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, 2000

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

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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.

[ ]

On January 10, 2001 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 $46,723,685 based upon the average bid and asked price for such Common Stock on said date as reported by NASDAQ Small Cap Market. On such date, there were 7,991,719 shares issued and outstanding of Common Stock of the Registrant.

DOCUMENTS INCORPORATED BY REFERENCE

None

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PART I

SAFE HARBOR STATEMENT

Certain statements contained herein constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "1995 Reform Act"). The Company desires to avail itself of certain "safe harbor" provisions of the 1995 Reform Act and is therefore including this special note to enable the Company 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 the Company'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, the Company'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 the Company's insurance company may not provide adequate coverage, risks associated with compliance with government regulations such as ERISA, state and local employment regulations and workers' compensation and dependence upon key personnel.

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.

ITEM 1. BUSINESS

INTRODUCTION

TeamStaff, Inc. (referred to as the "Company"), formerly named Digital Solutions, Inc., 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") to a wide variety of industries in 50 states. TeamStaff's wholly-owned subsidiaries include TeamStaff Solutions, Inc., DSI Staff ConnXions-Northeast, DSI Staff ConnXions-Southwest, 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., and HR2, Inc. (collectively referred to, with TeamStaff, as the "Company").

The Company currently provides three 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 administrative services, such as payroll processing and tax filing; and (3) contract staffing, or the placement of temporary and permanent employees. TeamStaff currently furnishes PEO employees, payroll and contract staffing services to over 4,300 client organizations with approximately 21,800 worksite employees, 2,600 staffing employees and processing for approximately 30,000 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. The Company has six regional offices located in Somerset, New Jersey; Houston and El Paso, Texas; Woburn, Massachusetts; and Delray and Clearwater, Florida and seven sales service centers in New York, New York; El Paso and Houston, Texas; Delray, and Clearwater, Florida; Woburn, Massachusetts; and Somerset, New Jersey.

Recognizing the desire by many small businesses to be relieved of the human resource administrative functions, the Company has formulated a strategy of emphasizing PEO and "outsourcing" services. In PEO, a service provider becomes a co-employer of the client company's employees and assigns these employees to the client to

perform their intended functions at the worksite.

As a PEO, the Company essentially provides services that function as the personnel department for small to medium sized companies. The Company believes that by offering services which relieve small and medium sized businesses of the ever increasing administrative burden of employee related record keeping, payroll processing, benefits administration, employment of temporary and permanent specialized employees and other human resource functions, the Company has positioned itself to take advantage of a major growth opportunity during this decade and the next.

Effective January 25, 1999, the Company acquired the ten entities operating under the trade name, "The TeamStaff Companies". In conjunction with the acquisition, the Company changed its name from Digital Solutions, Inc. to TeamStaff, Inc. on February 10, 1999.

Effective April 8, 2000, the Company acquired substantially all of the assets of the PEO division of Outsource International, Inc. ("Outsource") which had operated under the trade name "Synadyne".

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 this Form 10-K have been adjusted retroactively to effect the reverse stock split.

Management has determined to emphasize the Company's future growth in the PEO and outsourcing industry. The Company's expansion program will focus on internal growth through the cross marketing of its PEO services to its entire client base and the acquisition of compatible businesses strategically situated in new areas or with a client base serviceable from existing facilities. As part of its effort to expand its PEO business, management has expanded the services of TeamStaff Rx, Inc., the Company's medical contract staffing subsidiary, to include PEO, outsourcing and facilities management. While TeamStaff continues to sell stand-alone employer services, such as payroll and tax filing, it will emphasize the PEO component of its service offerings with a goal of becoming the leading provider of PEO services in the United States. A major component of the Company's growth strategy is the acquisition of well-situated, independent PEO companies whose business can be integrated into the Company's operations. However, there can be no assurance any such acquisition will be consummated by the Company.

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

SYNADYNE ACQUISITION

Effective April 8, 2000, the Company acquired substantially all of the assets of the professional employer organization ("PEO") division of Outsource International, Inc. ("Outsource") which had operated under the trade name "Synadyne". TeamStaff acquired the tradename "Synadyne" as part of the transaction, as well as all of the customer contracts of the PEO business. Under the terms of the Asset Purchase Agreement, TeamStaff paid an aggregate purchase price of $3,500,000. The agreement also provides for an additional potential payment in one year of up to $1,250,000 provided that the former clients have at least 9,500 worksite employees as of March 31, 2001. In the event there are less than 9,500 employees, the amount of the earnout will be reduced by a pre-determined formula. As of September 30, 2000 the number of worksite employees were approximately 8,000, which is subject to audit by Outsource International, Inc. Based upon the 8,000 worksite employees the earnout would be reduced by approximately $750,000.

HR2 ACQUISITION

Effective October 2, 2000, the Company acquired the Professional Employer Organization 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. HR2 operates primarily in Massachusetts, Rhode Island and New Hampshire.

FINANCING

The Company has a long-term credit facility from FINOVA Capital Corporation totaling $12.5 million. The facility is comprised of (i) two three-year term loans each for $2.5 million, with a five-year amortization, at prime plus 3% (12.50% at September 30, 2000); (ii) a three-year term loan for $4.0 million, with a five-year amortization, at prime plus 3% (12.50% at September 30, 2000) and (iii) a $3.5 million revolving line of credit at prime plus 1% (10.50% at September 30, 2000) secured by certain accounts receivable of the Company. The credit facility is 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 is subject to annual success fees at the beginning of each loan year in the amount of $500,000. The credit facility is 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. On January 24 and April 27, 2000, the Company remitted success fees in the amount of $200,000 and $225,000 respectively.

In connection with the Synadyne acquisition the two three-year term loans, each for $2.5 million, have been extended to April 30, 2003 and March 1, 2003. The $4.0 million term loan consists of no principal payments for the first six months and expires on April 30, 2003, with a balloon payment at the end of the three years. The revolving line of credit expires on April 30, 2003.

SERVICES

PROFESSIONAL EMPLOYER ORGANIZATION (PEO)

The Company's core business, and the area management will continue to emphasize, is its PEO services business. When a client utilizes the Company's PEO services, the client administratively transfers all or some of its employees to the Company, which then provides them to the client. TeamStaff thereby becomes a co-employer and is responsible for all human resource functions, including payroll, benefits administration, tax reporting and personnel record keeping. The client still manages the employees and determines salary and duties in the same fashion as any employer. The client is, however, relieved of reporting and tax filing requirements and other administrative tasks. Moreover, because of economies of scale, the Company is able to negotiate favorable terms on workers' compensation insurance, 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, the Company can offer the following benefits to employees:

COMPREHENSIVE MAJOR MEDICAL PLANS - Management of the Company 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 employees assigned to their clients a variety of health coverage plans from traditional indemnity plans to Health Maintenance Organizations (HMO), Preferred Provider Organizations (PPO), or a Point of Service Plan (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 available, a client of the Company can obtain these benefits for the assigned employees.

LIFE INSURANCE - Affordable basic coverage is available.

SECTION 125 PREMIUM CONVERSION PLAN - Employees can pay for benefits with pre-tax earnings, reduce their taxable income and FICA payments, and increase their take-home pay.

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. The Company enables small business owners to offer the assigned employees retirement programs comparable to those of major corporations. Such plans can be used to increase morale, productivity and promote employee loyalty.

CREDIT UNION - The Company provides an opportunity for employees to borrow money at lower interest rates than offered at most banks.

PAYROLL SERVICES - Although ancillary to the PEO services, clients no longer incur the expense of payroll processing either through in-house staff or outside service. The Company's PEO services include all payroll and payroll tax processing.

UNEMPLOYMENT COMPENSATION COST CONTROL - The Company provides an unemployment compensation cost control program to aggressively manage unemployment claims.

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

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

Relieved of personnel administrative tasks, the client is able to focus on its core business. The client is also offered a broader benefits package for its assigned employees, a competitive rate in workers' compensation insurance, and savings in time and paperwork previously required in connection with personnel administration.

PAYROLL SERVICES

The Company was established as a payroll service firm in 1969, and continues to provide basic payroll services to its clients. Historically, the payroll division provided these services primarily to the construction industry and currently 70% of the Company's approximately 750 payroll service clients are in the construction industry. The Company offers most, if not all, of what other payroll services provide, including the preparation of checks, government reports, W-2's (including magnetic tape filings), remote processing (via modem) directly to the clients offices, and certified payrolls.

In addition, the Company offers a wide array of tax reporting services including timely deposit of taxes, impounding of tax payments, filing of returns, distribution of quarterly and year-end statements and responding to agency inquiries.

TEMPORARY STAFFING SERVICES

TeamStaff provides temporary staffing services through two subsidiaries which have, in the aggregate, more than 30 years of experience in placing permanent and temporary employees with specialized skills and talents with regional, national and international employers. Temporary staffing enables clients to attain management and

productivity goals by matching highly trained professionals and technical personnel to specific project requirements. TeamStaff focuses its temporary staffing services in two specific markets where it places people on a temporary long-term assignment, or on a permanent basis: (1) radiological technologist, diagnostic sonographers, cardiovascular technologists, radiation therapist and other medical professionals with hospitals, clinics and therapy centers throughout the 50 states and (2) technical employees such as engineers, information systems specialists and project managers primarily with Fortune 100 companies for specific projects. Clients whose staff requirements vary depending on the level of current projects or business are able to secure the services of highly qualified individuals on an interim basis.

The Company's temporary staffing services provide clients with the ability to "rightsize"; that is, expand or reduce its workforce 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. The Company also provides insurance bonding where necessary and assumes all responsibility for payroll tax filing and reporting functions, thereby saving the client administrative responsibility for all payroll, workers' compensation, unemployment and medical benefits.

Management believes that its temporary staffing services provides an employer with an increased pool of qualified applicants, since temporary staffing employees have access to a wide array of benefits such as health and life insurance, Section 125 premium conversion plans, and 401(k) retirement plans. These benefits provide interim employees with the motivation of full-time workers without additional benefit costs to the client. A client is also able to temporarily rehire a retired employee for short-term or specialized projects without jeopardizing their pension plan. The Company believes that it has attained the position of being number one or two in terms of gross revenues for firms specializing in the placement of temporary medical imaging personnel.

ACQUISITION STRATEGY

A key component of the Company's growth strategy has been, and will continue to be, the acquisition of compatible businesses to expand its operations and customer base. Currently, the human resource service industry includes numerous small companies seeking to develop services, operations and customer base similar to those developed by the Company. The Company has acquired companies in the human resource industry in the past. However, with the business and strategy of the Company further developed, acquisitions in the future will be concentrated in the PEO and outsourcing business. The Company believes that with a limited number of key acquisitions of regional PEO companies, who possess a strong customer base and regional reputation, the Company will be able to grow into an industry leader in revenue size and scope of services offered.

A prospective acquisition candidate may be either a public or private company, but will be required to meet certain financial criteria and growth potential established by the Company. In addition, as the market and industry evolves, the Company may also consider non-PEO entities for strategic acquisitions or mergers, in an effort to expand the potential client base. The Company evaluates acquisition candidates by analyzing the company's management, operations and customer base, which must complement or expand the Company's operations and financial stability, including the Company's profitability and cash flow. The Company's long-term plan is to expand sales and income potential by achieving economies of scale as it expands and regionalizes its revenue base. There can be no assurance, however, that the Company will be able to successfully identify, acquire and integrate into the Company operations compatible PEO companies.

