all candidates for a position on the board of directors including existing directors for renomination and reports its findings with recommendations to the Board. The nominating committee solicits candidates on behalf of TeamStaff to fill any vacancy on the Board. The nominating committee performs such other duties and assignments as directed by the Chairman or the Board but shall have no power to add or remove a director without the approval of the Board. During the fiscal year, the nomination committee members were Donald W. Kappauf and Susan A. Wolken. During the fiscal year ended September 30, 2002, the committee did not meet. Susan Wolken has resigned from the Board and is no longer a member of the nominating committee. Nominating committee members as of December 30, 2002 are Karl W. Dieckmann, T. Stephen Johnson and Donald W. Kappauf. Karl W. Dieckmann was elected it's chairman.

Executive Committee. The Board of Directors created an Executive Committee effective September 4, 2001. The members are T. Stephen Johnson, Karl W. Dieckmann and Donald W. Kappauf. T. Stephen Johnson serves as its chairman. This committee met 4 times via telephone during the fiscal year ended September 30, 2002.

No member of the Board of Directors or any committee failed to attend or participate in fewer than 75% of the meetings of the Board or committee on which such member serves.

ITEM 11. EXECUTIVE COMPENSATION

The following provides certain summary information concerning compensation during the years ended September 30, 2002, 2001 and 2000 paid to or earned by TeamSaff's Chief Executive Officer and each of the executive officers and key employees of the Company who received in excess of $100,000 in compensation during the last fiscal year.

		ANNUAL COMPENSATION			LONG TERM COMPENSATION
NAME AND PRINCIPAL POSTION	YEAR	SALARY	BONUS	OTHER	OPTIONS/SAR'S
Donald W. Kappauf,	2002	$300,000	$477,500	$26,163	-0-
Chief Executive Officer	2001	$267,130	$200,000	$46,268	300,000
	2000	$230,126	-0-	$17,251	57,143
Donald T. Kelly (1)	2002	$200,000	$151,250	$18,205	-0-
Chief Financial Officer	2001	$177,247	$100,000	$18,172	150,000
	2000	$165,000	-0-	$12,231	14,286
Elizabeth Hoaglin	2002	$114,250	$149,289	$3,600	50,000
	2001	$ 95,159	$173,885	$3,600	10,000
	2000	$ 86,662	$ 92,050	$3,600	4,286
Edmund Kenealy	2002	$135,000	$25,000	$15,859	50,000
	2001	$100,000	$15,000	$15,859	10,000
	2000	-0-	-0-	-0-	-0-
Wayne R. Lynn	2002	$139,615	$30,000	$15,589	50,000
	2001	$117,949	$ 5,000	$15,589	22,500
	2000	-0-	-0-	-0-	-0-

(1) Donald T. Kelly was relieved of his responsibilities as Vice President, Chief Financial Officer and Secretary effective December 10, 2002. Mr Kelly continues to be a TeamStaff employee. In light of the determinations made by Lazar regarding the Company's internal controls and systems, and the results of its audit and review of the issues involved with the SERP plan and the restatement of the 2001 fiscal period the Audit Committee and the Board of Directors are reviewing the status of Mr. Kelly's employment.

The Company provides normal and customary life and health insurance benefits to all of its employees including executive officers. The Company has a 401(k) plan that is voluntary.

COMPENSATION OF DIRECTORS

During the fiscal year ended September 30, 2002, the Chairman and Vice-Chairman of the Board each receive $2,500 per month. Non-Employee Directors receive $1,500 per board meeting and $1,000 per non-board meeting, related travel expenses, and $600 for each committee meeting attended. Directors may also receive $1,000 per meeting with executives, which do not constitute Board or Committee meetings. The Directors' Plan also provides that directors, upon joining the Board, and for one (1) year thereafter, will be entitled to purchase restricted stock from the Company 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 November 19, 2002, the board amended the new compensation terms for the members of the Board and committees. The Chairman and Vice-Chairman of the Board each receive $3,000 per month. The Chairman of the Audit Committee receives $2,500 per month. All other independent Directors receive $1,667 per month, and $1,500 for each board meeting attended, $600 for each committee meeting attended, plus related travel expenses. The Chairman of all other committees receives $1,000 for each committee meeting attended.

EMPLOYMENT AGREEMENTS

TeamStaff entered into a new employment agreement with Mr. Donald Kappauf, TeamStaff's President and Chief Executive Officer effective April 2, 2001 and terminating on September 30, 2003, unless extended. If the Company fails to notify Mr. Kappauf prior to six months before the date of termination that it does not intend to negotiate a renewal of the employment of Mr. Kappauf, then the agreement will be automatically extended for a period of one year.

Under the terms of this agreement, Mr. Kappauf's base compensation was initially $230,000, increasing to $300,000 commencing September 1, 2001, and subject to yearly increases thereafter at the discretion of the compensation committee. For the fiscal year ended September 30, 2002, Mr. Kappauf received a base salary of $300,000. Mr. Kappauf is also entitled to a bonus based on the achievement of certain performance criteria as determined by the compensation committee.

In addition, Mr. Kappauf receives certain other benefits including insurance benefits as are provided to all other executives, a car allowance in the amount of $1,000 per month, participation in the supplemental executive retirement plan and a split dollar life insurance arrangement. The agreement also provided for the grant of 300,000 stock options, which vested in annual increments of one third commencing on the date of the agreement. TeamStaff also entered into a severance agreement with Mr. Kappauf, as described below, which governs the termination of his employment and certain other events including a change of control of the Company.

TeamStaff entered into a new employment agreement with Mr. Donald Kelly, TeamStaff's former Chief Financial Officer, effective April 2, 2001 and terminating on September 30, 2003, unless extended. If the Company fails to notify Mr. Kelly prior to six months before the date of termination that it does not intend to negotiate a renewal of the employment of Mr. Kelly, then the agreement will be automatically extended for a period of one year.

Under the terms of this agreement, Mr. Kelly's base compensation was initially $170,000, increasing to $200,000 commencing September 1, 2001, and subject to yearly increases thereafter at the discretion of the compensation committee. For the fiscal year ended September 30, 2002, Mr. Kelly received a base salary of $200,000. Mr. Kelly is also entitled to a bonus based on the achievement of certain performance criteria as determined by the compensation committee.

In addition, Mr. Kelly receives certain other benefits including insurance benefits as are provided to all other executives, a car allowance in the amount of $800 per month, participation in the supplemental executive retirement plan and a split dollar life insurance arrangement. The agreement also provided for the grant of 150,000 stock options, which vested in annual increments of one third commencing on the date of the agreement. TeamStaff also entered into a severance agreement with Mr. Kelly, as described below, which governs the termination of his employment and certain other events including a change of control of the Company.

The split dollar life insurance agreements and supplemental executive retirement plan were approved by the Compensation Committee of the Board during the 2000 fiscal year and implemented effective October 1, 2000. Under the terms of the SERP, a participant receives a benefit sufficient to provide lump sum annual payments equal to approximately one-third of the participant's base salary on the date the participant becomes a participant. Payment of benefits commences when the participant reaches 65 years of age. The benefit under the SERP is subject to a seven-year vesting schedule (0%, 0%, 20%, 40%, 60%, 80%, 100%), based on the participant's original date of employment with the Company and contingent on the participant's reaching age 55; provided, however, a participant's benefit becomes fully vested upon a change of control, as defined in the SERP, if within two years of the change of control there is a material change in the participant's job title or responsibilities or if the participant's employment is terminated by the Company for any reason other than conviction for theft or embezzlement from the

Company. Additionally, if a participant retires by means of total disability (as defined in the SERP), the participant's benefit becomes fully vested and benefit payments commence as of the disability retirement date. The SERP does not provide a death benefit. Mr. Kappauf and Mr. Kelly are the only SERP participants at the present time.

SERP participants also are provided with a split dollar life insurance policy ("Policy"), insuring the life of the participant until the participant reaches age 65. Although the participant is the owner of the Policy, the Company pays all Policy premiums. Each participant has collaterally assigned the Policy to the Company to secure repayment of the premiums through either its cash surrender value or the Policy proceeds. The participant's right to the Policy vests in accordance with the same schedule as the SERP and with similar change of control provisions. Upon the participant's 65th birthday (and in certain other circumstances provided by the Policy agreement), the Company will release the collateral assignment of the Policy provided the participant releases the Company from all obligations the Corporation may have with respect to the participant (including those under the SERP). However, given the uncertainty regarding the Company's ability to continue to maintain this Policy payment arrangement in light of certain of the provisions of the Sarbanes-Oxley Act of 2002, the Company has discontinued paying Policy premiums on behalf of the Chief Executive Officer.

Pursuant to the severance agreement with Mr. Kappauf, in the event he is terminated by the Company for cause, he will be entitled only to his accrued compensation, which means his base salary, reimbursement of business expenses, vacation pay and earned but unpaid bonuses to the date of termination. "Cause" is defined to include conviction of a felony, an intentional and continual failure to substantially perform his duties or an intentional failure to follow or perform a lawful direction of the Board of Directors. If Mr. Kappauf is terminated for disability or death, he will be entitled to his accrued compensation and certain other payments such as the pro rata bonus amount. The pro rata bonus amount is defined as the amount equal to the greater of the most recent annual bonus amount paid or the annual bonus paid or payable for the full fiscal year ended prior to the termination, in either case pro-rated through the date of death or disability. In the event that Mr. Kappauf's employment terminates for any other reason, the agreement provides for payment of his accrued compensation, a pro rata bonus amount, a bonus amount allocated to the remainder of the term of his employment agreement, his base salary through the remainder of the term of his employment agreement, a severance payment equal to one year's base compensation, a payment equal to the cost of health and other similar benefits for a period of two years and costs associated with outplacement services. In the event of a change of control of the Company, and after such event Mr. Kappauf's employment is terminated (either by him or by the Company within 24 months of the event), he is entitled to his base salary, reimbursement of business expenses, vacation pay and earned but unpaid bonuses to the date of termination, as well as an additional severance payment equal to a cash payment of three times the amount of his five year average gross income and all options held by him are deemed vested. A change of control is defined to mean (i) an acquisition by a person (as defined under Section 13(d) of the Securities and Exchange Act of 1934) of 20% or more of the voting stock of the Company (ii) if the persons who comprise the Board of Directors as of May 22, 2002 cease to constitute two-thirds of the Board at any date, except a change of control does not occur if the nomination for election of new board members is approved by two-thirds of the existing board or (iii) the stockholders of the Company approve a merger or consolidation of the Company and the pre transaction stockholders fail to own 85% of the post transaction combined voting power. Further, if the Company is merged with, or sells substantially all of its assets prior to May 24, 2004, Mr. Kappauf is entitled, in addition to the other compensation payable upon a change of control, to a success fee equal to $2,000,000; provided that if the value to shareholders in connection with the sale is greater than $9.00 per share, the fee will be increased by the sum of $50,000 for each $.10 per share that exceeds $9.00.

The severance agreement with Mr. Kelly has terms which are substantially similar to those described above for Mr. Kappauf. The success fee payable to Mr. Kelly under his severance agreement is initially set at $1,000,000 and may be increased by the sum of $25,000 for each $.10 per share that the value obtained by shareholders exceeds $9.00. Until December 10, 2002, Mr. Kelly held the positions of Chief Financial Officer, Vice President, Finance and Secretary of the Company. In light of the circumstances regarding the removal of Mr. Kelly from his duties, Mr. Kelly may have reason to terminate his employment with the Company for "good reason" and exercise his rights under the severance agreement. The term good reason includes "a change in the [e]xecutive's status, title, position or responsibilities . . . ." Additionally, the removal of Mr. Kelly from his duties may have caused his benefits under the SERP to become fully vested. The Board of Directors has not made a final determination whether to reinstate Mr. Kelly to his position, and is reviewing the opinions expressed, and findings by, Lazar, TeamStaff's current independent auditors, in connection with this most recent audit and the evaluation of internal controls. The Board of Directors has not made a determination whether Mr. Kelly would be entitled to terminate his employment and exercise these rights pursuant to the severance agreement and be entitled to certain potential payments similar to those described above for Mr. Kappauf. In the event that Mr. Kelly exercises these rights, such termination is deemed proper, and Mr. Kelly is eligible to receive all potential compensation under the severance agreement and the SERP, the Company may be required to pay a sum, either directly to Mr. Kelly, in the case of the severance agreement, or to a trust, in the case of any payments to be made pursuant to the SERP, totaling approximately $1.1 million.

TeamStaff entered into a two year employment agreement with Edmund C. Kenealy effective October 2, 2000 under which Mr. Kenealy currently serves as Vice President, General Counsel, at an annual salary of $135,000 effective as of October 1, 2001. In addition, Mr. Kenealy is entitled to receive: (i) a yearly increase in annual compensation; and (ii) a bonus to be determined based on the achievement of certain performance criteria determined as of the commencement of each fiscal year. Mr. Kenealy receives certain other benefits granted to other members of the Company's senior management, including health and other insurance benefits, as well as a car allowance of $500 per month and three weeks annual vacation. The Company currently is negotiating the terms of a new employment agreement with Mr. Kenealy.

TeamStaff entered into a two year employment agreement with Wayne R. Lynn effective October 2, 2000 under which Mr. Lynn currently serves as Chief Operating Officer of the Company's PEO Division, at an annual salary of $150,000 effective as of March 19, 2002. In addition, Mr. Lynn is entitled to receive: (i) a yearly increase in annual compensation; and (ii) a bonus to be determined based on the achievement of certain performance criteria determined as of the commencement of each fiscal year. Mr. Lynn receives certain other benefits granted to other members of the Company's senior management, including health and other insurance benefits, as well as a car allowance of $500 per month and three weeks annual vacation. The Company currently is negotiating the terms of a new employment agreement with Mr. Lynn.

COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

This report is submitted by the compensation committee of the Board of Directors of TeamStaff. During the fiscal year ended September 30, 2002, the compensation committee was responsible for reviewing TeamStaff's stock plans and reviewing and approving compensation matters concerning the executive officers.

Overview and Philosophy. TeamStaff uses its compensation program to achieve the following objectives:

- To provide compensation that attracts, motivates and retains the talented, high caliber officers and employees necessary to achieve TeamStaff's strategic objectives, as determined by the compensation committee;

- To align the interest of officers with the success of TeamStaff;

- To align the interest of officers with stockholders by including long-term equity incentives; and

- To increase the long-term profitability of TeamStaff and, accordingly, increase stockholder value.

Compensation under the executive compensation program is comprised of cash compensation in the form of base salary, bonus compensation and long-term incentive awards, generally in the form of options to purchase common stock. In addition, the compensation program includes various other benefits, including medical and insurance plans, TeamStaff's 401(k) Plan and the employee stock option incentive plans, which plans are generally available to all employees of TeamStaff. In addition, the committee considers the eligibility of certain executive officers in a supplemental executive retirement plan ("SERP") as discussed below.

The principal factors which the compensation committee considered with respect to each officer's compensation package for fiscal year ended September 30, 2002 are summarized below. The compensation committee may, however, in its discretion, apply different or additional factors in making decisions with respect to executive compensation in future years.

Base Salary. Compensation levels for each of TeamStaff's officers, including the Chief Executive Officer, are generally set within the range of salaries that the compensation committee believes are paid to officers with comparable qualifications, experience and responsibilities at similar companies. In setting compensation levels, the compensation committee takes into account such factors as (i) TeamStaff's past performance and future expectations, (ii) individual performance and experience and (iii) past salary levels. The compensation committee does not assign relative weights or ranking to these factors, but instead makes a determination based upon the consideration of all of these factors as well as the progress made with respect to TeamStaff's long-term goals and strategies. Base salary, while reviewed annually, is only adjusted as deemed necessary by the compensation committee in determining total compensation for each officer. Base salary levels for each of TeamStaff's officers, other than the Chief Executive Officer, were also based in part upon evaluations and recommendations made by the Chief Executive Officer. Additionally, certain executives, including Donald Kappauf, the Chief Executive Officer, Donald Kelly, the former Chief Financial Officer, have existing employment agreements with TeamStaff which set forth certain levels of base salary and bonus compensations.

Equity Incentives. The compensation committee believes that stock participation aligns officers' interests with those of the stockholders. In addition, the compensation committee believes that equity ownership by officers help to balance the short-term focus of annual incentive compensation with a longer-term view and may help to retain key executive officers. Long-term incentive compensation, generally granted in the form of stock options, allows the officers to share in any appreciation in the value of TeamStaff's common stock.

In making stock option grants, the compensation committee considers general corporate performance, individual contributions to TeamStaff's financial, operational and strategic objectives, the Chief Executive Officer's recommendations, level of seniority and experience, existing levels of stock ownership, previous grants of restricted stock or options, vesting schedules of outstanding restricted stock or options and the current stock price. With respect to the compensation determination for the fiscal year ended September 30, 2002, the compensation committee believes that the current stock ownership position of the executive officers was sufficient to achieve the benefits intended by equity ownership. During the fiscal year ended September 30, 2002, the compensation committee approved the grant of 256,430 options, 150,000 of which were granted to executive officers.

Other Benefits. TeamStaff also has various broad-based employee benefit plans. Executive officers participate in these plans on the same terms as eligible, non-executive employees, subject to any legal limits on the amounts that may be contributed or paid to executive officers under these plans. TeamStaff offers a stock incentive plan and a 401(k) plan, which allows employees to invest in a wide array of funds on a pre-tax basis. TeamStaff also maintains insurance and other benefit plans for its employees, including executive officers of TeamStaff.

The compensation committee determined that the 401(k) plan did not provide sufficient retirement benefits to its top executive officers, including its Chief Executive Officer and Chief Financial Officer. Accordingly, during the fiscal year ended September 30, 2001, the compensation committee created the supplemental executive retirement plan or SERP to provide retirement benefits comparable with plans offered executives in comparable positions at other companies. Each corporate executive whose eligibility is specifically approved by the Compensation Committee will receive a benefit sufficient to provide lump sum annual payments equal to approximately one-third of the participant's base salary in effect on the date the participant enters the Plan for a period of 15 years, and a death benefit payable to the participant's beneficiaries. Payment of benefits commences upon the executive's reaching 65 years of age. The commencement of benefit payments is accelerated in the event the participant becomes totally disabled prior to retirement. A split dollar life insurance policy also is in place for each participant. The split dollar life insurance policy is designed to provide either a death benefit if the employee dies prior to retirement age, or, if the employee attains retirement age, the funds necessary for the payment of the SERP retirement benefit at retirement through the application of the policy's cash surrender value. At the present time, Donald Kappauf and Donald Kelly are the only participants in the SERP. The SERP plan became effective on October 1, 2000.

Chief Executive Officer Compensation. In the fiscal year ended September 30, 2002, Mr. Donald Kappauf, Chief Executive Officer, received a salary of $300,000, which represents an increase of approximately 12% from the prior year. In the fiscal year ended September 30, 2001, Mr. Kappauf received a base salary of $267,130, which represents a 16% increase from his base salary in the fiscal year ended September 30, 2000. The base salary is believed by the compensation committee to be consistent with the range of salary levels received by executives in a similar capacity in companies of comparable size. In addition, Mr. Kappauf received a bonus of $302,500 during the fiscal year ended September 30, 2002. The terms of Mr. Kappauf's employment compensation are determined primarily pursuant to his employment agreement, which was entered into in April 2001. Among other things, the employment agreement provides for the payment of certain bonuses based upon performance by TeamStaff, including earnings per share. The bonus payment was made in accordance with the employment agreement terms. Mr. Kappauf also received a special bonus of $175,000, to reward Mr. Kappauf for the extraordinary efforts and success in securing a new workers' compensation policy for the Company.

Additionally, in May 2002, the Committee approved severance agreements for each of Mr. Kappauf, the Chief Executive, and Mr. Kelly, the Chief Financial Officer during the fiscal year ended September 30, 2002. The Committee determined that these officers were essential to the Company, and that their continued retention, especially in the event of a threat of a change of control of the Company, necessitated that these executives be eligible for added compensation under certain conditions. The Committee believed that several factors out of the control of the Company and management made a potential change of control possible. These factors included the falling stock market generally, and the falling price of the Company's stock, even though the financial condition and performance of the Company had improved over prior years. The severance agreements also provide for additional financial and employment security under other conditions, such as termination without cause.

Tax Deductibility of Executive Compensation. Section 162(m) of the Code limits the tax deduction to TeamStaff to $1 million for compensation paid to any of the executive officers unless certain requirements are met. The compensation committee has considered these requirements and the regulations. It is the compensation committee's present intention that, so long as it is consistent with its overall compensation objectives, substantially all executive compensation be deductible for United States federal income tax purposes. The compensation committee believes that any compensation deductions attributable to options granted under the employee stock option plan currently qualify for an exception to the disallowance under Section 162(m). Future option grants to executive officers under each of the TeamStaff employee stock option plans will be granted by the compensation committee.

By the Compensation Committee of
of the Board of Directors of TeamStaff,
Inc.

T. Stephen Johnson
Karl W. Dieckmann
Martin Delaney

OPTION/SAR GRANTS IN LAST FISCAL YEAR

OPTION/SAR GRANTS IN LAST FISCAL YEAR
(Individual Grants)

Name	No. of Securities Underlying Options Granted	Percentage of Total Options/ Granted in Fiscal Year	Exercise of Base Price Per Share	Expiration Date
Donald Kappauf	0	0%	-	-
Donald Kelly	0	0%	-	-
Elizabeth Hoaglin	50,000	19%	$6.15	10/02/2007
Edmund Kenealy	50,000	19%	$6.60	10/01/2007
Wayne Lynn	50,000	19%	$5.36	03/19/2007

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR
AND FISCAL YEAR END OPTION/SAR VALUES

The following table sets forth information with respect to the named executive officers concerning exercise of stock options and SARs during the last fiscal year and the value of unexercised options and SARs held as of the year ended September 30, 2002.

NAME	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS/SARS SEPTEMBER 30, 2002 EXERCISABLE/ UNEXERCISABLE	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AS OF SEPTEMBER 30, 2002 EXERCISABLE/ UNEXERCISABLE(1)
Donald W. Kappauf	0	$0	285,871/100,000	$0/$0
Donald T. Kelly	0	$0	142,855/50,000	$0/$0
Elizabeth Hoaglin	0	$0	67,142/0	$0/$0
Edmund Kenealy	0	$0	5,000/55,000	$0/$0
Wayne Lynn	0	$0	11,250/61,250	$0/$0

(1) Based upon a closing bid price of the Common Stock at $2.82 per share on September 30, 2002.

STOCK OPTION PLANS

In April 1990, the Board of Directors adopted the 1990 Employees Stock Option Plan (the "1990 Plan"), which was approved by shareholders in August 1990. The 1990 Plan provided for the grant of options to purchase up to 285,714 shares of the Company's common stock. Under the terms of the 1990 Plan, options granted thereunder may be designated as options which qualify for incentive stock option treatment ("ISOs") under Section 422A of the Code, or options which do not so qualify ("Non-ISO's").

In April 1990, the Board of Directors adopted the Non-Executive Director Stock Option Plan (the "Director Plan"), which was approved by shareholders in August, 1991 and amended in March 1996. The Director Plan provided for issuance of a maximum of 142,857 shares of common stock upon the exercise of stock options arising under the Director Plan.

In April 1990, the Board of Directors adopted and in August, 1990, the Company's shareholders approved the Senior Management Incentive Plan (the"Management Plan") for use in connection with the issuance of stock, options and other stock purchase rights to executive officers and other key employees and consultants who render significant services to the Company and its subsidiaries.A total of 1,428,571 shares of common stock were reserved for issuance under the Management Plan.

The forgoing plans have expired and options are no longer being granted under these plans.

2000 EMPLOYEE STOCK OPTION PLAN

In the fiscal year 2000, the Board of Directors and shareholders approved the adoption of the 2000 Employees Stock Option Plan (the "2000 Plan") to provide for the grant of options to purchase up to 1,714,286 shares of the Company's common stock to all employees, including senior management. The 2000 Plan replaces the 1990 Employee Plan and Senior Management Plans, both of which expired. Under the terms of the approved 2000 Plan, options granted there under may be designated as options which qualify for incentive stock option treatment ("ISOs") under Section 422A of the Code, or options which do not so qualify ("Non-ISO's").

The 2000 Plan is administered by the Compensation Committee designated by the Board of Directors. The Compensation Committee has the discretion to determine the eligible employees to whom, and the times and the price at which, options will be granted; whether such options shall be ISOs or Non-ISOs; the periods during which each option will be exercisable; and the number of shares subject to each option. The Committee has full authority to interpret the 2000 Plan and to establish and amend rules and regulations relating thereto.

Under the 2000 Plan, the exercise price of an option designated, as an ISO shall not be less than the fair market value of the common stock on the date the option is granted. However, in the event an option designated as an ISO is granted to a ten percent (10%) shareholder (as defined in the 2000 Plan), such exercise price shall be at least 110% of such fair market value. Exercise prices of Non-ISO options may be less than such fair market value.

The aggregate fair market value of shares subject to options granted to a participant, which are designated as ISOs and which become exercisable in any calendar year shall not exceed $100,000.

The Compensation Committee may, in its sole discretion, grant bonuses or authorize loans to or guarantee loans obtained by an optionee to enable such optionee to pay the exercise price or any taxes that may arise in connection with the exercise or cancellation of an option. The Compensation Committee can also permit the payment of the exercise price in the common stock of the Corporation held by the optionee for at least six months prior to exercise.

NON-EXECUTIVE DIRECTOR PLAN

In fiscal 2000, the Board of Directors and stockholders approved the adoption of the 2000 Non-Executive Director Stock Option Plan (the "Director Plan") to provide for the grant of options to non-employee directors of the Company. Under the terms of the Director Plan, each non-executive director is automatically granted an option to purchase 5,000 shares upon joining the Board and each September lst, pro rata, based on the time the director has served in such capacity during the previous year. The Directors' Plan also provides that directors, upon joining the Board, and for one (1) year thereafter, will be entitled to purchase restricted stock from the Company 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. The Director Plan replaced the previous Director Plan that expired in April 2000.

Under the Director Plan, the exercise price for options granted under the Director Plan shall be 100% of the fair market value of the common stock on the date of grant. Until otherwise provided in the Stock Option Plan, the exercise price of options granted under the Director Plan must be paid at the time of exercise, either in cash, by delivery of shares of common stock of the Company or by a combination of each. The term of each option commences on the date it is granted and unless terminated sooner as provided in the Director Plan, expires five (5) years from the date of grant. The Committee has no discretion to determine which non-executive director or advisory board member will receive options or the number of shares subject to the option, the term of the option or the exercisability of the option. However, the Committee will make all determinations of the interpretation of the Director Plan. Options granted under the Director Plan are not qualified for incentive stock option treatment.

SHAREHOLDER RETURN PERFORMANCE PRESENTATION

Set forth herein is a line graph comparing the total returns (assuming reinvestment of dividends) of the Company's common stock, the Standard and Poor Industrial Average, and an industry composite consisting of a group of four peer issuers selected in good faith by the Company. The Company's common stock is listed for trading in the NASDAQ National market and is traded under the symbol "TSTF".

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN
ASSUMES INITIAL INVESTMENT OF $100
SEPTEMBER 2002

[COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN CHART]

	Teamstaff, Inc.	S & P 500	Peer Group
35673	100	100	100
36038	49.98	109.0450001	83.16589207
36403	51.484398	139.3660525	45.60111503
36769	46.23144484	157.8794395	104.56833340

NOTES

(1) Assumes that the value of the investment in the Company's Common Stock and each index was $100 on September 30, 1997 and that dividends were reinvested at years ended September 30th.

(2) Industry composite includes Administaff, Gevity HR, and Team America Corp. The industry composite has been determined in good faith by management to represent entities that compete with the Company in certain of its significant business segments. Management does not believe there are any publicly held entities that compete with all the Company's business segments.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information as of February 3, 2003 with respect to each director, each of the named executive officers as defined in Item 402(a)(3), and directors and executive officers of the Company as a group, and to the persons known by the Company to be the beneficial owner of more than five percent of any class of the Company's voting securities. At February 3, 2003, the Company had 15,771,986 outstanding.

Name of Shareholder	Number of Shares Currently Owned(1)	Percent of Company's Outstanding Stock
Martin J. Delaney (2) C/o TeamStaff, Inc. 300 Atrium Drive Somerset, NJ 08873	65,448	0.4%
Karl W. Dieckmann (3) C/o TeamStaff, Inc. 300 Atrium Drive Somerset, NJ 08873	98,780	0.6%
Benjamin J Dyer (4) C/o TeamStaff, Inc. 300 Atrium Drive Somerset, NJ 08873	16,664	0.1%
Elizabeth Hoaglin (5) C/o TeamStaff, Inc. 300 Atrium Drive Somerset, NJ 08873	42,428	0.3%
T. Stephen Johnson (6) C/o T. Stephen Johnson & Associates, Inc. 3650 Mansell Road, Suite 200 Alpharetta, GA 30022	269,011	1.7%
Donald W. Kappauf (7) C/o TeamStaff, Inc. 300 Atrium Drive Somerset, NJ 08873	408,352	2.6%
Edmund Kenealy (8) C/o TeamStaff, Inc. 300 Atrium Drive Somerset, NJ 08873	43,031	0.3%
Wayne Lynn (9) C/o TeamStaff, Inc. 300 Atrium Drive Somerset, NJ 08873	62,120	0.4%
Rocco Marano (10) C/o TeamStaff, Inc. 300 Atrium Drive Somerset, NJ 08873	2,000	0.0%
Gerard A. Romano (11) C/o TeamStaff, Inc. 300 Atrium Drive Somerset, NJ 08873	10,000	0.1%
First Union Private Capital (12) 301 South College Street NC0009, Suite 4000 Charlotte, NC 28288	3,334,117	21.0%
Nationwide Financial Services (13) One Nationwide Plaza Mail Stop 01-12-13 Columbus, OH 43215	2,256,488	14.2%
All officers and directors as a group (10) persons (2,3,4,5,6,7,8,9,10,11)	1,017,834	6.4%

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(1) Ownership consists of sole voting and investment power except as otherwise noted.

(2) Includes options to purchase 13,213 shares of Company's common stock and excludes unvested options to purchase 5,000 shares of common stock. Also includes warrants to purchase 10,000 shares of common stock.

(3) Includes options to purchase 12,586 shares of Company's common stock and excludes unvested options to purchase 5,000 shares of common stock.

(4) Excludes unvested options to purchase 5,000 shares of common stock.

(5) Includes options to purchase 42,142 shares of Company's common stock and excludes unvested options to purchase 25,000 shares of common stock.

(6) Includes an aggregate of 147,790 shares owned by or on behalf of certain of the holder's family members and as to which shares the listed holder expressly disclaims beneficial ownership. Includes options to purchase 5,000 shares of Company's common stock, and excludes unvested options to purchase 5,000 shares of common stock.

(7) Includes options to purchase 285,870 shares of Company's common stock and excludes unvested options to purchase 100,000 shares of common stock.

(8) Includes options to purchase 35,000 shares of Company's common stock and excludes unvested options to purchase 25,000 shares of common stock.

(9) Includes options to purchase 30,000 shares of Company's common stock and excludes unvested options to purchase 50,000 shares of common stock.

(10) Includes warrants to purchase 2,000 shares of common stock and excludes unvested options to purchase 5,000 shares of common stock.

(11) Includes options to purchase 10,000 shares of Company's common stock and excludes unvested options to purchase 20,000 shares of common stock.

(12) First Union Private Capital, an affiliate of First Union Corporation (now known as Wachovia Corporation), obtained these shares in connection with the acquisition of BrightLane completed as of August 31, 2001.

(13) Nationwide Financial Services obtained these shares in connection with the acquisition of BrightLane completed as of August 31, 2001.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

For information concerning employment and severance agreements with, and compensation of, the Corporation's executive officers and directors, see "Executive Compensation". The Directors' Plan provides that directors, upon joining the Board, and for one year thereafter, will be entitled to purchase restricted stock from the Company 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 August 31,2001, TeamStaff, Inc. completed its acquisition of BrightLane. As a result of a reverse subsidiary merger with a subsidiary of TeamStaff, BrightLane is now a wholly owned subsidiary of TeamStaff.

In connection with the transaction, persons holding BrightLane options to acquire approximately 2,078,000 BrightLane shares (the equivalent of approximately 481,000 TeamStaff shares) exercised their options. TeamStaff made recourse loans of approximately $ 1,047,000 principal amount to the holders of these options to assist them in payment of tax obligations incurred with exercise of the options. The loans are repayable upon the earlier of (i) sale of the TeamStaff shares or (ii) three years. As of September 30, 2002, approximately $654,000.00 of these loans has been repaid or forgiven. All loans must be repaid in cash with the exception of one loan. Under the terms of the Company's employment agreement with an executive officer of the Company's BrightLane subsidiary, the loan ($131,000) is to be forgiven over a two-year period of time as long as the officer remains employed by the Company.

First Union Corporation, through an affiliate held all of the BrightLane Series B Preferred stock, and therefore owns 3,334,117 shares of TeamStaff's Common Stock (approximately 21%). In addition, Nationwide Financial Services, Inc. held all of the BrightLane Series C Preferred stock, and therefore owns 2,256,488 shares of TeamStaff's Common Stock (approximately 14%).

The Company and First Union Corporation (renamed Wachovia), a leading financial services company, have signed, effective August 31, 2001, an agreement to market the Company's professional employer services to Wachovia's small business customers. The agreement calls for a two-year, extendable relationship in which the Company will be an authorized marketer of professional employer services to Wachovia's business banking customers. This agreement presents the Company with a significant opportunity to market its services to Wachovia's extensive customer base of over one million small businesses. At the same time it presents Wachovia an opportunity to offer a comprehensive outsourced human resource package to its clients. Wachovia owns approximately 21% of the Company's stock.

Under the terms governing the transaction, certain option holders were restricted from selling TeamStaff shares acquired from the exercise of their BrightLane options for a period of up to two years. T. Stephen Johnson and his spouse, Mary Johnson, also a former director of BrightLane, were the only option holders who exercised their options and who were subject to these lockup provisions. Due to the significant rise in the Company's stock price and the significant increase in the amount of the tax loans to be made to T. Stephen Johnson and Mary Johnson, the Board of Directors of TeamStaff concluded it would be more appropriate to allow Mr. and Mrs. Johnson to sell a portion of their TeamStaff shares to cover their tax liability rather than carry a large loan receivable on the Company's financial statements. The Board therefore agreed to allow the sale of up to 40% of Mr. and Mrs. Johnson's option shares(approximately 56,230 TeamStaff shares) as an exempt transaction under SEC Rule 16(b)(3).

Under the terms of the agreements governing the BrightLane transaction, TeamStaff agreed to register for resale shares obtained by former BrightLane shareholders who would be deemed "affiliates" under SEC rules and regulations. The registration statement includes 6,096,946 shares of common stock owned by these persons. Certain former shareholders of BrightLane, who are selling security holders, including First Union Corporation, Nationwide Financial Services and T Stephen Johnson agreed to the terms of a "lockup" agreement whereby they have agreed that the shares of TeamStaff obtained by them may only be sold as follows: commencing on the first anniversary of the transaction (August 31, 2002) 50% of the acquired shares may be sold and commencing on the second anniversary the remaining shares may be sold. The Board of Directors has reserved the right to release all of part of the shares from the lockup prior to its expiration.

In addition, three persons who served as directors of TeamStaff, namely John H. Ewing, Rocco J. Marano and Charles R. Dees, Jr. agreed to step down as directors upon consummation of the transaction with BrightLane. Effective September 4, 2001, these persons resigned as directors. In connection with the termination of their services, these individuals received 1,000 warrants for each year of service on the TeamStaff Board of Directors (an aggregate of 16,000 warrants). The grant of the warrants was approved by the Board of Directors as an exempt transaction under SEC Rule 16(b)(3).

ITEM 14. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES:

Our management, under the supervision and with the participation of our chief executive officer and controller, conducted an evaluation of our "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-14(c)) within 90 days of the filing date of this Annual Report on Form 10-K. Based on their evaluation, our chief executive officer and controller have concluded that as of the Evaluation Date, our disclosure controls and procedures are effective to ensure that all material information required to be filed in this Annual Report on Form 10-K has been made known to them.

CHANGES IN INTERNAL CONTROLS:

TeamStaff replaced Arthur Andersen, LLP with PricewaterhouseCoopers LLP as its independent auditors in April 2002. As previously stated, PricewaterhouseCoopers advised our Audit Committee at its December 10, 2002 meeting that it believed there were material weaknesses in TeamStaff's internal controls including, among other things, the competency of its financial personnel. PricewaterhouseCoopers also advised that it believed it would be essential for the Company to employ a new Chief Financial Officer, who would need to gain sufficient familiarity with TeamStaff's system of internal controls and financial reporting to enable such individual to certify the fiscal year 2002 consolidated financial statements. PricewaterhouseCoopers further conditioned the continuance of its audit on the employment of a new Chief Financial Officer. PricewaterhouseCoopers acknowledged that in view of the foregoing, it was likely that we would be unable to make a timely filing of our annual report for fiscal year 2002. In response to PricewaterhouseCoopers' concerns, among other actions, the Audit Committee recommended that Mr. Kelly be relieved of his responsibilities as Chief Financial Officer. The Board of Directors accepted the Audit Committee's recommendation. TeamStaff's new auditor, Lazar Levine & Felix LLP has conducted a review of our internal controls in connection with its audit of the fiscal year 2002 consolidated financial statements and the restatement of fiscal year 2001. In conducting the audit for fiscal year ended September 30, 2002, Lazar expanded its testing of Teamstaff's internal controls, including Information Technology controls, to include the fiscal year ended September 30, 2001. This was done since the Arthur Anderson LLP work papers were not readily available for review by Lazar and to investigate the concerns regarding internal controls by PricewaterhouseCoopers. As a result of its expanded testing, no material weaknesses in the systems were found.

Additionally, in response to the passage of the Sarbanes-Oxley Act of 2002, TeamStaff, among other actions, formed a Disclosure Committee comprised of various members of our management team. The Disclosure Committee is charged with, among other things, reviewing and developing policies and procedures to enhance our disclosure controls and procedures as well as with reviewing our periodic reports and other public disclosures. Other than as described above, there have been no significant changes, including corrective actions with regard to significant deficiencies or material weaknesses in our internal controls or in other factors that could significantly affect these controls subsequent to the Evaluation Date set forth above.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K(a)

1. Financial Statements

The financial statements and schedules of the Company are included in Part II, Item 8 of this report beginning on page F-1 and including page S-1.

2. All other schedules have been omitted since the required information is not applicable or because the information required is included in the Consolidated Financial Statements or the notes thereto.