In furtherance of its acquisition strategy, the Company entered into a letter of intent on November 17, 2000 to acquire Paradyme Human Resources, a PEO located in Florida. The Company is continuing its due diligence with respect to the operations and financial condition of Paradyme. The definitive terms of the proposed acquisition have not been negotiated by the parties, and consummation of the transaction is subject to approval by the Board of Directors of the parties, shareholder approval and negotiation and execution of a definitive agreement. There can be no assurance that the transaction will be consummated.

In addition, on November 27, 2000, the Company and BrightLane.com, a privately-held Online Business Center (OBC), executed a non-binding term sheet to enter into a business combination to create a technologically advanced Business Process Outsourcing (BPO) services organization. Under the proposal, the Company and BrightLane would merge to provide small and middle market businesses with the alternative choices of a full service co-employment outsourcing relationship, Human Resource (HR) and administrative services without the co-employment relationship or the opportunity to select specific products such as banking, payroll, benefits, insurance, financial services, procurement, recruiting and web services, which can be delivered via the BrightLane OBC. Management believes that the combination of TeamStaff's existing client and employee base with BrightLane's advanced technology for the automation and Internet delivery of administrative and HR functions gives the combined entity a unique position in the marketplace. Although a non-binding term sheet has been approved by both parties' boards, the principle terms of the transaction including the number of shares to be issued by TeamStaff to the shareholders of BrightLane.com is subject to further negotiation. In addition the transaction requires shareholder approval and is subject to due diligence, execution of a definitive agreement, approval of regulatory authorities and the shareholders of both parties and customary closing conditions. There can be no assurance that the transaction will be consummated.

CUSTOMERS

The Company's customer base consists of over 4,300 client companies, representing approximately 54,400 employees (including payroll services) as of September 30, 2000. The Company's client base is broadly distributed throughout a wide variety of industries; however, more than 70% of the customers in the payroll processing area are in the construction industry and substantially all of the customers of the Company's subsidiary TeamStaff Rx, Inc. are engaged in the healthcare industry.

The Company intends to maintain diversity within its client base to lower its exposure to downturns or volatility in any particular industry and help insulate the Company to some extent from general economic cycles. All prospective customers are also evaluated individually on the basis of workers' compensation risk, group medical history, unemployment history and operating stability.

SALES AND MARKETING

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

Sales personnel offer to customers a full array of the Company's services, professional employment, payroll and contract staffing, which supports the cross-marketing of TeamStaff's products and enables the sales representative to employ a professional consultative approach to satisfying clients needs rather than forcing a single solution.

The Company has also implemented several focused marketing activities to increase sales opportunities. The Company has been licensed by various state Boards of Accountancy to hold continuing professional education seminars for CPAs. In addition, the Company and its management have become active participants in many trade and community associations and chambers of commerce.

Management intends to implement an internet-based sophisticated human resource management system during the current fiscal year. Management believes that an internet-based system will assist the Company's growth in the future and grow its e-business, interacting with both our clients and employees through the Internet. Management's belief is that the system will allow the Company to grow dramatically in the future.

COMPETITION

The PEO industry consists of approximately 2,500 companies, most of which serve a single market or

region. The Company believes that there are several PEOs with annual revenue exceeding $500 million. The largest PEO is Staff Leasing of Bradenton, Florida with revenue in excess of $2 billion. While there are several other large PEOs among the approximately 2,500 companies, many are located in Florida and other states in the Sunbelt. The Company 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, will be major competitors in the future. The Company 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 the area of providing temporary technical personnel, the Company competes with companies such as Volt Information Services, Butler Arde, Olsten and Tech Aid, Inc., among others. Many of these competitors have longer operating histories and greater financial resources than the Company.

The Company competes with these companies by offering customized products, personalized service, competitive prices and specialized personnel to satisfy a client's particular employee requirements.

Management of the Company 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 services and moving into facilities management or 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, the Company is establishing itself as a professional employer organization which will assist companies, small and large, with all of their human resource management challenges.

INDUSTRY/GOVERNMENT REGULATION

INTRODUCTION

The Company'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 are assigned to work at client company locations (sometimes referred to as "worksite employees"), the Company 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 the Company's 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 is limited or non-existent. The development of additional regulations and interpretation 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, the Company is subject to all federal statutes and regulations governing its employer-employee relationships.

FEDERAL EMPLOYMENT TAXES

The Company 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 (FUTA).

Under these Code sections, 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 the Company believes that it can assume the client company's withholding obligations, in the event the Company 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 the Company's PEO business.

EMPLOYEE BENEFIT PLANS

The Company 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 ("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 ("ERISA").

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. If the Company were found not to be an employer for ERISA purposes, its plans would not comply with ERISA and the level of services the Company could offer may be adversely affected. Further, as a result of such finding, the Company 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 the Company and its worksite employees may also arise under other federal laws, including other federal income tax laws.

STATE REGULATION

As an employer, the Company is subject to all statutes and regulations governing the employer-employee relationship. For example, the Company's activities in the State of Texas are governed by the Staff Leasing Services Licensing Act (the "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. The Company or a subsidiary possesses a license to offer PEO services in the state of Texas.

While many states do not explicitly regulate PEOs, approximately 21 states have passed laws that have

licensing or registration 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. A TeamStaff subsidiary is currently licensed in Arizona, Florida, Illinois, Maine, New Hampshire, New Mexico, Oregon, South Carolina, Tennessee, Texas and Vermont.

EMPLOYEES

As of December 31, 2000, the Company employed 263 employees, both full-time and part-time, including executive officers, an increase from 176 during the previous fiscal year. A major part of this increase is a direct result of the Company's acquisition of the assets of the Synadyne division of Outsource International, Inc. in Delray, Florida. The Company also employs approximately 21,800 leased employees and 2,600 temporary employees on client assignments. The Company believes its relationship with its employees is satisfactory.

RISK FACTORS

You should carefully consider the risks described below with respect to the Company. The risks and uncertainties described below are not the only ones facing the Company. Other risks and uncertainties that we have not predicted or assessed may also adversely affect the Company. 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.

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 the Company's actual results to differ materially from the expectations we describe in our forward-looking statements. Before you invest in the Company, 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 the Company's securities could decline and you may lose all or part of your investment.

WE HAVE GRANTED TO OUR LENDER A SECURITY INTEREST IN OUR ASSETS AND UPON A DEFAULT THE LENDER MAY FORECLOSE ON OUR ASSETS.

We have granted security interests with respect to substantially all of our assets to secure certain of our indebtedness, including our credit facilities with FINOVA Capital Corporation. In the event we default on our secured obligations, the secured creditor could declare our indebtedness to be immediately due and payable and foreclose on the assets securing the defaulted indebtedness. Moreover, to the extent that all of our assets continue to be pledged to secure outstanding indebtedness, such assets will not be available to secure additional indebtedness. Our loan agreement with our institutional lender restricts our ability to incur additional indebtedness and may limit our ability to obtain additional financing on terms favorable to us or at all.

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 not be profitable to us. In the event that we consummate an acquisition or obtain additional capital through the sale of debt or equity to finance an acquisition, then current shareholders may experience dilution in their shareholder's equity.

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

We completed two significant acquisitions during the past two years and intend to 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, hire and train new employees while managing our current operations and employees.

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. During the last fiscal year, construction related business accounted for approximately 70% of our payroll division's client base. Accordingly, if there is a slowdown in construction activities, it may affect our revenues and profitability. Management believes our reliance on the construction business will continue to decline as our customer base expands and becomes more diversified.

UNFAVORABLE INTERPRETATIONS OF GOVERNMENT LAWS MAY HARM OUR OPERATIONS.

Our 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 our activities which may also have a material adverse effect on the Company's business, financial condition, and results of operations and liquidity.

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

Health care costs, insurance premiums and workers' compensation insurance coverage comprise a significant part of our 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.

RISKS ASSOCIATES WITH HEALTH AND WORKERS' COMPENSATION CLAIMS EXPERIENCE OF CLIENTS.

The Company utilizes only fully-insured plans of health care, and therefore incurs no direct risk of loss under those plans. However, the premiums that the Company pays for health care insurance are directly affected by the claims experience of its clients. If the experience of the clients is unfavorable, the premiums payable by the Company will increase. Such increases may not be able to be passed on to the Company's clients and could,

therefore, reduce the Company's profit margin. Increasing health care premiums could also place the Company at a disadvantage in competing for new clients. In addition, periodic reassessments of workers' compensation claims of prior periods may require reserves to increase or decrease, and therefore may also effect the financial condition of the Company.

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

State and federal authorities extensively regulate the managed health care industry and some of our arrangements relating to specialty managed care services or the maintenance or operation of health care provider networks require us to satisfy operating, licensing or certification requirements. Any further expansion of the range of specialty managed care services that we offer is likely to require that we satisfy additional licensing and regulatory 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 on 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 our financial condition.

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

Several years ago, 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 audits 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 would become taxable immediately, the Company would lose its 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.

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, 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 contract staffing of temporary and permanent healthcare professionals. The placement of such employees increases our potential liability for negligence and professional malpractice of those employees. Although TeamStaff is covered by 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 NOT BE FULLY COVERED BY THE INSURANCE WE PROCURE.

Although we carry liability insurance, the insurance we purchase may not be sufficient to cover the full extent of 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.

OUR BUSINESS WILL SUFFER IF OUR SERVICES ARE NOT COMPETITIVE.

Each of the payroll, temporary employee placement and the employee leasing industries are characterized by vigorous competition. Since we compete with numerous entities that have greater resources than us in 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 our payroll and accounting services are Automatic Data Processing, Inc., Ceridian Corp. and Paychex, Inc. and with respect to employee placement (including temporary placements and employee leasing), Butler Arde, Tech Aid, Inc., Comp Health, Staff Leasing, Inc. and Administaff, Inc. These companies have greater financial and marketing resources than do 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.

Two of our subsidiaries, TeamStaff Solutions, and TeamStaff Rx are temporary employment agencies which depend on a pool of qualified temporary employees willing to accept assignments for our clients. The business of these subsidiaries is materially dependent upon the continued availability of such qualified temporary personnel. Our inability to secure temporary personnel would have a material adverse effect on our business.

SINCE WE HAVE NOT PAID DIVIDENDS ON OUR COMMON STOCK YOU CANNOT EXPECT 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. We may not pay dividends on our common stock unless we have earnings or capital surplus and our lender prohibits 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 SOLD RESTRICTED SHARES OF COMMON STOCK WHICH MAY DILUTE OUR STOCK PRICE WHEN THEY ARE SELLABLE UNDER RULE 144.

Of the 7,946,205 issued and outstanding shares of the Company's common stock prior to this filing, approximately 3,183,300 shares may be deemed "restricted shares" and, in the future, may be sold in compliance with Rule 144 under the Act. Possible or actual sales of common stock by our present shareholders under Rule 144 may, in the future, have a depressing effect on the price of our common stock in the open market. Rule 144 provides that a person holding restricted securities which have been outstanding for a period of one year after the later of the issuance by the Company or sale by an affiliate of the Company, may sell in brokerage transactions an amount equal to 1% of the Company's outstanding common stock every three months. A person who is a "non-affiliate" of the Company and who has held restricted securities for over two years is not subject to the aforesaid volume limitations as long as the other conditions of the Rule are met. In addition, (1) during fiscal 2000 we registered approximately 2,570,000 shares on behalf of selling stockholders and (2) have outstanding approximately 577,821 previously registered shares under our stock option plans. The sale of these shares may have a depressive effect on the market for our common stock.