3. Exhibit List

The exhibits designated with an asterisk (*) are filed herewith. All other exhibits have been previously filed with the Commission and, pursuant to 17 C.F.R. Secs. 20l.24 and 240.12b-32, are incorporated by reference to the document referenced in brackets following the descriptions of such exhibits.

EXHIBIT NO.	DESCRIPTION
2.1	--Plan and Agreement of Merger and Reorganization dated as of October 29, 1998 among the Company, the merger corporations (as defined), the TeamStaff Entities and certain individuals and trusts as shareholders of the TeamStaff entities (filed as Exhibit A to Proxy Statement of Digital Solutions, Inc, dated November 12, 1998).
2.2	--Form of Asset Purchase Agreement dated as of April 7, 2000 by and between TeamStaff, Inc.,TeamStaff V, Inc. Outsource International, Inc. , and Synadyne I, Inc., Synadyne II, Inc.,Synadyne III, Inc., Synadyne IV, Inc., Synadyne V, Inc., Guardian Employer East LLC and Guardian Employer West LLC.
2.3	--Agreement and Plan of Merger by and among TeamStaff, Inc., TeamSub, Inc and BrightLane.com, Inc., dated as of March 6, 2001, as amended by Amendment No. 1 dated as of March 21, 2001 and Amendment No. 2 dated as of April 6, 2001 (filed as Appendix A to the Proxy Statement/prospectus filed on August 7, 2001, SEC File no. 333-61730, as part of Registrant's Registration Statement on Form S-4).
3.1	--Amended and Restated Certificate of Incorporation (filed as Exhibit A to Definitive Proxy Statement dated May 1, 2000 as filed with the Securities and Exchange Commission).
3.2	--Form of Form of Certificate of Designation of Series A Preferred Stock (filed as Exhibit 3.1 to Form 8-K dated April 6, 2001).
3.3	--Amended By-Laws of Registrant adopted as of May 15, 2001 (filed as Exhibit 3.4 to the Registration Statement on Form S-4 File No. 333-61730).
3.4	--Amended and restated by-laws of Registrent adopted as of August 29, 2001 (filed as Exhibit 3,5 to the Registrant's Form S-3 filed on December 19,2001)

4.1 --Form of the Common Stock Certificate (Exhibit 4.1 to Registration Statement on Form S-18, File No. 33-46246-NY).

4.2 --2000 Employee Stock Option Plan (filed as Exhibit B to the Proxy Statement dated as of March 8, 2000 with respect to the Annual meeting of Shareholders held on April 13, 2000).

4.3 --2000 Non-Executive Director Stock Option Plan (filed as Exhibit B to the Proxy Statement dated as of March 8, 2000 with respect to the Annual meeting of Shareholders held on April 13, 2000).

10.1 --Form of Employment Agreement between TeamStaff, Inc. and Donald Kappauf dated as of April 2, 2001 (filed as Exhibit 10.1 to the Registrants Proxy Statement/Prospectus on form S-4 File No. 333-61730)

10.2 --Form of Employment Agreement between TeamStaff, Inc. and Donald Kelly dated as of April 2,2001(filed as Exhibit 10.2 to the Registrants Proxy Statement/Prospectus on form S-4 File No.333-61730)

10.3 --Lease dated May 30, 1997 for office space at 300 Atrium Drive, Somerset, New Jersey (Exhibit 10.6.1 to Form 10-K for the fiscal year ended September 30, 1997).

10.4 --Form of Agreement between TeamStaff and Donald & Co. Securities, Inc . (filed as Exhibit 10.27 to Form S-3/A dated June 28, 2000).

10.5 --Employment Agreement dated October 1, 1999 between our company and Donald Kappauf (filed as Exhibit 10.32 to Form S-3/A dated June 28, 2000).

10.6 --Employment Agreement dated October 1, 1999 between our company and Donald Kelly (filed as Exhibit 10.33 to Form S-3/A dated June 28, 2000).

10.7 --Form of Stock Purchase Agreement dated as of April 6, 2001 between TeamStaff, Inc. and BrightLane.com, Inc. with respect to purchase of Series A Preferred Stock (filed as Exhibit 10.1 to Form 8-K dated April 6, 2001).

10.8 --Form of Registration Rights Agreement dated as of April 6, 2001 between TeamStaff, Inc. and BrightLane.com, Inc. (filed as Exhibit 10.2 to Form 8-K dated April 6, 2001).

10.9 --Form of Marketing Agreement dated as of April 11, 2001 between First Union Corporation and TeamStaff, Inc.

10.10 --Form of Voting Agreement provided by BrightLane Shareholders as provided in the Agreement and Pla of Merger by and among TeamStaff, Inc., TeamSub, Inc., and BrightLane.com, Inc., dated as of March 6, 2001 as amended by Amendment No. 1 dated as of March 21, 2001 and Amendment No. 2 dated as of April 6, 2001.

10.11 --Form of Escrow Agreement between TeamStaff, Inc. and BrightLane Shareholders with respect to the placement of 150,000 shares into escrow by the BrightLane shareholders (filed as Appendix B to the proxy statement/prospectus filed on August 7, 2001 SEC File No. 333.61730).

10.12* --Form of Severance Agreement dated as of May 22, 2002 between the Registrant and Donald Kappauf.

10.13* --Form of Severance Agreement dated as of May 22, 2002 between the Registrant and Donald Kelly.

10.14* --Form of Loan and Security Agreement dated as of April 9, 2002 by and among the Registrant, its subsidiaries and Fleet National Bank

10.15* --Form of Master Note dated as of April 9, 2002 by and by and among the Registrant, its subsidiaries and Fleet National Bank.

21.0 * --Subsidiaries of Registrants.

23.1* --Consent of Lazar Levine and Felix LLP.

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

(b) Reports on Form 8-K

No Reports on Form 8-K were filed during the fourth fiscal quarter

(c) Exhibits. See Item (a)(3) above.

(d) Valuation of qualifying accounts. See Schedule I annexed to the financial statements.

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/Donald W. Kappauf

Donald W. Kappauf
President and Chief
Executive Officer

Dated: February 3, 2003

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/T. Stephen Johnson T. Stephen Johnson	Chairman of the Board	February 3, 2003
/s/Karl W. Dieckmann Karl W. Dieckmann	Vice-Chairman of the Board	February 3, 2003
/s/Martin J. Delaney Martin J. Delaney	Director	February 3, 2003
/s/Benjamin J. Dyer Benjamin J Dyer	Director	February 3, 2003
/s/Rocco Marano Rocco Marano	Director	February 3, 2003
/s/Donald W. Kappauf Donald W. Kappauf	President, Chief Executive Officer and Director	February 3, 2003

CERTIFICATIONS*

I, Donald W. Kappauf, certify that:

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

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d- 14) for the registrant and have:

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

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Donald W. Kappauf

Date: February 3, 2003

President and Chief Executive Officer

CERTIFICATIONS*

I, Gerard A. Romano, certify that:

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

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d- 14) for the registrant and have:

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

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrants auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 3, 2003

/s/ Gerard A. Romano

Corporate Controller

TEAMSTAFF, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Schedules other than those listed above have been omitted as they are either not required or because the related information has been included in the notes to consolidated financial statements

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders of
TeamStaff, Inc.
Somerset, NJ:

We have audited the accompanying balance sheet of TeamStaff, Inc. as of September 30, 2002, and the related consolidated statements of income and comprehensive income, shareholders' equity, and cash flows for the year then ended. Our audit also included the financial statement schedule listed in Part IV, Item 15. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2002 financial statements referred to above present fairly, in all material respects, the financial position of TeamStaff, Inc. as of September 30, 2002, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The financial statements of TeamStaff, Inc. as of September 30, 2001, and for the years ended September 30, 2001 and 2000, before the restatement described in Note (12), were audited by other auditors who have ceased operations and whose report dated January 11, 2002, expressed an unqualified opinion on those statements. We audited the adjustments described in Note (12) that were applied to restate the 2001 financial statements, and in our opinion, such adjustments are appropriate and have been properly applied. However, we were not engaged to audit or apply any procedures to the 2001 financial statements of the Company, other than with respect to such adjustments and, accordingly we do not express an opinion or any other form of assurance on the 2001 financial statements taken as a whole.

Lazar, Levine & Felix,LLP

New York, NY
January 30, 2003

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders of

TeamStaff, Inc.:

We have audited the accompanying consolidated balance sheets of TeamStaff, Inc. and subsidiaries as of September 30, 2001 and 2000, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended September 30, 2001. These financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TeamStaff, Inc. and subsidiaries as of September 30, 2001 and 2000, and the results of their operations and their cash flows for the three years in the period ended September 30, 2001 in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedule listed in the index to the financial statements is presented for purposes of complying with the Securities and Exchange Commission's rules and is not a required part of the basic consolidated financial statements. This schedule has been subjected to the auditing procedures applied in our audit of the basic consolidated financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Roseland, New Jersey
December 31, 2001 (except for Note 11, as to which the date in January 1, 2002

THIS IS A COPY OF THE AUDIT REPORT PREVIOUSLY ISSUED BY ARTHUR ANDERSON LLP IN CONNECTION WITH TEAMSTAFF, INC.'S FILING ON FORM 10-K FOR THE YEAR ENDED SEPTEMBER 30, 2001. THIS AUDIT REPORT HAS NOT BEEN REISSUED BY ARTHUR ANDERSEN LLP IN CONNECTION WITH THIS FILING ON FORM 10-K.

CONSOLIDATED BALANCE SHEETS AS OF SEPTEMBER 30, 2002 AND 2001

	2002	2001 As Restated
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$12,455,000	$13,725,000
Restricted cash	129,000	129,000
Accounts receivable, net of allowance for doubtful accounts of $262,000 and $549,000 at September 30, 2002 and 2001	24,569,000	25,149,000
Deferred tax asset	1,791,000	2,241,000
Other current assets	4,841,000	1,016,000
Total current assets	43,785,000	42,260,000
EQUIPMENT AND IMPROVEMENTS:		
Equipment	3,321,000	3,114,000
Computer equipment	2,411,000	2,038,000
Leasehold improvements	358,000	290,000
	6,090,000	5,442,000
Less - accumulated depreciation and amortization	(4,289,000)	(3,607,000)
	1,801,000	1,835,000
DEFERRED TAX ASSET	6,680,000	6,984,000
AMORTIZED INTANGIBLE ASSETS, net of accumulated amortization of $822,000 and $187,000 at September 30, 2002 and 2001	2,375,000	1,570,000
INDEFINITE LIFE INTANGIBLE ASSETS	11,109,000	11,109,000
GOODWILL	27,167,000	26,441,000
OTHER ASSETS	1,049,000	1,661,000
	$93,966,000	$91,860,000

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

	2002	2001 As Restated
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 59,000	$ 70,000
Accounts payable	4,252,000	7,072,000
Accrued payroll	17,034,000	14,013,000
Accrued expenses and other current liabilities	6,464,000	8,365,000
Total current liabilities	27,809,000	29,520,000
LONG-TERM DEBT, net of current portion	147,000	193,000
ACCRUED PENSION LIABILITY	1,271,000	1,004,000
Total liabilities	29,227,000	30,717,000
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred Stock, $.10 par value; authorized 5,000,000 shares; 0 issued and outstanding	-	-
Common stock, $.001 par value; authorized 40,000,000 shares; issued 16,237,142 and 16,196,942; outstanding 15,906,886 and 16,109,631, respectively	16,000	16,000
Additional paid-in capital	65,200,000	63,544,000
Accumulated retained earnings (deficit)	1,313,000	(1,762,000)
Receivable from shareholder	-	(90,000)
Accumulated comprehensive losses	(142,000)	(63,000)
Treasury stock, 330,256 and 87,311 shares at cost, respectively	(1,648,000)	(502,000)
	64,739,000	61,143,000
	$93,966,000	$91,860,000

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

TEAMSTAFF, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	For the Years Ended September 30, 2002	2001 As Restated	2000
REVENUES	$ 665,965,000	$ 649,727,000	$ 447,743,000
DIRECT EXPENSES	632,320,000	621,630,000	426,987,000
Gross profit	33,645,000	28,097,000	20,756,000
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	28,321,000	23,395,000	17,005,000
DEPRECIATION AND AMORTIZATION	1,413,000	1,424,000	1,333,000
Income from operations	3,911,000	3,278,000	2,418,000
OTHER INCOME (EXPENSE):			
Interest income	1,057,000	911,000	584,000
Interest expense	(168,000)	(1,274,000	(1,601,000)
Other income (expense)	60,000	48,000	(22,000)
	949,000	(315,000)	(1,039,000)
Income before income taxes and extraordinary item	4,860,000	2,963,000	1,379,000
INCOME TAX EXPENSE	(1,785,000)	(1,261,000	(428,000)
Income before extraordinary item	3,075,000	1,702,000	951,000
EXTRAORDINARY ITEM - EARLY EXTINGUISTMENT OF DEBT, NET OF TAX BENEFIT OF $256,000	-	(354,000	-
Net income	3,075,000	1,348,000	951,000
OTHER COMPREHENSIVE EXPENSE:			
Minimum pension liability adjustment, net of tax	(79,000)	(63,000	-
COMPREHENSIVE INCOME	$ 2,996,000	$ 1,285,000	$ 951,000
EARNINGS PER SHARE - BASIC			
Income before extraordinary item	$ 0.19	$ 0.20	$ 0.12
Extraordinary item	-	(0.04)	-
Net Income	$ 0.19	$ 0.16	$ 0.12
EARNINGS PER SHARE - DILUTED			
Income before extraordinary item	$ 0.19	$ 0.19	$ 0.12
Extraordinary item	-	(0.04)	-
Net Income	$ 0.19	$ 0.15	$ 0.12
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC	16,013,546	8,693,243	7,954,176
WEIGHTED AVERAGE NUMBER OF COMMON SHARES AND EQUIVALENTS OUTSTANDING - DILUTED	16,183,466	8,907,282	7,990,912

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

TEAMSTAFF, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED SEPTEMBER 30, 2002, 2001 AND 2000

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Retained Earnings/ (Deficit)	Receivable From Shareholder
BALANCE, September 30, 1999	7,980,718	$ 8,000	$ 21,093,000	$ (4,061,000)	-
Exercise of stock options	887	-	4,000	-	-
Common stock repurchased	-	-	-	-	-
Non-cash compensation expense related to warrants	-	-	200,000	-	-
Net income	-	-	-	951,000	-
BALANCE, September 30, 2000	7,981,605	8,000	21,297,000	(3,110,000)	-
Common stock repurchased	-	-	-	-	-
Exercise of stock options	16,775	-	16,000	-	-
Exercise of stock warrants	73,570	-	179,000	-	-
Common stock issued in connection with the acquisition of BrightLane	8,066,522	8,000	41,892,000	-	-
Common stock issued in connection with the acquisition of HR2	89,224	-	300,000	-	-
Settlement of certain escrow shares	(54,996)	-	(340,000)	-	-
Stock sold to director	10,114	-	40,000	-	-
Receivable from shareholder in connection with option exercise	14,128	-	90,000	-	(90,000)
Non-cash compensation expense related to warrants	-	-	70,000	-	-
Minimum pension liability adjustment Net income, as restated	-	-	-	1,348,000	-
BALANCE, September 30, 2001 As Restated	16,196,942	16,000	63,544,000	(1,762,000)	(90,000)
Common stock repurchased	-	-	-	-	-
Exercise of stock options	36,914	-	129,000	-	-
Exercise of stock warrants	3,286	-	14,000	-	-
Repayment of loan to Shareholder	-	-	-	-	90,000
Income tax benefit from stock options exercised	-	-	1,513,000	-	-
Minimum pension liability adjustment	-	-	-	-	-
Net income	-	-	-	3,075,000	-
BALANCE, September 30, 2002	16,237,142	$ 16,000	$ 65,200,000	$ 1,313,000	-0-

	Treasury Stock Shares	Treasury Stock Amount	Other Comprehensive Loss	Total Shareholders Equity
BALANCE, September 30, 1999	18,300	$ (75,000)	$ -	$ 16,965,000
Exercise of stock options	-	-	-	4,000
Common stock repurchased	17,100	(61,000)	-	(61,000)
Non-cash compensation expense related to warrants	-	-	-	200,000
Net income	-	-	-	951,000
BALANCE, September 30, 2000	35,400	(136,000)	-	18,059,000
Common stock repurchased	51,911	(366,000)	-	(366,000)
Exercise of stock options	-	-	-	16,000
Exercise of stock warrants	-	-	-	179,000
Common stock issued in connection with the acquisition of BrightLane	-	-	-	41,900,000
Common stock issued in connection with the acquisition of HR2	-	-	-	300,000
Settlement of certain escrow shares	-	-	-	(340,000)
Stock sold to director	-	-	-	40,000
Receivable from shareholder in connection with option exercise	-	-	-	-
Non-cash compensation expense related to warrants	-	-	-	70,000
Minimum pension liability adjustment			(63,000)	(63,000)

Net income, as restated	-	-	--	1,348,000
BALANCE, September 30, 2001 As Restated	87,311	(502,000)	(63,000)	61,143,000
Common stock repurchased	242,945	(1,146,000)	-	(1,146,000)
Exercise of stock options	-	-	-	129,000
Exercise of stock warrants	-	-	-	14,000
Repayment of loan to Shareholder	-	-	-	90,000
Income tax benefit from stock options exercised	-	-	-	1,513,000
Minimum pension liability adjustment	-	-	(79,000)	(79,000)
Net income	-	-	-	3,075,000
BALANCE, September 30, 2002	330,256	$(1,648,000)	$ (142,000)	$ 64,739,000

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

TEAMSTAFF, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended September 30, 2002	2001 As Restated	2000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 3,075,000	$ 1,348,000	$ 951,000
Adjustments to reconcile net income to net cash provided by operating activities, net of acquired businesses:			
Deferred income taxes	1,173,000	123,000	73,000
Depreciation and amortization	1,413,000	1,424,000	1,333,000
Provision for doubtful accounts	546,000	526,000	162,000
Non-cash write-off of deferred financing cost	-	435,000	-
Loss on disposal of equipment	-	-	24,000
Non-cash compensation expense related to warrants	-	70,000	200,000
Gain on sale of regional office	-	(50,000)	-
Changes in operating assets and liabilities, net of acquired businesses:			
Decrease (increase) in accounts receivable	34,000	(4,977,000)	(7,905,000)
(Increase) decrease in other current assets	(3,545,000)	449,000	(220,000)
Decrease (increase) in other assets	(87,000)	(1,901,000)	197,000
(Decrease)increase in accounts payable, accrued expenses and other current liabilities	(1,700,000)	5,174,000	9,040,000
Decrease (increase) in restricted cash	-	246,000	(13,000)
Increase in pension liability	267,000	1,004,000	-
Net cash provided by operating activities	1,176,000	3,871,000	3,842,000
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of equipment and leasehold improvements	(2,183,000)	(589,000)	(486,000)
Proceeds from sale of regional office	-	500,000	-
Acquisition of businesses, net of cash acquired	(727,000)	10,283,000	(3,314,000)
Net cash (used in) provided by investing activities	(2,910,000)	10,194,000	(3,800,000)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings on long-term debt	-	-	4,000,000
Principal payments on long-term debt	-	(6,983,000)	(1,055,000)
Payments on revolving line of credit	-	(899,000)	(559,000)
Net proceeds from issuance of preferred stock	-	3,500,000	-
Repayments on capital leases obligations	(57,000)	(49,000)	(34,000)
Net proceeds from issuance of common stock, net of expenses	-	40,000	-
Net proceeds from the exercise of stock options and warrants	144,000	195,000	4,000
Common shares repurchased	(1,146,000)	(366,000)	(61,000)
Repayment of loan from Shareholder	90,000	-	-
Net comprehensive expense on pension	(79,000)	(63,000)	-
Income tax benefit on stock options exercised	1,512,000	-	-
Net cash provided by (used in) financing activities	464,000	(4,625,000)	2,295,000
Net (decrease) increase in cash and cash equivalents	(1,270,000)	9,440,000	2,337,000
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	13,725,000	4,285,000	1,948,000
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 12,455,000	$ 13,725,000	$ 4,285,000
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for-			
Interest	$ 168,000	$ 1,892,000	$ 1,242,000
Income taxes	$ 1,190,000	$ 797,000	$ 489,000
SUPPLEMENTAL DISCLOSURES OF NONCASH TRANSACTIONS:			
Borrowings under capital leases	-	-	$ 272,000
Fair value of escrow shares received in settlement	-	340,000	-
Note receivable in connection with sale of regional office (El Paso)	125,000	425,000	-
Retirement of preferred stock	-	3,500,000	-
Receivable from shareholder in connection with option exercised	-	90,000	-

During fiscal 2001 the Company issued common stock valued at $41.9 million in connection with the acquisition of BrightLane.com and HR2.

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

(1) ORGANIZATION AND BUSINESS:

TeamStaff, Inc. (the "Company"), formerly Digital Solutions, Inc. ("DSI") a New Jersey Corporation, with its subsidiaries, provides a broad spectrum of human resource services including professional employer services, payroll processing, human resource administration and placement of temporary and permanent employees. The Company has regional offices in Somerset, New Jersey; Houston, Texas; Northampton, Massachusetts; and Clearwater and Boca Raton, Florida and sales service centers in New York, New York; Houston, Texas; Boca Raton and Clearwater, Florida; Woburn and Northampton, Massachusetts; Alpharetta, Georgia; and Somerset, New Jersey.

Effective April 8, 2000, the Company acquired substantially all of the assets of the professional employer organization division of Outsource International, Inc. ("Outsource") which had operated under the trade name "Synadyne". The Company operates these assets, which were comprised mostly of PEO contracts, as part of its TeamStaff SB division.

Effective October 2, 2000, the Company acquired all the stock of the professional employer organization ("PEO") business of HR(2).

Effective August 31, 2001, the Company acquired all the stock of BrightLane.com, inc. (BrightLane).

Effective January 1, 2002, TeamStaff acquired the accounts and related assets of Corporate Staffing Concepts LLC., a PEO entity operating primarily in western Massachusetts and Connecticut.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF PRESENTATION-

The accompanying consolidated financial statements include the accounts of TeamStaff, Inc. and its subsidiaries, all of which are wholly owned. The results of operations of acquired companies within the period reflected have been included in the consolidated financial statements from the date of acquisition. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

The financial statements related to fiscal year 2001 contained in these financial statements have been restated to reflect certain adjustments which are described in detail in Note 12.

USE OF ESTIMATES-

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

REVENUE RECOGNITION-

The Company recognizes revenue in connection with its professional employer organization program ("PEO") as service is rendered. The PEO revenue consists of charges by the Company for the wages and employer payroll taxes of the worksite employees, the administrative service fee, workers' compensation charges, and the health and retirement benefits provided to the worksite employees. These charges are invoiced to the client at the time of each periodic payroll. The Company negotiates the pricing for its various services on a client-by-client basis based on factors such as market conditions, client needs and services requested, the client's workers' compensation experience, the type of client business and the required resources to service the account, among other factors. Because the pricing is negotiated separately with each client and vary according to circumstances, the Company's revenue, and therefore its gross margin, will fluctuate based on the Company's client mix.

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

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

In accordance with Emerging Issues Task Force (EITF) Issue No. 99-19 "Reporting Revenue Gross as a Principal versus Net as an Agent," the Company recognizes all amounts billed to its PEO and temporary staffing customers as gross revenue because the Company is at risk for the payment of its direct costs, whether or not the Company's customers pay the Company on a timely basis or at all, and the Company assumes a significant amount of other risks and liabilities as a co-employer of its worksite employees, and employer of its temporary employees, and therefore, is deemed to be a principal in regard to these services. The Company also recognizes as gross revenue and as unbilled receivables, on a accrual basis, any such amounts which relate to services performed by worksite and temporary employees which have not yet been billed to the customer as of the end of the accounting period. Unbilled receivables totaled $16,552,000 and $13,693,000 as of September 30, 2002 and 2001 respectively. All such amounts are expected to be realized in the subsequent year.

In December 2000, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 (or "SAB 101"), "Revenue Recognition in Financial Statements." SAB 101 summarizes certain of the SEC's views in applying generally accepted accounting principles to revenue recognition in financial statements. The adoption of SAB 101 in fiscal 2001 did not have any impact on the consolidated financial statements.

CONCENTRATIONS OF CREDIT RISK-

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and accounts receivable. The Company maintains substantially all its cash balances in a limited number of financial institutions. The balances are insured by the Federal Deposit Insurance Corporation up to $100,000. TeamStaff monitors the financial health of these banking institutions.

The Company's customer base consists of over 3,000 client companies, representing approximately 46,000 employees (including payroll services employees) as of September 30, 2002. The Company's client base is broadly distributed throughout a wide variety of industries; however, more than 75% of the customers in the payroll processing area are in the construction industry and substantially all of TeamStaff-Rx customers are in the healthcare industry. Credit, when given, is generally granted on an unsecured basis.

CASH EQUIVALENTS-

For purposes of the statements of cash flows, the Company considers all liquid investments purchased with a maturity of three months or less to be cash equivalents.

RESTRICTED CASH-

This is cash restricted in connection with BrightLane's office lease.

ALLOWANCE FOR DOUBTFUL ACCOUNTS-

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to pay its service fees. The Company believes that the success of its PEO business is heavily dependent on its ability to collect these service fees for several reasons, including (i) the large volume and dollar amount of transactions processed by the Company, (ii) the periodic and recurring nature of payroll, upon which the service fees are based, and (iii) the fact that the Company is at risk for the payment of its direct costs regardless of whether its clients pay their service fees. To mitigate this risk, the Company has established very tight credit policies. The Company generally requires its clients to pay their service fees no later than one day prior to the applicable payroll date. In addition, the Company maintains the right to terminate its Client Service Agreement and associated worksite employees or to require prepayment, letters of credit or other collateral upon deterioration in a client's financial position or upon nonpayment by a client. As a result of these efforts, the outstanding balance of accounts receivable and subsequent losses related to customer nonpayment have historically been very low as a percentage of revenues.

FAIR VALUE-

The Company has financial instruments, none of which is held for trading purposes. The Company estimates that the fair value of all financial instruments at October 31, 2002 and 2001, does not differ materially from the aggregate carrying values of these financial instruments recorded in the accompanying balance sheets. The estimated fair value amounts have been determined by the Company using available market information and appropriate valuation methodologies. Considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value, and, accordingly, the estimates are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

EQUIPMENT AND IMPROVEMENTS-

Equipment and improvements are stated at cost. Depreciation and amortization are provided using the straight-line method over the estimated useful asset lives (3 to 5 years) and the shorter of the lease term or estimated useful life for leasehold improvements.

ACQUIRED INTANGIBLE ASSETS-

	As of September 30, 2002		
	Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets			
Software	$ 2,468,000	$ (705,000)	$ 1,763,000
Pension	729,000	(117,000)	612,000
Total	$ 3,197,000	$ (822,000)	$ 2,375,000

	As of September 30, 2001		
	Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets			
Software	$ 1,028,000	$ (129,000)	$ 899,000
Pension	729,000	(58,000)	671,000
Total	$ 1,757,000	$ (187,000)	$ 1,570,000
Aggregate Amortization Expense			
For year ended 9/30/02	$ 635,000		

Estimated Amortization Expense	
For year ended 9/30/03	$506,000
For year ended 9/30/04	397,000
For year ended 9/30/05	387,000
For year ended 9/30/06	373,000
For year ended 9/30/07	301,000

Indefinite life intangible assets (described below):	
Tradenames	$ 4,710,000
First Union Relationship	6,399,000
Total	$ 11,109,000

GOODWILL

	PEO	Medical Staffing	Total
Balance as of September 30, 2001	$ 24,736,000	$ 1,705,000	$ 26,441,000
Goodwill acquired during year	726,000	-	726,000
Balance as of September 30, 2002	$ 25,462,000	$ 1,705,000	$ 27,167,000

Beginning October 1, 2001, with the adoption of the newly required accounting standard (SFAS 142), the Company no longer amortizes goodwill or indefinite life intangible assets. The Company will also continue to review annually its goodwill and other intangible assets for possible impairment or loss of value. The Company determined that no impairment of goodwill or intangible assets existed as of the date of adoption or at September 30, 2002. (See recently adopted accounting standard SFAS 142 below)

The goodwill acquired during the year includes $282,000 related to the purchase of Corporate Staffing Concepts and $444,000 in additional charges associated with the acquisition of BrightLane which were mostly related to adjustments of estimates of professional services, employment contracts and taxes.

LONG-LIVED ASSETS-

The Company reviews it long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management of the Company believes that no such events or changes in circumstances have occurred. If such events or changes in circumstances are present, a loss is recognized to the extent that the carrying value of the asset is in excess of the sum of the undiscounted cash flows expected to result from the use of the asset and its eventual disposition.

WORKERS' COMPENSATION-

The Company applies loss-development factors to its open years' workers' compensation incurred losses in order to estimate fully developed losses as well as other formula driven methodologies supplied by its current third party administrator. (See Note 7)

INCOME 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.

RECLASSIFICATIONS

Certain reclassifications have been made to prior years amounts to conform to the current year presentation.

STOCK-BASED COMPENSATION-

Stock-based compensation for employees and directors is recognized using the intrinsic value method under APB No. 25. The Company uses the fair value method for options issued to non-employees. For disclosure purposes, pro forma net income (loss) impacts are provided as if the fair market value method has been applied.

EARNINGS PER SHARE-

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

In accordance with SFAS 128, the following table reconciles income before extraordinary item and share amounts used to calculate basic and diluted earnings per share before extraordinary item:

	Years Ended September 30,		
	2002	2001 As Restated	2000
Numerator:			
Income before extraordinary item	$ 3,075,000	$ 1,702,000	$ 951,000
Denominator:			
Weighted average number of common shares outstanding - Basic	16,013,546	8,693,243	7,954,176
Incremental shares for assumed conversions of stock options/warrants	169,920	214,039	36,736
Weighted average number of common and equivalent shares outstanding-Diluted	16,183,466	8,907,282	7,990,912
Earnings per share before extraordinary item - Basic	$ 0.19	$ 0.20	$ 0.12
Earnings per share before extraordinary item - Diluted	$ 0.19	$ 0.19	$ 0.12

Stock options and warrants outstanding at September 30, 2002, 2001, and 2000 to purchase 257,298, 157,006, and 276,961 shares of common stock respectively were not included in the computation of Diluted EPS as they were antidilutive.

REVERSE STOCK SPLIT-

Effective June 2, 2000 the Company effected a reverse stock split at a rate of one (1) new share for each existing 3.5 shares of TeamStaff common stock. All common shares and per share amounts in the accompanying financial statements have been adjusted retroactively to effect the reverse stock split.

COMPREHENSIVE INCOME(LOSS):

The Company has comprehensive losses resulting from its Supplemental Executive Retirement Plan (SERP) (Refer to Note 11 and 12). When the Company's SERP obligations were measured at September 30, 2002, the amount of the Projected Benefits Obligation (PBO) exceeded the recorded SERP liability. This was due to the fact that rates earned on fixed income investments steadily decreased. The discount rates used in the PBO calculations dropped from 8% in September 2000 to 7.5% in September 2001, and to 6.5% in September 2002. These changes resulted in a comprehensive loss net of tax in fiscal year 2002 of $79,000 and in fiscal year 2001 of $63,000. No other sources of comprehensive gains or losses occurred.

RECENT ACCOUNTING STANDARDS:

During June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations (SFAS No. 141) and No. 142, Goodwill and Other Intangible Assets (SFAS No. 142). SFAS No. 141 changed the accounting for business combinations, requiring that all business combinations be accounted for using the purchase method and that intangible assets be recognized as assets apart from goodwill if they arise from contractual or other legal rights, or if they are separable or capable of being separated from the acquired entity and sold, transferred, licensed, rented or exchanged. SFAS No. 141 is effective for all business combinations initiated after June 30, 2001. SFAS No. 142 specifies the financial accounting and reporting for acquired goodwill and other intangible assets. Goodwill and indefinite life intangible assets will not be amortized but rather will be tested at least annually for impairment. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. However, early adoption was allowed and the Company adopted SFAS No. 142 as of October 1, 2001

SFAS No. 142 requires that the useful lives of intangible assets acquired on or before June 30, 2001 be reassessed and the remaining amortization periods adjusted accordingly. Previously recognized intangible assets deemed to have indefinite lives should be tested for impairment. The Company's intangible assets consist primarily of the TeamStaff trade name and the First Union/Wachovia Relationship. This relationship requires First Union/Wachovia to promote TeamStaff's services to its banking customers throughout the United States. The Company's First Union relationship and TeamStaff tradename have indefinite lives and are no longer being amortized effective October 1, 2001 because they are expected to generate cash flows indefinitely. The effect of not amortizing goodwill and intangible assets on income before income taxes and net income for the fiscal year ended September 30, 2002 is $948,000 and $778,000, respectively. The Company estimates that net income and diluted earnings per share would have been approximately $2,126,000 and $0.24, respectively, for the fiscal year ended September 30, 2001 had the provisions of the new standard been applied as of October 1, 2000. The Company estimates that net income and diluted earnings per share would have been approximately $1,680,000 and $0.21, respectively, for the fiscal year ended September 30, 2000 had the provisions of the new standard been applied as of October 1, 1999. The Company tested its intangible assets during the first quarter of the current fiscal year, as required by SFAS No. 142, and there was no impairment. The Company tested its goodwill for impairment during the second quarter of fiscal 2002 as required by SFAS No. 142 and there was no impairment. The Company retested intangible assets and goodwill at September 30, 2002 and there was no impairment. As of September 30, 2002, total net goodwill was $27,167,000 consisting of $25,462,000 and $1,705,000 for the PEO and Medical Staffing segments respectively. Goodwill for the fiscal year ended September 30, 2002 increased $726,000. The increase, all of which related to PEO operations, resulted primarily from the acquisition of Corporate Staffing Concepts, LLC and additional cost associated with the BrightLane acquisition.

In June 2001, the Financial Accounting Standards Board issued SFAS No. 143, Accounting for Asset Retirement Obligations. SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs and is effective for the fiscal years beginning after June 15, 2002. Management does not expect the impact of SFAS No. 143 to be material to the Company's consolidated financial statements.

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, and establishes a single accounting model for the impairment or disposal of long-lived assets. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. Management does not expect the impact of SFAS No. 144 to be material to the Company's consolidated financial statements.

On May 1, 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS No. 145 is effective for the Company's fiscal year beginning October 1, 2002. The Company is in the process of evaluating what impact, if any, this standard will have on the Company's financial statements.

On July 30, 2002, the FASB issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"), that is applicable to exit or disposal activities initiated after December 31, 2002. This standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. This standard does not apply where SFAS 144 is applicable

On December 31, 2002, the FASB issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure" ("SFAS 148"), that is applicable to financial statements issued for fiscal years ending after December 15, 2002. In addition, interim disclosure provisions are applicable for financial statements issued for interim periods beginning after December 15, 2002. This standard amends SFAS 123 and provides guidance to companies electing to voluntarily change to the fair value method of accounting for stock-based compensation. In addition, this standard amends SFAS 123 to require more prominent and more frequent disclosures in financial statements regarding the effects of stock-based compensation. TeamStaff will implement SFAS 148 in the first Quarter 2003.

(3) INCOME TAXES:

At September 30, 2002, the Company has available operating loss carryforwards of approximately $22,000,000 to reduce future periods' taxable income. Substantially all of the operating loss carryforwards were acquired in connection with the acquisition of BrightLane on August 31, 2001 (See Note 5). The carryforwards expire in various years beginning in 2004 and extending through 2021. The Company also has tax credits available of approximately $653,000 to reduce future taxable income that begin to expire in 2020. In accordance with IRS regulations, the utilization of operating losses acquired from BrightLane are limited to approximately $2.1 million per year.

The Company has recorded an $8,471,000 and a $9,225,000 deferred tax asset at September 30, 2002 and 2001, respectively. This represents management's estimate of the income tax benefits to be realized upon utilization of its net operating losses and tax credits as well as temporary differences between the financial statement and tax bases of certain assets and liabilities, for which management believes utilization to be more likely than not. In fiscal 2002, 2001 and 2000, the Company reduced its tax provision by $239,000, $218,000 and $374,000 respectively for certain tax credits which were available to the Company. In 2000, the Company's income tax expense was reduced by a $400,000 tax benefit reflecting the elimination of a valuation allowance.

In order for the Company to realize the operating loss carryforward and the tax credits, the Company would have to generate approximately $23,000,000 in future taxable income. Management believes the Company's operations can generate sufficient taxable income to realize this deferred tax asset as a result of the past five years of profitability and its ability to meet its operating plan.

An analysis of the Company's deferred tax asset is as follows-

	2002	2001 As Restated
Net operating loss carryforwards and tax credits	$ 8,162,000	$ 7,764,000
Workers' compensation reserves	(227,000)	1,122,000
Allowance for doubtful accounts	101,000	187,000
Depreciation expense	(12,000)	170,000
Professional fees	172,000	0
Pension	142,000	76,000
Other items, net	133,000	(94,000)
Deferred income tax asset	$ 8,471,000	$ 9,225,000

The components of the income tax expense for income taxes are summarized as follows-

	Years Ended September 30,		
	2002	2001 As Restated	2000
Current expense	$ 612,000	$ 1,138,000	$ 355,000
Deferred expense	1,173,000	123,000	73,000
Total expense	$ 1,785,000	$ 1,261,000	$ 428,000

The following table indicates the significant elements contributing to the difference between the Federal statutory rates and the Company's effective tax rate-

	Years Ended September 30,		
	2002	2001 As Restated	2000
Federal statutory rate	34%	34%	34%
State taxes, net of federal income tax benefit	8	8	8
Tax credits	(6)	(9)	(28)
Goodwill amortization	0	7	13
Other	1	3	4
	37%	43%	31%

The tax benefits associated with the exercise of non-qualified stock options reduce taxes currently payable by $1,513,000 for 2002. Such benefits are credited to additional paid-in capital.

(4) DEBT:

On April 9, 2002, the Company entered into a revolving loan facility with Fleet National Bank, (Fleet). The total outstanding loan amount cannot exceed at any one time the lesser of $7,000,000 or the sum of 85% of qualified accounts receivable, less an amount reserved by Fleet to support direct debit processing exposure. The annual interest rate is either the Fleet prime rate or LIBOR, at the discretion of the Company, and is currently 4.25%. The facility is collateralized by substantially all of the assets of the Company, including its accounts receivable. The facility is subject to certain covenants including, but not limited to, interest rate coverage of 2.0 to 1.0, total liabilities to tangible net worth ratio of 2.0 to 1.0, and minimum working capital of $10,000,000. As of September 30, 2002, there was no amount

outstanding on the credit facility. The Company has an outstanding letter of credit of $4,150,000 under the facility for the Company's workers' compensation policy. (See Note 7)

During fiscal years 2001 and 2000 the Company had a long-term credit facility from FINOVA Capital Corporation totaling $12.5 million. Substantially all assets of the Company secured the credit facility. The facility was comprised of (i) two three-year term loans each for $2.5 million, with a five-year amortization, at prime plus 3%; (ii) a three-year term loan for $4.0 million, with a five-year amortization, at prime plus 3% and (iii) a $3.5 million revolving line of credit at prime plus 1% secured by certain accounts receivable of the Company. The credit facility was subject to success fees for each of the $2.5 million term loans in the amounts of $200,000, $225,000 and $250,000 due on the anniversary dates of the loan. In addition the $4.0 million term loan was subject to annual success fees at the beginning of each loan year in the amount of $500,000. The credit facility was subject to certain covenants including, but not limited to, a debt to net worth ratio, a minimum net worth and a minimum debt service coverage ratio, as defined.

In connection with the BrightLane acquisition, TeamStaff repaid approximately $8,289,000 of total outstanding debt (including interest and related financing fees) owed to FINOVA Capital Corporation during 2001. The loan facility with FINOVA was terminated. Of this amount approximately $3,800,000 was paid in April 2001 and the remaining $4,489,000 was paid in September 2001. As a result, the Company wrote off $435,000 of unamortized financing costs and paid additional fees of $175,000. This has been recorded as an extraordinary loss on the early extinguishment of debt of $354,000, net of tax benefit of $256,000 in fiscal year 2001.

Long-term debt at September 30, 2002 and 2001 consists of the following-

	2002	2001 As Restated
Capital leases	$ 206,000	$ 263,000
Less- Current portion	(59,000)	(70,000)
	$ 147,000	$ 193,000

Maturities of long-term debt as of September 30, 2002 are as follows-

Year Ending September 30,	
2003	$ 59,000
2004	53,000
2005	94,000
	$ 206,000

(5) BUSINESS COMBINATIONS/DISPOSITIONS:

ACQUISITION OF CORPORATE STAFFING CONCEPTS

Effective January 2, 2002, TeamStaff acquired the accounts and related assets of Corporate Staffing Concepts LLC, a PEO entity operating primarily in western Massachusetts and Connecticut. The agreement provided that TeamStaff acquire the PEO related accounts of Corporate Staffing Concepts for $275,000 paid at closing, and stock, which would be paid in connection with an earn out in one year, based upon the number of worksite employees remaining from the accounts being acquired. Subsequent to the balance sheet date, on January 10, 2003, by mutual agreement, the Company fully settled its earn out obligations to Corporate Staffing Concepts LLC by agreeing to pay the sum of $250,000 in cash and to issue 27,500 shares of the Company's Common Stock, for a total purchase price of $603,100.

ACQUISITION OF BRIGHTLANE.COM

Effective August 31, 2001, TeamStaff acquired BrightLane.com, Inc., a technology company founded in 1999 that provided an online business center. Focusing on the small business segment, BrightLane developed several patent-pending information exchange and transaction oriented software solutions to facilitate access across a variety of essential and Internet deliverable administrative products and services.

Under the terms of the purchase agreement, TeamStaff acquired all the stock of BrightLane.com through the issuance of 8,066,522 shares of TeamStaff common stock, valued at approximately $41,900,000. TeamStaff also incurred $2,705,000 of certain legal, accounting and investment banking expenses, resulting in a total purchase price of $44,605,000. The acquisition has been accounted for under the purchase method and the results of operations of the acquired company have been included in the statements of income since the date of the acquisition. The purchase price has been allocated based on the estimated fair value at the date of the acquisition as stated below:

Cash acquired	$ 12,325,000
Deferred tax asset	7,400,000
Investment in TeamStaff preferred stock	3,500,000
Other assets acquired, net	1,538,000
First Union/Wachovia relationship	6,900,000
Tradename	10,000
Goodwill	12,932,000
Total	$ 44,605,000

Prior to the acquisition, the Company sold to BrightLane $3.5 million of preferred stock and used the proceeds to pay down a portion of the FINOVA debt. The preferred stock was cancelled in connection with the acquisition on August 31, 2001.

In connection with the transaction, persons holding BrightLane options to acquire approximately 2,078,000 BrightLane shares (the equivalent of approximately 481,000 TeamStaff shares) exercised their options. TeamStaff made recourse loans of approximately $1,047,000 principal amount to the holders of these options to assist them in payment of tax obligations incurred with exercise of the options. The loans are repayable upon the earlier of (i) sale of the TeamStaff shares or (ii) three years. As of September 30, 2002, approximately $654,000 of these loans has been repaid or forgiven and $393,000 remains outstanding. All loans must be repaid in cash with the exception of one loan. Under the terms of the Company's employment agreement with an executive officer of the Company's BrightLane subsidiary, the loan ($131,000) is to be forgiven over a two-year period of time as long as the officer remains employed by the Company.

ACQUISITION OF HR2, INC.

Effective October 2, 2000, the Company acquired HR2, Inc. in a stock purchase transaction. The Company acquired all of the capital stock of HR2 in exchange for an aggregate of 89,224 shares of the Company's common stock and $100,000 in cash for a total purchase price of $400,000. HR2, Inc. is a professional employer organization that operates primarily in Massachusetts, Rhode Island, and New Hampshire. The acquisition of HR2 Inc. was not material to the Company's consolidated financial statements.

ACQUISITION OF SYNADYNE ASSETS

Effective April 8, 2000, TeamStaff, Inc. pursuant to an Asset Purchase Agreement acquired substantially all of the assets of the professional employer organization business of Outsource International, Inc. ("Outsource"), which had operated under the tradename "Synadyne". TeamStaff acquired all of the customer contracts of the former Synadyne business. The Company operates these assets, which were comprised mostly of PEO contracts, through its subsidiaries as part of its TeamStaff SB division. Under the terms of the Asset Purchase Agreement, TeamStaff paid an aggregate purchase price of $3,500,000 which includes the assumption of approximately $200,000 in liabilities. The Company also incurred approximately $100,000 for acquisition related expenses. The agreement also provides for an additional potential payment of up to $1,250,000 provided that the former clients of Outsource have at least 9,500 worksite employees as of March 31, 2002. In the event there are less than 9,500 employees, the amount of the earnout will be reduced by a pre-determined formula. The Company calculated that at March 31, 2002 there were 5,879 employees employed by the Company represented by the former Synadyne business and therefore no payment is due to Outsource under the terms of the earnout. However, based on an estimate provided by Outsource, the earnout payment would be approximately $553,000. Under the terms of the agreement, Outsource had a period of 90 days, (which expired on July 19, 2002), to audit the records related to the employees and accounts to determine the earnout. Outsource filed for protection under Chapter 11 of the U.S. Bankruptcy Code on June 11, 2002 in the Central District of California. The Company is unable to predict the impact of Outsource's bankruptcy on the potential earnout. Any subsequent payment would be accounted for as additional purchase price and would be recorded as an increase to goodwill when and if made.

Under the original acquisition related agreements, TeamStaff had been providing PEO services to the corporate employees of Outsource. The parties had entered into a court-approved stipulation in the bankruptcy action that TeamStaff would continue to provide these services. Subsequently, the parties mutually agreed to terminate the original service agreement effective July 2002.

SALE OF El PASO REGIONAL OFFICE

In September 2001, the Company sold its regional PEO office in El Paso, Texas. The business was sold for $925,000: $500,000 in cash at closing and $425,000 to be paid in 17 equal monthly installments from October 2001 until February 2003. The gain on sale of this transaction was $50,000. Operations of the El Paso office were immaterial and therefore not reflected as discontinued operations.

The following unaudited pro forma information presents a summary of consolidated financial results of operations of the Company and acquired companies as if the acquisitions and dispositions had occurred at the beginning of the earliest reported period October 1, 1999.

	Fiscal Years Ended September 30,		
	2002	2001 As Restated	2000
Revenues	$ 671,744,000	$ 622,356,000	$ 517,262,000
Income (Loss) before extraordinary item	$ 3,080,000	$ (3,236,000)	$ (13,990,000)
Net income (loss)	$ 3,080,000	$ (3,846,000)	$ (13,990,000)
Earnings/(Loss) per share - basic and diluted	$ .19	$ (.24)	$ (.87)

(6) ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES:

Accrued expenses and other current liabilities at September 30, 2002 and 2001 consist of the following-

	2002	2001 As Restated
Workers' compensation insurance	$ 1,673,000	$ 3,300,000
Bank overdraft	1,874,000	3,237,000
Other	2,917,000	1,828,000
	$ 6,464,000	$ 8,365,000

(7) COMMITMENTS AND CONTINGENCIES:

LEASES-

Minimum payments under noncancellable lease obligations at September 30, 2002 are as follows-

Year Ending September 30,	
2003	$ 2,046,000
2004	2,077,000
2005	1,618,000
2006	686,000
2007	523,000
	$ 6,950,000

Rent expense under all operating leases was $1,796,000 in 2002, $1,233,000 in 2001, $988,000 in 2000.

WORKERS' COMPENSATION POLICY-

As of March 22, 2002, TeamStaff's insurance provider is Zurich American Insurance Company (Zurich) and the program will be managed by Cedar Hill Insurance Agency, Inc (Cedar Hill).). This policy covers its corporate employees, the worksite employees co-employed by TeamStaff and its PEO clients, and the temporary employees employed by TeamStaff to fulfill various client-staffing assignments. TeamStaff does not provide workers' compensation to non-employees of the Company.

The Zurich program will cover the period March 22, 2002 through April 1, 2003, inclusive. The program contains a large deductible feature of $500,000 for each claim, with no maximum liability cap. The premium for the program is paid on a monthly basis based on estimated payroll for the year and is subject to a year-end audit. The Zurich deductible program is collateralized by a letter of credit, inuring to the benefit of Zurich American Insurance Company, and cash held in a trust account with a third party. The letter of credit for $4,150,000 has been secured through Fleet National Bank (Fleet), as part of the Company's line of credit. Payments will be made to the trust on a monthly basis based on projected claims for the year. Interest on all assets held in the trust is credited to TeamStaff. Payments for claims and claims expenses will be made from the trust. Payments to the trust may be adjusted from time to time based on program experience. Claims handling services will be provided by a third party administrator assigned by Cedar Hill. Additionally, TeamStaff has outsourced its underwriting and program management for the Zurich program to Cedar Hill Insurance Agency, Inc. and The Hobbs Group, the Company's workers' compensation insurance broker. At September 30, 2002, the Company has a prepaid current asset of $2,341,000 for the premium and the prepayments made to the trust.

TeamStaff's primary workers' compensation insurance provider from January 22, 2001 through March 21, 2002, was Continental Assurance (CNA). This policy covered its corporate employees, the worksite employees co-employed by TeamStaff and its PEO clients, and the temporary employees employed by TeamStaff to fulfill various client-staffing assignments.

The CNA policy originally covered the period from January 22, 2001, through January 21, 2002, but was extended to March 21, 2002. It was a large deductible program ($250,000 for each claim) with a maximum liability cap. The premium for the policy was paid monthly based upon estimated payroll for the year and is subject to a year-end audit by the provider. TeamStaff also maintained a separate policy insuring a portion of the maximum deductible cap, which it may be required to pay if claims exceed a determined number. The policy, including the extension, insures payment of the maximum cap in excess of the first $2,093,000, which the Company pays, up to $8,663,000. Once the $8,663,000 is exceeded, the Company pays 89.5% of paid claims up to $12,133,000. If the claims and fixed costs under the policy are less than the amounts TeamStaff paid, plus investment returns thereon, the insurer will refund the difference to TeamStaff.

As part of the two-month extension, which was negotiated in January 2002, the Company was required to pay $495,000 which CNA asserted was owed to cover costs for claims incurred during the policy years 1997 - 1999. As previously disclosed, the Company had received a release for those periods from CNA in January 2001, when the Company accepted CNA as its new insurance carrier. The Company has denied CNA's claim and to date, has received $224,000 back from the original $495,000 payment. It is the Company's belief that the remaining funds should be returned as well. Should the Company be unsuccessful in receiving a refund of all monies paid, it will be required to absorb these claims. However, the Company has a liability on its books for the estimated claims for the two-month extension, which exceeds the $271,000 disputed amount. Accordingly, the Company plans to offset this amount from any monies owed CNA. On January 27, 2003, subsequent to the balance sheet date, the Company filed a complaint of unfair or deceptive acts or practices in the business of insurance against CNA with the New Jersey Division of Insurance.

TeamStaff maintained a separate policy for certain of the business of its subsidiary, HR2, Inc., which had provided that TeamStaff was only responsible for the audited premium for each policy period. This policy ended on December 31, 2001. From January 1, 2002 through March 21, 2002, these employees were covered under the CNA policy.

On August 7, 2002, the Company entered into an agreement with a prior workers' compensation and employer's liability insurance carrier fully and finally settling all loss and expense charges for four years of coverage, from 1996 to 2000, through the insurance carrier in exchange for an immediate payment by the Company. Pursuant to the agreement, the insurance carrier agreed that no more recalculations would be done for any of the Company's workers' compensation programs with the carrier. As a result of the final adjustment, the Company reduced its reserve for workers' compensation, which resulted in a decrease in direct expenses of $2,661,000.

The Company records in direct expenses a monthly charge based upon its estimate of the year's ultimate fully developed claims plus the fixed costs charged by the insurance carrier to support the program. This estimate is established each quarter based in part upon information provided by the Company's insurers, internal analysis and its insurance broker. The Company's internal analysis includes quarterly review of open claims and review of historical claims related to the workers' compensation programs. While management uses available information, including nationwide loss ratios, to estimate ultimate claims, future adjustments may be necessary based on actual claims. Since the recorded ultimate expense is based upon a ten-year projection of actual claims payment and the timing of these payments, as well as the interest earned on the Company's prepayments, the Company also relies on actuarial tables to estimate its ultimate expense.

The Company's clients are billed at fixed rates, which are determined when the contract is negotiated with the client. The fixed rates include charges for workers' compensation, which are based upon the Company's assessment of the costs of providing workers' compensation to the client. If the Company's costs for workers' compensation for the workers' compensation policy year are greater than the costs that are included in the client's contractual rate, the Company is unable to recover these excess charges from the clients. The Company reserves the right in its contracts to increase the workers' compensation charges on a prospective basis only and may do so when its workers' compensation policy is renewed or when workers compensation rates are increased by state agencies

As of September 30, 2002, the adequacy of the workers' compensation reserves was determined, in management's opinion, to be reasonable. However, since these reserves are for claims that have not been sufficiently developed due to their relatively young age, and such variables as timing of payments and investment returns thereon are uncertain or unknown, actual results may vary from current estimates. The Company 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 the Company's prepayments and adjust the reserves as deemed appropriate.

PAYROLL TAXES

TeamStaff has received notices from the IRS concerning misapplication of payroll tax payments between its legal entities, which if not resolved favorably, may result in interest and penalties. To date, TeamStaff has been working with the IRS to resolve these discrepancies and has had some interest and penalties abated. TeamStaff believes that after the IRS applies all the funds correctly, all significant interest and penalties will be abated.

LEGAL PROCEEDINGS

In July 2000, TeamStaff made claims for indemnification against the selling shareholders of the TeamStaff Companies (the Sellers), which were acquired by TeamStaff in January 1999. The claims consisted of various potential liabilities and expenses incurred based on breaches of representations and warranties contained in the acquisition agreement. The Sellers disputed these claims and attempted to assert claims of their own. On January 12, 2001, TeamStaff entered into a settlement agreement with the Sellers. Under the settlement agreement, the Sellers agreed to be liable and responsible for certain potential liabilities estimated at approximately $540,000 and agreed that 55,000 shares of TeamStaff common stock, which had been held in escrow since the acquisition, were to be cancelled and TeamStaff agreed to release 29,915 escrow shares to the Sellers. TeamStaff retains 75,000 shares in escrow to provide security for the Seller's obligations. Each party agreed to release each other from all other claims under the acquisition agreements. No third parties have contacted TeamStaff seeking payment in the last fiscal year for these potential liabilities. In the event that TeamStaff incurs liability to third parties with respect to the claims, TeamStaff would declare an event of default under the settlement agreement and seek collection from the Sellers.

TeamStaff's subsidiary, BrightLane, is party to a suit brought by one of its former shareholders (Atomic Fusion, Inc. v. BrightLane.com, Inc. Civil Action No ONS02246OE, Fulton County State Court, Georgia). The plaintiff seeks damages for alleged unpaid contractual services provided to BrightLane, alleging that the shares (both in number and value) of BrightLane stock provided to the plaintiff in payment of services were inadequate to pay for the alleged agreed upon value of services. TeamStaff and BrightLane intend to defend themselves vigorously in this matter and believes that they have meritorious and valid defenses to plaintiff's claims. In addition, the former shareholders of BrightLane have placed approximately 158,000 shares in escrow to provide indemnification for any claims made by TeamStaff under the acquisition agreement, subject to a $300,000 threshold. In the event the threshold is reached, some or all of these shares may be canceled in an amount equal to the amount of any claim or expense in excess of the threshold. Under the terms of the agreements between TeamStaff and BrightLane, the value of the shares held in escrow is $8.10/share. It is possible that an award in favor of Atomic Fusion would result in monetary damages against TeamStaff, which could not be recovered under the indemnification provisions because cancellation of the shares in escrow is the sole method of satisfying these indemnification obligations.

As a commercial enterprise and employer and in connection with its businesses as a professional employer organization, payroll services and temporary and permanent staffing, TeamStaff is engaged in litigation from time to time during the ordinary course of business in connection with employee suits, workers' compensation and other matters. Generally, TeamStaff is entitled to indemnification or repayment from its PEO clients for claims brought by worksite employees related to their employment. However, there can be no assurance that the client employer will have funds or insurance in amounts to cover any damages or awards, and as co-employer, TeamStaff may be subject to liability.

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

EMPLOYMENT AGREEMENTS

TeamStaff entered into a new employment agreement with Mr. Donald Kappauf, TeamStaff's President and Chief Executive Officer effective April 2, 2001 and terminating on September 30, 2003, unless extended. If the Company fails to notify Mr. Kappauf prior to six months before the date of termination that it does not intend to negotiate a renewal of the employment of Mr. Kappauf, then the agreement will be automatically extended for a period of one year.

Under the terms of this agreement, Mr. Kappauf's base compensation was initially $230,000, increasing to $300,000 commencing September 1, 2001, and subject to yearly increases thereafter at the discretion of the compensation committee. For the fiscal year ended September 30, 2002, Mr. Kappauf received a base salary of $300,000. Mr. Kappauf is also entitled to a bonus based on the achievement of certain performance criteria as determined by the compensation committee.

In addition, Mr. Kappauf receives certain other benefits including insurance benefits as are provided to all other executives, a car allowance in the amount of $1,000 per month, participation in the supplemental executive retirement plan and a split dollar life insurance arrangement. The agreement also provided for the grant of 300,000 stock options, which vested in annual increments of one third commencing on the date of the agreement. TeamStaff also entered into a severance agreement with Mr. Kappauf which governs the termination of his employment and certain other events including a change of control of the Company.

TeamStaff entered into a new employment agreement with Mr. Donald Kelly, TeamStaff's former Chief Financial Officer, effective April 2, 2001 and terminating on September 30, 2003, unless extended. If the Company fails to notify Mr. Kelly prior to six months before the date of termination that it does not intend to negotiate a renewal of the employment of Mr. Kelly, then the agreement will be automatically extended for a period of one year.

Under the terms of this agreement, Mr. Kelly's base compensation was initially $170,000, increasing to $200,000 commencing September 1, 2001, and subject to yearly increases thereafter at the discretion of the compensation committee. For the fiscal year ended September 30, 2002, Mr. Kelly received a base salary of $200,000. Mr. Kelly is also entitled to a bonus based on the achievement of certain performance criteria as determined by the compensation committee.

In addition, Mr. Kelly receives certain other benefits including insurance benefits as are provided to all other executives, a car allowance in the amount of $800 per month, participation in the supplemental executive retirement plan and a split dollar life insurance arrangement. The agreement also provided for the grant of 150,000 stock options, which vested in annual increments of one third commencing on the date of the agreement.

TeamStaff's future commitment under these employees contracts totals approximately $522,000.

TeamStaff also entered into a severance agreement with Mr. Kelly which governs the termination of his employment and certain other events including a change of control of the Company. Pursuant to the severance agreement with Mr. Kelly, in the event he is terminated by the Company for cause, he will be entitled only to his accrued compensation, which means his base salary, reimbursement of business expenses, vacation pay and earned but unpaid bonuses to the date of termination. "Cause" is defined to include conviction of a felony, an intentional and continual failure to substantially perform his duties or an intentional failure to follow or perform a lawful direction of the Board of Directors. If Mr. Kelly is terminated for disability or death, he will be entitled to his accrued compensation and certain other payments such as the pro rata bonus amount. The pro rata bonus amount is defined as the amount equal to the greater of the most recent annual bonus amount paid or the annual bonus paid or payable for the full fiscal year ended prior to the termination, in either case pro-rated through the date of death or disability. In the event that Mr. Kelly's employment terminates for any other reason, the agreement provides for payment of his accrued compensation, a pro rata bonus amount, a bonus amount allocated to the remainder of the term of his employment agreement, his base salary through the remainder of the term of his employment agreement, a severance payment equal to one year's base compensation, a payment equal to the cost of health and other similar benefits for a period of two years and costs associated with outplacement services. In the event of a change of control of the Company, and after such event Mr. Kelly's employment is terminated (either by him or by the Company within 24 months of the event), he is entitled to his base salary, reimbursement of business expenses, vacation pay and earned but unpaid bonuses to the date of termination, as well as an additional severance payment equal to a cash payment of three times the amount of his five year average gross income and all options held by him are deemed vested. A change of control is defined to mean (i) an acquisition by a person (as defined under Section 13(d) of the Securities and Exchange Act of 1934) of 20% or more of the voting stock of the Company (ii) if the persons who comprise the Board of Directors as of May 22, 2002 cease to constitute two-thirds of the Board at any date, except a change of control does not occur if the nomination for election of new board members is approved by two-thirds of the existing board or (iii) the stockholders of the Company approve a merger or consolidation of the Company and the pre transaction stockholders fail to own 85% of the post transaction combined voting power. Further, if the Company is merged with, or sells substantially all of its assets prior to May 24, 2004, Mr. Kelly is entitled, in addition to the other compensation payable upon a change of control, to a success fee equal to $1,000,000; provided that if the value to shareholders in connection with the sale is greater than $9.00 per share, the fee will be increased by the sum of $25,000 for each $.10 per share that exceeds $9.00.

Until December 10, 2002, Mr. Kelly held the positions of Chief Financial Officer, Vice President, Finance and Secretary of the Company. In light of the circumstances regarding the removal of Mr. Kelly from his duties, Mr. Kelly may have reason to terminate his employment with the Company for "good reason" and exercise his rights under the severance agreement. The term good reason includes "a change in the [e]xecutive's status, title, position or responsibilities . . . ." Additionally, the removal of Mr. Kelly from his duties may have caused his benefits under the SERP to become fully vested. The Board of Directors has not made a final determination whether to reinstate Mr. Kelly to his position, and is reviewing the opinions expressed, and findings by TeamStaff's current independent auditors, in connection with the most recent audit and the evaluation of internal controls. The Board of Directors has not made a determination whether Mr. Kelly would be entitled to terminate his employment and exercise these rights pursuant to the severance agreement and be entitled to certain potential payments. In the event that Mr. Kelly exercises these rights, such termination is deemed proper, and Mr. Kelly is eligible to receive all potential compensation under the severance agreement and the SERP, the Company may be required to pay a sum, either directly to Mr. Kelly, in the case of the severance agreement, or to a trust, in the case of any payments to be made pursuant to the SERP, totaling approximately $1.1 million.

NASDAQ POTENTIAL DELISTING

On January 16, 2003, TeamStaff received notice from the NASDAQ Stock Market that an "E" would be appended to its symbol at the opening of business on January 21, 2003 due to the belated filing of TeamStaff's annual report on Form 10-K for fiscal year 2002. NASDAQ further advised TeamStaff that its Common Stock would be delisted from trading on the NASDAQ National Market at the opening of business on January 27, 2003 unless TeamStaff requested a hearing before the NASDAQ Stock Market. TeamStaff requested and was granted a hearing before a NASDAQ panel, which will be held on February 14, 2003. Any potential action on the listing of its stock will be postponed until a decision of the panel has been reached. TeamStaff anticipates that the NASDAQ panel will reach a decision shortly after the hearing. There can be no assurance that NASDAQ will agree to continue the listing of TeamStaff common stock.

(8) SHAREHOLDERS' EQUITY:

During 2002, 2001 and 2000, the Company repurchased 242,945, 51,911 and 17,100 shares respectively of its common stock for $1,146,000, $366,000 and $61,000 respectively. Subsequent to September 30, 2002, the Company purchased 137,900 shares of its common stock for $431,000.

Stock Warrants-

The following is a summary of the outstanding warrants to purchase the Company's common stock at September 30, 2002:

Exercise Period From	Exercise Period To	Exercise Price Per Common Share	Number of Shares of Common Stock Reserved
February 1998	February 2003	7.20	7,143
January 1999	January 2004	5.25	21,428
November 1999	November 2002	4.15	51,714
December 2000	January 2005	3.20	10,000
August 2001	August 2006	5.16	16,000
			106,285

During the fiscal year ending September 30, 2002, the Company granted no warrants and no warrant expired unexercised. During 2002, 3,286 warrants were exercised for net proceeds of $14,000. During the fiscal year ended September 30, 2001, the Company granted 26,000 additional warrants and 69,140 warrants expired unexercised. During 2001, 73,570 warrants were exercised for net proceeds of $179,000. During the fiscal year ended September 30, 2000, the Company granted 100,000 additional warrants and 2,257 warrants expired unexercised. During 2000, no warrants were exercised. For warrants issued to third parties for services, the Company utilizes the Black-Scholes option pricing model to determine fair value and compensation expense. The fair value of the grants issued in 2001 and 2000 and other stock based compensation was determined to be $70,000 and $200,000 respectively, and was included in selling, general and administrative expenses in the accompanying statements of income for the years ended September 30, 2001 and September 30, 2000 respectively.

STOCK OPTION PLANS -

The 1990 Employees Stock Option Plan (the "1990 Plan") provided for the grant of options to purchase up to 285,714 shares of the Company's common stock. Under the terms of the 1990 Plan, options granted thereunder may be designated as options which qualify for incentive stock option treatment ("ISOs") under Section 422A of the Code, or options which do not so qualify ("Non-ISO's").

The 1990 Non-Executive Director Stock Option Plan (the "Director Plan") provided for issuance of a maximum of 142,857 shares of common stock upon the exercise of stock options arising under the Director Plan.

The 1990 Senior Management Incentive Plan (the "Management Plan") provided for the issuance of stock, options and other stock purchase rights to executive officers and other key employees and consultants who render significant services to the Company and its subsidiaries. A total of 1,428,571 shares of common stock were reserved for issuance under the Management Plan.

The forgoing plans have expired and options are no longer being granted under these plans.

2001 EMPLOYEE STOCK OPTION PLAN

During 2001, the Board of Directors and shareholders approved the adoption of the 2001 Employees Stock Option Plan (the "2001 Plan") to provide for the grant of options to purchase up to 1,714,286 shares of the Company's common stock to all employees, including senior management. The 2001 Plan replaces the 1990 Employee Plan and Senior Management Plans, both of which expired. Under the terms of the 2001 Plan, options granted thereunder may be designated as options which qualify for incentive stock option treatment ("ISOs") under Section 422A of the Code, or options which do not so qualify ("Non-ISO's").

The 2001 Plan is administered by the Compensation Committee designated by the Board of Directors. The Compensation Committee has the discretion to determine the eligible employees to whom, and the times and the price at which, options will be granted; whether such options shall be ISOs or Non-ISOs, subject to applicable law; the periods during which each option will be exercisable; and the number of shares subject to each option. The Committee has full authority to interpret the 2001 Plan and to establish and amend rules and regulations relating thereto.

Under the 2001 Plan, the exercise price of an option designated as an ISO shall not be less than the fair market value of the common stock on the date the option is granted. However, in the event an option designated as an ISO is granted to a ten percent (10%) shareholder, as defined, such exercise price shall be at least 110% of such fair market value. Exercise prices of Non-ISO options may be less than such fair market value.

The aggregate fair market value of shares subject to options granted to a participant, which are designated as ISOs and which become exercisable in any calendar year, shall not exceed $100,000.

The Compensation Committee may, in its sole discretion, grant bonuses or authorize loans to or guarantee loans obtained by an optionee to enable such optionee to pay the exercise price or any taxes that may arise in connection with the exercise or cancellation of an option. The Compensation Committee can also permit the payment of the exercise price in the common stock of the Corporation held by the optionee for at least six months prior to exercise.

NON-EXECUTIVE DIRECTOR PLAN

In fiscal 2001, the Board of Directors and stockholders approved the adoption of the 2001 Non-Executive Director Stock Option Plan (the "Director Plan") to provide for the grant of options to non-employee directors of the Company. Under the terms of the Director Plan, each non-executive director is automatically granted an option to purchase 5,000 shares upon joining the Board and each September lst, pro rata, based on the time the director has served in such capacity during the previous year. The Directors' Plan also provides that directors, upon joining the Board, and for one (1) year thereafter, will be entitled to purchase restricted stock from the Company 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. The Director Plan replaced the previous Director Plan that expired in April 2001.

Under the Director Plan, the exercise price for options granted under the Director Plan shall be 100% of the fair market value of the common stock on the date of grant. Until otherwise provided, the exercise price of options granted under the Director Plan must be paid at the time of exercise, either in cash, by delivery of shares of common stock of the Company or by a combination of each. The term of each option commences on the date it is granted and unless terminated sooner as provided in the Director Plan, expires five (5) years from the date of grant. The Compensation Committee has no discretion to determine which non-executive director will receive options or the number of shares subject to the option, the term of the option or the exercisability of the option. However, the Committee will make all determinations of the interpretation of the Director Plan. Options granted under the Director Plan are not qualified for incentive stock option treatment.

The following tables summarize the activity in the Company's stock option plans for the years ended September 30, 2002, 2001 and 2000:

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE FAIR VALUE
Options outstanding, September 30, 1999	254,714	$ 5.57	
Granted	144,543	$ 4.44	$ 2.49
Exercised	(887)	$ 4.51	
Cancelled	(46,829)	$ 6.36	
Options outstanding, September 30, 2000	351,541	$ 5.00	
Granted	597,785	$ 4.75	$ 2.77
Exercised	(46,009)	$ 4.56	
Cancelled	(28,048)	$ 6.01	
Options outstanding, September 30, 2001	875,269	$ 4.82	
Granted	256,430	$ 5.87	$ 3.47
Exercised	(38,210)	$ 3.39	
Cancelled	(100,845)	$ 6.85	
Options outstanding, September 30, 2002	992,644	$ 4.94	

As of September 30, 2002, 2001, and 2000, 666,642, 440,762 and 211,973 options, respectively, were exercisable.

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING AT 9/30/02	WEIGHTED AVERAGE REMAINING LIFE	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS EXERCISABLE AT 9/30/02	WEIGHTED AVERAGE EXERCISE PRICE
$ 2.27 - 4.55	228,096	2.1	$ 3.75	193,094	$ 3.77
$ 4.55 - 6.82	724,548	3.6	$ 5.14	443,548	$ 5.06
$ 6.82 - 9.10	25,000	3.9	$ 8.01	15,000	$ 8.18
$ 9.10 - 11.37	15,000	3.9	$ 10.18	15,000	$ 10.18

In accordance with Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), which was effective October 1, 1996, the fair value of option grants is estimated on the date of grant using the Black-Scholes option-pricing model for proforma footnote purposes with the following assumptions; dividend yield of 0%, risk-free interest rate of 4.16%, 4.59% and 5.73% in 2002, 2001 and 2000 respectively, and expected option life of 4 years. Expected volatility was assumed to be 72%, 74% and 69% in 2002, 2001 and 2000, respectively.

As permitted by SFAS 123, the Company has chosen to continue to account for its employee stock-based compensation at their intrinsic value in accordance with Accounting Principle Board Opinion No. 25. Accordingly no compensation expense has been recognized for its stock option compensation plans. Had the fair value method of accounting been applied to the Company's stock option plans, the tax-effected impact would be as follows:

(Thousands of dollars except per share amounts)	2002	2001 As Restated	2000
Net income as reported	$ 3,075	$ 1,348	$ 951
Estimated fair value of option grants, net of tax	(627)	(655)	(206)
Net income adjusted	$ 2,448	$ 693	$ 745
Adjusted earnings per share - Basic	$ 0.15	$ 0.08	$ 0.09
Adjusted earnings per share - Diluted	$ 0. 15	$ 0.08	$ 0.09

During 2001, an executive of the Company exercised stock options. In connection with that exercise, the Company issued a full recourse loan to the employee of $90,000. This amount has been recorded as a reduction to shareholders equity in 2001. The loan has been repaid in 2002.

(9) SEGMENT REPORTING:

The Company operates three different lines of business: professional employer organization (PEO), medical staffing and payroll services.

The PEO segment provides services such as payroll processing, personnel administration, benefits administration, workers' compensation administration and tax filing services to small business owners. Essentially, in this business segment, the Company provides services that function as the human resource department for small to medium sized companies wherein the Company becomes a co-employer.

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

Through its Payroll Services business segment, the Company provides basic payroll services to its clients, approximately 75% of which are in the construction industry. Services provided include the preparation of payroll checks, filing of payroll taxes, government reports, W-2's, remote processing directly to the client's offices and certified payrolls.

All corporate expenses, amortization of goodwill (until October 1, 2001), interest expense, as well as depreciation on corporate assets and miscellaneous charges, are reflected in a separate unit called Corporate.

The Company has changed its segment reporting as of October 1, 2001. The contract staffing business located in New York City, which included voucher-processing services, a small amount of PEO services and temporary staffing services, had been previously reported in temporary staffing. The voucher processing service business is now managed and reported in the Payroll Services group. The PEO and temporary staffing business is now managed and reported in PEO. BrightLane costs have been allocated to Corporate since BrightLane provides information technology to the entire company. Prior year figures have been adjusted to conform to the current year presentation.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates the performance of its business lines based on pre-tax income.

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

		Professional Employer Services		Medical Staffing		Payroll Services		Corporate		Consolidated
2002										
Revenues	$	586,150,000	$	74,861,000	$	4,954,000	$		$	665,965,000
Depreciation and amortization		292,000		141,000		12,000		968,000		1,413,000
Income/(loss) from operations		3,895,000		7,652,000		2,057,000		(9,693,000)		3,911,000
Interest income		-		886,000		-		171,000		1,057,000
Interest expense		(26,000)		(15,000)		-		(127,000)		(168,000)
Other income		-		60,000		-		-		60,000
Income/(loss) before income taxes		3,869,000		8,583,000		2,057,000		(9,649,000)		4,860,000
Capital spending		485,000		184,000		6,000		1,508,000		2,183,000
Total assets	$	39,921,000	$	16,873,000	$	3,969,000	$	33,203,000	$	93,966,000
2001 AS RESTATED										
Revenues	$	580,673,000	$	64,442,000	$	4,612,000	$		$	649,727,000
Depreciation and amortization		279,000		270,000		64,000		811,000		1,424,000
Income/(loss) from operations		5,000		7,262,000		1,830,000		(5,819,000)		3,278,000
Interest income		88,000		669,000		-		154,000		911,000
Interest expense		(150,000)		(234,000)		(36,000)		(854,000)		(1,274,000)
Other income		48,000		-		-		-		48,000
Income/(loss) before income taxes and extraordinary item		(9,000)		7,697,000		1,794,000		(6,519,000)		2,963,000
Capital spending		464,000		88,000		-		37,000		589,000
Total assets	$	35,858,000	$	10,561,000	$	2,794,000	$	42,647,000	$	91,860,000
2000										
Revenues	$	401,186,000	$	42,500,000	$	4,057,000	$	-	$	447,743,000
Depreciation and amortization		262,000		220,000		124,000		727,000		1,333,000
Income/(loss) from operations		766,000		4,884,000		1,378,000		(4,610,000)		2,418,000
Interest income		-		473,000		-		111,000		584,000
Interest expense		-		-		-		(1,601,000)		(1,601,000)
Other income		(22,000)		-		-		-		(22,000)
Income/(loss) before income taxes		744,000		5,357,000		1,378,000		(6,100,000)		1,379,000
Capital spending		147,000		232,000		-		107,000		486,000
Total assets	$	16,683,000	$	11,676,000	$	661,000	$	20,494,000	$	49,514,000

The Company has no revenue derived outside of the United States.

(10) QUARTERLY FINANCIAL DATA (UNAUDITED):

	First Quarter As Restated	Second Quarter As Restated	Third Quarter As Restated	Fourth Quarter
Fiscal 2002				
Net Revenues	$ 165,503,000	$ 161,787,000	$ 174,930,000	$ 163,745,000
Gross profit	7,974,000	7,514,000	10,910,000	7,247,000
Net income	626,000	445,000	2,038,000	(34,000)
Earnings per share - Basic and Diluted	$ 0.04	$ 0.03	$ 0.13	$ 0.00

Fiscal 2001	First Quarter As Restated	Second Quarter As Restated	Third Quarter As Restated	Fourth Quarter As Restated
Net Revenues	$ 164,699,000	$ 158,371,000	$ 164,427,000	$ 162,230,000
Gross profit	6,991,000	6,503,000	7,112,000	7,491,000
Income before extraordinary item	622,000	282,000	543,000	255,000
Extraordinary item net of tax	-	-	(143,000)	(211,000)
Net income	622,000	282,000	400,000	44,000
Earnings per share -Basic and Diluted				
Before extraordinary item	$ 0.07	$ 0.03	$ 0.06	$ 0.03
Extraordinary item	-	-	(0.02)	(0.02)
Earnings per share-Basic and Diluted	$ 0.07	$ 0.03	$ 0.04	$ 0.01

(11) EMPLOYEE BENEFIT PLANS

TeamStaff maintains two defined contribution pension plans for the benefit of its non-worksite employees. The first, the Digital Solutions, Inc. and Affiliated Corporations 401(k) Savings Plan, was "frozen" by the Company as of January 1, 1999. TeamStaff plans to terminate this plan in accordance with the provisions of Rev. Proc. 2002-21, providing a method for the termination of single employer plans maintained by professional employer organizations. No deferrals or other contributions currently are made to that plan.