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.

ITEM 2. PROPERTIES

OPERATION AND FACILITIES

The Company currently has processing centers in Somerset, New Jersey; Houston and El Paso, Texas; Woburn, Massachusetts; and Clearwater and Delray, Florida. The Company also has sales service centers which are located in New York City, Somerset, New Jersey; Clearwater and Delray Florida; Houston and El Paso, Texas; and Woburn, Massachusetts. A sales service center is an office used primarily for sales efforts and client services. The Company's strategy is to target acquisitions in the current areas of operation, whereby the Company will acquire a business or business accounts and absorb these accounts into the current operations with minimal additional overhead. The Company intends to continue its national expansion efforts in fiscal years 2001-2002, most likely through additional acquisitions and internal growth.

TeamStaff leases its 15,000 square foot corporate headquarters in Somerset, New Jersey, as well as offices in Clearwater and Delray, Florida and Houston, Texas. The Company also leases sales offices in New York City; Woburn, Massachusetts; and El Paso, Texas. The facilities provide sufficient capacity to meet demands for the foreseeable future. In the fiscal year ended September 30, 2000, the Company's total lease expenses were $988,000.

Although TeamStaff's offices are equipped with software and computer systems, the Company is currently evaluating all systems including hardware and will upgrade accordingly. At the Company's headquarters in Somerset, New Jersey, one high speed Xerox printer produces 200,000 plus checks monthly for its client base. This machine, which is integrated with the software system, does all of the printing on the checks, including the client name, the employee, dates, as well as the "Micro Encoding".

The following is summary information on the Company's facilities:

LOCATION	APPROXIMATE SQUARE FEET	EXPIRATION DATE	TERMS
TeamStaff RX, Inc. (Houston) 2 Northpoint Drive, Houston, TX	4,610	7/01/02	$ 7,108 per month
TeamStaff RX, Inc. (Clearwater) 1901 Ulmerton Road Clearwater, FL	19,361	5/31/05	$ 35,288 per month
Staff ConnXions Southwest (El Paso) 4050 Rio Bravo, Suite 151 El Paso, TX	3,126	3/31/02	$ 3,759 per month
Corporate Office 300 Atrium Drive Somerset, NJ	15,244	9/30/07	$ 23,819 per month
TeamStaff Solutions, Inc. 245 Fifth Avenue, Suite 2104 New York, NY	1,890	4/30/01	$ 3,082 per month
TeamStaff, Inc. 283 N. North Lake Suite 111 Altamonte Springs, FL	100	5/31/01	$ 548 per month
TeamStaff, Inc. Suite 108 1690 South Congress Ave. Delray Beach, FL	10,379	8/31/05	$ 19,905 per month
HR2, Inc. 400 West Cummings Park Suite 4350 Woburn, MA	1,900	9/14/05	$ 3,195 per month

ITEM 3. LEGAL PROCEEDINGS

In October 1995, the Company entered into a note and finance agreement with LNB Investment Corporation ("LNB") providing for the loan to the Company of up to $3,000,000. LNB agreed not to sell or otherwise liquidate the shares the Company provided as collateral unless the Company were to default under the loan agreement and failed to cure such default after notice. A maximum of 2,142,857 shares were pledged as collateral.

The Company issued 509,524 shares in the name of LNB and delivered the shares to a depository to secure the first portion of the loan of $1,000,000. In January 1996, the Company determined that the shares pledged as collateral had been transferred and sold in violation of the loan and finance agreement. As a result, the financing agreement was terminated and never funded. Through the efforts of the Company, 359,524 of these shares were recovered and the Company received proceeds of $229,000 for a partial payment on the 150,000 shares not recovered.

In March 1996, the Company commenced action against LNB, Donaldson, Lufkin & Jenrette Securities Corporation and other individuals to recover damages on account of the wrongful sale of the Company's common stock. On July 2, 1997, the Company settled the action. Without admitting or denying the allegations in the complaint, the defendants agreed to pay $676,000 of which $426,000 has been paid with the balance of $250,000 to be paid by LNB on or before August 4, 1997. The payment was not made by LNB as of December 28, 1998. The Company obtained a confession of judgment and a mortgage in the amount of $625,000. The payments under the settlement agreement are in addition to $229,000 previously received from LNB bringing the total recovered to approximately $905,000, assuming LNB complies with the terms of the settlement and remits the last payment of $250,000. To date, LNB has not complied with the settlement agreement and the Company has undertaken various steps to secure payment.

The Company's subsidiary, DSI Staff Connxions-Southwest, Inc., was a defendant in a lawsuit (Frederico Farias v. Thomson Consumer Electronics and DSI Staff Connxions-Southwest, Inc.; 327th Judicial District Case No. 96-3036; District Court of El Paso County, Texas) whereby a former leased employee of a client obtained a judgment against the Company during August, 1998 in the amount of $315,000 including interest. The judgment included approximately $95,000 in compensatory damages, $200,000 in punitive damages and $20,000 in pre-trail interest. In November, 2000 the parties settled this case resulting in the payment of $230,000 by the Company.

As previously disclosed, several of the entities operating under the trade name "The TeamStaff Companies", which were acquired by the Company in January 1999, were part of a class of defendants in a proceeding stemming from the failure of the United States Employer Consumer Self Insurance Fund of Florida ("USEC") in 1995. Several of the TeamStaff Companies had been members of USEC, which was a self-insurance fund for workers' compensation. USEC was declared insolvent in 1995. The action was entitled in Re: The Receivership of United States Employer Consumer Self Insurance Fund of Florida, Case No. 95-2359 (FLA 2nd Cir Ct) and was brought by the Florida Department of Insurance, (the "Department") as the receiver of the Fund. Because of management's knowledge of the USEC proceedings and the amount of potential assessments at the time of acquisition, the acquisition agreements governing the Company's acquisition of the TeamStaff Companies provided indemnification by the sellers in favor of the Company for damages of up to $1,222,000. The financial statements of the TeamStaff Companies at the time of acquisition included a reserve of $391,000 for which the Company would be responsible for. On October 18, 1999 the Company and the former shareholders of the TeamStaff Companies entered into an agreement with the Department that settled all claims. The Company paid $391,000 to the Department while the former shareholders of the TeamStaff Companies entered into a payment plan with the Department for the remainder of the settlement amount in excess of $391,000. On December 2, 1999 the receivership court, which had jurisdiction over the lawsuit, approved the settlement agreement.

One of the Company's subsidiaries (TeamStaff V. Inc., formerly named Employer Support Services Inc. which was acquired in January 1999) is party to a litigation entitled Georgia Department of Insurance v. Peach State Pies et al (Superior Court, Fulton County, GA Case No. E-37623). The litigation involves the receivership proceedings related to the United States Employer Consumer Group Self-Insurance Fund of Georgia ("USEC") of which TeamStaff V was a member. To date TeamStaff V has paid approximately $113,000 to the receivership fund. There can be no estimate of whether the receiver will request that former members of the USEC fund contribute more to the fund. Under the terms of the acquisition agreements governing the acquisition of the TeamStaff companies in January 1999, the former shareholders agreed to indemnify the Company against certain claims, including proceedings related to the Georgia USEC fund. Although the Company seeks to obtain indemnification for payments made after the acquisition (approximately $75,000 to date), there can be no assurance that it will be able to collect all or any portion of the payments.

The Company is engaged in litigation from time to time during the ordinary course of business in connection with employee suits, workers' compensation and other matters. The Company is engaged in no other litigation, the effect of which would be anticipated to have a material adverse impact on the Company's financial conditions or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

No matters were submitted to our shareholders during the fourth quarter of fiscal 2000.

PART II

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

A. PRINCIPAL MARKET

The Company's Common Stock is traded in the over-the-counter market and included in the SmallCap Market System of the National Association of Securities Dealers, Inc. ("NASDAQ") under the symbol "TSTF". 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.

B. MARKET INFORMATION

The range of high and low bid prices, which have been adjusted to reflect the reverse stocks split of 3.5 to 1 effected in June 2000, for the Company's Common Stock for the periods indicated below, are:

COMMON STOCK

FISCAL YEAR 1998	HIGH	LOW
1st Quarter	9 13/32	5 1/4
2nd Quarter	8 55/64	6 1/8
3rd Quarter	8 41/64	5 15/32
4th Quarter	6 11/32	3 1/2

FISCAL YEAR 1999	HIGH	LOW
1st Quarter	6 29/64	3 9/32
2nd Quarter	5 11/16	3 9/32
3rd Quarter	5 9/64	3 1/16
4th Quarter	5 1/4	3 1/2

FISCAL YEAR 2000	HIGH	LOW
1st Quarter	5 1/32	2 5/8
2nd Quarter	7 21/32	4 3/8
3rd Quarter	7 21/64	3 1/2
4th Quarter	3 13/16	2 1/4

FISCAL YEAR 2001	HIGH	LOW
1st Quarter	6 1/8	2 13/32

The above quotations, reported by NASDAQ, represent prices between dealers and do not include retail mark-ups, mark-downs or commissions. Such quotations do not necessarily represent actual transactions. On January 10, 2001, the Company's Common Stock had a closing price of $5.875 per share.

C. DIVIDENDS

The payment of cash dividends by the Company is restricted by the Company's debt facility provider, FINOVA Capital Corporation ("FINOVA"). Without FINOVA's prior written consent, which FINOVA may withhold in its sole discretion, the Company may not declare or pay cash dividends upon any of its stock. The Company 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

The approximate number of record holders of the Company's common stock as of January 10, 2000 was 276. Such number of record holders was determined from the Company's stockholder records, and does not include beneficial owners of the Company's common stock whose shares are held in the names of various security holders, dealers and clearing agencies. The Company believes there are in excess of 4,100 beneficial holders of the Company's common stock.

ITEM 6. SELECTED FINANCIAL DATA

	2000(3)	1999(2)	1998	1997	1996
Revenues	$ 447,743,000	$ 244,830,000	$ 139,435,000	$ 122,559,000	$ 100,927,000
Direct Expenses	426,987,000	228,294,000	129,747,000	113,894,000	92,490,000
Gross Profit	20,756,000	16,536,000	9,688,000	8,665,000	8,437,000
Selling, General & Administrative Expenses (includes Depreciation and Amortization)	18,338,000	13,305,000	8,050,000	11,316,000	8,801,000
Income (Loss) From Operations	2,418,000	3,231,000	1,638,000	(2,651,000)	(364,000)
Net Income (Loss)	$ 951,000	$ 1,776,000	$ 2,703,000	$ (2,832,000)	$ (597,000)
Earnings (Loss) per share(1)					
Basic	$ .12	$ .25	$ .49	$ (.52)	$ (.12)
Diluted	$ .12	$ .25	$ .49	$ (.52)	$ (.12)
Weighted average shares outstanding(1)					
Basic	7,954,176	7,127,806	5,506,256	5,448,671	4,811,535
Diluted	7,990,912	7,145,390	5,543,799	5,448,671	4,811,535
BALANCE SHEET DATA:					
Assets	$ 49,514,000	$ 36,382,000	$ 16,648,000	$ 14,163,000	$ 14,800,000
Liabilities	31,455,000	19,417,000	8,774,000	9,291,000	7,632,000
Long-Term Debt	6,222,000	4,502,000	2,981,000	89,000	100,000
Working Capital (Deficiency)	3,065,000	2,968,000	3,319,000	(1,401,000)	286,000
Shareholders' Equity	$ 18,059,000	$ 16,965,000	$ 7,874,000	$ 4,872,000	$ 7,168,000

(1) In accordance with Statement of Accounting Standards 128 ("SFAS"), basic and diluted earnings (loss) per share have replaced primary and diluted earnings (loss) per share.

(2) On January 25, 1999, the Company acquired the TeamStaff Companies through the issuance of 2,352,381 shares of TeamStaff, Inc. common stock and $3.2 million in cash in exchange for all capital stock of the TeamStaff Companies and for the repayment of debt.

(3) On April 8, 2000, the Company acquired the assets of the Synadyne division of Outsource International, Inc. for $3,500,000 plus a potential earnout payment.

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

FISCAL YEAR 2000 AS COMPARED TO FISCAL YEAR 1999

The Company's revenues for the fiscal year ended September 30, 2000 were $447,743,000 as compared to fiscal year 1999 of $244,830,000, which represents an increase of $202,913,000 or 82.9%. Of this increase, $114,300,000 was due to the acquisition of the Synadyne assets, which were acquired in April, 2000, while $37,500,000 was due to the full year impact of the acquisition of the TeamStaff Companies which was completed in January, 1999. Internal growth accounted for the remaining $51,113,000 increase in revenue, representing a 20.9% over fiscal 1999.

Direct expenses for fiscal 2000 were $426,987,000 as compared to $228,294,000 for fiscal year 1999, which represents an increase of $198,693,000 or 87%. As a percentage of revenue, direct expenses for the fiscal years 2000 and 1999 were 95.4% and 93.2% respectively. These increases represent the higher direct expenses associated with the increased PEO business as well as $838,000 in increased workers' compensation charges necessary to reflect the changes in estimates related to open workers' compensation periods prior to fiscal 2000, covering the three year period from 1997 to 1999.

Gross profits were $20,756,000 and $16,536,000 for fiscal years 2000 and 1999, respectively, representing an increase of $4,220,000 or 25.5%. As a result of the $838,000 in workers' compensation charges discussed above and additional workers' compensation exposure incurred in one of the Company's market centers, the Company earned $1.9 million less in workers' compensation profits in fiscal 2000 versus fiscal 1999. For comparison purposes, these workers' compensation profit figures do not include the Synadyne operations. The market center mentioned above primarily services the construction industry and experienced higher than normal workers' compensation losses in the fourth quarter of fiscal 2000. The Company is currently evaluating its options to mitigate future exposure in this area. Gross profits, as a percentage of revenue, were 4.6% and 6.8% for fiscal years 2000 and 1999, respectively. A substantial portion of the Company's revenue growth occurred in the PEO business which has lower gross profit margins as a percentage of revenue compared to the rest of the Company's operations but earns a higher dollar amount of gross profit.

Selling, general and administrative expenses ("SG&A") for fiscal 2000 increased $4,824,000, or 39.6%. This increase is attributed to the Synadyne and TeamStaff acquisitions, a $200,000 charge for noncash consulting expenses associated with the issuance of warrants to consultants and a $230,000 charge associated with the Farias settlement (see Item 3 in this Form 10-K). After adjusting for these aforementioned increases, SG&A increased $1,209,000, 10% over the same period last year. SG&A expenses as a percentage of revenue were 3.8% and 5.0% for the fiscal years 2000 and 1999 respectively.

Depreciation and amortization increased $209,000, or 18.6%, in fiscal 2000 primarily due to the increase in amortization of intangible assets related to the acquisition of the TeamStaff Companies and the assets of the Synadyne operations completed in January, 1999 and April, 2000 respectively.

Interest expense in fiscal 2000 increased $468,000, or 41.3%, from $1,133,000 in fiscal 1999 to $1,601,000 in fiscal 2000. This increase was due to an increase in debt financing associated with the Company's acquisitions in fiscal 1999 and 2000.

Income tax expense for fiscal 2000 was $428,000 versus $849,000 in fiscal 1999. The lower tax expense is primarily attributable to lower earnings in fiscal 2000. The fiscal 2000 income tax expense was reduced by $374,000 in tax credits which are available to the Company. Additionally, the fiscal 1999 income tax expense was reduced by a $400,000 net tax benefit reflecting the elimination of the remaining deferred tax valuation allowance. Management has determined it is more likely than not that the deferred tax assets will be realized in the future.

Net income for fiscal 2000 was $951,000 versus $1,776,000 in fiscal 1999. This decrease is attributable to the changes in estimates related to open workers' compensation periods as well as the costs of warrants issued and the Farias settlement. After adjusting for these charges, net income for fiscal 2000 would have been $1,672,000, or $.21 per share. Further impacting fiscal 2000's performance was the lower overall level of profit from the Company's current year workers' compensation program due to the higher losses suffered in one of the Company's market centers.

In July, 2000, the Company made claims for indemnification against the selling shareholders of the TeamStaff Companies, which were acquired by the Company in January, 1999. As of January 8, 2001, these claims approximate $1,000,000. The claims consist of various liabilities and expenses either actually, or potentially to be, incurred based on breaches of representations and warranties contained in the acquisition agreement. The sellers have disputed these claims and have attempted to assert claims of their own. Under the terms of the acquisition agreements, the sellers secured their indemnification obligation by depositing 420,000 shares of the Company's common stock in escrow. The Company believes that it has good and meritorious claims against the Sellers and good and meritorious defenses to any of the sellers' claims against the Company. However, there can be no assurance that the Company will obtain a successful resolution of all of its claims. In the event that the Company is obligated to pay third parties in respect of breaches for which it cannot obtain indemnification from the former shareholders (or reimbursement of previously paid sums) the Company's financial condition may be adversely impacted and may have a material adverse effect on the Company's results of operations.

FISCAL YEAR 1999 AS COMPARED TO FISCAL YEAR 1998

The Company's revenues for the fiscal year ended September 30, 1999 were $244,830,000 as compared to fiscal year 1998 of $139,435,000, which represents an increase of $105,395,000 or 75.6%. Of this increase, $75,000,000 was due to the acquisition of the TeamStaff Companies (the "Acquisition") with the balance due to internal growth. PEO services accounted for 83.7% of the internal growth with the remainder attributable to the Company's staffing business.

Direct expenses for fiscal year 1999 were $228,294,000 as compared to $129,747,000 for fiscal year 1998 which represents an increase of $98,547,000 or 76%. This increase is associated with the increase in revenue due to the Acquisition. As a percentage of revenue, direct expenses for the fiscal years 1999 and 1998 were 93.2% and 93.1%, respectively.

Gross profits were $16,536,000 and $9,688,000 for fiscal years 1999 and 1998, respectively. This represents an increase of $6,848,000 or 70.7%. Gross profits, as a percentage of revenue, were 6.8% and 6.9% for fiscal years 1999 and 1998, respectively. Although a substantial portion of the Company's revenue growth occurred

in the PEO business, which has lower gross profit margins, the gross profit as a percentage of revenue declined only marginally because of improved performance and increases in the Company's staffing business.

Selling, general and administrative expenses ("SG&A") for fiscal 1999 increased $4,792,000, or 64.9%. This increase is attributable to the Acquisition. SG&A expenses as a percentage of revenue were 5.0% and 5.3% for the fiscal years 1999 and 1998 respectively.

Depreciation and amortization increased $463,000, or 70% in fiscal 1999 primarily due to the increase in amortization of goodwill related to the Acquisition.

Interest income increased $169,000 in fiscal 1999 versus fiscal 1998 primarily due to an increase of late fees paid in the Company's staffing business. Also accounting for the increase in interest income is $54,000 in interest from a note receivable which was previously not recognized due to collectability concerns which have since been eliminated. The Company has also increased interest income due to the investment of its increased cash reserves.

Interest expense in fiscal 1999 increased $579,000, or 104.5%, from $554,000 in fiscal 1998 to $1,133,000 in 1999. This increase was due to an increase in debt financing and its effective borrowing rate associated with the Company's new financing arrangements, effective in April 1998, as well as the additional debt associated with the Acquisition in January 1999.

Income tax expense for fiscal 1999 was $849,000 versus a tax benefit of $1,296,000 in fiscal 1998, the later benefit related to a reduction in the Company's valuation allowance. Included in the second quarter of fiscal 1999 is a $400,000 net tax benefit reflecting the elimination of the remaining deferred tax valuation allowance. Management has determined that it is more likely than not that all the deferred tax asset will be realized in the future. Management has considered the consistent nine quarters of profitability as well as the current integration of the TeamStaff Companies.

Net income for fiscal 1999 was $1,776,000 versus $2,703,000 in fiscal 1998. This decrease is attributable to the recognition in fiscal 1998 of a net tax benefit of $1,296,000. There was an increase in the Company's pre-tax income of $1,218,000 which reflects the benefit of the Acquisition as well as the improved performance in all of the Company's business lines.

FISCAL YEAR 1998 AS COMPARED TO FISCAL YEAR 1997

The Company's revenues for the fiscal year ended September 30, 1998 were $139,435,000 as compared to fiscal year 1997 of $122,559,000 which represents an increase of $16,876,000 or 13.8%. This increase is due to the efforts of the internal sales force to continually bring in new business which accounted for all of the increase. PEO services accounted for 61% of the growth, while the balance is attributed to the Company's staffing business.

Direct expenses for fiscal year 1998 were $129,747,000 as compared to $113,894,000 for fiscal year 1997 which represents an increase of $15,853,000, or 13.9%. This increase represents the corresponding higher costs associated with higher revenues. As a percentage of revenue, direct expenses for the fiscal year 1998 and 1997 were 93.1% and 92.9%, respectively.

Gross profits were $9,688,000 and $8,665,000 for fiscal 1998 and 1997, respectively, for an increase of 11.8%. Gross profits, as a percentage of revenue, were 6.9% and 7.1% for the fiscal years ended September 30, 1998 and 1997, respectively.

Selling, general and administrative costs ("SG&A") for fiscal 1998 decreased $2,917,000, or 28.3%, from $10,306,000 in fiscal 1997 to $7,389,000. Of this decrease, $1,973,000 pertains to charges recorded in the second quarter of fiscal 1997, $1,002,000 of which was to increase the bad debt reserve, $300,000 to absorb miscellaneous charges, $102,000 to establish a vacation pay accrual, $81,000 to change supplies accounting, $93,000 to establish a

reserve for severance costs and $395,000 for various other miscellaneous items. Giving effect to these adjustments, SG&A decreased $944,000 which is attributable to the reduction in overhead costs implemented in the fourth fiscal quarter of 1997 as well as a reevaluation by management of the bad debt reserve due to the payments on previously non performing accounts.