TeamStaff also maintains The TeamStaff Retirement Savings Plan. The TeamStaff Plan is designed to qualitfy as a multiple employer plan as described in Section 413(c) of the Internal Revenue Code. Additionally, because plan participants have their own account, manage their own plan investments and make their own investment decisions from a broad range of investment options, TeamStaff believes that it is afforded protection from liability for participants' investment decisions under Section 404(c) of the Code. Any TeamStaff corporate employee (including its medical and technical staffing employees), is eligible for participation in the TeamStaff Plan upon completing three months of service with TeamStaff. TeamStaff provides a discretionary matching contribution of 25% of each of the first 4% of a participant's elective contributions under the TeamStaff Plan. TeamStaff recorded expense for this matching of $58,000 in fiscal 2002 and $55,000 in fiscal 2001. A participant is always fully vested in his elective contributions. A participant's interest in TeamStaff discretionary matching contributions vests in accordance with the following schedule:

Years of Service:	Vested Interest:
Less than 1 Year of Service	0%
1 Year, but less than 2 Years	25%
2 Years, but less than 3 Years	50%
3 Years, but less than 4 Years	75%
4 Years or more	100%

TeamStaff received a favorable determination letter regarding the TeamStaff Plan's tax qualified status on June 25, 1999. The TeamStaff Plan, and the frozen Digital Solutions Plan, both were audited by independent auditors for the plan years ended December 31, 2001 and December 31, 2000, in connection with their required From 5500 Annual Reports filed with the Pension and Welfare Benefits Administration for the plan year ended December 31, 2001.

Effective October 1, 2000, the Company adopted a non-qualified, supplemental retirement plan covering certain corporate officers of the Company (the "SERP"). Under the terms of the SERP, a participant receives a benefit sufficient to provide lump sum annual payments equal to approximately one-third of the participant's base salary on the date the participant becomes a participant. Payment of benefits commences when the participant reaches 65 years of age. The benefit under the SERP is subject to a seven-year vesting schedule (0%,0%,20%,40%, 60%, 80%, 100%), based on the participant's original date of employment with the Company and contingent on the participant's reaching age 55; provided, however, a participant's benefit becomes fully vested upon a change of control, as defined in the SERP, if within two years of the change of control there is a material change in the participant's job title or responsibilities or if the participant's employment is terminated by the Company for any reason other than conviction for theft or embezzlement from the Company. Additionally, if a participant retires by means of total disability (as defined in the SERP), the participant's benefit becomes fully vested and benefit payments commence as of the disability retirement date. The SERP does not provide a death benefit. The Company's Chief Executive Officer and its former Chief Financial Officer are the only SERP participants.

SERP participants also are provided with a split dollar life insurance policy ("Policy"), insuring the life of the participant until the participant reaches age 65. Although the participant is the owner of the Policy, the Company pays all Policy premiums. Each participant has collaterally assigned the Policy to the Company to secure repayment of the premiums through either its cash surrender value or the Policy proceeds. The participant's right to the Policy vests in accordance with the same schedule as the SERP and with similar change of control provisions. Upon the participant's 65th birthday (and in certain other circumstances provided by the Policy agreement), the Company will release the collateral assignment of the Policy provided the participant releases the Company from all obligations the Corporation may have with respect to the participant (including those under the SERP). However, given the uncertainty regarding the Company's ability to continue to maintain this Policy payment arrangement in light of certain of the provisions of the Sarbanes-Oxley Act of 2002, the Company has discontinued paying Policy premiums on behalf of the Chief Executive Officer.

The following table illustrates the Company's changes in benefit costs and pension benefit obligations for the fiscal years ending September 30, 2002 and September 30, 2001 under the SERP .

	Fiscal Year	
	2002	2001
Change in Benefit obligation		
Benefit obligation at beginning of year	$ 1,004,000	$ 729,000
Service cost	58,000	100,000
Interest Cost	77,000	66,000
Actuarial (gain)/loss	132,000	109,000
Benefit obligation at end of year	$ 1,271,000	$ 1,004,000
Reconciliation of funded status		
Funded status	$ (1,271,000)	$ (1,004,000)
Unrecognized net actuarial (gain)/loss	240,000	109,000
Unrecognized prior service cost	612,000	671,000
Net amount recognized	$ (419,000)	$ (224,000)
Amounts recognized in the statement of financial position consist of:		
Accrued benefit liability	$ (1,271,000)	$ (1,004,000)
Intangible asset	612,000	671,000
Accumulated other comprehensive income	240,000	109,000
Net amount recognized	$ (419,000)	$ (224,000)
Weighted-average assumptions as of September 30:		
Discount rate	6.50%	7.25%
Expected return on plan assets	N/A	N/A
Rate of compensation increase	N/A	N/A
Components of net periodic benefit cost		
Service cost	$ 58,000	$ 100,000
Interest cost	77,000	66,000
Amortization of prior service cost	58,000	58,000
Recognized actuarial (gain)/loss	1,000	-
Net periodic benefit cost	$ 194,000	$ 224,000
Other disclosure items at end of year:		
Projected benefit obligation	$ 1,271,000	$ 1,004,000
Accumulated benefit obligation	$ 1,271,000	$ 1,004,000
Fair value of plan assets	-	-

There are no plan assets.

(12) RESTATEMENT OF FINANCIAL STATEMENTS FOR FISCAL YEAR END SEPTEMBER 30, 2001

Effective October 1, 2000, The Company adopted a non-qualified, supplemental retirement plan covering certain corporate officers of the Company (the "SERP"). SERP participants also are provided with a split dollar life insurance policy ("Policy"), insuring the life of the participant until the participant reaches age 65. (Refer to Note 11 Employee Benefit Plans.) The Company incorrectly accounted for the above programs and did not disclose them in the fiscal year end September 30, 2001 financial statements. The Company expensed the contributions made to the split dollar policies in the amount of $188,000. Had the company properly accounted for the above plan in fiscal year 2001 an additional $76,000 of expense would have been recognized on an after tax basis. The chart below details items affected by the restatement:

	September 30, 2001 As Reported	September 30, 2001 As Restated
BALANCE SHEET:		
Amortized intangible assets	$ 900,000	$ 1,571,000
Other assets	1,567,000	1,661,000
Accrued expenses and other current liabilities	8,466,000	8,365,000
Accrued pension liability	0	1,004,000
Accumulated comprehensive losses	0	(63,000)
Accumulated retained earnings	(1,686,000)	(1,762,000)
STATEMENTS OF INCOME:		
Selling, general, and administrative expenses	$ 23,264,000	$ 23,395,000
Income from operations	3,409,000	3,278,000
Income before income tax expense	3,094,000	2,963,000
Income tax expense	1,316,000	1,261,000
Income before extraordinary item	1,778,000	1,702,000
Net income	1,424,000	1,348,000
Other comprehensive expense, net of tax: minimum pension liability adjustment	0	(63,000)
Comprehensive income	1,424,000	1,285,000

In conducting the audit for the current fiscal year ended September 30, 2002, the auditors expanded their testing of the Company's system of internal controls, including information technology controls, to include the prior year ended September 30, 2001. This was done to investigate concerns regarding controls raised by the predecessor auditor, PricewaterhouseCoopers. As a result of this testing, it was determined that there where no material weaknesses in the Company's system of internal controls and accordingly only an audit of the restatement adjustment was required.

SCHEDULE I

TEAMSTAFF, INC. AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

FOR THE YEARS ENDED SEPTEMBER 30, 2002, 2001 AND 2000

(a) Description	(b) Balance at Beginning of Year	(c) Additions Charged to (reversed from) Costs and Expenses	(d) Deductions - Net Write-Offs	(e) Balance at End of Year
Allowance for doubtful accounts, year ended- September 30, 2002	$ 549,000	$ 546,000	$ (833,000)	$ 262,000
September 30, 2001	$ 281,000	$ 526,000	$ (258,000)	$ 549,000
September 30, 2000	$ 209,000	$ 162,000	$ (90,000)	$ 281,000

EXHIBIT 10.12

SEVERANCE AGREEMENT

AGREEMENT made as of the 22nd day of May, 2002 by and between Donald W. Kappauf, residing at 1044 Tullo Farm Road, Bridgewater, New Jersey 08807 (hereinafter referred to as the "Executive") and TEAMSTAFF, INC., a New Jersey corporation with principal offices located at 300 Atrium Drive, Somerset, New Jersey 08873 (the "Company").

WHEREAS, the Board of Directors (the "Board") of the Company recognizes that the possibility of a termination without Cause (as defined below), and the possibility of a Change in Control (as defined below), can create significant distractions for its key management personnel because of the uncertainties inherent in such situations; and

WHEREAS, the Board has determined that it is essential and in the best interest of the Company and its stockholders to retain the services of the Executive, in general and particularly in the event of a threat or the occurrence of a Change in Control, and to ensure his continued dedication and efforts in such event without undue concern for his personal financial and employment security; and

WHEREAS, in order to induce the Executive to remain in the employ of the Company, in general and particularly in the event of a threat or the occurrence of a Change in Control, and to ensure the Executive agrees to a restrictive covenant necessary to effectuate a transaction in the interests of the Company's shareholders, the Company desires to enter into this Agreement with the Executive to provide the Executive with certain benefits in the event his employment is terminated without Cause or as a result of, or in connection with, a Change in Control and to provide the Executive with certain other benefits whether or not the Executive's employment is terminated.

NOW, THEREFORE, it is agreed as follows:

1. TERM OF AGREEMENT. This Agreement shall commence as of May 22, 2002, and shall continue in effect until September 30, 2003; provided, however, that commencing on September 30, 2003 and on each September 30th thereafter, the term of this Agreement shall automatically be extended for one (1) year, unless either the Company or the Executive shall have given written notice to the other, at least one hundred eighty (180) days prior thereto, that the term of this Agreement shall not be so extended; and provided, further, that notwithstanding any such notice by the Company not to extend, the term of this Agreement shall not expire prior to the expiration of twenty-four (24) months after the occurrence of a Change in Control which occurs during the term of this Agreement.

2. DEFINITIONS

2.1 ACCRUED COMPENSATION. "Accrued Compensation" shall mean an amount which shall include all amounts earned or accrued through the "Termination Date" (as defined below) but not paid as of the Termination Date, including (i) base salary, (ii) reimbursement for business expenses incurred by the Executive on behalf of the Company, pursuant to the Company's expense reimbursement policy in effect at such time, (iii) car allowance, (iv) discretionary time and vacation pay, (v) Gross Up Payments, and (vi) bonuses and incentive compensation (other than the "Pro Rata Bonus" (as defined below)).

2.2 BASE AMOUNT. "Base Amount" shall mean the greater of the Executive's annual base compensation (a) at the rate in effect on the Termination Date or (b) at the highest rate in effect at any time during the ninety (90) day period prior to the Termination Date or a Change in Control, and shall include all amounts of his base compensation that are reported as income; provided however, Base Amount shall not include the Bonus Amount or any other payment contingent on performance.

2.3 BONUS AMOUNT. "Bonus Amount" shall mean the greater of the most recent annual bonus paid or payable to the Executive, or, if greater, the annual bonus paid or payable for the full fiscal year ended prior to the fiscal year during which a Termination Date or a Change in Control occurred.

2.4 CAUSE. "Cause"shall mean if the Executive has been convicted of a felony or the termination is evidenced by a resolution adopted in good faith by two-thirds of the Board that the Executive (a) intentionally and continually failed substantially to perform his reasonably assigned duties with the Company (other than a failure resulting from the Executive's incapacity due to physical or mental illness or from the assignment of duties that would constitute "Good Reason"), which failure continued for a period of at least thirty (30) days after a written notice of demand for substantial performance has been delivered to the Executive, specifying the manner in which the Executive has failed substantially to perform, or (b) intentionally and continually failed substantially to follow or perform the lawful directives of the Chairman of the Board of Directors (other than a failure resulting from the Executive's incapacity due to physical or mental illness or from the establishment of directives that would constitute "Good Reason"), which failure continued for a period of at least thirty (30) days after written notice of demand for compliance or substantial performance has been delivered to the Executive, specifying the manner in which the Executive has failed substantially to perform or comply. No act, nor failure to act, on the Executive's part, shall be considered "intentional," unless the Executive has acted, or failed to act, with a lack of good faith or with a lack of reasonable belief that the Executive's action or failure to act was in the best interest of the Company.

2.5 CHANGE IN CONTROL. For purposes of this Agreement, a "Change in Control" shall mean any of the following events:

(a)(i) An acquisition (other than directly from the Company) of any voting securities of the Company (the "Voting Securities") by any "Person" (as the term person is used for purposes of Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the "1934 Act")) immediately after which such Person has "Beneficial Ownership" (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of twenty percent (20%) or more of the combined voting power of the Company's then outstanding Voting Securities; provided, however, that in determining whether a Change in Control has occurred, Voting Securities which are acquired in a "Non-Control Acquisition" (as defined below) shall not constitute an acquisition which would cause a Change in Control. A "Non-Control Acquisition" shall mean an acquisition by (1) an employee benefit plan (or a trust forming a part thereof) maintained by (x) the Company or (y) any corporation or other Person of which a majority of its voting power or its equity securities or equity interest is owned directly or indirectly by the Company (a "Subsidiary"), or (2) the Company or any Subsidiary.

(ii) Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because a Person (the "Subject Person") gained Beneficial Ownership of more than the permitted amount of the outstanding Voting Securities as a result of the acquisition of Voting Securities by the Company which, by reducing the number of Voting Securities outstanding, increases the proportional number of shares Beneficially Owned by the Subject Person, provided that if a Change in Control would occur (but for the operation of this sentence) as a result of the acquisition of Voting Securities by the Company, and after such share acquisition by the Company, the Subject Person becomes the Beneficial Owner of any additional Voting Securities which increases the percentage of the then outstanding Voting Securities Beneficially Owned by the Subject Person, then a Change in Control shall occur.

(b) The individuals who, as of the date this Agreement is approved by the Board, are members of the Board (the "Incumbent Board"), cease for any reason to constitute at least two-thirds of the Board; provided, however, that if the election, or nomination for election by the Company's stockholders, of any new director was approved by a vote of at least two-thirds of the Incumbent Board, such new director shall, for purposes of this Agreement, be considered and defined as a member of the Incumbent Board; and provided, further, that no individual shall be considered a member of the Incumbent Board if such individual initially assumed office as a result of either an actual or threatened "Election Contest" (as described in Rule 14a-11 promulgated under the 1934 Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board (a "Proxy Contest"), including by reason of any agreement intended to avoid or settle any Election Contest or Proxy Contest; or

(c) Approval by stockholders of the Company of:

(1) A merger, consolidation or reorganization involving the Company, unless

(i) the stockholders of the Company, immediately before such merger, consolidation or reorganization, own, directly or indirectly immediately following such merger, consolidation or reorganization, at least eighty-five percent (85%) of the combined voting power of the outstanding voting securities of the corporation resulting from such merger or consolidation or reorganization (the "Surviving Corporation") in substantially the same proportion as their ownership of the Voting Securities immediately before such merger, consolidation or reorganization,

(ii) the individuals who were members of the Incumbent Board immediately prior to the execution of the agreement providing for such merger, consolidation or reorganization constitute at least two-thirds of the members of the board of directors of the Surviving Corporation, and

(iii) no Person (other than the Company, any Subsidiary, any employee benefit plan (or any trust forming a part thereof) maintained by the Company, the Surviving Corporation or any Subsidiary) has Beneficial Ownership of twenty percent (20%) or more of the combined voting power of the Surviving Corporation's then outstanding voting securities,

a transaction described in clauses (i) through (iii) shall herein be referred to as a "Non-Control Transaction"; or

(2) An agreement for the sale or other disposition of all or substantially all of the assets of the Company, or of a significant subsidiary, to any Person, other than a transfer to a Subsidiary, in one transaction or a series of related transactions. For purposes of this subparagraph 2.5 (c) (2), "significant subsidiary " shall mean any subsidiary or business division of the Company which accounts for more than 40% of the Company's income, revenue or gross profits, and shall include Staff Rx.

(3) The stockholders of the Company approve any plan or proposal for the liquidation or dissolution of the Company.

(d) Notwithstanding anything contained in this Agreement to the contrary, if the Executive's employment is terminated prior to a Change in Control and the Executive reasonably demonstrates that such termination (i) was at the request of a third party who has indicated an intention or taken steps reasonably calculated to effect a Change in Control (a "Third Party") or (ii) otherwise occurred in connection with, or in anticipation of, a Change in Control, then for all purposes of this Agreement, the date of a Change in Control with respect to the Executive shall mean the date immediately prior to the date of such termination of the Executive's employment.

2.6 COMPANY. For purposes of this Agreement, "Company" shall mean TeamStaff, Inc. and shall include its "Successors and Assigns" (as defined below).

2.7 CONTINUATION BENEFITS. "Continuation Benefits" shall be the continuation for a period of twenty-four (24) months from the Termination Date (the "Continuation Period") at the Company's expense on behalf of the Executive and his dependents and beneficiaries, of the life insurance, disability, medical, dental and hospitalization benefits provided (x) to the Executive at any time during the ninety (90) day period prior to the Change in Control or at any time thereafter or (y) to other similarly situated executives who continue in the employ of the Company during the Continuation Period. The coverage and benefits (including deductibles and costs) provided during the Continuation Period shall be no less favorable to the Executive, and his dependents and beneficiaries, than the most favorable of such coverages and benefits during any of the periods referred to in clauses (x) and (y) above. The Company's obligation hereunder with respect to the foregoing benefits shall be limited to the extent that if the Executive obtains any such benefits pursuant to a subsequent employer's benefit plans, the Company may reduce the coverage of any benefits it is required to provide the Executive hereunder as long as the aggregate coverages and benefits of the combined benefit plans is no less favorable to the Executive than the coverages and benefits required to be provided hereunder. In the event any amounts attributable to these Continuation Benefits are includible in the gross income of the Executive for federal income tax purposes, the Company shall, in addition to the benefits set forth above, pay the Executive a Gross Up Payment on the amount so includible in Executive's gross income. Notwithstanding the foregoing, in lieu of providing the foregoing benefits, the Company may pay the Executive an amount equal to the cost to the Executive of obtaining comparable Continuation Benefits plus a Gross Up Payment with respect to such amount. This definition of Continuation Benefits shall not be interpreted so as to limit any benefits to which the Executive, his dependents or beneficiaries may be entitled under any of the Company's employee benefit plans, programs or practices following the Executive's termination of employment, including, without limitation, retiree medical and life insurance benefits.

2.8 DISABILITY. A physical or mental infirmity which impairs the Executive's ability to substantially perform his duties with the Company for a period of one hundred eighty (180) consecutive days, and the Executive has not returned to his full time employment prior to the Termination Date as stated in the "Notice of Termination" (as defined below).

2.9 EMPLOYMENT AGREEMENT. The Employment Agreement dated April 2, 2001, between the Company and the Executive, as same shall be modified, amended, supplemented, renewed or replaced.

2.10 GOOD REASON. (a) "Good Reason" shall mean:

(i) the occurrence of a Change in Control;

(ii) a change in the Executive's status, title, position or responsibilities (including reporting responsibilities) which, in the Executive's reasonable judgment, represents an adverse change from his status, title, position or responsibilities; the assignment to the Executive of any duties or responsibilities which, in the Executive's reasonable judgment, are inconsistent with his status, title, position or responsibilities; or any removal of the Executive from or failure to reappoint or reelect him to any of such offices or positions, except in connection with the termination of his employment for Disability, Cause, as a result of his death or by the Executive other than for Good Reason;

(iii) a reduction in the Executives base salary or any failure to pay the Executive any compensation or benefits to which he or she is entitled within five (5) days of the date due;

(iv) the Company's requiring the Executive to be based at any place outside a 30-mile radius from Somerset, New Jersey, except for reasonably required travel on the Company's business which is not materially greater than such travel generally required for such Executive;

(v) the failure by the Company to continue in effect (without reduction in benefit level, and/or reward opportunities) any material compensation or employee benefit plan in which the Executive was participating, unless such plan is replaced with a plan that provides at least substantially equivalent compensation or benefits to the Executive;

(vi) the insolvency or the filing (by any party, including the Company) of a petition for bankruptcy of the Company, which petition is not dismissed within sixty (60) days;

(vii) any material breach by the Company of any provision of this Agreement which is not cured within thirty (30) days after notice to the Company by the Executive specifying the breach;

(viii) any purported termination of the Executive's employment for Cause by the Company which is inconsistent with the terms of Section 2.4; or

(ix) the failure of the Company to obtain an agreement, satisfactory to the Executive, from any Successors and Assigns to assume and agree to perform this Agreement, as contemplated in Section 6(c) hereof; or

(b) The Executive's right to terminate his employment pursuant to this Section 2.10 shall not be affected by his incapacity due to physical or mental illness.

2.11 GROSS UP PAYMENT. With respect to any amount includible in the Executive's gross income for federal income tax purposes (the "Taxable Benefit"), an amount in cash equal to (i) the product of the Highest Marginal Income Tax Rate and the Taxable Benefit, (ii) divided by one minus the Highest Marginal Income Tax Rate. The Highest Marginal Income Tax Rate shall mean the sum of the highest marginal combined local, state and federal personal income tax rates (including tax rates associated with any state unemployment compensation tax, any tax imposed under the Federal Insurance Contributions Act, any excise tax or surtax, and any other tax on income based on the Company's employment of the Executive), as in effect for the calendar year in which the Taxable Benefit is includible in the gross income of the Executive for federal income tax purposes. The Gross Up Payment shall be paid within ten (10) days of the payment or realization for federal income tax purposes of the Taxable Benefit.

2.12 NOTICE OF TERMINATION. "Notice of Termination" shall mean a written notice from the Company of termination of the Executive's employment which indicates the specific termination provision in this Agreement relied upon, if any, and which sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated.

2.13 OUTPLACEMENT SERVICES. "Outplacement Services" shall mean all reasonable costs and expenses associated with the engagement of an executive outplacement firm to provide executive outplacement services to the Executive.

2.14 PRO RATA BONUS. "Pro Rata Bonus" shall mean an amount equal to the greater of (i) the Bonus Amount or (ii) an amount equal to the bonus objective or target established by the Board for the Executive for the fiscal year in which the termination occurs multiplied by a fraction the numerator of which is the number of days in the fiscal year through the Termination Date and the denominator of which is 365.

2.15 RESTRICTIVE COVENANT. "Restrictive Covenant" shall mean a reasonable restriction, not to exceed three years in duration, on the Executive to engage in conduct competitive with a business, subsidiary or division of the Company.

2.16 SERP. The supplemental executive retirement plan including a split dollar life insurance arrangement as currently established by the Company for Employee.

2.17 SEVERANCE PAYMENT. Severance Payment shall mean a lump sum cash payment equal to twelve (12) months Base Amount.

2.18 SUCCESS FEE. The Success Fee shall be a cash payment to Executive of $2,000,000; provided, however, that in the event of any consolidation or merger of the Company with or into another corporation (other than a merger which does not constitute a Change of Control), or the conveyance of all or substantially all of the assets of the Company to another corporation or entity, and in which the value to the common shareholders of the Company is greater than $9.00 per share (the "Common Stock Value"), the Success Fee shall be increased by the sum of $50,000 for each $.10 per share that the Common Stock Value exceeds $9.00. Common Stock Value shall mean the reasonable value of all distributions to shareholders, including cash and the reasonable value of all securities, divided by the number of common shares held by all security holders actually receiving such distributions on a fully diluted basis.

2.19 SUCCESSORS AND ASSIGNS. "Successors and Assigns" shall mean a corporation or other entity acquiring all or substantially all the assets and business of the Company (including this Agreement) whether by operation of law or otherwise.

2.20 TERMINATION DATE. "Termination Date" shall mean in the case of the Executive's death, his date of death; in the case of Good Reason, the last day of his employment; and in all other cases, the date specified in the Notice of Termination; provided, however, that if the Executive's employment is terminated by the Company for Cause or due to Disability, the date specified in the Notice of Termination shall be at least 30 days from the date the Notice of Termination is given to the Executive, and provided further that in the case of Disability, the Executive shall not have returned to the full-time performance of his duties during such period of at least 30 days.

3. TERMINATION OF EMPLOYMENT.

3.1 (a) If the Executive's employment with the Company shall be terminated, in lieu of any further compensation for periods subsequent to the Termination Date, the Company shall pay and/or provide to the Executive, the following compensation and benefits:

(i) if the Executive was terminated by the Company for Cause, the Accrued Compensation; or

(ii) if the Executive was terminated by the Company for Disability, the Accrued Compensation, a Pro Rata Bonus, the Severance Payment and the Continuation Benefits, less all disability insurance payments which Employee may receive from insurance policies provided by the Company; or

(iii) if termination was due to the Executive's death, the Accrued Compensation and a Pro Rata Bonus; or

(iv) if termination was by the Executive other than for Good Reason, the Company shall pay to the Executive the Accrued Compensation.

(b) If the Executive's employment with the Company shall be terminated for any reason other than as specified in Section 3.1(a), in lieu of any further compensation for periods subsequent to the Termination Date, the Company shall pay and/or provide to the Executive each and all of the following compensation and benefits:

(i) all Accrued Compensation;

(ii) a Pro-Rata Bonus;

(iii) the Executive's Base Amount, for the period from the Termination Date to the expiration of the term of the Employment Agreement, including any renewal period which is automatic on the Termination Date;

(iv) a bonus payment equal to one-twelfth (1/12) of the Bonus Amount times the number of months remaining from the Termination Date to the expiration of the term of the Employment Agreement, including any renewal period which is automatic on the Termination Date;

(v) The Severance Payment;

(vi) The Continuation Benefits;

(vii) Any Gross Up Payments to which the Executive would have been entitled from the Termination Date to the expiration of the term of the Employment Agreement, including any renewal period which is automatic on the Termination Date; and

(viii) The Outplacement Services.

(c) In the event the Executive's employment is terminated for any reason other than as specified in Section 3.1(a), the conditions to the vesting of any outstanding incentive awards (including restricted stock, stock options and granted performance shares or units) granted to the Executive under any of the Company's plans, or under any other incentive plan or arrangement, shall be deemed void and all such incentive awards shall be immediately and fully vested and exercisable.

3.2 The amounts payable under this Section 3, shall be paid as follows:

(a) Accrued Compensation shall be paid within five (5) business days after the Executive's Termination Date (or earlier, if required by applicable law).

(b) The Pro-Rata Bonus shall be paid within thirty (30) days after the Executive's Termination Date (or earlier, if required by applicable law).

(c) If the Continuation Benefits are paid in cash, the payments shall be made within thirty (30) days after the Executive's Termination Date (or earlier, if required by applicable law).

(d) The Severance Payment shall be paid within thirty (30) days after the Executive's Termination Date (or earlier, if required by applicable law).

(e) The amounts provided for in Sections 3.1(b)(iii) and (iv), shall be paid within thirty (30) days after the Executive's Termination Date (or earlier, if required by applicable law).

3.2 The Executive shall not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise and no such payment shall be offset or reduced by the amount of any compensation or benefits provided to the Executive in any subsequent employment except as provided in Section 2.7.

3.3 Executive's employment and the Employment Agreement may be terminated by the Company for Cause, Disability or death of the Executive, or by the Executive for Good Reason, by service of a Notice of Termination in accordance with this Agreement. For purposes of this Agreement, no such purported termination shall be effective without service of a Notice of Termination.

4. CHANGE OF CONTROL.

4.1 In the event of a Change of Control as described in Sections 2.5(a) and (b), the Company shall provide notice to the Executive within ten (10) days of the date the Company has notice of such Change of Control transaction. If the Executive provides notice in writing to the Company, within ninety (90) days after the Company's notice, that the Executive intends to terminate his Employment Agreement for Good Reason effective thirty (30) days after the date of such notice, in addition to the benefits provided elsewhere in this Agreement, the Company shall pay and/or provide to the Executive, the following compensation and benefits:

(a) The Company shall pay the Executive as additional severance, in a single payment, an amount in cash equal to three times the amount of the five year average of the gross income of the Executive, as reported by the Company for federal income tax purposes or, at the option of the Executive, credit such amount against the exercise price of Executive's employee stock options; and

(b) The conditions to the vesting of any outstanding incentive awards (including restricted stock, stock options and granted performance shares or units) granted to the Executive under any of the Company's plans, or under any other incentive plan or arrangement, shall be deemed void and all such incentive awards shall be immediately and fully vested and exercisable.

4.2 Notwithstanding the provisions of Section 3 to the contrary, in the event the Executive's employment is terminated for any reason within twenty-four (24) months of a Change of Control, the amounts provided for in Sections 3.1(a) and (b), including the Continuation Benefits, if the Continuation Benefits are paid in cash, and the amounts payable under Section 4.1 shall be paid in a single lump sum cash payment within five (5) business days after the Executive's Termination Date (or earlier, if required by applicable law).

4.3 In the event of a Change of Control as described in Section 2.5(c), the Company shall provide thirty (30) days prior written notice to the Executive of the anticipated closing date of such Change of Control transaction. If the Executive provides notice in writing to the Company, at least five (5) days prior to the closing date specified in the Company's notice, that the Executive intends to terminate his Employment Agreement for Good Reason effective on the closing date, there shall be paid to the Executive in a single lump sum, cash payment simultaneously with the closing of such Change of Control transaction, the amounts provided for in Sections 3.1(a) and (b), including the Continuation Benefits, if the Continuation Benefits are paid in cash. Upon the closing of such Change of Control Transaction and the payments of the amounts due Executive under this Agreement, Executive's employment, and the Employment Agreement shall be deemed terminated for Good Reason.

4.4 In addition to any of the payments or benefits under this Agreement, in the event of any consolidation or merger of the Company with or into another corporation (other than a merger which does not constitute a Change of Control), or the conveyance of all or substantially all of the assets of the Company to another corporation or entity, in a transaction or series of transactions which are consummated prior to May 22, 2004, the Executive shall be entitled to the Success Fee. The Success Fee shall be paid to the Executive in a single lump sum, cash payment on the closing of the transaction to which the Success Fee relates. Notwithstanding the foregoing, the Success Fee shall be contingent on the agreement of the Executive to a Restrictive Covenant, if such Restrictive Covenant is required as a condition to the closing of the transaction on which the Success Fee is based.

5. EXCISE TAX GROSS UP PAYMENT

(a) The Company and the Executive acknowledge that the payments and benefits provided under this Agreement, and benefits provided to, or for the benefit of, the Executive under other Company plans and agreements (such payments or benefits are collectively referred to as the "Payments") are subject to the excise tax (the "Excise Tax") imposed under Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"). In addition to the Payments, the Company shall pay to the Executive within five (5) business days of Payment subject to the Excise Tax, a gross up payment (the "Gross Up Payment") equal to the amount which, after the deduction of any applicable Federal, State and Local income taxes attributable to the Gross Up Payment, is equal to the Excise Tax including the Excise Tax attributable to the Gross Up Payment.

(b) The Company shall pay to the applicable government taxing authorities, as Excise Tax withholding, the amount of the Excise Tax that the Company has actually withheld from the Payment or Payments.

(c) If it is established pursuant to a determination of a court, or an Internal Revenue Service (the "IRS") decision, action or proceeding, that there has been an underpayment of the Excise Tax (an "Underpayment"), the Company shall pay to the Executive within thirty (30) days of such determination or resolution, the amount which, after the deduction of any applicable federal, state and local income taxes, including the Excise Tax, is equal to the Underpayment, plus applicable interest and penalties until the date of payment.

(d) The Company hereby agrees to indemnify, defend, and hold harmless the Executive for any and all claims arising from or related to non-payment of Excise Tax, including the amount of such tax and any and all costs, interest, expenses, penalties associated with the non-payment of such tax to the fullest extent permitted by law.

6. SUCCESSORS: BINDING AGREEMENT

(a) This Agreement shall be binding upon and shall inure to the benefit of the Company, and its Successors and Assigns, and the Company shall require any Successors and Assigns to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession or assignment had taken place.

(b) Neither this Agreement nor any right or interest hereunder shall be assignable or transferable by the Executive, his beneficiaries or legal representatives, except by will or by the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's personal representative.

(c) In the event that a Division (or part thereof) is sold, divested, or otherwise disposed of by the Company subsequent to or in connection with a Change in Control and the Executive accepts employment by the purchaser or acquiror thereof, the Company shall require such purchaser or acquiror to assume, and agree to perform, the Company's obligations under this Agreement, in the same manner, and to the same extent, that the Company would be required to perform if no such acquisition or purchase had taken place.

7. PRIOR AGREEMENTS

7.1 This Agreement supersedes and replaces the following sections of the Employment Agreement: Article VIII, Article IX and Article XII.

7.2 The Executive's entitlement to any other compensation or benefits shall be determined in accordance with the Company's employee benefit plans and other applicable programs, policies and practices then in effect, including the SERP.

7. FEES AND EXPENSES. The Company shall pay all reasonable legal fees and related expenses (including the costs of arbitrators, experts, evidence and counsel) incurred by, the Executive as they become due as a result of (a) the Executive's termination of employment (including all such fees and expenses, if any, incurred in contesting or disputing any such termination of employment) in violation of this Agreement, (b) the Executive seeking to obtain or enforce any right or benefit provided by this Agreement.

8. ARBITRATION. Any dispute, controversy or claim arising out of or relating to this Agreement, or the breach, termination or invalidity hereof, (collectively, a "Claim") shall be settled

by arbitration pursuant to the rules of the American Arbitration Association. Any such arbitration shall be conducted by one arbitrator, with experience in the matters covered by this Agreement, mutually acceptable to the parties. If the parties are unable to agree on the arbitrator within thirty (30) days of one party giving the other party written notice of intent to arbitrate a Claim, the American Arbitration Association shall appoint an arbitrator with such qualifications to conduct such arbitration. The decision of the arbitrator in any such arbitration shall be conclusive and binding on the parties. Any such arbitration shall be conducted in the Somerset, New Jersey area.

9. NOTICE. For the purposes of this Agreement, notices and all other communications provided for in the Agreement (including the Notice of Termination) shall be in writing and shall be deemed to have been duly given when personally delivered or sent by certified mail, return receipt requested, postage prepaid, addressed to the respective addresses as set forth below or to any such other address as the party to receive the notice shall advise by due notice given in accordance with this paragraph . All notices and communications shall be deemed to have been received on the date of delivery thereof or on the third business day after the mailing thereof, except that notice of change of address shall be effective only upon receipt.

The current addresses of the parties are as follows:

IF TO THE COMPANY:	TeamStaff, Inc. 300 Atrium Drive Somerset, NJ 08873
IF TO THE EMPLOYEE:	Donald W. Kappauf 1044 Tullo Farm Road Bridgewater, NJ 08807

10. NON-EXCLUSIVITY OF RIGHTS. Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any benefit, bonus, incentive or other plan or program provided by the Company (except for any severance or termination policies, plans, programs or practices) and for which the Executive may qualify, nor shall anything herein limit or reduce such rights as the Executive may have under any other agreements with the Company (except for any severance or termination agreement). Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan or program of the Company shall be payable in accordance with such plan or program, except as explicitly modified by this Agreement.

11. SETTLEMENT OF CLAIMS. The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any circumstances, including, without limitation, any set-off, counterclaim, recoupment, defense or other right which the Company may have against the Executive or others.

12. NO EMPLOYMENT RIGHT. Except as provided in the Employment Agreement, this Agreement does not constitute, and shall not be construed to provide, any assurance of continuing employment.

13. MISCELLANEOUS. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing, specifying such modification, waiver or discharge, and signed by the Executive and the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

14. GOVERNING LAW. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of New Jersey without giving effect to the conflict of laws principles thereof. Any action brought by any party to this Agreement to enforce any decision of an arbitrator made as contemplated in Section 8 above shall be brought and maintained in a court of competent jurisdiction in the State of New Jersey.

15. SEVERABILITY. The provisions of this Agreement shall be deemed severable, and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions hereof.

16. ENTIRE AGREEMENT. This Agreement constitutes the entire agreement between the parties hereto and supersedes all prior agreements, if any, understandings and arrangements, oral or written, between the parties hereto with respect to the subject matter hereof.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its duly authorized officer and the Executive has executed this Agreement as of the day and year first above written.

TEAMSTAFF, INC.

By:____________________________
Name:__________________________
Title:_________________________

Executive:_____________________

SEVERANCE AGREEMENT

AGREEMENT made as of the 22nd day of May, 2002 by and between Donald T. Kelly, residing at 458 Fairmont Avenue, Chatham, NJ 07928 (hereinafter referred to as the "Executive") and TEAMSTAFF, INC., a New Jersey corporation with principal offices located at 300 Atrium Drive, Somerset, New Jersey 08873 (the 'Company").

WHEREAS, the Board of Directors (the "Board") of the Company recognizes that the possibility of a termination without Cause (as defined below), and the possibility of a Change in Control (as defined below), can create significant distractions for its key management personnel because of the uncertainties inherent in such situations; and

WHEREAS, the Board has determined that it is essential and in the best interest of the Company and its stockholders to retain the services of the Executive, in general and particularly in the event of a threat or the occurrence of a Change in Control, and to ensure his continued dedication and efforts in such event without undue concern for his personal financial and employment security; and

WHEREAS, in order to induce the Executive to remain in the employ of the Company, in general and particularly in the event of a threat or the occurrence of a Change in Control, and to ensure the Executive agrees to a restrictive covenant necessary to effectuate a transaction in the interests of the Company's shareholders, the Company desires to enter into this Agreement with the Executive to provide the Executive with certain benefits in the event his employment is terminated without Cause or as a result of; or in connection with, a Change in Control and to provide the Executive with certain other benefits whether or not the Executive's employment is terminated.

NOW, THEREFORE, it is agreed as follows:

1. TERM OF AGREEMENT. This Agreement shall commence as of May 22,2002, and shall continue in effect until September 30, 2003; provided, however, that commencing on September 30, 2003 and on each September 30th thereafter, the term of this Agreement shall automatically be extended for one (1) year, unless either the Company or the Executive shall have given written notice to the other, at least one hundred eighty (180) days prior thereto, that the term of this Agreement shall not be so extended; and provided, further, that notwithstanding any such notice by the Company not to extend, the term of this Agreement shall not expire prior to the expiration of twenty-four (24) months after the occurrence of a Change in Control which occurs during the term of this Agreement.

2. DEFINITIONS

2.1 ACCRUED COMPENSATION. "Accrued Compensation" shall mean an amount which shall include all amounts earned or accrued through the "Termination Date" (as defined below) but not paid as of the Termination Date, including (i) base salary, (ii) reimbursement for business expenses incurred by the Executive on behalf of the Company, pursuant to the Company's expense reimbursement policy in effect at such time, (iii) car allowance, (iv) discretionary time and vacation pay, (v) Gross Up Payments, and (vi) bonuses and incentive compensation (other than the "Pro Rata Bonus" (as defined below)).