Depreciation and amortization decreased $349,000 in fiscal 1998 due to several intangible assets that have become fully amortized in the current fiscal year. The decrease was also attributable to the writing off of $261,000 in intangible assets of Digital Insurance Services, Inc. which ceased operations in the fiscal year 1997.

Interest expense for fiscal year 1998 increased $177,000 to $554,000 from $377,000 in fiscal 1997 due to an increase in debt financing and an increase in the effective borrowing rate.

Income taxes for the fiscal year 1998 reflected a net tax benefit of $1,296,000 primarily related to the reduction in the Company's valuation allowance. As of September 30, 1997, the Company had established a deferred tax valuation allowance of $2,680,000. In view of the continued earnings improvement of the Company over the last four quarters and its current financial position and prospects, the management determined in June of 1998 that it is more likely than not that the majority of such valuation allowance will be realized. As of September 30, 1998, the Company's valuation allowance approximated $400,000.

Net income for fiscal 1998 was $2,703,000 versus a net loss of ($2,832,000) in fiscal 1997. This increase is attributed to the $3.1 million in adjustments recorded in fiscal 1997, the net tax benefit of $1,296,000 recorded in fiscal 1998, the growth of all businesses and the overhead reductions implemented in the fourth fiscal quarter of 1997.

LIQUIDITY AND CAPITAL RESERVES

Net cash provided by operating activities increased in fiscal 2000 by $641,000 from $3,201,000 in fiscal 1999 to $3,842,000 in fiscal 2000. This increase is primarily attributable to an increase in accrued expenses at year end offset by an increase in accounts receivable, which are both attributable to the previously mentioned acquisition and internal growth. Purchases of equipment and leasehold improvements increased in fiscal 2000 by $237,000 primarily due to the move to new locations of three of the Company's operations. The net cash provided by financing activities increased in fiscal 2000 due to the financing obtained for the acquisition of the Synadyne assets. The Company spent $3,300,000 in cash plus the assumption of liabilities and occurrence of acquisition costs approximating $300,000 in total. At September 30, 2000, the Company had cash of $4,285,000, restricted cash of $375,000 and net accounts receivable of $21,117,000.

The Company has a long-term credit facility from FINOVA Capital Corporation totaling $12.5 million. The facility is comprised of (i) two three-year term loans each for $2.5 million, with a five-year amortization, at prime plus 3% (12.50% at September 30, 2000); (ii) a three-year term loan for $4.0 million, with a five-year amortization, at prime plus 3% (12.50% at September 30, 2000) and (iii) a $3.5 million revolving line of credit at prime plus 1% (10.50% at September 30, 2000) secured by certain accounts receivable of the Company. The credit facility is 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 loans. In addition, the $4.0 million term loan is subject to annual success fees at the beginning of each loan year in the amount of $500,000. On January 24 and April 27, 2000, the Company remitted success fees in the amounts of $200,000 and $225,000 respectively.

In connection with the Synadyne acquisition, the two three-year term loans, each for $2.5 million, have been extended to April 30, 2003 and March 1, 2003, respectively. The $4.0 million term loan consists of no principal payments for the first six months and expires on April 30, 2003, with a balloon payment at the end of the three years. The revolving line of credit expires on April 30, 2003.

Total outstanding debt as of November 30, 2000 and September 30, 2000 was $7,807,000 and $8,160,000 respectively.

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, subject to the approval of the Company's lenders and any regulatory approval required. As of June 30, 2000, the Company repurchased 35,400 shares at an average cost of $3.84.

Management of the Company believes that its existing cash and available borrowing capacity will be sufficient to support cash needs for the next twelve months.

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.

ITEM 8. FINANCIAL STATEMENTS

See attached Financial Statements appearing on pages F-1 through F-19.

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

Not Applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS

The executive officers and directors of the Company are as follows:

NAME	AGE	OFFICE
Karl W. Dieckmann	72	Chairman of the Board of Directors
Rocco Marano	72	Director
Donald T. Kelly	51	Vice President, Chief Financial Officer and Corporate Secretary
Senator John H. Ewing	80	Director
William J. Marino	57	Director
Donald W. Kappauf	54	President, Chief Executive Officer and Director
Charles R. Dees, Jr.	60	Director
Martin J. Delaney	57	Director
Kirk A. Scoggins	41	President-PEO Division, Director

On March 17, 1999, the Company held an Annual Meeting of its Stockholders in Somerset, New Jersey. At this meeting the stockholders approved a staggered Board of Directors consisting of three classes. Each class is elected for a three-year term.

Pursuant to the agreement governing the acquisition of the TeamStaff Companies, the former shareholders of the TeamStaff Companies were granted the right to have Mr. Kirk Scoggins appointed as a Director of the Company. Mr. Scoggins serves as the nominee of the former shareholders. In addition, the Company agreed to consider a second nominee of the former shareholders. No second nominee has been proposed.

Karl W. Dieckmann, Director of the Company since April, 1990, has been Chairman of the Board since November, 1991. 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.

Rocco Marano, joined the Board of Directors in July, 1999. 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: Park Place Entertainment Corp. and Computer Horizons Corp. He has also served as Chairman of Horizon Blue Cross/Blue Shield of New Jersey.

Donald T. Kelly, has been Chief Financial Officer and Vice President of Finance since he joined the Company on January 20, 1997. He was elected Corporate Secretary in August of 1997. Mr. Kelly was Vice President and Chief Financial Officer of Wireless Cable International and its predecessor company, Cross Country Wireless, Inc. from 1993 to 1997. From 1987 to 1993, he was Vice President of Finance and Administration at Potters Industries.

Senator John H. Ewing, has been a Director of the Company since April, 1990. Senator Ewing has been a State Senator for the state of New Jersey from 1978 to 1998. From 1968 to 1977, Senator Ewing was a New Jersey State Assemblyman. From 1940 to 1968, he was employed by Abercrombie and Fitch Co., New York City, and eventually rose to the position of Chairman of the Board.

William J. Marino, President and Chief Executive Officer of Horizon Blue Cross Blue Shield of New Jersey, joined the Board of Directors in October, 1995. He joined Horizon Blue Cross Blue Shield in 1992 and was named to his present post in 1994. From 1968 to 1991, Mr. Marino held a variety of sales, marketing and management positions with the Prudential Insurance Company of America. He is currently Chairman of the Board of Trustees at St. Peter's College and is Past Chairman of the Board of Trustees of the United Way of Essex and West Hudson (NJ). He is also Past Chairman of the Board of Directors and Executive Committee of the Regional Business Partnership, and a Trustee of the New Jersey Network Foundation, New Jersey State Chamber of Commerce and the Newark Museum.

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 from 1968 to 1988.

Charles R. Dees, Jr. joined the Board of Directors in July, 1998. Mr. Dees is a nationally known university administrator and former official of the U. S. Department of Education. He is currently Senior Vice President for Institutional Advancement of Fairleigh Dickinson University.

Martin J. Delaney also joined the Board of Directors in July, 1998. Mr. Delaney is a prominent healthcare

executive presently serving as President, CEO and a director of the Long Island Health Network in Long Island, New York.

Kirk A. Scoggins, the former President and Chairman of the TeamStaff Companies, joined the Company with the acquisition of the TeamStaff Companies as the President of the PEO Division and a member of the Board of Directors of the Company. Mr. Scoggins is one of the original pioneers of the PEO industry. He established one of Florida's first employee leasing companies based in Tampa in 1985. Mr. Scoggins is a member of the Strategic Planning Committee of the Board and Past President of the National Association of Professional Employer Organizations (NAPEO) and is also a founding member and Past President of the Florida Association of Professional Employer Organizations (FAPEO). Pursuant to the terms of the agreements governing the acquisition of the TeamStaff Companies, Mr. Kirk Scoggins served as the nominee of the former stockholders of such entities.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION IN COMPENSATION DECISIONS

Karl W. Dieckmann, John H. Ewing, Martin J. Delaney and William J. Marino served on the Company's Compensation Committee during the last fiscal year. There are no interlocks between the Company's Directors and Directors of other companies.

MEETINGS OF THE BOARD OF DIRECTORS AND COMMITTEES

During the fiscal year ended September 30, 2000, the Board of Directors met on 8 occasions and acted by unanimous written consent on 8 occasions. The Board of Directors is comprised of 8 persons and has 4 committees. Messrs. Dieckmann, Ewing, Delaney and Marino are members of the Board's Compensation committee. Messrs. Dieckmann, Ewing, Marano, and Dees are members of the Board's Audit Committee. Messrs. Dieckmann, Kappauf and Marino are members of the Board's Nominating Committee. Messrs. Marano, Dees, Delaney, Kappauf and Scoggins are members of the Strategic Planning Committee. The Audit Committee, the Nominating Committee, Compensation Committee and Strategic Planning Committee of the Board of Directors met on 3, 1, 3 and 1 occasions, respectively, during the fiscal year. No director failed to attend fewer then 75% of the Board or Committee meetings.

ITEM 11. EXECUTIVE COMPENSATION

The following provides certain summary information concerning compensation paid or earned by the Company during the years ended September 30, 2000, 1999 and 1998 to the Company's Chief Executive Officer and each of the executive officers 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,	2000	$230,126	$ 0	$17,251	57,143
Chief Executive Officer	1999	$225,154	$175,500	$14,876	14,286
	1998	$173,308	$ 89,670	$16,991	57,143
Donald T. Kelly	2000	$165,500	$ 0	$12,231	14,286
Chief Financial Officer	1999	$157,115	$ 87,800	$ 6,000	14,286
	1998	$145,038	$ 45,000	$ 6,000	14,286
Kirk A. Scoggins,(1)	2000	$176,561	$ 0	$ 9,600	0
President-PEO Division	1999	$139,348	$ 0	$ 6,277	28,571

George J. Eklund(2)	2000	$ 0	$ 0	$0	0
Director	1999	$100,153	$ 0	$0	0
	1998	$210,000	$ 0	$0	0
Elizabeth Hoaglin	2000	$ 86,662	$ 92,050	$3600	4,286
	1999	$ 67,362	$ 40,000	$3600	2,858
	1998	$ 75,077	$ 20,000	$3600	0

(1) The 1999 salary includes Mr. Scoggin's compensation for the President-PEO Division position as of January 25, 1999.

(2) Mr. Eklund's employment with the Company commenced on September 19, 1994. He assumed the position of Chief Executive Offices in March 1996. In December 1997 due to health concerns, his position changed. Mr. Eklund remained a Director until his resignation on January 14, 1999.

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, which is voluntary.

COMPENSATION OF DIRECTORS

Directors who are employees of the Company are not compensated for services in such capacity except under the Director Plan, as defined below. Non-Employee Directors receive $1,000 per board meeting and $500.00 per non-board meeting, related travel expenses, and $400 for each committee meeting. 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.

EMPLOYMENT AGREEMENT

The Company reached an agreement with Donald Kappauf on a two-year renewal of Mr. Kappauf's employment agreement effective October 1,1999. Mr. Kappauf will continue to serve as the Company's President and Chief Executive Officer and will receive (i) annual compensation of $225,000 for the first year of the agreement increasing at the discretion of the Compensation Committee; and (ii) 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 and a car allowance.

The Company reached an agreement with Donald Kelly on a two-year renewal of Mr. Kelly's employment agreement effective October 1, 1999. Mr. Kelly will continue to serve as the Company's Vice President, Chief Financial Officer and Corporate Secretary and will receive (i) annual compensation of $170,000 for the first year of the agreement increasing at the discretion of the Compensation Committee. and (ii) 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 and a car allowance.

The Company entered into a two-year agreement with Kirk Scoggins as of January 25, 1999, the date the Company acquired the TeamStaff Companies. Mr. Scoggins will serve as the President of the Company's Professional Employer Organization and will receive (i) annual compensation of $175,000 for the first year of the agreement increasing at the discretion of the Compensation Committee. and (ii) a bonus based on the achievement of certain performance criteria as determined by the Compensation Committee. In addition, Mr. Scoggins receives certain other benefits including insurance benefits and a car allowance.

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	57,143	40%	$3.8283	10/04/2004
Donald Kelly	14,286	10%	$3.8283	10/04/2004
Elizabeth Hoaglin	4,286	3%	$4.8125	01/03/2005

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR
AND FY-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, 2000.

NAME	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS/SARS SEPTEMBER 30, 2000 EXERCISABLE/ UNEXERCISABLE	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AS OF SEPTEMBER 30, 2000 EXERCISABLE/ UNEXERCISABLE(1)
Donald W. Kappauf	0	0	100,000/28,572	$0/$0
Donald T. Kelly	0	0	44,286/7,142	$0/$0
Kirk A. Scoggins	0	0	14,286/14,286	$0/$0

(1) Based upon a closing bid price of the Common Stock at $3 3/8 per share on September 30, 2000.

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.

2000 EMPLOYEE STOCK OPTION PLAN

In the last fiscal year, 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 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 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 which 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 SmallCap market and is traded under the symbol "TSTF".

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN
ASSUMES INITIAL INVESTMENT OF $100
[COMPARISON LINE GRAPH]

		1995	1996	1997	1998	1999	2000
TEAMSTAFF INC	Cum $	$100	$266.67	$94.44	$47.20	$48.62	$43.67
S&P 500	Cum $	$100	$120.34	$169.01	$184.30	$235.54	$266.83
Peer Group Only	Cum $	$100	$501.82	$419.42	$348.82	$191.26	$438.57

NOTES

(1) Assumes that the value of the investment in the Company's Common Stock and each index was $100 on September 30, 1995 and that dividends were reinvested at years ended September 30.

(2) Industry composite includes Employee Solutions, Administaff, Staff Leasing, and Team America. The industry composite has been determined in good faith by management to represent entities which compete with the Company in certain of its significant business segments. Management does not believe there are any publicly held entities which 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 January 8, 2001 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.

Name of Shareholder	Number of Shares Presently Owned(1)	Percent of Company's Outstanding Stock
Karl W. Dieckmann(2) c/o TeamStaff, Inc. 300 Atrium Drive Somerset, NJ 08873	91,641	1.15%
Senator John H. Ewing(3) 76 Claremont Road Barnardsville, NJ 07924	36,607	*
William J. Marino(4) c/o Horizon Blue Cross Blue Shield of New Jersey 3 Penn Plaza East Newark, NJ 07105	28,176	*
Donald W. Kappauf(5) c/o TeamStaff, Inc. 300 Atrium Drive Somerset, NJ 08873	224,785	2.83%
Donald T. Kelly(6) c/o TeamStaff, Inc. 300 Atrium Drive Somerset, NJ 08873	53,957	*
Charles R. Dees, Jr. Phd(7) c/o TeamStaff, Inc. 300 Atrium Drive Somerset, NJ 08873	4,740	*
Rocco Marano(8) c/o TeamStaff, Inc. 300 Atrium Drive Somerset, NJ 08873	12,971	*
Martin J. Delaney(9) c/o TeamStaff, Inc. 300 Atrium Drive Somerset, NJ 08873	35,165	*
Kirk Scoggins(10) c/o TeamStaff, Inc. 300 Atrium Drive Somerset, NJ 08873	953,409	11.99%

Warren M. Cason(11) 400 N. Ashley Drive, Suite 2300 Tampa, FL 33602	634,473	7.98%
Warren M. Cason Jr.(12) Trustee of the Dorothy C. Cason 1997 Three Year Grantor Retained Annuity Trust c/o Warren M. Cason 400 N. Ashley Drive, Suite 2300 Tampa, FL 33602	526,825	6.63%
Dorothy Cason(13) 400 N. Ashley Drive, Suite 2300 Tampa, FL 33602	45,811	*
Melissa C. Scoggins(14) Trustee of the Kirk Allan Scoggins 1997 Three Year Grantor Retained Annuity Trust	206,149	2.59%
All officers and directors as a group (9)persons (2,3,4,5,6,7,8,9,10)	1,441,451	18.13%

* Less than 1 percent.

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

(2) Includes options to purchase 5,714 shares of the Company's common stock, and excludes unvested options to purchase 5,000 shares of common stock.

(3) Includes options to purchase 5,714 shares of the Company's common stock, and excludes unvested options to purchase 5,000 shares of common stock.

(4) Includes options to purchase 5,714 shares of the Company's common stock, and excludes unvested options to purchase 5,000 shares of common stock.

(5) Includes options to purchase 114,286 shares of the Company's common stock, and excludes unvested options to purchase 14,286 shares of common stock.

(6) Includes options to purchase 51,429 shares of the Company's common stock.

(7) Includes options to purchase 3,215 shares of common stock, and excludes unvested options to purchase 5,000 shares of common stock.

(8) Includes options to purchase 2,857 shares of common stock, and excludes unvested options to purchase 5,000 shares of common stock.

(9) Includes options to purchase 3,215 shares of common stock, and excludes unvested options to purchase 5,000 shares of common stock.

(10) Mr. Scoggins received these shares as a former owner of the TeamStaff Companies which were acquired by the Company on January 25, 1999. Mr. Scoggins also joined the Company's Board of Directors on January 25, 1999. Of the 953,409 shares currently owned by Mr. Scoggins, 63,841 shares have been placed in escrow to indemnify the Company for certain representations regarding TeamStaff Companies made by the former owners of the TeamStaff Companies. Excludes unvested options to purchase 14,286 shares.

(11) Mr. Cason received these shares as a former owner of the TeamStaff Companies which were acquired by the Company on January 25, 1999. Of the 634,473 shares currently owned by Mr. Cason, 43,131 shares have been placed in escrow to indemnify the Company for certain representations regarding TeamStaff Companies made by the former owners of the TeamStaff Companies.

(12) This Trust received these shares as a former owner of the TeamStaff Companies which were acquired by the Company on January 25, 1999. Of the 526,825 shares currently owned by this Trust, 35,816 shares have been placed in escrow to indemnify the Company for certain representations regarding TeamStaff Companies made by the former owners of the TeamStaff Companies.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

For information concerning employment 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 (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.

In January, 1999, the Company purchased 10 entities operating under the tradename "The TeamStaff Companies". These entities were private companies owned by Kirk Scoggins and Warren Cason and related trusts and affiliates. The former shareholders of the TeamStaff Companies received approximately 2,352,381 shares and $3,200,000 in consideration for selling the entities to the Company. Mr. Scoggins serves as a Director of the Company and as President of the PEO Division. See "Business" "Management Discussion and Analysis" and "Executive Compensation"

ITEM 14. 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	--	Agreement for purchase of Temp-Staff, Inc. (Exhibit 3 to Form 8-K dated May 17, 1990).
2.2	--	Agreement for purchase of X-L Technical Corp. (Exhibit 2a to Form 8-K dated October 31, 1990).
2.3	--	Plan and Agreement of Merger and Reorganization dated as of October 29, 1998 among the Company, the Merger Corporations, 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).
3.1	--	Amended and Restated Certificate of Incorporation of Registrant (Filed as Exhibit A to Definitive Proxy Material dated July 20, 1990).
3.1.1	--	Form of Amendment to Amended and Restated Certificate of Incorporation (filed as Exhibit G to the Company's Proxy Statement dated November 12, 1998 as filed with the Securities and Exchange Commission).
3.2	--	By-Laws of Registrant (Exhibit 10.1 to Form 8-K dated March 2l, 1990)
10.2	--	Employment Agreement with Donald Kappauf (Exhibit 3 to Form 8-K dated May 17, 1990).
10.4	--	Agreement between Registrant and First Fidelity Bank, N.A. (Exhibit 10.4 to Form 10-K for fiscal year ended September 30, 1991).
10.5	--	Agreement between Registrant and Midatlantic Banks, Inc. dated October 11, 1991 (Exhibit 10.5 to Form 10-K for fiscal year ended September 30, 1991).
10.6	--	Lease dated 10/15/91 for office space at 4041 Hadley Road, South Plainfield, New Jersey (Exhibit 10.6 to Form 10-K for fiscal year ended September 30, 1991).
10.7	--	Employment Agreement between Karl Dieckmann and the Company dated November 1, 1991 (Exhibit 10.7 to Form 10-K for fiscal year ended September 30, 1991).
10.8	--	Lease dated May 30, 1997 for office space at 300 Atrium, Somerset, New Jersey (Exhibit 10.6.1 to Form 10-K for the fiscal year ended September 30, 1997).
10.9	--	Employment agreement between George J. Eklund and the Company dated March 12, 1996 (Exhibit 10.15.1 to Form 10-K for the fiscal year ended September 30, 1997).
10.10	--	Amended employment agreement between George J. Eklund and the Company dated December 16, 1997 (Exhibit 10.15.2 to Form 10-K for the fiscal year ended September 30, 1997).
10.11	--	Employment Contract between David L. Clark and the Company dated January 1, 1993.
10.12	--	Bridge financing between Katie and Adam Bridge Partners, L. P. and the Company in June, 1993.
10.13	--	Sales representation agreement between Sid A. Robinson, III and the Company dated April 14, 1993.
10.14	--	Agreement between Staff Leasing of Mississippi, Inc. and the Company for the purchase of

business and assets dated November 4, 1993.

10.15 -- Employment agreement between George J. Eklund and the Company dated September 19, 1994.

10.16 -- Seventh Amended Loan Agreement between Registrant and Summit Bank and sixth amended Promissory Note (Exhibit 10.16.1 to Form 10-K for the fiscal year ended September 30, 1997).

10.17 -- Loan and Security Agreement dated April 28, 1998 among Digital Solutions, Inc. and FINOVA Capital Corporation (Filed as Exhibit 10.17 to Form 10K filed January 12, 1999).

10.18 -- Secured Promissory Note in the principal amount of $2,500,000 dated April 28, 1998 in favor of FINOVA Capital Corporation (Filed as Exhibit 10.18 to Form 10K filed January 12, 1999).

10.19 -- Stock Pledge Agreement (Security Agreement) dated April 28, 1998 between FINOVA Capital Corporation and Digital Solutions, Inc. (Filed as Exhibit 10.19 to Form 10K filed January 12, 1999).

10.20 -- Employment Agreement between the Company and Kirk Scoggins dated January 25, 1999 (Filed as Exhibit 10.1 to Form 8K dated January 25, 1999).

10.21 -- Registration Rights Agreement between the Company and certain former shareholders of the TeamStaff Companies dated as of January 25, 1999 (Filed as Exhibit 10.2 to Form 8K dated January 25, 1999).