2.2 BASE AMOUNT. "Base Amount" shall mean the greater of the Executive's annual base compensation (a) at the rate in effect on the Termination Date or (b) at the highest rate in effect at any time during the ninety (90) day period prior to the Termination Date or a Change in Control, and shall include all amounts of his base compensation that are reported as income; provided however, Base Amount shall not include the Bonus Amount or any other payment contingent on performance.

2.3 BONUS AMOUNT. "Bonus Amount" shall mean the greater of the most recent annual bonus paid or payable to the Executive, or, if greater, the annual bonus paid or payable for the full fiscal year ended prior to the fiscal year during which a Termination Date or a Change in Control occurred.

2.4 CAUSE. "Cause"shall mean if the Executive has been convicted of a felony or the termination is evidenced by a resolution adopted in good faith by two-thirds of the Board that the Executive (a) intentionally and continually failed substantially to perform his reasonably assigned duties with the Company (other than a failure resulting from the Executive's incapacity due to physical or mental illness or from the assignment of duties that would constitute "Good Reason"), which failure continued for a period of at least thirty (30) days after a written notice of demand for substantial performance has been delivered to the Executive, specifying the manner in which the Executive has failed substantially to perform, or (b) intentionally and continually failed substantially to follow or perform the lawful directives of the Chairman of the Board of Directors (other than a failure resulting from the Executive's incapacity due to physical or mental illness or from the establishment of directives that would constitute "Good Reason"), which failure continued for a period of at least thirty (30) days after written notice of demand for compliance or substantial performance has been delivered to the Executive, specifying the manner in which the Executive has failed substantially to perform or comply. No act, nor failure to act, on the Executive's part, shall be considered "intentional," unless the Executive has acted, or failed to act, with a lack of good faith or with a lack of reasonable belief that the Executive's action or failure to act was in the best interest of the Company.

2.5 CHANGE IN CONTROL. For purposes of this Agreement, a "Change in Control" shall mean any of the following events:

(a) (i) An acquisition (other than directly from the Company) of any voting securities of the Company (the "Voting Securities") by any "Person" (as the term person is used for purposes of Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the "1934 Act")) immediately after which such Person has "Beneficial Ownership" (within the meaning of Rule 1 3d-3 promulgated under the 1934 Act) of twenty percent (20%) or more of the combined voting power of the Company's then outstanding Voting Securities; provided, however, that in determining whether a Change in Control has occurred, Voting Securities which are acquired in a

"Non-Control Acquisition" (as defined below) shall not constitute an acquisition which would cause a Change in Control. A "Non-Control Acquisition" shall mean an acquisition by (1) an employee benefit plan (or a trust forming a part thereof) maintained by (x) the Company or (y) any corporation or other Person of which a majority of its voting power or its equity securities or equity interest is owned directly or indirectly by the Company (a "Subsidiary"), or (2) the Company or any Subsidiary.

(ii) Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because a Person (the "Subject Person") gained Beneficial Ownership of more than the permitted amount of the outstanding Voting Securities as a result of the acquisition of Voting Securities by the Company which, by reducing the number of Voting Securities outstanding, increases the proportional number of shares Beneficially Owned by the Subject Person, provided that if a Change in Control would occur (but for the operation of this sentence) as a result of the acquisition of Voting Securities by the Company, and after such share acquisition by the Company, the Subject Person becomes the Beneficial Owner of any additional Voting Securities which increases the percentage of the then outstanding Voting Securities Beneficially Owned by the Subject Person, then a Change in Control shall occur.

(b) The individuals who, as of the date this Agreement is approved by the Board, are members of the Board (the "Incumbent Board"), cease for any reason to constitute at least two- thirds of the Board; provided, however, that if the election, or nomination for election by the Company's stockholders, of any new director was approved by a vote of at least two-thirds of the Incumbent Board, such new director shall, for purposes of this Agreement, be considered and defined as a member of the Incumbent Board; and provided, further, that no individual shall be considered a member of the Incumbent Board if such individual initially assumed office as a result of either an actual or threatened "Election Contest" (as described in Rule 14a-1 1 promulgated under the 1934 Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board (a "Proxy Contest"), including by reason of any agreement intended to avoid or settle any Election Contest or Proxy Contest; or

(c) Approval by stockholders of the Company of:

(1) A merger, consolidation or reorganization involving the Company, unless

(i) the stockholders of the Company, immediately before such merger, consolidation or reorganization, own, directly or indirectly immediately following such merger, consolidation or reorganization, at least eighty-five percent (85%) of the combined voting power of the outstanding voting securities of the corporation resulting from such merger or consolidation or reorganization (the "Surviving Corporation") in substantially the same proportion as their ownership of the Voting Securities immediately before such merger, consolidation or reorganization,

(ii) the individuals who were members of the Incumbent Board immediately prior to the execution of the agreement providing for such merger, consolidation or reorganization constitute at least two-thirds of the members of the board of directors of the Surviving

Corporation, and

(iii) no Person (other than the Company, any Subsidiary, any employee benefit plan (or any trust forming a part thereof) maintained by the Company, the Surviving Corporation or any Subsidiary) has Beneficial Ownership of twenty percent (20%) or more of the combined voting power of the Surviving Corporation's then outstanding voting securities, a transaction described in clauses (i) through (iii) shall herein be referred to as a "Non-Control Transaction"; or

(2) An agreement for the sale or other disposition of all or substantially all of the assets of the Company, or of a significant subsidiary, to any Person, other than a transfer to a Subsidiary, in one transaction or a series of related transactions. For purposes of this subparagraph 2.5 (c) (2), "significant subsidiary" shall mean any subsidiary or business division of the Company which accounts for more than 40% of the Company's income, revenue or gross profits, and shall include Staff Rx.

(3) The stockholders of the Company approve any plan or proposal for the liquidation or dissolution of the Company.

(d) Notwithstanding anything contained in this Agreement to the contrary, if the Executive's employment is terminated prior to a Change in Control and the Executive reasonably demonstrates that such termination (i) was at the request of a third party who has indicated an intention or taken steps reasonably calculated to effect a Change in Control (a "Third Party") or (ii) otherwise occurred in connection with, or in anticipation of, a Change in Control, then for all purposes of this Agreement, the date of a Change in Control with respect to the Executive shall mean the date immediately prior to the date of such termination of the Executive's employment.

2.6 COMPANY. For purposes of this Agreement, "Company" shall mean TeamStaff, Inc. and shall include its "Successors and Assigns" (as defined below).

2.7 CONTINUATION BENEFITS. "Continuation Benefits" shall be the continuation for a period of twenty-four (24) months from the Termination Date (the "Continuation Period") at the Company's expense on behalf of the Executive and his dependents and beneficiaries, of the life insurance, disability, medical, dental and hospitalization benefits provided (x) to the Executive at any time during the ninety (90) day period prior to the Change in Control or at any time thereafter or (y) to other similarly situated executives who continue in the employ of the Company during the Continuation Period. The coverage and benefits (including deductibles and costs) provided during the Continuation Period shall be no less favorable to the Executive, and his dependents and beneficiaries, than the most favorable of such coverages and benefits during any of the periods referred to in clauses (x) and (y) above. The Company's obligation hereunder with respect to the foregoing benefits shall be limited to the extent that if the Executive obtains any such benefits pursuant to a subsequent employer's benefit plans, the Company may reduce the coverage of any benefits it is required to provide the Executive hereunder as long as the aggregate coverages and benefits of the combined benefit plans is no less favorable to the Executive than the coverages and benefits required to be provided hereunder. In the event any amounts attributable to these Continuation Benefits are includible in the gross income of the

Executive for federal income tax purposes, the Company shall, in addition to the benefits set forth above, pay the Executive a Gross Up Payment on the amount so includible in Executive's gross income. Notwithstanding the foregoing, in lieu of providing the foregoing benefits, the Company may pay the Executive an amount equal to the cost to the Executive of obtaining comparable Continuation Benefits plus a Gross Up Payment with respect to such amount. This definition of Continuation Benefits shall not be interpreted so as to limit any benefits to which the Executive, his dependents or beneficiaries may be entitled under any of the Company's employee benefit plans, programs or practices following the Executive's termination of employment, including, without limitation, retiree medical and life insurance benefits.

2.8 DISABILITY. A physical or mental infirmity which impairs the Executive's ability to substantially perform his duties with the Company for a period of one hundred eighty (180) consecutive days, and the Executive has not returned to his full time employment prior to the Termination Date as stated in the "Notice of Termination" (as defined below).

2.9 EMPLOYMENT AGREEMENT. The Employment Agreement dated April 2, 2001, between the Company and the Executive, as same shall be modified, amended, supplemented, renewed or replaced.

2.10 GOOD REASON. (a) "Good Reason" shall mean:

(i) the occurrence of a Change in Control;

(ii) a change in the Executive's status, title, position or responsibilities (including reporting responsibilities) which, in the Executive's reasonable judgment, represents an adverse change froth his status, title, position or responsibilities; the assignment to the Executive of any duties or responsibilities which, in the Executive's reasonable judgment, are inconsistent with his status, title, position or responsibilities; or any removal of the Executive from or failure to reappoint or reelect him to any of such offices or positions, except in connection with the termination of his employment for Disability, Cause, as a result of his death or by the Executive other than for Good Reason;

(iii) a reduction in the Executives base salary or any failure to pay the Executive any compensation or benefits to which he or she is entitled within five (5) days of the date due;

(iv) the Company's requiring the Executive to be based at any place outside a 30- mile radius from Somerset, New Jersey, except for reasonably required travel on the Company's business which is not materially greater than such travel generally required for such Executive;

(v) the failure by the Company to continue in effect (without reduction in benefit level, and/or reward opportunities) any material compensation or employee benefit plan in which the Executive was participating, unless such plan is replaced with a plan that provides at least substantially equivalent compensation or benefits to the Executive;

(vi) the insolvency or the filing (by any party, including the Company) of a petition for bankruptcy of the Company, which petition is not dismissed within sixty (60) days;

(vii) any material breach by the Company of any provision of this Agreement which is not cured within thirty (30) days after notice to the Company by the Executive specifying the breach;

(viii) any purported termination of the Executive's employment for Cause by the Company which is inconsistent with the terms of Section 2.4; or

(ix) the failure of the Company to obtain an agreement, satisfactory to the Executive, from any Successors and Assigns to assume and agree to perform this Agreement, as contemplated in Section 6(c) hereof; or

(b) The Executive's right to terminate his employment pursuant to this Section 2.9 shall not be affected by his incapacity due to physical or mental illness.

2.11 GROSS UP PAYMENT. With respect to any amount includible in the Executive's gross income for federal income tax purposes (the "Taxable Benefit"), an amount in cash equal to (i) the product of the Highest Marginal Income Tax Rate and the Taxable Benefit, (ii) divided by one minus the Highest Marginal Income Tax Rate. The Highest Marginal Income Tax Rate shall mean the sum of the highest marginal combined local, state and federal personal income tax rates (including tax rates associated with any state unemployment compensation tax, any tax imposed under the Federal Insurance Contributions Act, any excise tax or surtax, and any other tax on income based on the Company's employment of the Executive), as in effect for the calendar year in which the Taxable Benefit is includible in the gross income of the Executive for federal income tax purposes. The Gross Up Payment shall be paid within ten (10) days of the payment or realization for federal income tax purposes of the Taxable Benefit.

2.12 NOTICE OF TERMINATION. "Notice of Termination" shall mean a written notice from the Company of termination of the Executive's employment which indicates the specific termination provision in this Agreement relied upon, if any, and which sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated.

2.13 OUTPLACEMENT SERVICES. "Outplacement Services" shall mean all reasonable costs and expenses associated with the engagement of an executive outplacement firm to provide executive outplacement services to the Executive.

2.14 PRO RATA BONUS. "Pro Rata Bonus" shall mean an amount equal to the greater of(i) the Bonus Amount or (H) an amount equal to the bonus objective or target established by the Board for the Executive for the fiscal year in which the termination occurs multiplied by a fraction the numerator of which is the number of days in the fiscal year through the Termination Date and the denominator of which is 365.

2.15 RESTRICTIVE COVENANT. "Restrictive Covenant" shall mean a reasonable restriction, not to exceed three years in duration, on the Executive to engage in conduct competitive with a business, subsidiary or division of the Company.

2.16 SERP. The supplemental executive retirement plan including a split dollar life insurance arrangement as currently established by the Company for Employee.

2.17 SEVERANCE PAYMENT. Severance Payment shall mean a lump sum cash payment equal to twelve (12) months Base Amount.

2.18 SUCCESS FEE. The Success Fee shall be a cash payment to Executive of S 1,000,000; provided, however, that in the event of any consolidation or merger of the Company with or into another corporation (other than a merger which does not constitute a Change of Control), or the conveyance of all or substantially all of the assets of the Company to another corporation or entity, and in which the value to the common shareholders of the Company is greater than $9.00 per share (the "Common Stock Value"), the Success Fee shall be increased by the sum of $25,000 for each $. 10 per share that the Common Stock Value exceeds $9.00. Common Stock Value shall mean the reasonable value of all distributions to shareholders, including cash and the reasonable value of all securities, divided by the number of common shares held by all security holders actually receiving such distributions on a fully diluted basis.

2.19 SUCCESSORS AND ASSIGNS. "Successors and Assigns" shall mean a corporation or other entity acquiring all or substantially all the assets and business of the Company (including this Agreement) whether by operation of law or otherwise.

2.20 TERMINATION DATE. "Termination Date" shall mean in the case of the Executive's death, his date of death; in the case of Good Reason, the last day of his employment; and in all other cases, the date specified in the Notice of Termination; provided, however, that if the Executive's employment is terminated by the Company for Cause or due to Disability, the date specified in the Notice of Termination shall be at least 30 days from the date the Notice of Termination is given to the Executive, and provided further that in the case of Disability, the Executive shall not have returned to the full-time performance of his duties during such period of at least 30 days.

3. TERMINATION OF EMPLOYMENT.

3.1(a) If the Executive's employment with the Company shall be terminated, in lieu of any further compensation for periods subsequent to the Termination Date, the Company shall pay and/or provide to the Executive, the following compensation and benefits:

(i) if the Executive was terminated by the Company for Cause, the Accrued Compensation; or

(ii) if the Executive was terminated by the Company for Disability, the Accrued Compensation, a Pro Rata Bonus, the Severance Payment and the Continuation

Benefits, less all disability insurance payments which Employee may receive from insurance policies provided by the Company; or

(iii) if termination was due to the Executive's death, the Accrued Compensation and a Pro Rata Bonus; or

(iv) if termination was by the Executive other than for Good Reason, the Company shall pay to the Executive the Accrued Compensation.

(b) If the Executive's employment with the Company shall be terminated for any reason other than as specified in Section 3.1(a), in lieu of any further compensation for periods subsequent to the Termination Date, the Company shall pay/and or provide to the Executive each and all of the following compensation and benefits:

(i) all Accrued Compensation;

(ii) a Pro-Rata Bonus;

(iii) the Executive's Base Amount, for the period from the Termination Date to the expiration of the term of the Employment Agreement, including any renewal period which is automatic on the Termination Date;

(iv) a bonus payment equal to one-twelfth (1/12) of the Bonus Amount times the number of months remaining from the Termination Date to the expiration of the term of the Employment Agreement, including any renewal period which is automatic on the Termination Date;

(v) The Severance Payment;

(vi) The Continuation Benefits;

(vii) Any Gross Up Payments to which the Executive would have been entitled from the Termination Date to the expiration of the term of the Employment Agreement, including any renewal period which is automatic on the Termination Date; and

(viii) The Outplacement Services.

(c) In the event the Executive's employment is terminated for any reason other than as specified in Section 3.1(a), the conditions to the vesting of any outstanding incentive awards (including restricted stock, stock options and granted performance shares or units) granted to the Executive under any of the Company's plans, or under any other incentive plan or arrangement, shall be deemed void and all such incentive awards shall be immediately and fully vested and exercisable.

3.2 The amounts payable under this Section 3, shall be paid as follows:

(a) Accrued Compensation shall be paid within five (5) business days after the Executive's Termination Date (or earlier, if required by applicable law).

(b) The Pro-Rata Bonus shall be paid within thirty (30) days after the Executive's Termination Date (or earlier, if required by applicable law).

(c) If the Continuation Benefits are paid in cash, the payments shall be made within thirty (30) days after the Executive's Termination Date (or earlier, if required by applicable law).

(d) The Severance Payment shall be paid within thirty (30) days after the Executive's Termination Date (or earlier, if required by applicable law).

(e) The amounts provided for in Sections 3.1(b)(iii) and (iv), shall be paid within thirty (30) days after the Executive's Termination Date (or earlier, if required by applicable law).

3.2 The Executive shall not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise and no such payment shall be offset or reduced by the amount of any compensation or benefits provided to the Executive in any subsequent employment except as provided in Section 2.7.

3.3 Executive's employment and the Employment Agreement may be terminated by the Company for Cause, Disability or death of the Executive, or by the Executive for Good Reason, by service of a Notice of Termination in accordance with this Agreement. For purposes of this Agreement, no such purported termination shall be effective without service of a Notice of Termination.

4. CHANGE OF CONTROL.

4.1 In the event of a Change of Control as described in Sections 2.5(a) and (b), the Company shall provide notice to the Executive within ten (10) days of the date the Company has notice of such Change of Control transaction. If the Executive provides notice in writing to the Company, within ninety (90) days after the Company's notice, that the Executive intends to terminate his Employment Agreement for Good Reason effective thirty (30) days after the date of such notice, in addition to the benefits provided elsewhere in this Agreement, the Company shall pay and/or provide to the Executive, the following compensation and benefits:

(a) The Company shall pay the Executive as additional severance, in a single payment, an amount in cash equal to three times the amount of the five year average of the gross income of the Executive, as reported by the Company for federal income tax purposes or, at the option of the Executive, credit such amount against the exercise price of Executive's employee stock options; and

(b) The conditions to the vesting of any outstanding incentive awards (including restricted stock, stock options and granted performance shares or units) granted to the Executive under any of the Company's plans, or under any other incentive plan or arrangement, shall be deemed void and all such incentive awards shall be immediately and fully vested and exercisable.

4.2 Notwithstanding the provisions of Section 3 to the contrary, in the event the Executive's employment is terminated for any reason within twenty-four (24) months of a Change of Control, the amounts provided for in Sections 3.1(a) and (b), including the Continuation Benefits, if the Continuation Benefits are paid in cash, and the amounts payable under Section 4.1 shall be paid in a single lump sum cash payment within five (5) business days after the Executive's Termination Date (or earlier, if required by applicable law).

4.3 In the event of a Change of Control as described in Section 2.5(c), the Company shall provide thirty (30) days prior written notice to the Executive of the anticipated closing date of such Change of Control transaction. If the Executive provides notice in writing to the Company, at least five (5) days prior to the closing date specified in the Company's notice, that the Executive intends to terminate his Employment Agreement for Good Reason effective on the closing date, there shall be paid to the Executive in a single lump sum, cash payment simultaneously with the closing of such Change of Control transaction, the amounts provided for in Sections 3.1(a) and (b), including the Continuation Benefits, if the Continuation Benefits are paid in cash. Upon the closing of such Change of Control Transaction and the payments of the amounts due Executive under this Agreement, Executive's employment, and the Employment Agreement shall be deemed terminated for Good Reason.

4.4 In addition to any of the payments or benefits under this Agreement, in the event of any consolidation or merger of the Company with or into another corporation (other than a merger which does not constitute a Change of Control), or the conveyance of all or substantially all of the assets of the Company to another corporation or entity, in a transaction or series of transactions which are consummated prior to May 22, 2004, the Executive shall be entitled to the Success Fee. The Success Fee shall be paid to the Executive in a single lump sum, cash payment on the closing of the transaction to which the Success Fee relates. Notwithstanding the foregoing, the Success Fee shall be contingent on the agreement of the Executive to a Restrictive Covenant, if such Restrictive Covenant is required as a condition to the closing of the transaction on which the Success Fee is based.

5. EXCISE TAX GROSS UP PAYMENT

(a) The Company and the Executive acknowledge that the payments and benefits provided under this Agreement, and benefits provided to, or for the benefit of, the Executive under other Company plans and agreements (such payments or benefits are collectively referred to as the "Payments") are subject to the excise tax (the "Excise Tax") imposed under Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"). In addition to the Payments, the Company shall pay to the Executive within five (5) business days of Payment subject to the Excise Tax, a gross up payment (the "Gross Up Payment") equal to the amount which, after the deduction of any applicable Federal, State and Local income taxes attributable to the Gross Up Payment, is equal to the Excise Tax including the Excise Tax attributable to the Gross Up Payment.

(b) The Company shall pay to the applicable government taxing authorities, as Excise Tax withholding, the amount of the Excise Tax that the Company has actually withheld from the Payment or Payments.

(c) If it is established pursuant to a determination of a court, or an Internal Revenue Service (the "IRS") decision, action or proceeding, that there has been an underpayment of the Excise Tax (an "Underpayment"), the Company shall pay to the Executive within thirty (30) days of such determination or resolution, the amount which, after the deduction of any applicable federal, state and local income taxes, including the Excise Tax, is equal to the Underpayment, plus applicable interest and penalties until the date of payment.

(d) The Company hereby agrees to indemnify, defend, and hold harmless the Executive for any and all claims arising from or related to non-payment of Excise Tax, including the amount of such tax and any and all costs, interest, expenses, penalties associated with the non- payment of such tax to the fullest extent permitted by law.

6. SUCCESSORS: BINDING AGREEMENT

(a) This Agreement shall be binding upon and shall inure to the benefit of the Company, and its Successors and Assigns, and the Company shall require any Successors and Assigns to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession or assignment had taken place.

(b) Neither this Agreement nor any right or interest hereunder shall be assignable or transferable by the Executive, his beneficiaries or legal representatives, except by will or by the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by the Executive's personal representative.

(e) In the event that a Division (or part thereof) is sold, divested, or otherwise disposed of by the Company subsequent to or in connection with a Change in Control and the Executive accepts employment by the purchaser or acquiror thereof, the Company shall require such purchaser or acquiror to assume, and agree to perform, the Company's obligations under this Agreement, in the same manner, and to the same extent, that the Company would be required to perform if no such acquisition or purchase had taken place.

7. PRIOR AGREEMENTS

7.1 This Agreement supersedes and replaces the following sections of the Employment Agreement: Article VIII, Article IX and Article XII.

7.2 The Executive's entitlement to any other compensation or benefits shall be determined in accordance with the Company's employee benefit plans and other applicable programs, policies and practices then in effect, including the SERP.

7. FEES AND EXPENSES. The Company shall pay all reasonable legal fees and related expenses (including the costs of arbitrators, experts, evidence and counsel) incurred by, the Executive as they become due as a result of(a) the Executive's termination of employment (including all such fees and expenses, if any, incurred in contesting or disputing any such termination of employment) in violation of this Agreement, (b) the Executive seeking to obtain or enforce any right or benefit provided by this Agreement.

8. ARBITRATION. Any dispute, controversy or claim arising out of or relating to this Agreement, or the breach, termination or invalidity hereof, (collectively, a "Claim") shall be settled by arbitration pursuant to the rules of the American Arbitration Association. Any such arbitration shall be conducted by one arbitrator, with experience in the matters covered by this Agreement, mutually acceptable to the parties. If the parties are unable to agree on the arbitrator within thirty (30) days of one party giving the other party written notice of intent to arbitrate a Claim, the American Arbitration Association shall appoint an arbitrator with such qualifications to conduct such arbitration. The decision of the arbitrator in any such arbitration shall be conclusive and binding on the parties. Any such arbitration shall be conducted in the Somerset, New Jersey area.

9. NOTICE. For the purposes of this Agreement, notices and all other communications provided for in the Agreement (including the Notice of Termination) shall be in writing and shall be deemed to have been duly given when personally delivered or sent by certified mail, return receipt requested, postage prepaid, addressed to the respective addresses as set forth below or to any such other address as the party to receive the notice shall advise by due notice given in accordance with this paragraph . All notices and communications shall be deemed to have been received on the date of delivery thereof or on the third business day after the mailing thereof, except that notice of change of address shall be effective only upon receipt.

The current addresses of the parties are as follows:

IF TO THE COMPANY:	TeamStaff, Inc. 300 Atrium Drive Somerset, NJ 08873
IF TO THE EMPLOYEE:	Donald T. Kelly 458 Fairmont Avenue Chatham, NJ 07928

10. NON-EXCLUSIVITY OF RIGHTS. Nothing in this Agreement shall prevent or limit the Executive's continuing or future participation in any benefit, bonus, incentive or other plan or program provided by the Company (except for any severance or termination policies, plans, programs or practices) and for which the Executive may qualify, nor shall anything herein limit

or reduce such rights as the Executive may have under any other agreements with the Company (except for any severance or termination agreement). Amounts which are vested benefits or which the Executive is otherwise entitled to receive under any plan or program of the Company shall be payable in accordance with such plan or program, except as explicitly modified by this Agreement.

II. SETTLEMENT OF CLAIMS. The Company's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any circumstances, including, without limitation, any set-off, counterclaim, recoupment, defense or other right which the Company may have against the Executive or others.

12. NO EMPLOYMENT RIGHT. Except as provided in the Employment Agreement, this Agreement does not constitute, and shall not be construed to provide, any assurance of continuing employment.

13. MISCELLANEOUS. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing, specifying such modification, waiver or discharge, and signed by the Executive and the Company. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

14. GOVERNING LAW. This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of New Jersey without giving effect to the conflict of laws principles thereof Any action brought by any party to this Agreement to enforce any decision of an arbitrator made as contemplated in Section 8 above shall be brought and maintained in a court of competent jurisdiction in the State of New Jersey.

15. SEVERABILITY. The provisions of this Agreement shall be deemed severable, and the invalidity or unenforceability of any provision shall not affect the validity or enforceability of the other provisions hereof

16. ENTIRE AGREEMENT. This Agreement constitutes the entire agreement between the parties hereto and supersedes all prior agreements, if any, understandings and arrangements, oral or written, between the parties hereto with respect to the subject matter hereof

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed by its duly authorized officer and the Executive has executed this Agreement as of the day and year first above written.

TEAMSTAFF, INC.

By:____________________________

Name:__________________________

Title:_________________________

Executive:_____________________

EXHIBIT 10.14

LOAN AND SECURITY AGREEMENT

THIS LOAN AND SECURITY AGREEMENT entered into this 9th day of April, 2002 by and among TEAMSTAFF, INC. (the "Borrower"), a corporation incorporated under the laws of the State of New Jersey, having its principal office at 300 Atrium Drive, Somerset, New Jersey 08873, TeamStaff Solutions, Inc, DSI Staff Connxions Northeast, Inc., DSI Staff Connxions Southwest, Inc., TeamStaff Rx, Inc., TeamStaff I, Inc., TeamStaff II, Inc., TeamStaff III, Inc., TeamStaff IV, Inc., TeamStaff V, Inc., TeamStaff VI, Inc., TeamStaff VIII, Inc., TeamStaff IX, Inc., TeamStaff Insurance Services, Inc., Employer Support Services, Inc., HR2, Inc., BrightLane.com, Inc., Digital Insurance Services, Inc. (collectively, the "Guarantors") with respective addresses as shown on Schedule 5.13 hereof and FLEET NATIONAL BANK (the "Bank"), a national bank association organized under the laws of the United States of America, having an office at 750 Walnut Avenue, Cranford, New Jersey 07016.

SECTION 1

DEFINITIONS

1.1 As used in this Agreement, the following terms shall have the meanings hereinafter provided (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"Accounts": Accounts has the meaning given to it in paragraph (ii) of the definition of the term "Collateral" provided in Subsection 1.1 hereof.

"Account Debtor": The Person obligated under any Account.

"Actual/360 Computation": The same meaning ascribed to said term in Subsection 2.1(d)(iii) hereof.

"Advances": Extensions of credit under the Revolving Loan.

"Affiliate": Any entity which directly or indirectly controls, is controlled by, or is under common control with, any Person. For purposes of this definition, "control" shall mean the possession, directly or indirectly, of the power to (i) vote five percent (5%) or more of the securities having ordinary voting power for the election of directors of such Person, or (ii) direct or cause the direction of management and policies of a business, whether through the ownership of voting securities, by contract or otherwise and either alone or in conjunction with others or any group.

"Agreement": The contents hereof and of any and all exhibits and schedules annexed hereto, all as may be from time to time amended, restated and/or extended and all other writings submitted by any Obligor to the Bank pursuant hereto.

"Applicable Margin": With respect to LIBOR Loan, 300 basis points.

"Authorized Officer": The President/CEO, Vice President/CFO, and Controller of the Borrower.

"Bank": FLEET NATIONAL BANK, a national banking association organized under the laws of the United States of America.

"Bank's Rights and Remedies": All of the rights and remedies of the Bank described in Section 8.

"Borrower": TeamStaff, Inc., a corporation of the State of New Jersey.

"Borrowing Base": As such term is defined in Subsection 2.1(a).

"Borrowing Base Certificate": The certificate signed by an Authorized Officer of the Borrower mathematically computing the Borrowing Base, in form and substance satisfactory to the Bank.

"Business Day": Any day, other than a Saturday, Sunday, or other day on which commercial banks in the State of New Jersey are authorized or required to close under the laws of the State of New Jersey, and, if the applicable day relates to a LIBOR Loan or an LIBOR Period for a LIBOR Loan, a day on which dealings in Dollar deposits are also carried on in the London interbank market and banks are open for business in London.

"Capital Lease": Any lease of any property (whether real, personal or mixed) by that Person as lessee which, in accordance with GAAP, is or should be accounted for as a capital lease on the balance sheet of that Person.

"Capital Stock": (i) in the case of a corporation, capital stock, (ii) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of capital stock, (iii) in the case of a partnership, partnership interests (whether general or limited), (iv) in the case of a limited liability company, membership interests and (v) any other equity interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person.

"Change in Control": Any conditions or events shall occur, during the period when any Obligations are outstanding hereunder, whereby Borrower ceases to own 100% of each Guarantor.

"Collateral": All -

(i) inventory (as defined in the UCC) of each Obligor, wheresoever located, whether now owned or hereafter acquired, including, without limitation, raw materials, work in process, finished goods and materials used or consumed in business and other goods held for sale or lease or furnished or to be furnished under contracts of service (the "Inventory");

(ii) accounts (as defined in the UCC) of each Obligor, whether now existing or hereafter arising, including, without limitation, all accounts receivable and contract rights and any rights to payment for goods sold or leased or for services rendered which are not evidenced by an instrument or chattel paper, whether or not such rights have been earned by performance, (the "Accounts");

(iii) equipment (as defined in the UCC) of each Obligor, wheresoever located, whether now owned or hereafter acquired, including, without limitation, machinery, motor vehicles, trailers, tools, trade, sales and production equipment, furniture, furnishings, fixtures and all other goods in which each Obligor has rights which do not constitute inventory;

(iv) instruments (as defined in the UCC) (including, without limitation, negotiable instruments and non-negotiable instruments), chattel paper (as defined in the UCC), letters of credit (as defined in the UCC), letter of credit rights (as defined in the UCC) , deposit accounts (as defined in the UCC) exclusive of customer deposits under their service agreements, and documents of title (as defined in the UCC), all at each Obligor (including, without limitation, bills of lading, dock warrants, dock receipts and warehouse receipts);

(v) general intangibles (as defined in the UCC) (including, without limitation, payment intangibles, income tax refunds, copyrights, licenses, rights, patents, patent rights, franchise rights, distributorship rights, trademarks, trademark rights, formulae, customer lists and goodwill) of each Obligor, whether now owned or existing or hereafter arising or acquired;

(vi) investment property (as defined in the UCC) of each Obligor;

(vii) interests of each Obligor in Inventory, wheresoever located, whether now owned or existing or hereafter arising or acquired, as to which an Account, chattel paper, instrument or general intangible has arisen; and

(viii) as to all of the foregoing (i) through (vii) inclusive, cash proceeds, non-cash proceeds and products thereof, payments under insurance (whether or not the Bank is the loss payee thereof or additional insured), additions and accessions thereto, replacements and substitutions therefor, rent proceeds arising out of rental or lease agreements and all related books, records, journals, computer print-outs and data, of each Obligor.

"Control Group": As such term is defined in the Internal Revenue Code of 1986, as amended from time to time.

"Default": An event or condition which with the passage of time or the giving of notice or both would constitute an Event of Default.

"Default Rate": The lesser of (i) that rate of interest per annum equal to 4% above the rate of interest that would normally apply to a Prime Rate Loan; or (ii) the highest rate permitted by law.

"Demand Deposit Account": The account described as such in Subsection 2.1(f).

"Earnings Before Interest and Taxes (EBIT)": For any period the sum of (x) (i) net income (or loss), plus (ii) extraordinary expenses, minus (iii) extraordinary income of Obligors for such period on a consolidated basis, plus (y) all interest expense of Obligors for such period, plus (z) all charges against income of Obligors for such period for federal, state and local income taxes, all determined in accordance with GAAP and measured on a consolidated basis.

"ERISA": The Employee Retirement Income Security Act of 1974, as amended.

"Event of Default": Any one of the occurrences described in Section 7.

"GAAP": Generally accepted accounting principles, applied on a consistent basis.

"Guarantors": The entities listed on Schedule 1.1 hereof.

"Guaranty": The Guaranty Agreement executed by the Guarantors, substantially in the form annexed hereto as Exhibit C.

"Interest Coverage Ratio": The ratio of (x) EBIT to (y) "interest expense." For purposes of this definition, "interest expense" shall be determined in accordance with GAAP.

"Internal Revenue Code": The Internal Revenue Code of 1986, as amended.

"Indebtedness": With respect to any Person, without duplication, (a) all obligations of such Person for borrowed money, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, or upon which interest payments are customarily made, (c) all obligations of such Person under conditional sale or other title retention agreements relating to property purchased by such Person (other than customary reservations or retentions of title under agreements with suppliers entered into in the ordinary course of business), (d) all obligations of such Person issued or assumed as the deferred purchase price of property or services purchased by such Person (other than trade debt incurred in the ordinary course of business and due within six months of the incurrence thereof) which would appear as liabilities on a balance sheet of such Person, (e) all obligations of such Person under take-or-pay or similar arrangements or under commodities agreements, (f) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on, or payable out of the proceeds of production from, property owned or acquired by such Person, whether or not the obligations secured thereby have been assumed, (g) all guaranties of such Person with respect to Indebtedness of the type referred in this definition of another Person, (h) the principal portion of all obligations of such Person under Capital Leases, (i) all obligations of such Person under swap agreements, interest rate protection agreements, foreign currency agreements, commodity purchase or option agreements or any other form of hedging agreements, (j) the maximum amount of all standby or commercial letters of credit issued or bankers' acceptances facilities created for the account of such Person and, without duplication, all drafts drawn thereunder (to the extent unreimbursed), (k) all preferred Capital Stock issued by such Person, which by the terms thereof are required to be redeemed, or for which mandatory sinking fund payments are due, by a fixed date, (l) the principal portion of all obligations of such Person under off-balance sheet financing arrangements (excluding all non-capitalized leases) and (m) the Indebtedness of any partnership or unincorporated joint venture in which such Person is a general partner or a joint venturer, to the extent by contract or applicable law, they would have liability for the Indebtedness.

"Investment": (i) the acquisition (whether for cash, property, services, assumption of Indebtedness, securities or otherwise, but exclusive of the acquisition of inventory, supplies, equipment and other property or assets used or consumed in the ordinary course of business of the Obligors and capital expenditures (as defined in GAAP) not otherwise prohibited hereunder) of assets, shares of Capital Stock, bonds, notes, debentures, partnership, joint ventures or other ownership interests or other securities of such Person, or (ii) any other capital contribution to or investment in such Person.

"Interest Rate": The same meaning ascribed to said term in Subsection 2.1(d) hereof.

"Inventory": As such term is defined in paragraph (i) of the definition of the term "Collateral" in this Subsection 1.1.

"Landlord's Agreement": Any waiver or subordination agreement from a landlord where any Obligor is located and/or maintains Collateral, in form and substance satisfactory to the Bank.

"Letter of Credit": Each documentary letter of credit issued by the Bank on behalf of the Borrower pursuant to Subsection 2.1(n) hereof, which Letter of Credit shall be in form and substance reasonably acceptable to the Bank.

"Letter of Credit Documentation": Any applications, reimbursement agreements, security agreements, certificates, resolutions and/or other documentation as executed and delivered in connection with the issuance of any Letter of Credit, in form and substance satisfactory to the Bank.

"LIBOR Loan": Any Advance or any outstanding portion of the Revolving Loan that is based on the LIBOR Rate.

"LIBOR Period": As to each LIBOR Loan, the period commencing on the date specified by the Borrowers and ending on a day that is one (1) month thereafter, as specified in the applicable Notice of Borrowing/Conversion, provided that:

(i) The first day of any LIBOR Period shall be a Business Day;

(ii) Any LIBOR Period that would otherwise end on a day that is not a Business Day shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case such LIBOR Period shall end on the next preceding Business Day; and

(iii) No LIBOR Period shall extend beyond the Termination Date.

"LIBOR Rate": As applicable to any LIBOR Loan, the rate per annum as determined on the basis of the offered rates for deposits in U.S. Dollars, for a period of time comparable to such LIBOR Loan for the LIBOR Period which appears on the Telerate page 3750 as of 11:00 a.m. London time on the day that is two (2) Business Days preceding the first day of such LIBOR Loan;

provided, however, if the rate described above does not appear on the Telerate System on any applicable interest determination date, the LIBOR rate shall be the rate (rounded upward, if necessary, to the nearest one hundred-thousandths of a percentage point), determined on the basis of the offered rates for deposits in U.S. dollars for a period of time comparable to such LIBOR Loan which are offered by four major banks in the London interbank market at approximately 11:00 a.m. London time, on the day that is two (2) Business Days preceding the first day of such LIBOR Loan as selected by Bank. The principal London office of each of the four major London banks will be requested to provide a quotation of its U.S. Dollar deposit offered rate. If at least two such quotations are provided, the rate for that date will be the arithmetic mean of the quotations. If fewer than two quotations are provided as requested, the rate for that date will be determined on the basis of the rates quoted for loans in U.S. dollars to leading European banks for a period of time comparable to such LIBOR Loan offered by major banks in New York City at approximately 11:00 a.m. New York City time, on the day that is two (2) Business Days preceding the first day of such LIBOR Loan. In the event that Bank is unable to obtain any such quotation as provided above, it will be deemed that LIBOR pursuant to a LIBOR Loan cannot be determined. In the event that the Board of Governors of the Federal Reserve System shall impose a Reserve Percentage with respect to LIBOR deposits of Bank, then for any period during which such Reserve Percentage shall apply, LIBOR shall be equal to the amount determined above divided by an amount equal to 1 minus the Reserve Percentage. "Reserve Percentage" shall mean the maximum aggregate reserve requirements (including all basis, supplemental, marginal and other reserves) which is imposed on member banks of the Federal Reserve System against "Euro-currency Liabilities" as defined in Regulation D."

"Lien": Any mortgage, lien, judicial lien, encumbrance, security interest, charge, pledge, hypothecation, assignment, conditional sale or other title retention agreement, and the like, relating to any real or personal property interest of any Obligor, whether legal or equitable.

"Loan Documents": This Agreement, the Master Note, the Guaranty, the Power of Attorney, any Swap Agreement, each Landlord's Agreement, the UCC-1 Financing Statements, and any other document, instrument or writing executed and delivered pursuant hereto or thereto, and all as amended, restated and/or extended from time to time.

"London Banking Day": Any day on which banks in London are open for general banking business, including dealings in foreign currency and exchange.

"Loan": The Revolving Loan.

"Master Note": The Master Note described in Subsection 2.1(h) hereof, as may be amended, restated, substituted for and/or extended from time to time.

"Material Adverse Change": A material adverse change in (a) the business, prospects, operations, results of operations, assets, liabilities or condition (financial or otherwise) of any Obligor, (b) the Collateral, (c) any Obligor's ability to perform its respective obligations under the Loan Documents, or (d) the validity, enforceability or availability of rights and remedies of the Bank hereunder or any other Loan Document, in each case as determined by the Bank in its reasonable discretion.

"Material Adverse Effect": A material adverse effect on (a) the business prospects, operations, results of operations, assets, liabilities or condition (financial or otherwise) of any Obligor, (b) the Collateral, (c) any Obligor's ability to perform its respective obligations under the Loan Documents, or (d) the validity, enforceability or availability of rights and remedies of the Bank hereunder or any other Loan Documents, in each case as determined by the Bank in its reasonable discretion.

"Note": The Master Note.

"Notice of Borrowing/Conversion": A notice signed by an Authorized Officer of the Obligors requesting an Advance or a conversion of interest rate or LIBOR Period and setting forth the information required pursuant to Subsections 2.1(c).

"Obligations": (i) Any and all indebtedness, obligations, letters of credit, including, without limitation, liabilities and agreements of every kind and nature of the Borrower to or with the Bank, or to or with any affiliate of the Bank, which affiliate has issued or extended credit to the Borrower on behalf of or at the direction of the Bank, now existing or hereafter arising, pursuant to this Agreement, or otherwise, whether in the form of refinancing, loans, guarantees, bankers' acceptances, Swap Agreements, letters of credit, interest, charges, expenses, fees (including, without limitation reasonable attorneys' fees) or otherwise, direct or indirect, (including, without limitation, any participation or interest of the Bank in any obligation of the Borrower to others) acquired outright, conditionally or as collateral security from another, absolute or contingent, joint and/or several, liquidated or unliquidated, due or not due, contractual or tortious, secured or unsecured, arising by operation of law or otherwise, including, but without limiting the generality of the foregoing, indebtedness, obligations or liabilities to the Bank by the Borrower as a member of any partnership, syndicate, association or other group, and whether incurred by the Borrower as principal, surety, endorser, guarantor, accommodation party or otherwise, together with any extensions, renewals or modifications thereof; (ii) all obligations of the Borrower for any future advances made by the Bank to the Borrower whether or not evidenced by a promissory note and all obligations under any renewals, extensions or changes in form of, or substitutions for, any of said indebtedness, obligations or liabilities; (iii) all sums and charges to be paid to the Bank pursuant to this Agreement; (iv) all interest and late charges on any of the foregoing; and (v) all obligations of the Borrower now or hereafter existing under this Agreement.

"Obligors": The Borrower, each Guarantor and any and all other Persons liable, either absolutely or contingently in connection with this Agreement not named herein, including endorsers, sureties, guarantors and owner's of any property securing any sums due in connection with this Agreement (all representatives, covenants and restrictions applying both the singular and plural form of the term)..

"PBGC": The Pension Benefit Guaranty Corporation or any successor thereto.

"Permitted Indebtedness":

(i) Indebtedness to the Bank with respect to the Loan or otherwise, pursuant to the Loan Documents;

(ii) Trade payables incurred in the ordinary course of the Obligors' business;

(iii) Existing Indebtedness described on Schedule 1.1(a) attached hereto and any refinancings of such Indebtedness; provided that the aggregate principal amount of such Indebtedness is not increased, the scheduled maturity dates of such Indebtedness are not shortened and such refinancing is on terms and conditions no more restrictive than the terms and conditions of the Indebtedness being refinanced; and

(iv) Purchase money financing incurred to purchase equipment and software, including any licensing fees, provided that the aggregate outstanding amount thereof does not anytime exceed $3,000,000.00.

"Permitted Liens": shall mean

(i) Liens granted to the Bank by the Obligors pursuant to any Loan Document;

(ii) Existing Liens listed on Schedule 1.1(b) attached hereto;

(iii) Liens of warehousemen, mechanics, materialmen, workers, repairmen, fillers, packagers, processors, common carriers, landlords and other similar Liens arising by operation of law or otherwise, not waived in connection herewith, for amounts that are not yet due and payable or which are being diligently contested in good faith by the Obligors by appropriate proceedings, provided that in any such case an adequate reserve is being maintained by the Obligors for the payment of same in accordance with GAAP;

(iv) Liens for taxes, assessments or other governmental charges not yet due and payable or which are being diligently contested in good faith by the Obligors by appropriate proceedings, provided that in any such case an adequate reserve is being maintained by the Obligors for the payment of same in accordance with GAAP;

(v) deposits or pledges to secure obligations under workers' compensation, social security or similar laws, or under unemployment insurance; and

(vi) deposits or pledges to secure bids, tenders, contracts (other than contracts for the payment of money), leases, regulatory or statutory obligations and other obligations of like nature arising in the ordinary course of business; and

(vii) Liens placed upon fixed assets hereafter acquired to secure a portion of the purchase price thereof; provided that any such Lien shall not encumber any other property of the Obligors, and the aggregate of Indebtedness secured by such Liens incurred as a result of such purchases shall exceed the amount permitted under Subparagraph (iv) of the definition of Permitted Indebtedness.

"Person": An individual, or partnership, limited liability company, corporation (including a business trust), joint stock company, trust, unincorporated association, joint venture or other entity or a governmental or any political subdivision or agency thereof.

"Plan": Any plan subject to the minimum funding requirements of Section 412 of the Internal Revenue Code.

"Power of Attorney": The Power of Attorney executed by each Obligor, substantially in the form annexed hereto as Exhibit B.

"Prime Rate": The variable per annum rate of interest so designated from time to time by the Bank as its prime rate. The Prime Rate is a reference rate and does not necessarily represent the lowest or best rate being charged to any customer. Changes in the rate of interest resulting from changes in the Prime Rate shall take place immediately without notice or demand of any kind.

"Prime Rate Loan": Any Advance or any outstanding portion of the Loan that is based on the Prime Rate.

"Qualified Account": An Account which meets all of the following requirements from the time it comes into existence until it is collected in full:

(i) The Account is a domestic account, and is not more than sixty (60) days from the invoice date of the invoice evidencing the Account; the Account is for services performed and billed by TeamStaff Rx, Inc., TeamStaff Solutions, Inc. or TeamStaff, Inc.; the Account is not a contra account; the Account is with an Account Debtor which is a Person having its principal place of business in the United States; the Account is payable in lawful currency of the United States of America; the Account is not an account, contract right, chattel paper, general intangible or instrument arising out of contracts with the United States or any of its departments, agencies or instrumentalities or any state of the United States or any of its departments, agencies or instrumentalities; and at least seventy five percent (75%) of the total amount of all Accounts with the applicable Account Debtor is less than sixty (60) days from the invoice date on said Accounts;

(ii) The Account arose out of an enforceable order or contract for the performance of services provided by TeamStaff Rx, Inc., TeamStaff Solutions, Inc. or TeamStaff, Inc., which has been fully and satisfactorily performed;

(iii) The title of the respective Obligor to the Account is absolute; the Account is not subject to any Lien other than a Lien in favor of the Bank, and does not arise out of an order or contract which, by its terms, forbids or makes void or unenforceable the Bank's Lien thereon;

(iv) The respective Obligor has not received any note, trade acceptance, draft or other instrument with respect to or in payment for the Account;

(v) The Account is not subject to any setoff, counterclaim, defense, allowance or adjustment other than discounts for prompt payment shown on the invoice, or to dispute, objection or complaint by the Account Debtor concerning its liability on the Account; the amount of the Account shown on the books of the respective Obligor or on any invoice or statement delivered to the Bank is owing to the respective Obligor and no partial payment has been made on account by anyone;

(vi) The Account arose in the ordinary course of the business of the respective Obligor and no notice of bankruptcy, receivership, insolvency, dissolution, termination of existence, credit impairment, or the like, of the Account Debtor, or notice of death of the Account Debtor or of any partner of the Account Debtor has been received by said Obligor or by the Bank;

(vii) The Account Debtor obligated on the Account is not an Affiliate or a Subsidiary of an Obligor; and

(viii) The Bank has not notified a respective Obligor that the Account or Account Debtor is unsatisfactory in its sole discretion.

"Restricted Payment": Any cash dividend or other cash distribution, direct or indirect, on account of any shares of any class of Capital Stock of any Obligor now or hereafter outstanding, or apply any of its funds, property or assets to the purchase, redemption or other retirement of any class of Capital Stock.

"Reportable Event": As such term is defined in Title IV of ERISA.

"Revolving Loan": The loan described in Section 2.1(a).

"Subsidiary": As to any Person (a) any corporation more than fifty percent (50%) of whose Capital Stock of any class or classes having by the terms thereof ordinary voting power to elect a majority of the directors of such corporation (irrespective of whether or not at the time, any class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time owned by such Person directly or indirectly through Subsidiaries, (b) any partnership, association, joint venture or of the entity in which such Person directly or indirectly through Subsidiaries has more than a fifty percent (50%) interest in the total capital, total income and/or total ownership interests of such entity at any time and (c) any partnership in which such Person is a general partner.

"Swap Agreement": Any swap agreement (as defined in 11 U.S.C. Section 101), interest protection agreement, foreign currency exchange agreement, commodity purchase or option agreement or other form of hedging agreement with the Bank (or with any of its Affiliates).

"Tangible Net Worth": Tangible Net Worth shall mean (x) total "assets" less (y) total "liabilities". For purposes of this definition "assets" and "liabilities" shall be determined in accordance with GAAP, except that there shall be excluded from the definition of "assets" all intangible assets including organizational expenses, patents, trademarks, service marks, copyrights, goodwill, covenants not to compete, research and development costs, treasury stock, and monies due from principals of the Obligors, Subsidiaries or Affiliates and all unamortized debt discounts.

"Termination Date": April 8, 2003 or such other date as the Bank may agree in writing to extend the Termination Date until, without there being any obligation on the part of the Bank to extend the Termination Date.

"Total Liabilities": All "liabilities" as determined in accordance with GAAP and reflected on the balance sheets of the Obligors.

"UCC": Uniform Commercial Code in force and effect in the State of New Jersey from time to time.

"Voting Stock": With respect to any Person, Capital Stock issue by such Person the holders of which are ordinarily in the absence of contingencies, entitled to vote for the election of the directors (or Persons performing similar functions) of such Person, even though the right so to vote has been suspended by the happening of any such contingency.

"Working Capital": Working Capital shall mean (x) total "current assets" less (y) total "current liabilities". For purposes of this definition "current assets" and "current liabilities" shall be determined in accordance with GAAP, except that there shall be excluded from the definition of "current assets" all intangible assets including organizational expenses, patents, trademarks, service marks, copyrights, goodwill, covenants not to compete, research and development costs, treasury stock, and monies due from principals of the Obligors, Subsidiaries or Affiliates and all unamortized debt discounts.

1.2 Accounting Terms and Calculations. Unless otherwise defined or specified herein to the contrary, all accounting terms used herein shall be construed and all accounting determinations hereunder shall be made in accordance with GAAP.

1.3 Other Terms. Terms such as "accounts", "accounts receivable", "contract rights", "letters of credit", "letter of credit rights," "payment intangibles," "deposit accounts," "investment property", "advices", "confirmations", "equipment", "instruments", "chattel paper", "documents of title", "goods", "general intangibles", "account debtors", "proceeds", "products", and the like, shall, unless otherwise specifically defined herein, have the meanings applicable to them for the purposes of Article 9 (Secured Transactions) of the UCC.

SECTION 2

LOAN

2.1 Subject to the terms and conditions of this Agreement, and provided no event or condition constituting a Default or an Event of Default has occurred:

(a) Revolving Loan. The Bank agrees to lend and make Advances under the Revolving Loan to the Borrower from time to time until the Termination Date in amounts which shall not exceed in the aggregate, at any one time outstanding, the lesser of (i) SEVEN

MILLION AND 00/00 DOLLARS ($7,000,000) or (ii) the sum of the 85% of the Qualified Accounts less an amount reserved by the Bank, in its sole discretion, to support ACH processing exposure (the reserved amount shall be known as the 'ACH Sublimit'). The ACH Sublimit shall be disclosed in writing to the Borrower by the Bank, from time to time as necessary, and shall not exceed $2,000,000 at any given time (the lesser of (i) or (ii) above shall be referred to as the "Borrowing Base"). The Bank has the right to, from time to time, in its reasonable discretion, establish reserves against the Borrowing Base.

(b) Advances, Interest Rate Conversions. Extensions of credit shall be made to the Borrower pursuant to the Revolving Loan (in the form of Advances) to any general deposit account maintained by the Borrower with the Bank. The Borrower shall give the Bank irrevocable telephonic notice (confirmed in writing) of each proposed Advance or rate conversion with respect to the Loan not later than 1:00 p.m. local time at the office of the Bank first shown above (a) on the same Business Day as each proposed Advance or rate conversion to a Prime Rate Loan and (b) at least three (3) Business Days before each proposed Advance or rate conversion to a LIBOR Loan. Each such notice (a "Notice of Borrowing/Conversion") shall specify (i) the date of such Advance or rate conversion, which shall be a Business Day, and, in the case of a conversion from a LIBOR Loan, the last day of a LIBOR Period, (ii) the amount of each Advance or the amount to be converted, and (iii) the Interest Rate selected by the Borrower.

(c) Interest Rate. (i) At the election of the Borrower, the unpaid principal balance of each Advance shall bear interest from the date such Advance is made available to the Borrower at the LIBOR Rate plus the Applicable Margin or the Prime Rate, as selected by the Borrower in accordance herewith (each, an "Interest Rate"). There shall be no more than one Interest Rate for an Advance in effect at any time. LIBOR Loans shall be in minimum amounts of $100,000 and there shall be no greater than four (4) LIBOR Loan outstanding under the Revolving Loan at any one time.

(ii) When the Prime Rate Loan is selected for an Advance it shall be adjusted daily as applicable to reflect the Bank's Prime Rate and the Prime Rate shall continue to apply until another Interest Rate option for that Advance is selected pursuant to Subsection 2.1(c) hereof. When a LIBOR Loan is selected for an Advance, such rate shall be fixed for the LIBOR Period and shall apply for that Advance for successive LIBOR Periods at the then prevailing successive rate until another Interest Rate option for that Advance is selected pursuant to Subsection 2.1(c) hereof. Until the Borrower selects an initial Interest Rate as provided herein, Advances hereunder shall bear interest at the Prime Rate.

(iii) All computations of interest shall be made on the basis of a three hundred sixty (360) day year and the actual number of days elapsed ("Actual/360 Computation"). The Actual/360 Computation determines the annual effective yield by taking the stated (nominal) rate for a year's period and then dividing said rate by 360 to determine the daily periodic rate to be applied for each day in the applicable period. Application of the Actual/360 Computation produces an annualized effective rate exceeding that of the nominal rate.

(iv) Upon default (whether or not the Bank has accelerated payment of the Loan) or after maturity or after judgment has been rendered on the Loan, the Borrower's right to select Interest Rate options shall cease and the unpaid principal of all Advances shall, at the option of the Bank, bear interest at the Default rate.

(d) Payments of Principal and Interest. The unpaid principal balance of all Advances made under the Revolving Loan shall be payable by the Borrower to the Bank on the Termination Date at which time outstanding principal, accrued interest, fees, expenses and/or charges, if any, shall be due and payable. Payment of interest on all outstanding amounts under the Loan shall occur monthly, in arrears, in immediately available funds, on the first Business Day of each month beginning on the first Business Day in the month next succeeding the date of this Agreement. However, and notwithstanding anything to the contrary contained herein, interest on LIBOR Loans shall be payable on the last day of each LIBOR Period.

(e) Manner of Payment. All payments shall be made by the Borrower to the Bank at Fleet National Bank, P.O. Box 5093, Hartford, Connecticut 06102 or such other place as the Bank may from time to time specify in writing, in lawful currency of the United States of America, in immediately available funds, without counterclaim or setoff and free and clear of, and without any deduction or withholding for, any taxes or other payments. The Borrower hereby directs the Bank to debit Demand Deposit Account #0967703980 (the "Demand Deposit Account"), which shall be maintained by the Borrower with the Bank for so long as any Obligations remain outstanding, on any date on which payment of interest, principal and/or any fees, expenses and/or charges are due under the Loan, in an amount equal to the amount of such payment. Inadequate funds in the Demand Deposit Account or the failure of the Bank to debit the Demand Deposit Account shall not relieve the Borrower from its obligation to pay said amounts due hereunder.

(f) Statement of Account. At least once each month, the Bank shall render and send to the Borrower a statement of account showing amounts loaned, all other charges, expenses and items chargeable to the Borrower, payments made by the Borrower against the unpaid principal balance on the Loan, other appropriate debits and credits and the balance of the unpaid principal amount as of the date of such statement of account for the Loan. The statement of account shall be presumed to be correct in all respects, except for specific objections which the Borrower makes in writing within forty-five (45) days from the date upon which the statement of account is sent. In the event that the Borrower makes an objection, such objection shall contain evidence of the alleged error, which evidence shall be reviewed by the Bank.

(g) Master Note; Loss, Theft, Destruction or Mutilation. The principal amount of the Revolving Loan shall be evidenced by the Master Note, substantially in the form of Exhibit A-1 annexed hereto. The balances due from time to time on the Note shall be conclusively evidenced by the Bank's records of disbursements and repayments, subject to Subsection 2.1(g). Upon receipt of an affidavit of an officer of the Bank as to the loss, theft, destruction or mutilation any Note or any other Loan Document which is not of public record, and, in the case of any such loss, theft, destruction or mutilation, upon cancellation of such Note or other Loan Document, the Borrower will issue, in lieu thereof, a replacement Note, or other Loan Document in the same principal amount thereof and otherwise of like tenor.

(h) Excess Advances. If at any time the aggregate outstanding principal amount of Advances under the Revolving Loan exceeds the Borrowing Base, the Borrower shall immediately pay to the Bank, in immediately available funds, the amount of such excess.

(i) Prepayment of LIBOR Loan; Indemnification. The Borrower may prepay a LIBOR Loan only upon at least three (3) Business Days prior written notice to the Bank (which notice shall be irrevocable), and any such prepayment shall occur only on the last day of the LIBOR Period for such LIBOR Loan. The Borrower shall pay to the Bank, upon request of the Bank, such amount or amounts as shall be sufficient (in the reasonable opinion of the Bank) to compensate it for any loss, cost, or expense incurred as a result of: (i) any payment of a LIBOR Loan on a date other than the last day of the LIBOR Period for such LIBOR Loan; (ii) any failure by the Borrower to borrow a LIBOR Loan on the date specified by the Borrower's Notice of Borrowing/Conversion; (iii) any failure by the Borrower to pay a LIBOR Loan on the date for payment specified in the Borrower's Notice of Borrowing/Conversion. Without limiting the foregoing, the Borrower shall pay to the Bank a "yield maintenance fee" in an amount computed as follows: The current rate for United States Treasury securities (bills on a discounted basis shall be converted to a bond equivalent) with a maturity date closest to the term chosen pursuant to the LIBOR Rate Election as to which the prepayment is made, shall be subtracted from the LIBOR Rate in effect at the time of prepayment. If the result is zero or a negative number, there shall be no yield maintenance fee. If the result is a positive number, then the resulting percentage shall be multiplied by the amount of the principal balance being prepaid. The resulting amount shall be divided by 360 and multiplied by the number of days remaining in the term chosen pursuant to the LIBOR Rate Election as to which the prepayment is made. Said amount shall be reduced to present value calculated by using the above referenced United States Treasury securities rate and the number of days remaining in the term chosen pursuant to the LIBOR Rate Election as to which prepayment is made. The resulting amount shall be in the yield maintenance fee due to the Bank upon the prepayment of a LIBOR Loan. Each reference in this paragraph to "LIBOR Rate Election" shall mean the election by the Borrower of the LIBOR Rate. If by reason of an Event of Default, the Bank elects to declare any Note to be immediately due and payable, then any yield maintenance fee with respect to a LIBOR Loan shall become due and payable in the same manner as though the Borrower had exercised such right of prepayment.

(j) Provisions regarding LIBOR Loan. The following shall apply with respect to LIBOR Loan provided for herein:

(i) If on or prior to the first day of any LIBOR Period with respect to a LIBOR Loan, deposits in dollars (in the applicable amounts) are not being offered to the Bank in the relevant market for such LIBOR Period, or the rate being offered does not adequately reflect the cost of funds to the Bank, the Bank shall forthwith give notice thereof to the Borrower, whereupon until the Bank notifies the Borrower that the circumstances giving rise to such suspension no longer exist, the obligations of the Bank to make LIBOR Loan shall be suspended. During any such suspension, unless the Borrower shall notify the Bank at least three (3) Business Days before the date of any LIBOR Loan for which a Notice of Borrowing/Conversion has previously been given that it elects not to borrow on such date, the Borrower shall instead borrow a Prime Rate Loan.

(ii) If, after the date of this Agreement, the adoption of or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by the Bank with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall make it unlawful or impossible for the Bank to make, maintain or fund its LIBOR Loan, whereupon until the Bank notifies the Borrower that the circumstances giving rise to such suspension no longer exist, the obligation of the Bank to make LIBOR Loan shall be suspended. If the Bank shall determine that it may not lawfully continue to maintain and fund any of its outstanding LIBOR Loan to maturity and shall so specify in such notice, the Borrower shall either convert said LIBOR Loan to a Prime Loan or immediately prepay in full the then outstanding principal amount of each such LIBOR Loan, together with accrued interest thereon, and if said LIBOR Loan is converted or prepaid prior to the end of its LIBOR Period, the Borrower shall also pay all other amounts to be paid pursuant to Subsection 2.1(j).

(iii) If after the date hereof, the adoption of, or any change in, any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by the Bank with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency: (A) shall subject the Bank to any tax, duty or other charge with respect to its LIBOR Loan or its obligation to make LIBOR Loan, or shall change the basis of taxation of payments to the Bank of the principal of or interest on its LIBOR Loan or any other amounts due under this Agreement in respect of its LIBOR Loan or its obligation to make LIBOR Loan (except for changes in the rate of tax on the overall net income of the Bank imposed by the jurisdiction in which the Bank's principal executive office is located); or (B) shall impose, modify or deem applicable any reserve, special deposit, capital adequacy requirement or similar requirement (including, without limitation, any such requirement imposed by the Board of Governors of the Federal Reserve System, but excluding, with respect to any LIBOR Loan, any such requirement included in an applicable LIBOR Reserve Percentage) against assets of, deposits with or for the account of, or credit extended by, the Bank; or (C) shall impose on the Bank or on the London interbank market any other condition affecting its LIBOR Loan or its obligation to make LIBOR Loan; and the result of any of the foregoing is to increase the cost to the Bank of making or maintaining any LIBOR Loan, or to reduce any amount received or receivable by the Bank under this Agreement by an amount deemed by the Bank to be material, then the Borrower shall immediately pay to the Bank such additional amount or amounts as will compensate such the Bank for such increased cost or reduction. A certificate of the Bank claiming compensation under Subsection 2.1(k)(iii) and setting forth in reasonable detail the computation of the additional amount or amounts to be paid to it hereunder shall be presumed correct, in the absence of clear evidence presented by the Borrower to the contrary.

(k) Application of Payments. All payments shall be applied first to the payment of all fees, expenses and other amounts due to the Bank (excluding principal and interest), then to accrued interest due to the Bank under the Revolving Loan, and then to the balance on account of outstanding principal of the Revolving Loan; provided, however, that after a Default or Event of Default, payments will be applied to the Obligations of the Borrower to the Bank as the Bank determines in its sole discretion.

(l) Late Fee. If the entire amount of any required principal and/or interest payment with respect to the Loan is not paid in full within (10) days after the same is due, the Borrower shall pay to the Bank a late fee equal to five percent (5%) of the required payment.

(m) Payment Date Adjustment for Non-Business Days. The Following Business Day Convention shall be used with respect to all Loan(s) to adjust any relevant date if that date would otherwise fall on a day that is not a Business Day. For the purposes herein, the term Following Business Day Convention shall mean that an adjustment will be made if any relevant date would otherwise fall on a day that is not a Business Day so that the date will be the first following day that is a Business Day.

(n) Letters of Credit. Subject to the terms hereof, Advances under the Revolving Loan may be, if requested by the Borrower, in the form of Letters of Credit. In the event the Borrower desires to obtain an Advance in the form of a Letter of Credit the Borrower shall (i) provide the Bank with at least three (3) Business Days prior written notice, (ii) complete, execute and deliver to the Bank such Letter of Credit Documentation as required by the Bank, (iii) pay to the Bank a commission in the amount of one and one-half of one percent (1 1/2%) of the stated amount of each Letter of Credit and such other standard fees and expenses as required by the Bank in connection with Letters of Credit, and (iv) take such other actions as required by the Bank. Notwithstanding anything contained herein to the contrary (i) no Letter of Credit shall have an expiry date after the Termination Date and (ii) the maximum aggregate amount of all Letters of Credit outstanding hereunder shall be limited to amount available under the Revolving Loan in accordance with 2.1(a) hereof less any outstanding direct borrowings. All Letters of Credit issued hereunder shall be subject to the terms and conditions set forth in any Letter of Credit Documentation.

(1) Reimbursement. Upon a drawing with respect to any Letter of Credit, the Borrower shall be irrevocably and unconditionally obligated forthwith without presentment, demand, protest or other formalities of any kind, to reimburse Bank for any amounts paid with respect to a Letter of Credit, which reimbursement may at the request of the Borrower in accordance with the terms hereof be in the form of a loan under Revolving Loan to the extent there is availability.

(2) Obligations Absolute. The obligation of Borrower to reimburse Bank for payments made under, and other amounts payable in connection with, any Letter of Credit shall be unconditional and irrevocable and shall be paid strictly in accordance with the terms of this Agreement, including, without limitation, the following circumstances:

(A) any lack of validity or enforceability of any Letter of Credit or any agreement;

(B) the existence of any claim, set-off, defense or other right which any Obligor, any of its Affiliates, or the Bank, on the one hand, may at any time have against any beneficiary or transferee of any Letter of Credit (or any Persons for whom any such transferee may be acting), or any other Person, on the other hand, whether in connection with this Agreement, the transactions contemplated herein or any unrelated transaction (including any underlying transaction between Borrower or any of its Affiliates and the beneficiary of the Letter of Credit);

(C) any draft, demand, certificate or any other document presented under any Letter of Credit is alleged to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect;

(D) payment under a Letter of Credit against presentation of a demand, draft or certificate or other document which does not comply with the terms of such Letter of Credit; provided that, in the case of any payment by Bank under any Letter of Credit, the Bank has not acted with gross negligence or willful misconduct in determining that the demand for payment under such Letter of Credit complies on its face with any applicable requirements for a demand under such Letter of Credit;

(E) any other circumstance or happening whatsoever, which is similar to any of the foregoing; or

(F) the fact that a Default or an Event of Default shall have occurred and be continuing.

SECTION 3

COLLATERAL

3.1 In consideration of the Bank's making the Loan in accordance with the terms and conditions of this Agreement, and to secure payment and performance of all of the Obligations to the Bank:

(a) Grant of Security Interest. Each Obligor hereby grants to the Bank a security interest in the Collateral which security interest shall remain in full force and effect until all of the Obligations to the Bank are fully paid and satisfied.

(b) Right of Setoff. Each Obligor grants to the Bank, a continuing lien, security interest and right of setoff for all liabilities and obligations to the Bank, whether now existing or hereafter arising, upon and against all deposits, credits, collateral and property, now or hereafter in the possession, custody, safekeeping or control of the Bank or any entity under the control of FleetBoston Financial Corporation and its successors and assigns or in transit to any of them. At any time, without demand or notice (any such notice being expressly waived by each Obligor), the Bank may setoff the same or any part thereof and apply the same to any Obligation even though unmatured and regardless of the adequacy of any other Collateral securing the Loan. ANY AND ALL RIGHTS TO REQUIRE THE BANK TO EXERCISE ITS RIGHTS OR REMEDIES WITH RESPECT TO ANY OTHER COLLATERAL WHICH SECURES THE LOAN, PRIOR TO EXERCISING ITS RIGHT OF SETOFF WITH RESPECT TO SUCH DEPOSITS, CREDITS OR OTHER PROPERTY OF THE OBLIGORS, ARE HEREBY KNOWINGLY, VOLUNTARILY AND IRREVOCABLY WAIVED.

SECTION 4

CONDITIONS PRECEDENT

4.1 The duty of the Bank to make the Loan is conditioned upon prior delivery by the Obligors to the Bank of the following, each dated the date of this Agreement (unless noted to the contrary) and in form and substance satisfactory to the Bank:

(a) Agreement. This Agreement, properly executed.

(b) Master Note. The Master Note, properly executed.

(c) Power of Attorney. The Power of Attorney, properly executed.

(d) Resolution of the Obligors. A certified copy of a resolution of each Obligor, in form and substance satisfactory to the Bank, authorizing the execution, delivery and performance of the appropriate Loan Documents, authorizing the granting of the security interest in the Collateral, and authorizing the transactions contemplated by all of the Loan Documents and all such other and further actions in connection with this Agreement and the other Loan Documents as designated officers of the Obligors may deem necessary and proper.

(e) Certificate of Incumbency. A certificate by the Secretary of each Obligor certifying the names and true signatures and incumbency of each of the duly elected officers signing the documents described in Subsection 4.1(d).

(f) Certificate of Incorporation of the Obligors. A copy, certified (within thirty (30) days prior to the date of this Agreement) by the Secretary of State of the state of incorporation, of the Certificate of Incorporation each Obligor, along with any amendments thereto.

(g) Good Standing. Certificate of the Secretary of State of each state where each Obligor is qualified to do business, dated within thirty (30) days prior to the date of this Agreement, as to the good standing of such Obligor in each such jurisdiction except where not being so qualified would not have a Material Adverse Affect.

(h) By-Laws. A copy, certified by the Secretary, of the By-Laws of each Obligor.

(i) Insurance. An endorsement satisfactory to the Bank in form and substance, of a reputable insurance company, licensed to conduct business in the States where each Obligor maintain locations or Collateral, of appropriate insurance as required by Subsection 6.6, including evidence of workers' compensation insurance as set forth therein.

(j) UCC, Federal Tax Lien, State Tax Lien, Judgment Searches and Franchise Tax Lien Search. UCC, litigation, bankruptcy, Federal tax lien, state tax lien, franchise tax lien and judgment searches against each Obligor conducted where each Obligor is located, formed, or maintains any of its real or personal property, all said searches to be conducted against the legal names and any other trade or alternative name of the Obligors.

(k) Terminations and Discharges. Proof satisfactory to the Bank in form and substance of the satisfaction, termination and discharge of any Liens other than Permitted Liens.

(l) Financing Statements. Proof in form satisfactory to the Bank, of the filing of UCC-1 financing statements covering the Collateral.

(m) Opinion. The opinion of counsel to the Obligors, in form and substance satisfactory to the Bank's counsel.

(n) Landlord's Agreements. A Landlord's Agreement, properly executed for each location leased by any Obligor.

(o) Closing Fee. Payment of the remaining portion of the $50,000 closing fee, and expenses of Bank $25,000 of which has been received to date.

(p) [Intentionally Deleted]

(q) Leases. Copies of all leases where any Obligor leases space.

(r) Field Examination, Account Review. Payment of the $12,000 to Withum, Smith & Brown for the field examination performed by them of the Obligors' books and records, and satisfactory independent review by the Bank of the Obligors' Accounts supporting the Borrowing Book.

(s) Operating Accounts. Establishment and maintenance by Borrower of its operating accounts with Bank.

(t) Other. Such other requirements as requested by the Bank.

4.2 Conditions Precedent to All Advances. The making by the Bank of any Advance subsequent to the date of this Agreement is subject to the satisfaction of the following conditions precedent:

(a) Compliance with this Agreement and other Loan Documents. The Obligors shall have complied and shall then be in compliance with of the terms, covenants and conditions of this Agreement and other Loan Documents.

(b) No Default or Event of Default. There shall exist no Default or Event of Default.

(c) Representations and Warranties. The representations and warranties contained in Section 5 hereof shall be true and with the same effect as through such representations and warranties had been made at the time of the making of each Advance.

(d) Approvals or Documents. The Bank shall have received such other approvals or documents as the Bank may reasonable require or request.

4.3 Reaffirmation of Representations, Warranties and Other Conditions. Any request for an Advance subsequent to the date of this Agreement shall constitute a reaffirmation by the Obligors of the items set forth above under Subsections 4.2(a), (b), (c) and (d).

SECTION 5

REPRESENTATIONS AND WARRANTIES

5.1 Legal Existence. The Obligors are corporations duly incorporated, validly existing and in good standing under the laws of the states where incorporated and are qualified to conduct business in each jurisdiction where required to be so qualified, except where not being so qualified would not have any Material Adverse Effect.

5.2 Legal Power. The Obligors have the legal power to execute, deliver and perform this Agreement and the other Loan Documents and to borrow hereunder and under the Notes, and have taken all necessary legal action to authorize (i) the borrowing hereunder on the terms and conditions of this Agreement and the other Loan Documents and (ii) the execution, delivery and performance of this Agreement and other Loan Documents. The Obligors have the legal power to own, pledge and operate their properties and to conduct their business.

5.3 Necessary Franchises, Patents, etc. The Obligors possess, either by direct ownership or as licensee, in full force and effect, all necessary franchises, patents, licenses, trademarks, trademark rights, trade names, trade name rights, fictitious name authorizations or certificates and copyrights to conduct their businesses as now conducted, all of which is described on Schedule 5.3 attached hereto, without any conflict with the franchises, patents, licenses, trademarks, trademark rights, trade name, trade name rights, fictitious name authorizations or certificate and copyrights of others. The Obligors have not within the last 5 years, and do not, transact any business utilizing any trade names, fictitious names, assumed names and/or alternate names other than on Schedule 5.3 attached hereto.

5.4 Subsidiaries. Except as disclosed on Schedule 5.4 attached hereto, the Obligors have no Subsidiaries.

5.5 Line of Business. The Obligors are currently engaged in the lines of businesses described on Schedule 5.5 attached hereto.

5.6 Financial Condition. The Obligors have furnished to the Bank, audited financial statements of TeamStaff, Inc. audited by Arthur Anderson as of September 30, 2001 and unaudited statements for December 31, 2001 (the "Financial Statements"). The Financial Statements are complete and correct in all material respects, have been prepared in accordance with GAAP, and fairly present the condition and results of operations of Obligors for the period involved. Since the date of the Financial Statements, there has been no material and adverse change in the financial condition of any Obligor not reflected in the Financial Statements, and since such date neither the business of nor the financial condition of any Obligor has been materially and adversely affected by any occurrence, whether or not insured against.

5.7 Taxes. All tax returns of the Obligors which are due have been duly filed and are, to the best of their knowledge, correct and all taxes, assessments and other governmental charges upon the Obligors which are shown to be due and payable thereon have been paid except where (i) they are diligently being contested in good faith and for which adequate reserves as determined for same have been established in accordance with GAAP, or (ii) where said non-payment will not have any Material Adverse Effect, all as shown on Schedule 5.7 attached hereto. The Obligors do not know of any proposed tax deficiency, assessment, charge or levy against them, the payment of which is not adequately provided for on the books of the Obligors.

5.8 Judgments, No Material Litigation. Except as disclosed on Schedule 5.8 hereof, there are no outstanding judgments against any Obligor; nor are there any actions, proceedings, claims or investigations, pending or threatened, before any court or governmental body which, if adversely determined, could reasonably be expected to have a Material Adverse Effect.

5.9 Title to Properties, First Priority Lien. The Obligors have good and marketable title in all of their properties and assets which they purport to own, free of all Liens except for Permitted Liens and the Obligors have granted to the Bank in Subsection 3.1, subject to Permitted Liens, valid perfected first priority security interests in the Collateral.

5.10 No Consent or Approval. No consent or approval of any Person, no waiver of any Lien or right of distraint or other similar right, and no consent, license, approval or authorization of or registration, qualification, designation, declaration or filing with any governmental authority (other than the filing of financing statements in accordance with the UCC) is required in connection with the validity, enforceability, execution, delivery and performance of this Agreement or any of the other Loan Documents or the consummation of any other transactions contemplated hereby.

5.11 No Burdensome Restriction, No Violations. There is no term of any contract, bond, note, indenture or other agreement or of any charter or other restriction or of any judgment, decree, order, statute, rule or regulation which could reasonably be expected to have a Material Adverse Effect and the Obligors are not in violation of their respective Certificates of Incorporation or By-Laws; nor are the Obligors in default under, or in violation of, any term of, any agreement, ordinance, resolution, decree, burden, note, indenture, order or judgment to which they are a party or by which their properties are bound, and the execution, delivery and performance of, and compliance with, this Agreement and the other Loan Documents will not (with or without the giving of notice or lapse of time, or both) result in any violation of, or be in conflict with, or constitute a default under, where such violation, conflict or default could reasonably be expected to have a Material Adverse Effect, any provision of federal, state or local law, regulations or ordinances, or result in the creation of any Lien upon any of the assets of any Obligor, except for the Lien created by this Agreement and the other Loan Documents.

5.12 Changed Name, Merger, Acquisition. Since May 1, 2000, no Obligor has (i) changed its name or been known by any other name, (ii) been the surviving legal entity of a merger or consolidation, or (iii) acquired all or substantially all of the assets of any Person.