10.22 -- Amended and Restated Loan and Security Agreement between the Company and FINOVA Capital Corporation dated January 25, 1999 (Filed as Exhibit 10.3 to Form 8K dated January 25, 1999).

10.23 -- Amended and Restated Note in the principal amount of $2,166,664 dated January 25, 1999 (Filed as Exhibit 10.4 to Form 8K dated January 25, 1999).

10.24 -- Secured Note in the amount of $2,500,000 in favor of FINOVA Capital Corporation dated January 25, 1999 (Filed as Exhibit 10.5 to Form 8K dated January 25, 1999).

10.25 -- Secured Note in the amount of $750,000 in favor of FINOVA Capital Corporation dated January 25, 1999 (Filed as Exhibit 10.6 to Form 8K dated January 25, 1999).

10.26 -- Schedule to Amended and Restated Loan Agreement dated January 25, 1999 with FINOVA Capital Corporation (Filed as Exhibit 10.7 to Form 8K dated January 25, 1999).

10.27* -- Employment Agreement dated as of October 1, 1999 between the Company and Donald Kelly.

10.28* -- Employment Agreement between the Company and Donald W. Kappauf dated as of October 1, 1999.

10.29 -- 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. (filed as Exhibit 3 to Form 8K dated April 7, 2000).

10.30 -- First Amendment to Amended and Restated Loan and Security Agreement among TeamStaff, Inc. and its Subsidiaries as Co-Borrowers and FINOVA Capital Corporation dated April 7, 2000. (filed as Exhibit 3 to Form 8K dated April 7, 2000).

10.31	--	Second Amended and Restated Secured Promissory Note A dated April 7, 2000 in the principal amount of $1,541,659 payable to FINOVA Capital Corporation. (filed as Exhibit 3 to Form 8K dated April 7, 2000).
10.32	--	Amended and Restated Secured Promissory Note B dated April 7, 2000 in the principal amount of $1,899,996 payable to FINOVA Capital Corporation. (filed as Exhibit 3 to Form 8K dated April 7, 2000).
10.33	--	Secured Promissory Note C dated April 7, 2000 in the principal amount of $4,000,000 payable to FINOVA Capital Corporation. (filed as Exhibit 3 to Form 8K dated April 7, 2000).
21.0*	--	Subsidiaries of Registrant.
23.1*	--	Consent of Arthur Andersen LLP.
27.0*	--	Financial Data Schedule.

(b) Reports on Form 8-K.

None

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

(d) Financial Statement Schedule. See Schedule I annexed hereto.

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: January 10, 2001

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.

Signature	Title	Date
/s/Rocco Marano Rocco Marano	Director	January 10, 2001
/s/Karl W. Dieckmann Karl W. Dieckmann	Chairman of the Board	January 10, 2001
/s/John H. Ewing Senator John H. Ewing	Director	January 10, 2001
/s/William J. Marino William J. Marino	Director	January 10, 2001
/s/Charles R. Dees, Jr. Ph.D. Charles R. Dees, Jr. Ph.D.	Director	January 10, 2001
/s/Martin J. Delaney Martin J. Delaney	Director	January 10, 2001
/s/Kirk A. Scoggins Kirk A. Scoggins	President-PEO Director	January 10, 2001
/s/Donald W. Kappauf Donald W. Kappauf	President, Chief Executive Officer & Director	January 10, 2001
/s/Donald T. Kelly Donald T. Kelly	Chief Financial Officer & Corporate Secretary	January 10, 2001

TEAMSTAFF, INC. AND SUBSIDIARIES

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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.:

We have audited the accompanying consolidated balance sheets of TeamStaff, Inc. and subsidiaries as of September 30, 2000 and 1999, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended September 30, 2000. 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, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2000 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 regulations 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 29, 2000

TEAMSTAFF, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF SEPTEMBER 30, 2000 AND 1999

ASSETS	2000	1999
CURRENT ASSETS:		
Cash and cash equivalents	$4,285,000	$1,948,000
Restricted cash	375,000	362,000
Accounts receivable, net of allowance for doubtful accounts of $281,000 and $209,000 at September 30, 2000 and 1999	21,117,000	13,557,000
Deferred tax asset	1,566,000	1,464,000
Other current assets	955,000	552,000
Total current assets	28,298,000	17,883,000
EQUIPMENT AND IMPROVEMENTS:		
Equipment	4,340,000	3,748,000
Leasehold improvements	209,000	100,000
	4,549,000	3,848,000
Less - accumulated depreciation and amortization	3,459,000	3,023,000
	1,090,000	825,000
DEFERRED TAX ASSET	153,000	328,000
INTANGIBLE ASSETS, net of accumulated amortization of $2,542,000 and $1,680,000 at September 30, 2000 and 1999	19,633,000	16,798,000
OTHER ASSETS	340,000	548,000
	$49,514,000	$36,382,000

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

TEAMSTAFF, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF SEPTEMBER 30, 2000 AND 1999

LIABILITIES AND SHAREHOLDERS' EQUITY	2000	1999
CURRENT LIABILITIES:		
Current portion of long-term debt	$1,938,000	$1,034,000
Accounts payable	7,062,000	2,924,000
Accrued expenses and other current liabilities	16,233,000	10,957,000
Total current liabilities	25,233,000	14,915,000
LONG-TERM DEBT, net of current portion	6,222,000	4,502,000
Total liabilities	31,455,000	19,417,000
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Common stock, $.001 par value; authorized 40,000,000 shares; issued 7,981,605 and 7,980,718; outstanding 7,946,205 and 7,962,418 at September 30, 2000 and 1999	8,000	8,000
Additional paid-in capital	21,297,000	21,093,000
Accumulated deficit	(3,110,000)	(4,061,000)
Treasury stock, 35,400 and 18,300 shares at cost as of September 30, 2000 and 1999	(136,000)	(75,000)
	18,059,000	16,965,000
	$49,514,000	$36,382,000

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

TEAMSTAFF, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	For the Years Ended September 30,		
	2000	1999	1998
REVENUES	$447,743,000	$244,830,000	$139,435,000
DIRECT EXPENSES	426,987,000	228,294,000	129,747,000
Gross profit	20,756,000	16,536,000	9,688,000
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	17,005,000	12,181,000	7,389,000
DEPRECIATION AND AMORTIZATION	1,333,000	1,124,000	661,000
Income from operations	2,418,000	3,231,000	1,638,000
OTHER INCOME (EXPENSE):			
Interest income	584,000	492,000	323,000
Interest expense	(1,601,000)	(1,133,000)	(554,000)
Other income/(expense)	(22,000)	35,000	0
	(1,039,000)	(606,000)	(231,000)
Income before income taxes	1,379,000	2,625,000	1,407,000
INCOME TAX (EXPENSE) BENEFIT	(428,000)	(849,000)	1,296,000
Net income	$951,000	$1,776,000	$2,703,000
EARNINGS PER SHARE - BASIC	$0.12	$0.25	$0.49
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC	7,954,176	7,127,806	5,506,256
EARNINGS PER SHARE - DILUTED	$0.12	$0.25	$0.49
WEIGHTED AVERAGE NUMBER OF COMMON SHARES AND EQUIVALENTS OUTSTANDING - DILUTED	7,990,912	7,145,390	5,543,799

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, 2000, 1999 AND 1998

	Common Stock		Additional Paid-In	Accumulated	Treasury Stock		
	Shares	Amount	Capital	Deficit	Shares	Amount	Total
BALANCE, September 30, 1997	5,469,074	$5,000	$13,407,000	($8,540,000)	-	$-	$4,872,000
Common stock issued in connection with financing	44,643	1,000	250,000	-	-	-	251,000
Common stock issued	16,807	-	49,000	-	-	-	49,000
Net income	-	-	-	2,703,000	-	-	2,703,000
BALANCE, September 30, 1998	5,530,524	6,000	13,706,000	(5,837,000)	-	-	7,875,000
Common stock sold	1,524	-	9,000	-	-	-	9,000
Common stock repurchased	-	-	-	-	18,300	(75,000)	(75,000)
Exercise of stock options	5,714	-	16,000	-	-	-	16,000
Exercise of stock warrants	1,429	-	6,000	-	-	-	6,000
Common stock issued in connection with acquisition	2,441,527	2,000	7,308,000	-	-	-	7,310,000
Non-cash compensation expense related to warrants	-	-	44,000	-	-	-	44,000
Proceeds related to LNB settlement, net of expenses	-	-	4,000	-	-	-	4,000
Net income	-	-	-	1,776,000	-	-	1,776,000
BALANCE, September 30, 1999	7,980,718	8,000	21,093,000	(4,061,000)	18,300	(75,000)	16,965,000
Exercise of stock options	887	-	4,000	-	-	-	4,000
Common stock repurchased	-	-	-	-	17,100	(61,000)	(61,000)
Non-cash compensation expense related to warrants	-	-	200,000	-	-	-	200,000
Net income	-	-	-	951,000	-	-	951,000
BALANCE, September 30, 2000	7,981,605	$8,000	$21,297,000	($3,110,000)	35,400	($136,000)	$18,059,000

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, 2000	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$951,000	$1,776,000	$2,703,000
Adjustments to reconcile net income to net cash provided by (used in) operating activities, net of acquired businesses-			
Deferred income taxes	73,000	600,000	(1,402,000)
Depreciation and amortization	1,333,000	1,124,000	661,000
Provision for doubtful accounts	162,000	27,000	(247,000)
Loss on disposal of equipment	24,000	0	0
Non-cash compensation expense	200,000	44,000	0
Changes in operating assets and liabilities, net of acquired businesses-			
Increase in accounts receivable	(7,905,000)	(4,016,000)	(824,000)
(Increase) decrease in other current assets	(220,000)	458,000	(289,000)
Decrease (increase) in other assets	197,000	225,000	(249,000)
Increase (decrease) in accounts payable, accrued expenses and other current liabilities	9,040,000	3,325,000	(1,139,000)
(Increase) decrease in restricted cash	(13,000)	(362,000)	738,000
Net cash provided by (used in) operating activities	3,842,000	3,201,000	(48,000)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of equipment and leasehold improvements	(486,000)	(249,000)	(184,000)
Acquisition of businesses, net of cash acquired	(3,314,000)	(4,509,000)	0
Net cash used in investing activities	(3,800,000)	(4,758,000)	(184,000)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings on line of credit	0	$1,015,000	$1,103,000
Proceeds from borrowings on long-term debt	4,000,000	2,500,000	2,500,000
Principal payments on long-term debt	(1,055,000)	(792,000)	(167,000)
Payments on revolving line of credit	(559,000)	(663,000)	(2,697,000)
Repayments on capital leases obligations	(34,000)	(45,000)	(117,000)
Net proceeds from issuance of common stock, net of expenses	0	9,000	299,000
Net proceeds from the exercise of stock options and warrants	4,000	22,000	0
Repurchase of common shares	(61,000)	(75,000)	0
Proceeds from LNB settlement	0	4,000	0
Net cash provided by financing activities	2,295,000	1,975,000	921,000
Net increase in cash and cash equivalents	2,337,000	418,000	689,000
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,948,000	1,530,000	841,000
CASH AND CASH EQUIVALENTS AT END OF YEAR	$4,285,000	$1,948,000	$1,530,000
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for-			
Interest	$1,242,000	$790,000	$439,000
Taxes	$489,000	$374,000	$80,000
SUPPLEMENTAL DISCLOSURES OF NONCASH TRANSACTIONS:			
Borrowings under capital leases	$272,000	$0	$0
Fair value of warrants issued	$200,000	$0	$0

During 1999 the Company issued common stock valued at $7.3 million in connection with the acquisition of the TeamStaff Companies.