5.13 Place of Business. The chief executive office and principal place of business of each Obligor and all other places of business of each Obligor and locations where Collateral is stored or maintained is identified on Schedule 5.13 attached hereto.

5.14 Location of Collateral and Records. All of the Collateral, and the Obligors' books, records, journals, orders, receipts and correspondence are located only at the Obligors' places of business set forth in Subsection 5.13, except as to certain records not relating to Collateral which may be maintained at the offices of the Obligors' counsel.

5.15 No Reportable Event. No Reportable Event has occurred with respect to any Plan maintained for employees of: (i) any Obligor; or (ii) any member of a Control Group of which any Obligor is a part. As of this date, neither any Obligor nor any member of a Control Group of which any Obligor is a part maintains any Plan.

5.16 Ownership. All of the authorized, issued and outstanding stock interests of the Obligors are owned by the Persons and in the percentages described on Schedule 5.16 attached hereto.

5.17 No Default. No event or condition which constitutes a Default or an Event of Default has occurred.

5.18 Binding Obligations. This Agreement and the other Loan Documents have been duly executed and delivered and constitute the valid and legally binding obligations of the Obligors, enforceable in accordance with their terms, except as may be limited by bankruptcy, insolvency or other similar laws affecting the enforcement of creditor's rights.

5.19 Accounts. The most recent list of Accounts as of March 11, 2002, delivered to the Bank is true and complete, and contains an accurate aging thereof. To the best of the Obligors' knowledge, none of such Accounts are subject to counterclaims, defenses, claims for adjustments or setoffs of any nature whatsoever, and require no further act by the Obligors to make such Accounts owing by the Account Debtors. None of the Accounts include any conditional sales, consignments or sales on any basis other than that of absolute sale in the ordinary and usual course of business. No agreement has been made under which any deductions or discounts may be claimed as to any such Account except regular discounts in the usual course of business.

5.20 Compliance with Regulations and Laws. The Obligors have materially complied with, and their facilities, business, assets, property, leaseholds and equipment are in compliance in all material respects with, the provisions of all regulations or law applicable to them including, without limitation, the Fair Labor Standards Act, the Federal Occupational, Safety and Health Act and the Environmental Protection Act, and all rules and regulations thereunder and all similar state and local laws, rules and regulations, the violation of which could reasonably be expected to have a Material Adverse Effect, and there have been no outstanding citations, notices or orders of noncompliance issued to any Obligor or relating to any of their business, assets, property, leaseholds or equipment under any such laws, rules or regulations.

5.21 Licenses and Permits. The Obligors have been issued all required federal, state and local licenses, certificates or permits relating to, and the Obligors and their facilities, business, assets, property, leaseholds and equipment are in compliance in all material respects with, all applicable federal, state and local laws, rules and regulations relating to, air emissions, water discharge, noise emissions, solid or liquid disposal, hazardous waste or materials, or other environmental health or safety matters, where the failure to so comply could reasonably be expected to have a Material Adverse Effect.

5.22 Solvency of the Obligors. Each Obligor is solvent on the date hereof. For the purpose of this Agreement, the term "solvent" shall mean: (a) the fair salable value of each Obligor's property is in excess of the total amount of its debts; (b) each Obligor is able to pay its debts as they mature; and (c) each Obligor has adequate capital to conduct its business in the ordinary course.

5.23 Labor Matters. (i) No Obligor has experienced any strike, labor dispute, slowdown or work stoppage due to labor disagreements and (ii) to Obligor's knowledge, there is no such strike, dispute, slowdown or work stoppage threatened against any Obligor.

SECTION 6

COVENANTS BY OBLIGORS

The Obligors covenant and agree that:

6.1 Preservation of Legal existence and Franchises. The Obligors shall preserve and keep in full force and effect their legal existence and all franchises, rights and privileges necessary to the proper conduct of their business, including, without limitation, all necessary franchises, patents, licenses, trademarks, trademark rights, trade name rights, fictitious name authorizations or certificates and copyrights without any unlawful conflict with such franchises, patents, licenses, trademarks, trademark rights, fictitious name authorizations or certificates and copyrights of others except where the failure to so would have no Material Adverse Effect.

6.2 Amendments. The Obligors shall promptly deliver to the Bank copies of any amendments or modifications to their certificates of incorporation or bylaws, certified with respect to said certificate of incorporation by the Secretary of State of the appropriate Obligor's state of incorporation, and, with respect to said bylaws by the appropriate Obligor's corporate secretary.

6.3 Compliance with Laws. The Obligors shall comply with all applicable laws, ordinances, rules and regulations of any Federal, state or local government or any instrumentality or agency thereof now or hereafter in effect, the failure of which to comply with could reasonably be expected to have a Material Adverse Effect.

6.4 Taxes. The Obligors shall pay and discharge, as they become due, all taxes, assessments, claims and other governmental or non-governmental charges lawfully imposed upon them or incurred by them or their properties and assets, except taxes, assessments, claims and charges contested in good faith in appropriate proceedings and in respect of which the Obligors shall have set aside adequate reserves for the payment of such tax, assessment, claim or charge in conformity with GAAP. The Obligors shall provide to the Bank, upon the Bank's request, evidence of payment of such taxes, assessments, claims and charges satisfactory to the Bank.

6.5 Maintenance of Property. The Obligors shall maintain, preserve and keep all their properties, equipment and assets in good repair, working order and condition, and make, or cause to be made, all necessary or appropriate repairs, renewals, replacements, substitutions, additions, betterments and improvements thereto so that efficiency of all such properties and assets shall at all times be properly preserved and maintained.

6.6 Insurance. The Obligors shall maintain such insurance on their properties and assets, including, without limitation, the Collateral, with responsible insurance companies, against such casualties and in such amounts as is from time to time reasonably required by the Bank. The insurance policies shall name the Bank as additional insured and lender loss payee, as its interest may appear and the proceeds of any such insurance shall be payable to the Bank unless the Bank, in its sole discretion, directs otherwise. The insurance policies shall be on a full replacement cost basis of the value of the Collateral. All such policies of insurance shall provide for at least thirty (30) days advance notice in writing to the Bank of any cancellation or modification thereof. If the Obligors fail to pay the premiums on any such insurance, the Bank shall have the right (but shall be under no duty) to pay such premiums for the Obligors' account. The Obligors shall repay to the Bank any sums which the Bank shall have so paid, together with interest thereon at the Default Rate. The Obligors shall (a) deliver to the Bank, upon the request of the Bank, a detailed list of insurance then in effect, stating (i) the names of the insurance companies, (ii) the amounts and rates of the insurance, (iii) the dates of expiration thereof and the properties and risks covered thereby; (b) within fifteen (15) days after notice from the Bank, obtain such additional insurance as the Bank may reasonably request; (c) provide to the Bank copies of all insurance policies; and (d) assign to the Bank all rights to receive proceeds of all insurance. The Obligors hereby authorize the Bank to endorse any draft for such proceeds and to use the proceeds thereof to reduce the Loan. The Obligors shall (a) deliver to Bank, upon request of the Bank, a detailed list of their workers' compensation insurance then in effect, stating (i) the names of the insurance companies, (ii) the amounts and rates of the insurance, (iii) the dates of expiration thereof and the risks covered thereby; (b) within fifteen (15) days after notice from the Bank, obtain such additional insurance as the Bank may reasonably request; and (c) provide to the Bank copies of all insurance policies.

6.7 No Other Liens. The Obligors shall not directly or indirectly permit to exist any Lien on the Collateral except Permitted Liens.

6.8 Litigation Notice. The Obligors shall promptly notify the Bank of (i) any litigation, actions, proceedings, claims or investigations pending or threatened against any Obligor wherein the claimant seeks to recover in excess of $100,000 (or its equivalent in another currency or currencies) per claim or $100,000 in the aggregate and (ii) of the entry of any judgment against any Obligor or the entry of any Lien, other than a Permitted Lien, against any of the Collateral.

6.9 Location of Collateral and Records. The Obligors shall keep the Collateral, their records relating to the Collateral, and their other books, records, journals, orders, receipts and correspondence at only those locations set forth in Subsection 5.13, unless notice is given to the Bank at least thirty (30) days in advance of the removal of the Collateral, and the books, records, journals, orders, receipts and correspondence, to another location, provided, however, that no such removal may be effected before all filings required to be made to preserve the perfected first priority security interest of the Bank in the Collateral shall have been made and the Obligors shall deliver to the Bank a new Landlord's Agreement, in form and substance satisfactory to the Bank, with respect to the new location.

6.10 Conduct of Business. The Obligors shall not engage in any business other than the businesses specified in Section 5.5 without the prior written permission of the Bank, not to be unreasonably withheld.

6.11 Change of State of Formation or Location. The Obligors shall not (i) change their state of formation, (ii) change the location of their chief executive office and principal place of business, (iii) create any new place(s) of business, or (iv) eliminate any existing place of business, unless the Obligors notify the Bank in writing thirty (30) days in advance thereof and further provided that no change in their state of formation or in location or creation of a new location may be effected before all filings required to be made to preserve the first priority security interest of the Bank in the Collateral shall have been made and no change in location or creation of a new location may be effected before the Obligors shall deliver to the Bank a new Landlord's Agreement, in form and substance satisfactory to the Bank, with respect to the new location.

6.12 Financial Statements. The Obligors shall deliver, or cause to be delivered, to the Bank in form and substance satisfactory to the Bank the following:

(a) Within fifty-five (55) days after the end of each fiscal quarter, financial statements of the Obligors, on a consolidated basis, consisting of a balance sheet of the Obligors as at the end of such month, and a statement of cash flows and a statement of income for such quarter, all for the period from the beginning of the current fiscal year to the end of such quarter, all prepared in accordance with GAAP, in reasonable detail by the Obligors, together with a certificate of the Chief Financial Officer or Controller of each Obligor certifying that said financial statements accurately represent in all material respects the financial condition and results of operations of the Obligors, subject to year-end adjustments, calculating all financial covenants required to be complied with hereunder, stating whether the Obligors are in compliance with all said financial covenants and stating whether his examination has disclosed the existence of any condition or event which constitutes (or would, after notice or lapse of time, or both, constitute) an Event of Default or Default and, if so, specifying the nature and period of existence thereof and setting forth any actions which the Obligors are taking or have taken in respect of such condition or event, and further certifying that such financial statements constitute a fair presentation of the Obligors and their financial condition and results of operations;

(b) Within one hundred twenty (120) days after the end of each fiscal year of the Obligors, financial statements of the Obligors, on a consolidated basis, consisting of a balance sheet of the Obligors as at the end of such year and a statement of income for such year and a statement of cash flows for such year, all in reasonable detail and audited by independent certified public accountants acceptable to the Bank, accompanied by an unqualified opinion and a management letter, if any, prepared by such accountants, and which audit shall be performed in accordance with GAAP, together with a certificate of the Chief Financial Officer or Controller of each Obligor certifying that said financial statements accurately represent in all material respects the financial condition and results of operations of the Obligors, calculating all financial covenants required to be complied with hereunder, stating whether the Obligors are in compliance with all said financial covenants and stating whether his examination has disclosed the existence of any condition or event which constitutes (or would, after notice or lapse of time, or both, constitute) an Event of Default or a Default and, if so, specifying the nature and period of existence thereof and setting forth any actions which the Obligors are taking or have taken in respect of such condition or event, and further certifying that the financial statements constitute a fair presentation of the Obligors and their financial condition and results of operations;

(c) A Borrowing Base Certificate to be submitted by the 15th day of each month, as of the end of the immediately preceding month;

(d) By the 15th day of each month, the Obligors shall provide the Bank with an accounts receivable aging report as of the end of the immediately preceding month, in form and substance satisfactory to the Bank; and

(f) Such additional financial information of any Obligor as the Bank shall reasonably require.

6.13 Costs, Expenses and Attorney's Fees.

The Obligors shall pay on demand all expenses of the Bank in connection with the preparation, default, collection, waiver or amendment of any Loan Document terms, or in connection with the Bank's exercise, preservation or enforcement of any of its rights, remedies or options hereunder or any other Loan Document, including, without limitation, reasonable fees of outside legal counsel or the allocated costs of in-house legal counsel, accounting, consulting, brokerage or other similar professional fees or expenses, and any reasonable fees or expenses associated with travel or other costs relating to any appraisals or examinations (including field examinations) conducted in connection with the Loan or the Collateral therefor, and the amount of all such expenses shall, until paid, bear interest at the rate applicable to principal hereunder (including any Default Rate) and be an Obligation secured by the Collateral. The Bank may, at its discretion and at any time when due, after notifying the Obligors, charge any account maintained by the Obligors with the Bank, in an amount equal to the sums due hereunder, and all such sums to the extent not paid shall be added to the outstanding Obligations to the Bank.

6.14 Book and Records. The Obligors shall, at all times and in accordance with GAAP, keep complete and accurate books and records concerning their business, affairs and operations and concerning their properties and assets, including without limitation, the Collateral.

6.15 Instrument and Documents. Upon the Bank's request, the Obligors shall deliver to the Bank (i) all instruments and chattel paper (including all executed copies thereof, except such executed copies retained by the obligors thereunder) representing proceeds of the Collateral duly endorsed and accompanied by duly executed instruments of assignment in form and substance satisfactory to the Bank, and (ii) promptly at the Bank's request, all invoices, original bills of lading, documents of title, original contracts, chattel paper, instruments and any other writings relating thereto, and other writings or evidence of performance of contracts or evidence of shipment or delivery of the merchandise sold or services rendered in connection therewith. The Obligors shall deliver to the Bank, promptly at the Bank's request, from time to time, additional copies of any or all of such papers or writings, and such other information with respect to any of the Collateral including such schedules of accounts receivables and other writings as the Bank may, in its sole discretion, deem to be necessary or effectual to evidence any Advance made pursuant to this Agreement or to evidence, enforce or perfect the Bank's security interest in the Collateral, to facilitate collection of the Collateral, or to carry into effect the provisions and intent of this Agreement, all at the sole expense of the Obligors.

6.16 Field Exam/Inspection. The Obligors shall from time to time, without hindrance or delay, and during normal business hours, permit the Bank, its representatives, agents and/or designees, to inspect or examine the properties and assets of the Obligors, including, without limitation, the Collateral, and to examine, check, audit, conduct a field examination, and make copies of or abstracts from any of the Obligors' books, records, journals, receipts, orders, correspondence or other data, and to verify independently the orders of the Obligors and Accounts, limited to not more often than on a quarterly basis unless a Default or Event of Default shall exist at the time, in which case there shall be no such limitations. All fees and expenses associated with the foregoing shall be paid by the Obligors.

6.17 ERISA, SEC Filings. The Obligors shall furnish to the Bank: (i) as soon as possible and in any event within thirty (30) days after any Obligor or a duly appointed administrator of a Plan knows or has reason to know that any Reportable Event has occurred with respect to any Plan, a statement of the Obligors setting forth details as to such Reportable Event and the action which the Obligors propose to take with respect thereto, together with a copy of the notice of such Reportable Event given to the PBGC or a statement that the notice will be filed with the annual report to the United States Department of Labor with respect to the Plan if required under applicable regulations; (ii) promptly after the filing thereof with the United States Department of Labor, the Internal Revenue Service or the PBGC, copies of each annual and other report with respect to each Plan; (iii) promptly after receipt thereof, a copy of any notice any Obligor or any other member of a Controlled Group may receive from the United States Department of Labor, the Internal Revenue Service or the PBGC with respect to any Plan; and (iv) promptly after the sending of, making available or filing of the same, copies of any proxy statements and financial statements which any Obligor, if any, shall send or make available to all of its stockholders or members, and any registration statements and any reports which any Obligor shall file with the Securities and Exchange Commission; and (v) promptly after receipt thereof, a copy of any notice any Obligor may receive indicating an actual or potential violation of any material law or regulation.

6.18 Use of Proceeds. The Borrower shall use the proceeds of the Revolving Loan only to finance working capital and the issuance of letters of credit.

6.19 Loss or Damage to Collateral. The Obligors shall immediately notify the Bank of any material loss or damage to, or material diminution in, or any occurrence which would materially adversely affect, the value of any of the Collateral.

6.20 Default Notice. Upon having knowledge of the following, the Obligors shall immediately notify the Bank of the occurrence of any Default or Event of Default accompanied by a certificate of the Obligors specifying the nature and period of existence thereof and stating what action the Obligors are taking in respect of such Default or Event of Default. If the Obligors receive a notice of a default from any creditor other than the Bank, the Obligors shall deliver to the Bank a copy of such notice of default immediately upon receipt thereof.

6.21 Compliance with Agreement. The Obligors shall observe, perform and comply with, and shall continue, until all Obligations to the Bank are fully paid and satisfied, to observe, perform and comply with, all of the terms, agreements, and covenants contained in this Agreement and the other Loan Documents.

6.22 Government Accounts. If any of the Accounts, contract rights, chattel paper, general intangibles or instruments arise out of contracts with the United States or any of its departments, agencies or instrumentalities or any state of the United States or any of its departments, agencies or instrumentalities and if requested by the Bank, the Obligors shall execute any necessary writings in order that all money due or to become due under such contracts shall be assigned to the Bank and proper notice of the assignment given under the Federal Assignment of Claims Act and/or such other similar type law applicable to said Collateral.

6.23 Negative Covenants. No Obligors shall without the Bank's prior written consent:

(a) Indebtedness. Create, incur or assume any Indebtedness, except for Permitted Indebtedness.

(b) Contingent Liabilities. Assume, guarantee, endorse or otherwise become liable, in connection with the obligations of any Person except:

(i) Liabilities of the Obligor resulting from product or service warranties made by the Obligor in the ordinary course of its business; and

(ii) Liabilities of the Obligor resulting from its endorsement of items or instruments for deposit or collection in the ordinary course of its business.

(c) Sale or Other Disposition of Assets. Sell, lease, abandon, or otherwise dispose of its properties or assets or any part thereof, except in the ordinary course of its business in commercially reasonable and bona fide arm's length transactions for fair consideration.

(d) Acquisition of Assets. Purchase, lease, or otherwise acquire, the properties, assets or real estate, or any interest therein, of any Person except the purchasing, leasing or otherwise acquiring of assets by the Obligor in the ordinary course of its business in bona fide arm's length transactions.

(e) Mergers, Joint Ventures. Consolidate with, merge into, or participate in any joint venture with any Person or permit any Person to consolidate with, merge into or participate in any joint venture with any Obligor.

(f) Subsidiaries. Create or acquire, or permit the creation or acquisition of, any Subsidiary, provided that Borrower may create subsidiaries upon prior notice to Bank (i) so long as no Default or Event of Default shall exist at the time or result therefrom, and (ii) provided said Subsidiary becomes an Obligor and grants a first priority security interest in favor of the Bank with respect to all of its assets.

(g) Investments. Purchase, acquire or make any Investments, except:

(i) Marketable direct obligations of the United States of America;

(ii) Bonds, bills or notes of any state, county, or municipality of the United States of America, which are not in default as to principal or interest, and which are rated Aa, or better, by Moody's Investors Service; and

(iii) Certificates of Deposit and Repurchase Agreements of the Bank.

(h) Restricted Payment. Make any Restricted Payment, provided Restricted Payments up to $300,000 in the aggregate during any fiscal year shall be permitted so long as no Default or Event of Default shall exist at the time of said Restricted Payment or will result therefrom.

(i) Change in Control. Cause, suffer or permit any Change in Control.

(j) Loans to Other Persons. Make loans or advances to any of its officers, shareholders, or directors, or to any other Person in excess of $250,000.00 outstanding at any time in the aggregate.

(k) Liens. Create, assume or suffer to exist any Lien on any of its properties or assets whether now owned or hereafter acquired, except for Permitted Liens.

(l) Assignment of Accounts. Create, assume or suffer to exist any assignment of Accounts.

(m) Change of Name. Change it's legal name or utilize a fictitious, assumed or alternate name.

(n) Interest Coverage Ratio. Cause, suffer or permit the Obligors' Interest Coverage Ratio to be less than 2.0 to 1.0, measured on a consolidated basis and tested quarterly on a rolling four (4) quarter basis.

(o) Total Liabilities to Tangible Net Worth Ratio. Cause, suffer or permit the Obligors' ratio of Total Liabilities to Tangible Net Worth to exceed 2.0 to 1.0, measured on a consolidated basis and tested quarterly.

(p) Minimum Working Capital. Cause, suffer or permit the Obligors' Working Capital to be less than $10,000,000, measured on a consolidated basis and tested quarterly.

6.24 Bank Account. The Obligors shall maintain their current accounts, including its primary business operating account with the Bank until such time as all Obligations to the Bank are fully satisfied.

6.25 Margin Stock. The Obligors do not own, or have any present intention of acquiring, any "Margin Stock" within the meaning of Regulation U (12 CFR Part 221) of the Board of Governors of the Federal Reserve System (herein called "margin stock"). None of the proceeds of the Loan made hereunder shall be used, directly or indirectly, for the purposes of purchasing or carrying, or for the purpose of reducing or retiring any indebtedness which was originally incurred for the purposes of purchasing or carrying, any margin stock or for any other purpose which might cause the transactions contemplated hereby to be considered a "purpose credit" with the meaning of said Regulation U, or which might cause this Agreement to violate Regulation U, Regulation T, Regulation X, or any other regulation of the Board of Governors of the Federal Reserve System or the Securities Exchange Act of 1934, as amended. If requested by the Bank, Obligors will promptly furnish the Bank with a statement or statements in conformity with the requirements of Federal Reserve Form U-1 referred to in said Regulation U.

6.26 Further Assurances, Warranty of Title. The Obligors shall procure and deliver to the Bank or execute and deliver any mortgage, security agreement, financing statement or amendments thereto, or other writing necessary to evidence, preserve, protect or enforce the Bank's rights and interests to or in the Collateral. The Obligors will defend the Collateral at their own expense from all claims and defenses of all other Persons.

6.27 Qualified Accounts. The Obligors shall not knowingly submit or represent to the Bank any Account as a Qualified Account, which does not meet all requirements in every respect of Qualified Account, and the Obligors shall, after becoming aware, notify the Bank promptly, in writing, when any Account against which an Advance had been made or may be made ceases to meet any of such requirements.

SECTION 7

EVENTS OF DEFAULT

There shall be an Event of Default under this Agreement upon the occurrence of any one of the following:

7.1 Non-Payment. The Borrower's failure to pay when due or at maturity (whether as stated or by acceleration), as the case may be, any payment of principal, interest or other charges due and owing to the Bank pursuant to any Obligations, including, without limitation, those Obligations arising pursuant to this Agreement; or

7.2 Specific Defaults. Any Obligor shall fail to perform or observe any term or agreement contained in Subsection 6.1,6.9, 6.10, 6.11, 6.12, 6.14, 6.16, 6.23, 6.24, 6.25, 6.26 and 6.27; or

7.3 Other Defaults. A breach by any Obligors of any other term, agreement or covenant contained in this Agreement, which breach remains uncured for a period of thirty (30) days from the earlier of (a) the date upon which notice thereof shall be given to the appropriate Obligor by the Bank or (b) the date upon which the Bank should have been notified pursuant to Subsection 6.20 hereof; or

7.4 Warranties and Representations. If any warranty or representation or signatures contained in this Agreement or the other Loan Documents, including without limitation, the warranties and representations contained in Section 5, shall be false or incorrect in any material respect when made or deemed reaffirmed, or if any financial statement given by or on behalf of any Obligor to the Bank shall be false, incorrect, incomplete or misleading in any material respect; or

7.5 Bankruptcy or Insolvency. (i) Any resolution shall be passed or any action shall be taken by any Obligor for the termination, winding up, liquidation or dissolution of any Obligor or its debts, or any Obligor shall make an assignment for the benefit of creditors, become insolvent or be unable to pay (or admit in writing its inability to pay) any of its debts as they mature, or any Obligor shall file a petition in voluntary liquidation or bankruptcy, or any Obligor shall file a petition or answer or consent seeking reorganization or the readjustment of any of its debt under applicable insolvency or bankruptcy laws now or hereafter existing, or any Obligor shall consent to the appointment of any receiver, administrator, liquidator, custodian or trustee of all or any part of its property or assets, or legal action shall be taken by any Obligor for the purpose of effecting any of the foregoing; or

(ii) By order or decree of any court of competent jurisdiction, any Obligor shall be adjudicated a bankrupt or insolvent, or a petition for proceedings in bankruptcy or liquidation or for the reorganization or the readjustment of its debt under applicable bankruptcy or insolvency laws now or hereafter existing shall be filed against any Obligor, and any Obligor shall admit the material allegations thereof, or shall not cause such petition to be discharged within thirty (30) days, or any order judgment or decree shall be made approving such petition and such order, judgment or decree shall not be vacated, set aside or stayed within thirty (30) days of their issuance or any receiver, administrator, liquidator or trustee shall be appointed for any Obligor or for all or any part of its property and such receiver, administrator, liquidator or trustee shall not be discharged or his jurisdiction shall not be relinquished, vacated or stayed, on appeal or otherwise, within thirty (30) days after his appointment; or

7.6 Cross-Default. The occurrence of any default by any Obligor in connection with (i) any loans, advances or other extensions of credit by the Bank to any Obligor other than the Loan made pursuant to this Agreement; (ii) any Indebtedness of any Obligor under any agreement or instrument relating to such Indebtedness, which Indebtedness together with all such other Indebtedness exceeds in the aggregate $250,000.00, if the effect of such default is to accelerate, or to permit the acceleration of, the maturity of such Indebtedness, or any such Indebtedness shall be declared to be due and payable or required to be prepaid other than by a regularly scheduled required payment, prior to its stated maturity thereof; or

7.7 Other Warranties or Representations. If any warranty or representation whether past, contemporaneous or future made in writing by any Obligor or on behalf of any Obligor to the Bank, other than any warranty or representation set forth in this Agreement, shall prove to be false, incorrect, incomplete or misleading in any material respect, when made, or when deemed made; or

7.8 Other Loan Documents. A default occurs under any of the other Loan Documents, and such default is not cured within the applicable grace period provided therein, if any; or

7.9 ERISA. A Reportable Event shall have occurred which the Bank, in its sole discretion, shall determine in good faith constitutes grounds for the termination by the PBGC of any Plan or for the appointment by the appropriate United States district court of a trustee for any Plan, or if any Plan shall be terminated or any such trustee shall be requested or appointed, or if any Obligor is in "default" (as defined in Section 4219(c)(5) of ERISA) with respect to payments to a Multiemployer Plan resulting from the Obligor's complete or partial withdrawal from such Plan; or

7.10 Execution; Attachment. Any execution or attachment shall be levied against the Collateral, if the cost or market value of said Collateral in the aggregate exceeds $250,000.00; or

7.11 Judgment. The entry of a final judgment in excess of $250,000.00 (or $400,000.00 in the aggregate) against any Obligor and the failure of any Obligor to discharge the same within sixty days (60) from the date of the order, decree or process under which or pursuant to which judgment was entered, or to secure a stay of execution pending appeal of such judgment unless such judgment is fully covered by insurance and the insurer has acknowledged liability or unless a bond for the full amount of said judgment is presented to the entity responsible for the enforcement of said judgment; or

6.12 Deny or Disaffirm Obligations. Any Obligor to any Loan Document shall deny or disaffirm its obligations under any of the Loan Documents, or any Loan Document shall be canceled, terminated, revoked or rescinded without the express prior written consent of the Bank, or any action or proceeding shall have been commenced by any Person (other than the Bank) seeking to invalidate, declare unenforceable cancel, revoke, rescind or disaffirm the obligations of any party to any Loan Document; or

6.13 Crime, Fraud or Forfeiture of Assets. Any Obligor is indicated or convicted of a commission of (i) a crime, (ii) fraudulent activity or (iii) any proceeding of any kind is pending or threatened which would reasonably be likely to result in the forfeiture of any material portion of any assets of any Obligor to any governmental entity or authority; or

6.14 Material Adverse Change. The occurrence of any Material Adverse Change; or.

6.15 Swap Agreement. Any default, after the expiration of any applicable grace period, under any Swap Agreement with the Bank or any Affiliate of the Bank.

SECTION 8

BANK'S RIGHTS AND REMEDIES

8.1 Bank's Rights Exercisable at any Time. Exclusive of the occurrence of an Event of Default or Default, the Bank may:

(a) Receive from all or any accountants and auditors employed by any Obligor (which accountants and auditors the Obligors hereby authorize and direct to deliver to the Bank), at any time during the term of this Agreement, copies of any of the financial statements, trial balances or other accounting records of any sort of any Obligor which are in the possession of such accountants and auditors to the extent that same will be released;

(b) Receive and have access to printouts and all other information respecting financial records of any Obligor maintained by external computer service companies (which the Obligors hereby authorize and direct to deliver or give access to the Bank of the same) to the extent that same will be released;

(c) File financing statements without the Obligors' signature or file carbon, photographic or other reproductions of financing statements, where permitted by law, in any relevant state to perfect or maintain the Bank's security interest in any or all of the Collateral.

(d) Communicate with customers and Account Debtors to verify (including phone verifications) independently orders and Accounts (and the Obligors agree to furnish all such assistance and information as the Bank may require in connection therewith); and

(e) Take any and all action which in its reasonable discretion is necessary and proper to preserve its interest in the Collateral, including, without limitation, paying debts of the Obligors which might, in the Bank's sole discretion, impair the Collateral, or the Bank's security interest therein or Lien thereon, including without limitation, paying taxes or assessments imposed on the Collateral, and the sums so expended by the Bank shall be secured by the Collateral, shall be added to the amount of the Obligations and shall be payable on demand with interest at the Default Rate.

8.2 Bank's Rights and Remedies Upon an Event of Default. Upon the occurrence of an Event of Default the Bank shall have the following rights and remedies to be exercised within its discretion, without further demand, presentment, protest, advertisement, or notice of any kind, all of which are hereby expressly waived by the Obligors except as specified below:

(a) The Bank may exercise any and all of the rights and remedies provided in this Agreement, the other Loan Documents, the Uniform Commercial Code and other applicable law in force and effect in the State of New Jersey and in any other jurisdiction where the Obligors maintain property or assets;

(b) The Bank may elect (i) not to make any further Advances under and pursuant to this Agreement or otherwise and all of the Obligations shall immediately become due and payable and (ii) to increase the rate of interest with respect to all Obligations to the Default Rate;

(c) The Bank may receive, open and dispose of mail addressed to the Obligors and notify the Post Office authorities to change the address for delivery of mail addressed to the Obligors to such address as the Bank may designate;

(d) The Bank may require the Obligors (and the Obligors hereby agree), at the Obligors' own expense, to assemble or to cause to be assembled the Collateral and make it available at places which the Bank may designate, whether at the Obligors' premises or elsewhere, and to allow the Bank to take possession or dispose of the Collateral;

(e) The Bank may forthwith collect, receive, appropriate and realize upon the Collateral or any part thereof, and/or, forthwith, without advertisement, sell, lease, assign, give an option or options to purchase, or sell or otherwise dispose of, the Collateral (or contract to do so), or any part thereof or any interest which the Obligors may have therein, in one or more parcels at public or private sale or sales, at any exchange or broker's board or at any of the Bank's offices or elsewhere at such prices as they may deem best in their discretion exercised in a commercially reasonable manner, for cash or on credit or for future delivery without assumption of any credit risk, and if notice of such sale or of other action by the Bank is required by applicable law, the Obligors agree that ten (10) days' notice (which notification shall be deemed given when mailed, postage prepaid, addressed to the Obligors at their principal place of business set forth in Subsection 5.13) of the time and place of any public sale or of the time after which a private sale may take place shall be sufficient, which the Bank and the Obligors hereby agree to be commercially reasonable;

(f) The Bank shall have the right upon any such public sale or sales, and, to the extent permitted by law, upon any such private sale or sales, to purchase the whole or any part of the Collateral so sold, free of any right or equity of redemption, which right or equity of redemption the Obligors hereby waive and release;

(g) The Bank may enter upon any and all places of business of the Obligors, take possession and remove therefrom any and all of the Collateral and the Obligors' books, records, ledger sheets, correspondence, invoices and documents, relating to or evidencing any of the Collateral, and/or without cost or expense to the Bank, make such use of any or all of the Obligors' places of business as may be reasonably necessary to administer, control and collect the Collateral, either personally or through any agent, or by means of a receiver appointed by a court of competent jurisdiction;

(h) The Bank may settle, renew, extend, compromise, compound, exchange or adjust claims in respect of any of the Collateral or any legal proceedings brought in respect thereof;

(i) The Bank may subrogate to all of the Obligors' interests, rights and remedies in respect of the Collateral including the right to stop delivery, and to reclaim Inventory which any Account Debtor has returned, rejected, revoked acceptance of and/or failed to return, and which has been consigned or diverted, and to take possession of and sell or dispose of Inventory;

(j) The Bank may demand, sue for, collect or receive any money or property, at any time payable or receivable on account of or in exchange for, or make any compromises it deems desirable, including, without limitation, extending the time of payment, arranging for payment in installments, or otherwise modifying the terms or rights with respect to any of the Collateral, all of which may be without notice to or consent by any Obligor and without otherwise discharging or affecting the Obligations, the Collateral or the security interest therein or Lien thereon;

(k) The Bank may set off and apply to all or any part of the Obligations, all the Collateral described in Section 3, and the Bank shall be deemed to have exercised such right of set off and to have made a charge against any such Collateral immediately upon the occurrence of such Event of Default, even though the actual book entries may be made at some time subsequent thereto;

(l) Institute and maintain foreclosure proceedings against the Collateral in accordance with the laws of the State of New Jersey, and any other jurisdiction where the Collateral is located;

(m) To notify the customers and Account Debtors to make payment directly to the Bank or its designee and endorse the name of the Obligors upon any and all checks, drafts, money orders, and other instruments for the payment of monies which are payable to the Obligors and constitute proceeds of the Collateral; and

(n) The Bank may do such other and further acts and deeds in the name of the Obligors which the Bank may deem necessary or advisable to the extent necessary for the Bank to realize upon the Collateral.

SECTION 9

OBLIGORS' RIGHTS AND REMEDIES

9.1 The Obligors shall have all of the rights and remedies provided in this Agreement, the other Loan Documents and by the UCC and other applicable law in force in New Jersey.

SECTION 10

MISCELLANEOUS PROVISIONS

10.1 No Liability; Indemnification.

(a) The Bank shall not be deemed to have assumed any liability or responsibility to the Obligors or any Person for the correctness, validity or genuineness of any instruments or documents that may be released or endorsed to any Obligor by the Bank (which shall automatically be deemed to be without recourse to the Bank in any event), or for the existence, character, quantity, quality, condition, value or delivery of any goods purporting to be represented by any such documents; and the Bank shall not be deemed to have assumed any obligation or liability to any supplier or Account Debtor or to any other Person. The Obligors hereby agree to indemnify and defend the Bank and hold it harmless in respect to any claim or proceeding arising out of any matter referred to in this Subsection 10.1(a), except to the extent attributable to the gross negligence or willful misconduct of the Bank.

(b) The Obligors hereby agree to indemnify and to hold harmless the Bank and each of its respective officers, directors, agents, employees and counsel harmless from and against any and all claims, damages, liabilities, costs and expenses (including, without limitation, reasonable fees, expenses and disbursements of counsel) in connection with or arising out of any investigation, litigation or proceeding (except to the extent attributable to the gross negligence or willful misconduct of the Bank), including without limitation, those related to violation(s) involving any environmental laws, which may be incurred by or asserted against the Bank or any such other indemnified Person arising by virtue of the Bank's relationship with the Obligors as anticipated by this Agreement or the other Loan Documents, whether or not the Bank is a party thereto.

(c) The Obligors agree to indemnify and hold the Bank harmless from and against any taxes, liabilities, claims and damages, including attorneys' fees and disbursements and other expenses incurred or arising by reason of the taking or the failure to take action by the Bank in respect of any transaction effected under this Agreement or in connection with the Lien provided for herein (except to the extent attributable to the gross negligence or willful misconduct of the Bank), including, without limitation, any taxes payable in connection with the delivery or registration of any of the Collateral as provided herein.

(d) The obligations of the Obligors under this Subsection 10.1 shall survive the termination of this Agreement.

10.2 Waivers.

(a) Notice of default and presentment, demand, protest and notice of protest and of dishonor as to any provision of this Agreement or any other Loan Document is hereby expressly waived by the Obligors, except as may be otherwise specifically provided in this Agreement or in the other Loan Documents.

(b) To the extent it may be lawful to do so, the Obligors for themselves and for any Person who may claim through or under them hereby:

(1) agree that none of them nor any such Person will set up, plead, claim or in any manner whatsoever take advantage of, any appraisement, valuation, stay, extension or redemption laws, now or hereafter in force in any jurisdiction, which may delay, prevent or otherwise hinder (i) the performance or enforcement of, or foreclosure under, this Agreement or the other Loan Documents, (ii) the sale of any of the Collateral or (iii) the putting of the purchaser or purchasers thereof into possession of such property immediately after the sale thereof;

(2) waive all benefit or advantage of any such laws;

(3) waive and release all rights to have the Collateral marshaled upon any foreclosure, sale or other enforcement of this Agreement; and

(4) waive all claims, damages and demands against the Bank's repossession, retention or sale of the Collateral.

9.3 Successors and Assigns, Assignments. The "Bank," the "Borrower," the "Guarantors," and the "Obligors" as used in this Agreement shall include the successors, representatives and assigns of those parties, provided, however, that the Borrower, the Guarantors and the Obligors shall not assign or delegate any of their rights, remedies, warranties, representations or covenants arising under this Agreement or any other Loan Document without the prior written consent of the Bank, and any purported assignment or delegation without such consent shall be void.

9.4 Choice of Law. This Agreement and the other Loan Documents and the rights and obligations of the parties hereunder and thereunder shall be construed and interpreted in accordance with the laws of the State of New Jersey (the "Governing State") (excluding the laws applicable to conflicts or choice of law).

THE OBLIGORS AGREES THAT ANY SUIT FOR THE ENFORCEMENT OF THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS MAY BE BROUGHT IN THE COURTS OF THE STATE OF NEW JERSEY OR ANY FEDERAL COURT SITTING THEREIN AND CONSENT TO THE NONEXCLUSIVE JURISDICTION OF SUCH COURT AND SERVICE OF PROCESS IN ANY SUCH SUIT BEING MADE UPON THE OBLIGORS BY MAIL AT THE ADDRESS DESCRIBED IN SUBSECTION 10.9. THE OBLIGORS

HEREBY WAIVE ANY OBJECTION THAT THEY MAY NOW OR HEREAFTER HAVE TO THE VENUE OF ANY SUCH SUIT OR ANY SUCH COURT OR THAT SUCH SUIT IS BROUGHT IN AN INCONVENIENT FORUM.

9.5 Severability. If any of the provisions of this Agreement or any other Loan Document shall contravene or be held invalid under the laws of any jurisdiction, this Agreement or any other Loan Document shall be construed as if not containing such provisions and the rights, remedies, warranties, representations, covenants and provisions hereof shall be construed and enforced accordingly in such jurisdiction and shall not in any manner affect such provision in any other jurisdiction, or any other provisions in this Agreement, or in any other Loan Documents, as the case may be, in any jurisdiction.

10.6 Remedies Cumulative. The Defaults, Events of Default, rights, remedies, covenants and provisions set forth in this Agreement and any other Loan Document or as may be provided by applicable law, shall be cumulative and not alternative or exclusive, and the Bank's Rights and Remedies may be exercised by the Bank at such time or times, in such order of preference, as the Bank in its sole discretion may determine.

10.7 Entire Agreement, Survival of Representations, Warranties and Modifications. This Agreement and the other Loan Documents embody the entire agreement and understanding among the Obligors and the Bank and supersede all prior agreements and understandings relating to the subject matter hereof. All warranties, representations and covenants imposed or made herein, or in the other Loan Documents shall survive the execution and delivery of this Agreement and the other Loan Documents. No delay or omission of the Bank in exercising or enforcing any of the Bank's Rights and Remedies hereunder shall constitute a waiver thereof; nor shall any single or partial exercise by the Bank of any right hereunder preclude any other or further exercise thereof or the exercise of any other right; and no waiver by the Bank of any Default or Event of Default shall operate as a waiver of any other Default or Event of Default. No term or provision of this Agreement, or any other Loan Document shall be waived, altered or modified except with the prior written consent of the Bank, which consent makes explicit reference hereto or thereto. Except as provided in the preceding sentence, no other agreement or transaction, of whatsoever nature, entered into between the Bank and any Obligor at any time (whether before, during or after the effective date or terms of this Agreement), shall be construed in any particular as a waiver, modification or limitation of any of the Bank's Rights and Remedies under this Agreement, or the other Loan Documents nor shall anything in this Agreement, or in the other Loan Documents be construed as a waiver, modification or limitation of any of the Bank's Rights and Remedies, not only under the provisions of this Agreement or the other Loan Documents but also of any such other agreement or transaction.

10.8 Days. Any and all references to "days" in this Agreement shall mean "calendar days" except as otherwise specifically provided in this Agreement and by law.

10.9 Notices. All notices, requests and other communications pursuant to this Agreement shall be in writing, either by (i) letter (delivered by hand or sent certified mail, return receipt requested), (ii) by overnight courier service, or (iii) by telecopy (if followed by delivery in accordance with (i) and (ii) above) addressed to the Bank at 750 Walnut Avenue, Cranford, New

Jersey 07016, Attention: Craig W. Heal, Senior Vice President Telecopy Number (908) 653-1680 (except with respect to borrowing notices, which shall be faxed to Attn: Ann Platek, Telecopy Number (908) 709-6433) or to the Obligors at 300 Atrium Drive, Somerset, New Jersey 08873, Attention: Donald T. Kelly, Chief Financial Officer or at such other address as either may give notice to the other as herein provided. Any notice, request or communication hereunder shall be deemed to have been given in the case of mailing, three (3) Business Days after being deposited in the mails, in the case of overnight delivery, the day following the date on which such notice was delivered to such overnight delivery service, or in the case of facsimile, when sent, or in the case of hand delivery, when delivered, addressed as aforesaid except where otherwise provided in this Agreement, provided, however, that notice of a change of address, as hereinabove provided, shall be deemed to have been given only when actually received by the party to which it is addressed.

10.10 Agreement and Other Loan Documents Complementary. The provisions of this Agreement shall be in addition to those of any guaranty, security agreement, note or other evidence of liability held by the Bank, all of which shall be construed as complementary to each other. In the event of ambiguity or inconsistency between this Agreement and any other Loan Document, the terms of this Agreement will govern.

10.11 Bank's Relationship. The Bank and the Obligors expressly agree that the relationship of the Bank to the Obligors is that of a lender only, the intent of this provision being to clarify and stipulate that the Bank is not a partner or a co-venturer of the Obligors and that the Bank's sole interest in the Collateral is for the purpose of security for repayment of the Obligations of the Obligors.

10.12 Power of Attorney. The Obligors hereby appoint any officer or agent of the Bank as their true and lawful attorney-in-fact, with power to endorse the name of the Obligors upon any notes, checks, drafts, money orders, or other instruments or demands of payment of the Collateral that may come into possession of the Bank, to sign or endorse the name of the Obligors upon any invoices, freight or express bills, bills of lading, storage or warehouse receipts, drafts against Account Debtors, assignments, verifications and notices in connection with Accounts, letters of credit or advices or confirmations thereof, any instruments or documents relating thereto or to the Obligors' rights therein; and sign and deliver, on behalf of the Obligors any and all notices direct to any issuer, advising bank or confirming bank, wherein such issuer or bank is informed of the Bank's security interest in, or the assignment of any letters of credit or advices or confirmations thereof; and, upon an Event of Default, to give written notice to such office and officials of the United States Postal Service to effect such change or changes of address so that all mail addressed to the Obligors may be delivered directly to the Bank or a place where the Bank shall designate, granting unto the Obligors' said attorney full power to do any and all things necessary to be done with respect to the above transactions as fully and effectually as the Obligors might or could do, and hereby ratifying all that said attorney shall lawfully do or cause to be done by virtue hereof.. Notwithstanding anything contained herein to the contrary, the Bank shall not utilize the Power of Attorney until an Event of Default has occurred.

10.13 Right of Setoff. Each Borrower grants to the Bank, a continuing lien, security interest and right of setoff for all liabilities and obligations to the Bank, whether now existing or hereafter arising, upon and against all deposits, credits, collateral and property, now or hereafter in the possession, custody, safekeeping or control of the Bank or any entity under the control of

FleetBoston Financial Corporation and its successors and assigns or in transit to any of them. At any time, without demand or notice (any such notice being expressly waived by the Borrowers), the Bank may setoff the same or any part thereof and apply the same to any Obligation of the Borrowers even though unmatured and regardless of the adequacy of any other collateral securing the Revolving Loan. ANY AND ALL RIGHTS TO REQUIRE THE BANK TO EXERCISE ITS RIGHTS OR REMEDIES WITH RESPECT TO ANY OTHER COLLATERAL WHICH SECURES THE REVOLVING LOAN, PRIOR TO EXERCISING ITS RIGHT OF SETOFF WITH RESPECT TO SUCH DEPOSITS, CREDITS OR OTHER PROPERTY OF THE BORROWERS, ARE HEREBY KNOWINGLY, VOLUNTARILY AND IRREVOCABLY WAIVED.

10.14. Section Headings. Article and Section headings are for reference only and shall not affect the interpretation or meaning of any provision of this Agreement.

10.15 No Duty to Preserve Collateral. The Bank shall be under no duty or obligation to: (i) preserve, protect or marshal any Collateral; (ii) preserve or protect the rights of any Person against any other Person claiming an interest in any Collateral; (iii) realize upon any Collateral in any particular order or manner or seek repayment of any Obligation from any particular source; or (iv) permit any substitution or exchange of all or any part of any Collateral or release any part of any Collateral from any Lien, even if that substitution or release would leave the Bank adequately secured.

9.16 Participation. The Bank shall have the unrestricted right at any time and from time to time, and without the consent of or notice to any Obligor, to grant to one or more banks or other financial institutions (each, a "Participant") participating interests in the Bank's obligation to lend hereunder and/or any or all of the loans held by the Bank hereunder. In the event of any such grant by the Bank of a participating interest to a Participant, whether or not upon notice to the Obligors, the Bank shall remain responsible for the performance of its obligations hereunder and the Obligors shall continue to deal solely and directly with the Bank in connection with the Bank's rights and obligations hereunder. The Bank may furnish any information concerning the Obligors in its possession from time to time to prospective Participants, provided that the Bank shall require any such prospective Participant to agree in writing to maintain the confidentiality of such information.

9.17 Usury Limitation: If, at any time, the rate of interest, together with all amounts which constitute interest and which are reserved, charged or taken by the Bank as compensation for fees, services or expenses incidental to the making, negotiating or collection of the Loan evidenced hereby, shall be deemed by any competent court of law, governmental agency or tribunal to exceed the maximum rate of interest permitted to be charged by the Bank to the Obligors under applicable law, then, during such time as such rate of interest would be deemed excessive, that portion of each sum paid attributable to that portion of such interest rate that exceeds the maximum rate of interest so permitted shall be deemed a voluntary prepayment of principal. As used herein, the term "applicable law" shall mean the law in effect as of the date hereof; provided, however, that in the event there is a change in the law which results in a higher permissible rate of interest, then this Agreement shall be governed by such new law as of its effective date.

9.18 JURY TRIAL WAIVER. THE OBLIGORS AND THE BANK (BY ACCEPTANCE OF THIS AGREEMENT) MUTUALLY HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE THE RIGHT TO A TRIAL BY JURY IN RESPECT OF ANY CLAIM BASED HEREON, ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER LOAN DOCUMENTS CONTEMPLATED TO BE EXECUTED IN CONNECTION HEREWITH OR ANY COURSE OF CONDUCT, COURSE OF DEALINGS, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF ANY PARTY, INCLUDING, WITHOUT LIMITATION, ANY COURSE OF CONDUCT, COURSE OF DEALINGS, STATEMENTS OR ACTIONS OF THE BANK RELATING TO THE ADMINISTRATION OF THE LOAN OR ENFORCEMENT OF THE LOAN DOCUMENTS AND AGREE THAT NO PARTY WILL SEEK TO CONSOLIDATE ANY SUCH ACTION WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED. EXCEPT AS PROHIBITED BY LAW, THE OBLIGORS HEREBY WAIVE ANY RIGHT THEY MAY HAVE TO CLAIM OR RECOVER IN ANY LITIGATION ANY SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES OR ANY DAMAGES OTHER THAN, OR IN ADDITION TO, ACTUAL DAMAGES. THE OBLIGORS CERTIFY THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF THE BANK HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT THE BANK WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER. THIS WAIVER CONSTITUTES A MATERIAL INDUCEMENT FOR THE BANK TO ACCEPT THIS AGREEMENT AND MAKE THE LOAN.

9.19 Pledge to Federal Reserve. The Bank may at any time pledge or assign all or any portion of its rights under the Loan Documents, including any portion of the promissory note, to any of the twelve (12) Federal Reserve Banks organized under Section 4 of the Federal Reserve Act, 12 U.S.C. Section 341. No such pledge or assignment or enforcement thereof shall release the Bank from its obligations under any of the Loan Documents.

9.20 Collateral Transfer. The Bank may transfer Collateral into its name or that of its nominee and may receive the income and any distributions thereon and hold the same as Collateral for the Obligations, or apply the same to any Obligation, whether or not a default or an Event of Default has occurred.

9.21 Right to Sell Loan: The Bank shall have the unrestricted right at any time or from time to time, and without any Obligor's consent, to assign all or any portion of its rights and obligations hereunder to one or more banks or other financial institutions (each, an "Assignee"), and each Obligor agrees that it shall execute, or cause to be executed, such documents, including without limitation, amendments to this

Agreement and to any other documents, instruments and agreements executed in connection herewith as Bank shall deem necessary to effect the foregoing. In addition, at the request of Bank and any such Assignee, Borrower shall issue one or more new promissory notes, as applicable, to any such Assignee and, if Bank has retained any of its rights and obligations hereunder following such assignment, to Bank, which new promissory notes shall be issued in replacement of, but not in discharge of, the liability evidenced by the promissory note held by Bank prior to such assignment and shall reflect the amount of the respective commitments and loans held by such Assignee and Bank after giving effect to such assignment. Upon the execution and delivery of appropriate assignment documentation, amendments and any other documentation required by Bank in connection with such assignment, and the payment by Assignee of the purchase price agreed to by Bank, and such Assignee, such Assignee shall be a party to this Agreement and shall have all of the rights and obligations of Bank hereunder (and under any and all other guaranties, documents, instruments and agreements executed in connection herewith) to the extent that such rights and obligations have been assigned by Bank pursuant to the assignment documentation between Bank and such Assignee, and Banks hall be released from its obligations hereunder and thereunder to a corresponding extent. Borrower may furnish any information concerning Borrower in its possession from time to time to prospective Assignees, provided that Banks hall require any such prospective Assignees to agree in writing to maintain the confidentiality of such information.

9.22 Confidential Nature of Information to Obligor. The Bank hereby acknowledges and agrees that certain information provided to the Bank by the Obligors pursuant to the terms of this Agreement may be deemed material non-public information within the meaning and scope of the United States' securities laws, and therefore may not be disclosed by the Bank to Persons other than (i) the Bank's officers, employees, directors, counsel or agents with a need to know such information in connection with the performance of their duties, (ii) Bank regulators or other governmental authorities with jurisdiction over the Bank or (iii) by court order.

IN WITNESS WHEREOF, the parties on the date first above written have caused this Agreement to be properly executed.

ATTEST:	TEAMSTAFF, INC.
______________________________	By:______________________________
DONALD T. KELLY, Chief Financial OFFICER AND SECRETARY	DONALD W. KAPPAUF, Chief EXECUTIVE OFFICER

ATTEST: TEAMSTAFF SOLUTIONS, INC

_________________________ By:_________________________

DONALD T. KELLY, Chief Financial OFFICER AND SECRETARY

DONALD W. KAPPAUF, Chief EXECUTIVE OFFICER

ATTEST: DSI STAFF CONNXIONS NORTHEAST, INC.

_________________________ By:_________________________

DONALD T. KELLY, Chief Financial OFFICER AND SECRETARY

DONALD W. KAPPAUF, Chief EXECUTIVE OFFICER

ATTEST: DSI STAFF CONNXIONS SOUTHWEST, INC.

_________________________ By:_________________________

DONALD T. KELLY, Chief Financial OFFICER AND SECRETARY

DONALD W. KAPPAUF, Chief EXECUTIVE OFFICER

ATTEST: TEAMSTAFF RX, INC.

_________________________ By:_________________________

DONALD T. KELLY, Chief Financial OFFICER AND SECRETARY

DONALD W. KAPPAUF, Chief EXECUTIVE OFFICER

ATTEST: TEAMSTAFF I, INC.

_________________________ By:_________________________

DONALD T. KELLY, Chief Financial OFFICER AND SECRETARY

DONALD W. KAPPAUF, Chief EXECUTIVE OFFICER

ATTEST: TEAMSTAFF II, INC.

_________________________ By:_________________________

DONALD T. KELLY, Chief Financial OFFICER AND SECRETARY

DONALD W. KAPPAUF, Chief EXECUTIVE OFFICER

ATTEST: TEAMSTAFF III, INC.

_________________________ By:_________________________

DONALD T. KELLY, Chief Financial OFFICER AND SECRETARY

DONALD W. KAPPAUF, Chief EXECUTIVE OFFICER

ATTEST:	TEAMSTAFF IV, INC.
______________________________	By: ______________________________
DONALD T. KELLY, Chief Financial OFFICER AND SECRETARY	DONALD W. KAPPAUF, Chief EXECUTIVE OFFICER
ATTEST:	TEAMSTAFF V, INC.
______________________________	By: ______________________________
DONALD T. KELLY, Chief Financial OFFICER AND SECRETARY	DONALD W. KAPPAUF, Chief EXECUTIVE OFFICER
ATTEST:	TEAMSTAFF VI, INC.
______________________________	By: ______________________________
DONALD T. KELLY, Chief Financial OFFICER AND SECRETARY	DONALD W. KAPPAUF, Chief EXECUTIVE OFFICER
ATTEST:	TEAMSTAFF VIII, INC.
______________________________	By: ______________________________
DONALD T. KELLY, Chief Financial OFFICER AND SECRETARY	DONALD W. KAPPAUF, Chief EXECUTIVE OFFICER
ATTEST:	TEAMSTAFF IX, INC.
______________________________	By: ______________________________
DONALD T. KELLY, Chief Financial OFFICER AND SECRETARY	DONALD W. KAPPAUF, Chief EXECUTIVE OFFICER
ATTEST:	TEAMSTAFF INSURANCE SERVICES, INC.
______________________________	By: ______________________________
DONALD T. KELLY, Chief Financial OFFICER AND SECRETARY	DONALD W. KAPPAUF, Chief EXECUTIVE OFFICER
ATTEST:	EMPLOYER SUPPORT SERVICES, INC.
______________________________	By: ______________________________
DONALD T. KELLY, Chief Financial OFFICER AND SECRETARY	DONALD W. KAPPAUF, Chief EXECUTIVE OFFICER

ATTEST:	HR2, INC.
______________________________	By: ______________________________
DONALD T. KELLY, Chief Financial OFFICER AND SECRETARY	DONALD W. KAPPAUF, Chief EXECUTIVE OFFICER
ATTEST:	BRIGHTLANE.COM, INC.
______________________________	By: ______________________________
DONALD T. KELLY, Chief Financial OFFICER AND SECRETARY	DONALD W. KAPPAUF, Chief EXECUTIVE OFFICER
ATTEST:	DIGITAL INSURANCE SERVICES, INC.
______________________________	By: ______________________________
DONALD T. KELLY, Chief Financial OFFICER AND SECRETARY	DONALD W. KAPPAUF, Chief EXECUTIVE OFFICER
	FLEET NATIONAL BANK
	By: ______________________________
	CRAIG W. HEAL, Senior Vice President

FLEET NATIONAL BANK,

TO

TEAMSTAFF, INC.

LOAN AND SECURITY AGREEMENT

April 9, 2002

INDEX

TABLE OF EXHIBITS

TABLE OF SCHEDULES

GUARANTORS AND JURISDICTION OF INCORPORATION

SCHEDULE 1.1

GUARANTORS	STATE OF INCORPORATION
TEAMSTAFF SOLUTIONS, INC	NEW YORK
DSI STAFF CONNXIONS NORTHEAST, INC.	NEW JERSEY
DSI STAFF CONNXIONS SOUTHWEST, INC.	TEXAS
TEAMSTAFF RX, INC.	TEXAS
TEAMSTAFF I, INC.	FLORIDA
TEAMSTAFF II, INC.	FLORIDA
TEAMSTAFF III, INC	FLORIDA
TEAMSTAFF IV, INC.	FLORIDA
TEAMSTAFF V, INC.	FLORIDA
TEAMSTAFF VI, INC.	FLORIDA
TEAMSTAFF VIII, INC.	FLORIDA
TEAMSTAFF IX, INC.	FLORIDA
TEAMSTAFF INSURANCE SERVICES, INC.	FLORIDA
EMPLOYER SUPPORT SERVICES, INC.	FLORIDA
HR2, INC	DELAWARE
BRIGHTLANE.COM, INC.	GEORGIA
DIGITAL INSURANCE SERVICES, INC.	NEW JERSEY

EXISTING INDEBTEDNESS

SCHEDULE 1.1(a)

Schedule 1.1(a)

A. Real Propoerty and Equipment leaes

VENDOR		AMOUNT	DESCRIP.	EXP M/YR
CLEARWATER RX				
THE TIDES	$	41,290.76	LOCATION RENT	08-05
KBS REALTY ADVISORS	$	12,163.33	LOCATION RENT	04-01
LEASING PARTNERS	$	5,174.52	CLEARWATER FURNITURE	07-05
AVAYA	$	878.54	OFFICE EQUIP-HSTN	03-02
AVAYA	$	450.14	OFFICE EQUIP-CLRWTR	12-02
ADVANTA	$	73.83	OFFICE EQUIP	03-01
IOS CAPITAL	$	440.58	OFFICE EQUIP	01-03
LEASING PARTNERS	$	1,263.23	CLEARWATER FURNITURE	
EXTRA CLOSET-CLEARWATER	$	108.07	STORAGE UNIT 0E37	
ADVANTA	$	67.14	OFFICE EQUIP	
IKON OFFICE	$	415.16	OFFICE EQUIP	06-02
IKON OFFICE	$	356.60	CANON COPIER/MAINT	MNT
PANASONIC	$	271.71	COPIER	03-02
SOMERSET				
INFINITI FINANCIAL SERV	$	899.00	CAR	11-03
WELLSFORD/WHITEHALL	$	27,685.89	LOCATION RENT	
TOWN EXECUTIVE SUITES	$	535.00	LOCATION RENT	
XEROX CORPORATION	$	4,851.93	XEROX COPIER	04-04
CITICORP VENDOR	$	170.28	CANON FAX	11-04
STEELCASE FINANCIAL	$	3,310.91	SOMERSET FURNITURE	11-01
STATEWIDE	$	230.00	STORAGE SPACE 4432	
CITICORP VENDOR	$	284.77	CANON COPIER	11-05
CITICORP VENDOR	$	183.24	CANON FAX	02-02
CITICORP VENDOR	$	176.70	CANON FAX	10-01
CITICORP VENDOR	$	298.92	CANON COPIER	03-01
AVAYA	$	1,590.27	OFFICE EQUIP/SOM	12-02
AVAYA	$	51.90	OFFICE EQUIP/MAINT	MNT
BOSTON				
CUMMINGS PROPERTIES	$	4,845.33	LOCATION RENT	
THE STORAGE DEPOT	$	113.50	STORAGE BOSTON	
HOUSTON/ELPASO				
CMD REALTY	$	7,757.24	LOCATION RENT	
ICC TEXAS HOLDINGS LP	$	4,299.00		
AVAYA	$	591.96	OFFICE EQUIP/ELPASO	
GE CAPITAL	$	149.80	KONICA COPIER	ADD
CITICORP VENDOR	$	136.42	SAVIN FAX	11-01

AVAYA	$	811.30	OFFICE EQUIP/MAINT	MNT

CITICORP VENDOR	$	409.06	MINOLTA COPIER	04-03
NEOPOST *LEASE 872.27*	$	508.74	POSTAGE MACHINE	09-02
INTERNEED	$	4,500.00	SERVICE AGREEMENT	1-Oct
DELRAY				
TANDEM	$	19,905.63		
GE CAPITAL	$	131.78		
IOS CAPITAL	$	97.14	KONICA	
CLEARWATER				
HYDE PARK STORAGE	$	247.59	STORAGE UNIT 00007	
HYDE PARK STORAGE	$	121.00	SEE ABOVE	
NEOPOST	$	929.89	POSTAGE MACHINE	
BRIGHTLANE				
IOS CAPITAL	$	422.48	EQUIPMENT LEASE	
SCOTT & ASSOCIATES	$	22,623.33	OFFICE RENT	
CSC				
VARESOURCES	$	99.31	EQUIPMENT LEASE	
NORTH HAMPTON PROPERTIES	$	2,890.00	OFFICE RENT	

B. Other Indebtedness

1. Lawson Software License Agreement dated as of August 14, 2001 and related Agreements for Implementation Services

2. Payroll and related Taxes incurred in the normal course of business

3. Premiums and related payments which are payable under workers' compensation and general liability insurance policies. TeamStaff finances a portion of its insurance policies.

4. Payroll obligations for "in house" employees and worksite employees incurred in the normal course of business

5. Premiums due under other insurance policies

6. Premium Liabilities related to Employee Welfare Benefit Programs

7. Accrued Liabilities for Employee Benefit Plan contributions

EXISTING LIENS

SCHEDULE 1.1(b)

1. See Schedule 1.1 (a) related to real property and equipment leases.

2. The following tax liens:

   a. TeamStaff Inc.
      i. New Jersey State Tax lien in the amount of approximately $28,000.

   b. DSI Staff Connxions Southwest
      i. Texas State Employment Commission Lien in the amount of approximately $55,000.

      ii Federal Tax Lien filed December 1995 in the amount of approximately $17,000.

TRADE/FICTITIOUS NAMES

SCHEDULE 5.3

INTELLECTUAL PROPERTY

1. CORPORATE NAMES/TRADENAMES

OLD CORPORATE NAME	NEW CORPORATE NAME
Digital Solutions, Inc.	TeamStaff, Inc.
DSI Contract Staffing, Inc.	Teamstaff Solutions, Inc.
DSI Staff Rx, Inc.	Teamstaff Rx, Inc.
The Teamstaff Companies, Inc.	Teamstaff VI, Inc.
Teamstaff USA, Inc.	Teamstaff IX, Inc.
Teamstaff, Inc. (pre January 1999 acquisition)	Teamstaff I, Inc.
Teamstaff Holding Company, Inc.	Teamstafaf VIII, Inc.
DSI Staff Connxions Northeast, Inc.	Same
DSI Staff Connxions Southeast, Inc.	Same
Bize.com, Inc.	BrightLane.com, Inc.
Biz E Buy, Inc.	BrightLane.com, Inc.

In connection with the acquisition in January 1999 of 10 entities operating under the trade name The TeamStaff Companies, we created 10 merger shells, DGAC I through DGAC X. The merger shells existed solely for the merger, no business operations were conducted in them.

2. TRADENAMES

DSI	CORPORATE STAFFING CONCEPTS
TEAMSTAFF	DSI
SYNADYNE	

3. TRADEMARKS

SIMPLY A BETTER WAY TO EMPLOY PEOPLE	(REG # 2,135,726)
TEAMSTAFF	(REG # 1,871,518)
TeamStaff Circles Design	(REG # 1,910,383)

4. SERVICE MARK

The People People

LIST OF SUBSIDIARIES

SCHEDULE 5.4

TEAMSTAFF SOLUTIONS, INC

DSI STAFF CONNXIONS NORTHEAST, INC.

DSI STAFF CONNXIONS SOUTHWEST, INC.

TEAMSTAFF RX, INC.

TEAMSTAFF I, INC.

TEAMSTAFF II, INC.

TEAMSTAFF III, INC.

TEAMSTAFF IV, INC.

TEAMSTAFF V, INC.

TEAMSTAFF VI, INC.

TEAMSTAFF VIII, INC.

TEAMSTAFF IX, INC.

TEAMSTAFF INSURANCE SERVICES, INC.

EMPLOYER SUPPORT SERVICES, INC.

HR2, INC.

BRIGHTLANE.COM, INC.

DIGITAL INSURANCE SERVICES, INC.

LINES OF BUSINESS

SCHEDULE 5.5

TeamStaff, Inc. (referred to as the "Company"), a New Jersey Corporation, was founded in 1969 as a payroll service company and has evolved into a leading provider of human resource management and professional employer organization ("PEO") services to a wide variety of industries in 50 states. TeamStaff's wholly-owned subsidiaries include TeamStaff Solutions, Inc., DSI Staff ConnXions-Northeast Inc., DSI Staff ConnXions-Southwest Inc., TeamStaff Rx, Inc., TeamStaff I, Inc., TeamStaff II, Inc., TeamStaff III, Inc., TeamStaff IV, Inc., TeamStaff V, Inc., TeamStaff VI, Inc., TeamStaff Insurance Services, Inc., TeamStaff VIII, Inc., Employee Support Services, Inc., TeamStaff IX, Inc., Digital Insurance Services, Inc., HR2, Inc., and BrightLane.com, Inc. ("BrightLane") (collectively referred to, with TeamStaff, as the "Company").

The Company currently provides five types of services related to the employee leasing, temporary staffing and payroll service businesses: (1) professional employer organization services, such as payroll processing, personnel and administration, benefits administration, workers' compensation administration and tax filing; (2) employer human resource services, such as payroll processing and tax filing; (3) contract staffing, or the placement of temporary and permanent employees; (4) temporary staffing for medical profession; and (5) voucher processing services. TeamStaff currently furnishes PEO employees, payroll and contract staffing services to over 3,700 client organizations with approximately 21,000 worksite employees, 750 staffing employees and processing for approximately 33,000 payroll service employees and believes that it currently ranks, in terms of revenues and worksite employees, as one of the top professional employer organizations in the United States. The Company's contract staffing business mainly places temporary help in hospitals and clinics throughout the United States through its Clearwater, Florida and Houston, Texas offices. BrightLane, a recently acquired business unit, provides an online business center and technology group providing Internet-based solutions for growing businesses.

TAXES

SCHEDULE 5.7

None.

JUDGMENTS

SCHEDULE 5.8

None.

PLACES OF BUSINESS

SCHEDULE 5.13

CHIEF EXECUTIVE OFFICE:
TEAMSTAFF, INC.
300 ATRIUM DRIVE
SOMERSET, NJ 08873

OTHER LOCATIONS:

TEAMSTAFF, INC.
300 ATRIUM DRIVE
SOMERSET, NJ 08873

TEAMSTAFF SOLUTIONS, INC,
245 FIFTH AVENUE
NEW YORK, NY

DSI STAFF CONNXIONS NORTHEAST, INC.
300 ATRIUM DRIVE
SOMERSET, NEW JERSEY 08873

DSI STAFF CONNXIONS SOUTHWEST, INC.
2 NORTHPOINT DRIVE
HOUSTON, TX

TEAMSTAFF RX, INC.
1901 ULMERTON ROAD
CLEARWATER, FL

TEAMSTAFF I, INC.
1901 ULMERTON ROAD
CLEARWATER, FL

TEAMSTAFF II, INC.
1901 ULMERTON ROAD
CLEARWATER, FL

TEAMSTAFF III, INC.
1901 ULMERTON ROAD
CLEARWATER, FL

TEAMSTAFF IV, INC.
1901 ULMERTON ROAD
CLEARWATER, FL

TEAMSTAFF V, INC.
1901 ULMERTON ROAD

CLEARWATER, FL

TEAMSTAFF VI, INC.
1901 ULMERTON ROAD
CLEARWATER, FL

TEAMSTAFF VIII, INC.
1901 ULMERTON ROAD
CLEARWATER, FL

TEAMSTAFF IX, INC.
1901 ULMERTON ROAD
CLEARWATER, FL

TEAMSTAFF INSURANCE SERVICES, INC.
1901 ULMERTON ROAD
CLEARWATER, FL

EMPLOYER SUPPORT SERVICES, INC.
1901 ULMERTON ROAD
CLEARWATER, FL

HR2, INC.
800 WEST CUMMINGS PARK
WOBURN, MA 01801

BRIGHTLANE.COM, INC.
3650 MANSELL ROAD
ALPHARETTA, GA 30022

DIGITAL INSURANCE SERVICES, INC.
300 ATRIUM DRIVE
SOMERSET, NEW JERSEY 08873

ADDITIONAL P.E.O. SITE
1690 SOUTH CONGRESS AVENUE
SUITE 108
DELRAY BEACH, FLORIDA 33445

OWNERSHIP

SCHEDULE OF OWNERSHIP 5.16

TeamStaff, Inc. is the parent entity and all of the outstanding capital stock of each of the following entities:

Name	Shares Owned
TeamStaff Solutions, Inc.	200
DSI Staff Connxions Northeast, Inc.	100
DSI Staff Connxions Southwest, Inc.	100
Teamstaff VI, Inc.	100
Teamstaff I, Inc.	100
Teamstaff II, Inc.	100
Teamstaff III, Inc.	100
Teamstaff IV, Inc.	100
Teamstaff V, Inc.	100
Teamstaff IX, Inc.	100
Teamstaff Insurance Services, Inc.	100
Teamstaff VIII, Inc.	100
Employer Support Services, Inc.	100
HR2, Inc.	100
BrightLane.com, Inc.	100
Digital Insurance Services, Inc.	100

TeamStaff Solutions owns all of the outstanding capital stock of the following entities:

Name	Shares Owned
Teamstaff Rx, Inc	100

EXHIBIT 10.15

MASTER NOTE

$7,000,000 Woodbridge, New Jersey
April 9, 2002

ON April 8, 2003, for value received, TeamStaff, Inc., a corporation incorporated under the laws of the State of New Jersey, having its principal office at 300 Atrium Drive, Somerset, New Jersey 08873 promises to pay to the order of FLEET NATIONAL BANK ("Bank"), at its office located at 750 Walnut Avenue, Cranford, New Jersey 07016 or at such place as the holder hereof may from time to time designate in writing, the sum of up to SEVEN MILLION AND 00/100 DOLLARS ($7,000,000) or the amount actually outstanding from time to time hereunder, at which time all outstanding principal, accrued interest fees and/or charges, if any, shall be due and payable, all in lawful monies of the United States of America, in immediately available funds, pursuant to the terms of a certain Loan and Security Agreement, dated of even date herewith by and between the undersigned and the Bank (as such may from time to time be amended, modified, restated or supplemented, the "Loan Agreement").

This Note shall bear interest from the date hereof until maturity, at a per annum rate equal to: (i) the Prime Rate or (ii) the LIBOR Rate plus the Applicable Margin, as more particularly described in the Loan Agreement.

This Note shall bear interest after maturity (whether as stated or by acceleration) or after a Default or an Event of Default at the Default Rate. In the event that any payment shall not be received by Bank within ten (10) days of the due date, the undersigned shall, to the extent permitted by law, pay Bank a late charge of five percent (5%) of the overdue payment. Any such late charge assessed shall be immediately due and payable. In no event shall any such payments of interest, charges or late fees exceed the maximum amount permitted by law.

As security for the payment of all Obligations of the undersigned to the Bank (including this Note and any renewals, extensions or modifications thereof), the undersigned and all Obligors have granted to the Bank a security interest in the Collateral as well as all other security as set forth in Section 3 of the Loan Agreement.

This Note is the "Master Note" referred to in the Loan Agreement. All terms of the Loan Agreement are incorporated herein by reference and in the event of ambiguity or inconsistency between the terms of the Loan Agreement and the terms hereof, the terms of the Loan Agreement shall prevail. All capitalized terms not specifically defined herein shall have the meaning ascribed to them in the Loan Agreement.

All parties hereto, whether makers, endorsers, guarantors or otherwise, hereby waive presentment, demand, notice of non-payment, protest, and all other notices or demands whatsoever, and do hereby consent that without notice to and without releasing the liability of any party hereto, the obligation of any party may from time to time, in whole or part, be renewed, extended, modified, accelerated, compromised, settled or released by the Bank.

THIS NOTE AND THE OTHER LOAN DOCUMENTS AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER AND THEREUNDER SHALL BE CONSTRUED AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW JERSEY (EXCLUDING THE LAWS APPLICABLE TO CONFLICTS OR CHOICE OF LAW).

THE UNDERSIGNED AGREES THAT ANY SUIT FOR THE ENFORCEMENT OF THIS NOTE OR ANY OF THE OTHER LOAN DOCUMENTS MAY BE BROUGHT IN THE COURTS OF THE STATE OF NEW JERSEY OR ANY FEDERAL COURT SITTING THEREIN AND CONSENTS TO THE NONEXCLUSIVE JURISDICTION OF SUCH COURT AND SERVICE OF PROCESS IN ANY SUCH SUIT BEING MADE UPON THE UNDERSIGNED BY MAIL AT THE ADDRESS SET FORTH IN THE LOAN AGREEMENT. THE UNDERSIGNED HEREBY WAIVES ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE VENUE OF ANY SUCH SUIT OR ANY SUCH COURT OR THAT SUCH SUIT IS BROUGHT IN AN INCONVENIENT FORUM.

THE UNDERSIGNED AND THE BANK (BY ACCEPTANCE OF THIS NOTE) MUTUALLY HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE THE RIGHT TO A TRIAL BY JURY IN RESPECT OF ANY CLAIM BASED HEREON, ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS NOTE OR ANY OTHER LOAN DOCUMENTS CONTEMPLATED TO BE EXECUTED IN CONNECTION HEREWITH OR ANY COURSE OF CONDUCT, COURSE OF DEALINGS, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF ANY PARTY, INCLUDING, WITHOUT LIMITATION, ANY COURSE OF CONDUCT, COURSE OF DEALINGS, STATEMENTS OR ACTIONS OF THE BANK RELATING TO THE ADMINISTRATION OF THE REVOLVING LOAN OR ENFORCEMENT OF THE LOAN DOCUMENTS AND AGREE THAT NEITHER PARTY WILL SEEK TO CONSOLIDATE ANY SUCH ACTION WITH ANY OTHER ACTION IN WHICH A JURY TRIAL CANNOT BE OR HAS NOT BEEN WAIVED. EXCEPT AS PROHIBITED BY LAW, THE UNDERSIGNED HEREBY WAIVES ANY RIGHT IT MAY HAVE TO CLAIM OR RECOVER IN ANY LITIGATION ANY SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES OR ANY DAMAGES OTHER THAN, OR IN ADDITION TO, ACTUAL DAMAGES. THE UNDERSIGNED CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF THE BANK HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT THE BANK WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER. THIS WAIVER CONSTITUTES A MATERIAL INDUCEMENT FOR THE BANK TO ACCEPT THIS NOTE AND MAKE THE REVOLVING LOAN.

The Bank is hereby authorized to fill in any blank spaces in this Note and to date this Note as of the date when it is delivered. The Bank is hereby authorized to charge the following account as to any payment of principal and/or interest due hereunder or under the Loan Agreement: Account No. 0967703980.

ATTEST: TEAMSTAFF, INC.

___________________________________	BY:_________________________________
DONALD T. KELLY, CHIEF FINANCIAL OFFICER AND SECRETARY	DONALD W. KAPPAUF, CHIEF EXECUTIVE OFFICER

EXHIBIT 21

TEAMSTAFF, INC. SUBSIDIARIES OF REGISTRANT

DSI Staff ConnXions-Northeast, Inc.

DSI Staff ConnXions-Southwest, Inc.

TeamStaff Rx, Inc.

TeamStaff Solutions, Inc.

TeamStaff I, Inc.

TeamStaff II, Inc.

TeamStaff III, Inc.

TeamStaff IV, Inc.

TeamStaff V, Inc.

TeamStaff VI, Inc.

TeamStaff VIII, Inc.

TeamStaff IX, Inc.

TeamStaff Insurance Services, Inc.

Employer Support Services, Inc.

Digital Insurance Services, Inc.

HR2, Inc.

BrightLane.com, Inc.

EXHIBIT 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report dated January 30, 2002 included in this Form 10-K year ended September 30, 2002, into TeamStaff, Inc.'s previously filed Registration Statements on Form S-3 File Nos. 33-85526, 33-70928, 33-91700, 33-09313, 333-74478 and Form S-8 File No. 333-73426.

Lazar Levine and Felix LLP

New York, NY
February 10, 2003

EXHIBIT 99.1

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

In connection with the Fiscal Year End Report of TeamStaff, Inc (the Company) on Form 10-K for the period ending September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, being, Donald W. Kappauf, Chief Executive Officer of the Company, and Gerard A. Romano, Controller of the Company, respectfully, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Dated: _______, 200_

________________________ ________________________

Chief Executive Officer Corporate Controller