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

TEAMSTAFF, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL 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 and El Paso, Texas; Woburn, Massachussetts; and Clearwater and Delray, Florida and sales service centers in New York, New York; El Paso and Houston, Texas; Delray and Clearwater, Florida; Woburn, Massachussetts; Atlanta, Georgia; and Somerset, New Jersey.

Effective January 25, 1999, the Company acquired the ten entities operating under the trade name, "The TeamStaff Companies". In conjunction with the acquisition, the Company changed its name from Digital Solutions, Inc., to TeamStaff, Inc.

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".

Effective October 2, 2000, the Company acquired all the assets of the professional employer organization ("PEO") business of HR2. This acquisition is not significant to the accompanying consolidated financial statements.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF PRESENTATION-

The accompanying consolidated financial statements include the accounts of TeamStaff, Inc., and its wholly-owned subsidiaries. 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.

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") and its temporary placement service program when the services have been provided. Revenues represent the Company's billings to customers, with the corresponding cost of providing those services reflected as direct expenses. Payroll services, commissions and other fees for administrative services are recognized as revenue as the related service is provided.

In December 1999, 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 Company anticipates that the adoption of SAB 101 will not have a significant impact on the consolidated financial statements.

CONCENTRATIONS OF CREDIT RISK-

The Company's customer base consists of over 4,300 client companies, representing approximately 54,400 employees (including payroll services) as of September 30, 2000. The Company's client base is broadly distributed throughout a wide variety of industries; however, more than 70% 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.

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.

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.

INTANGIBLE ASSETS-

Intangible assets consist of the following:

	2000	1999
Trade Name	$ 4,700,000	$ 4,700,000
Goodwill	17,475,000	13,778,000
	22,175,000	18,478,000
Accumulated amortization	(2,542,000)	(1,680,000)
	$ 19,633,000	$16,798,000

Goodwill represents the excess of the cost of companies acquired over the fair value of their net assets at the acquisition date and is being amortized on a straight line basis over 20 to 25 years. Trade name is being amortized on a straight line basis over 25 years. Amortization expense charged to operations was approximately $864,000 for fiscal year 2000, $598,000 for fiscal year 1999 and $247,000 for fiscal year 1998.

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.

The amount of impairment of goodwill and other intangibles would be determined as part of the long-lived asset grouping being evaluated utilizing undiscounted net income over the remaining life of the asset. Where goodwill is identified with assets subject to an impairment loss, the carrying amount of the identified goodwill would be eliminated before making any reduction of the carrying amounts of the impaired long-lived assets and identifiable intangibles.

WORKERS COMPENSATION-

The Company applies loss-development factors to its open years' workers' compensation incurred losses in order to estimate fully-developed losses.

INCOME TAXES-

The Company accounts for income taxes under Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). SFAS 109 requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statement and the tax basis of assets and liabilities using enacted tax rates currently in effect.

STOCK-BASED COMPENSATION-

Stock-based compensation for employees and directors is recognized using the intrinsic value method under APB No. 25. 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 net income and share amounts used to calculate basic earnings per share and diluted earnings per share:

	Years Ended September 30,		
	2000	1999	1998
Numerator:			
Net income	$ 951,000	$1,776,000	$2,703,000
Denominator:			
Weighted average number of common shares outstanding - Basic	7,954,176	7,127,806	5,506,256
Incremental shares for assumed conversions of stock options/warrants	36,736	17,584	37,543
Weighted average number of common and equivalent shares outstanding-Diluted	7,990,912	7,145,390	5,543,799
Earnings per share - Basic and Diluted	$ 0.12	$ 0.25	$ 0.49

Stock options and warrants outstanding at September 30, 2000 to purchase 276,961 shares of common stock 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.

DERIVATIVES-

In June, 1998, the Financial Accounting Standards Board ("FASB) issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activity". SFAS No. 133, as amended by SFAS No. 137 and No. 138, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. SFAS No. 133 is effective for all fiscal quarters of fiscal years beginning after June 15, 2000. The Company believes that SFAS No. 133 will have no material impact on the consolidated financial statements.

(3) INCOME TAXES:

At September 30, 2000, the Company has available operating loss carryforwards of approximately $585,000 to reduce future periods' taxable income. The carryforwards expire in various years beginning in 2004 and extending through 2012. The Company also has tax credits available of approximately $380,000 to reduce future taxable income that begin to expire in 2020.

The Company has recorded a $1,719,000 and a $1,792,000 deferred tax asset at September 30, 2000 and 1999, 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 2000, the Company reduced the tax provision by $374,000 for certain tax credits which were available to the Company. In 1999 the Company's income tax expense was reduced by a $400,000 net tax benefit reflecting the elimination of the remaining deferred tax valuation allowance.

In order for the Company to realize the operating loss carryforward and the tax credits, the Company would have to generate approximately $1,600,000 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 three years of profitability, its ability to meet its operating plan as well as the resolution of past problems which had adversely affected the Company's operations in prior years.

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

	2000	1999
Net operating loss carryforwards and tax credits	$574,000	$1,252,000
Workers' compensation reserves	530,000	205,000
Allowance for doubtful accounts	102,000	75,000
Depreciation expense	153,000	92,000
Other items, net	360,000	168,000
Deferred income tax asset	$1,719,000	$1,792,000

The components of the income tax expense (benefit) are summarized as follows-

	Years Ended September 30,		
	2000	1999	1998
Current expense	$355,000	$249,000	$106,000
Deferred expense (benefit)	73,000	600,000	(1,402,000)
Total expense (benefit)	$428,000	$849,000	($1,296,000)

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,		
	2000	1999	1998
Federal statutory rate	34%	34%	34%
State taxes, net of federal income tax benefit	8	7	5
Reversal of valuation allowance	0	(15)	(134)
Tax credits	(28)	0	0
Goodwill amortization	13	4	0
Other	4	2	3
	31%	32%	(92%)

(4) DEBT:

The Company has a long-term credit facility from FINOVA Capital Corporation totaling $12.5 million. Substantially all assets of the Company secure the credit facility. The facility is comprised of (i) two three-year term loans each for $2.5 million, with a five-year amortization, at prime plus 3% (12.50% at September 30, 2000); (ii) a three-year term loan for $4.0 million, with a five-year amortization, at prime plus 3% (12.50% at September 30, 2000) and (iii) a $3.5 million revolving line of credit at

prime plus 1% (10.50% at September 30, 2000) secured by certain accounts receivable of the Company. The credit facility is 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 is subject to annual success fees at the beginning of each loan year in the amount of $500,000. The credit facility is 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. On January 24 and April 27, 2000 the Company remitted success fees in the amount of $200,000 and $225,000 respectively.

In connection with the Synadyne acquisition, the two three-year term loans, each for $2.5 million, have been extended to April 30, 2003 and March 1, 2003. The $4.0 million term loan consists of no principal payments for the first six months and expires on April 30, 2003, with a balloon payment at the end of the three years (See Note 5). The revolving line of credit matures on April 30, 2003.

Long-term debt at September 30, 2000 and 1999 consists of the following-

	2000	1999
Revolving line of credit	$899,000	$1,455,000
Term loans	6,983,000	4,041,000
Capital leases	278,000	40,000
	8,160,000	5,536,000
Less - Current portion	(1,938,000)	(1,034,000)
	$6,222,000	$4,502,000

Maturities of long-term debt as of September 30, 2000 are as follows-

Year Ending September 30,	
2001	$1,938,000
2002	2,040,000
2003	4,036,000
2004	53,000
2005	93,000
	$8,160,000

(5) BUSINESS COMBINATIONS:

ACQUISITION OF SYNADYNE

On April 8, 2000 TeamStaff, Inc. acquired substantially all of the assets of the professional employer organization ("PEO") division of Outsource International, Inc. ("Outsource") which had operated under the tradename "Synadyne". TeamStaff acquired the tradename "Synadyne" as part of the transaction, as well as all of the customer contracts of the PEO business. Under the terms of the purchase agreement, TeamStaff paid an aggregate purchase price of $3,500,000, which included the assumption of approximately $200,000 in liabilities. The Company also incurred approximately $100,000 for acquisition related expenses. The acquisition has been accounted for under the purchase method and the results of operations of Synadyne have been included in the consolidated financial statements since the date of acquisition. The purchase price has been allocated based on the estimated fair value of assets and liabilities at the date of the acquisition. The application of the purchase method of accounting resulted in approximately $3,700,000 in excess purchase price over net tangible assets acquired. The excess of the purchase price over the net tangible assets acquired has been allocated to goodwill which is being amortized over 25 years.

The agreement also provides for an additional potential payment in one year of up to $1,250,000 provided that the former clients have at least 9,500 worksite employees as of March 31, 2001. In the event there are less than 9,500 employees, the amount of the earnout will be reduced by a pre-determined formula. As of September 30, 2000 the number of worksite employees was approximately 8,000, which is subject to audit by Outsource. Based upon the 8,000 worksite employees the earnout would be reduced by approximately $750,000. Any subsequent payment would be recorded when and if made.

ACQUISITION OF TEAMSTAFF COMPANIES

On January 25, 1999 TeamStaff, Inc., completed the acquisition of 10 entities operating as the TeamStaff Companies through the issuance of 2,352,381 shares of common stock and $3.2 million in cash in exchange for all capital stock of the TeamStaff Companies and for the repayment of debt. The Company also incurred $1.3 million for certain legal,

accounting and

investment banking expenses, which included 89,146 shares of common stock which were granted to the investment banker. The acquisition has been accounted for under the purchase method and the results of operations of the acquired companies 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. The application of the purchase method of accounting resulted in approximately $13.3 million in excess purchase price over net tangible assets acquired. The excess of the purchase price over the net tangible assets acquired has been allocated to trade name ($4.7 million) and goodwill ($8.6 million) which are being amortized over 25 years.

The following unaudited pro forma information presents a summary of consolidated results of operations of the Company and the acquired companies as if the acquisitions had occurred October 1, 1998.

	Fiscal Years Ended September 30,	
	2000	1999
Net Sales	$554,325,000	$519,248,000
Operating Income	2,423,000	3,383,000
Net Income	531,000	1,299,000
Earnings per share - basic	0.07	0.16
Earnings per share - diluted	0.07	0.16

(6) ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES:

Accrued expenses and other current liabilities at September 30, 2000 and 1999 consist of the following-

	2000	1999
Payroll and payroll taxes	$11,736,000	$ 8,626,000
Worker's compensation insurance	1,997,000	1,006,000
Other	2,500,000	1,325,000
	$16,233,000	$10,957,000

(7) COMMITMENTS AND CONTINGENCIES:

LEASES-

Minimum payments under noncancellable lease obligations at September 30, 2000 are as follows-

Year Ending September 30,	
2001	$1,128,145
2002	1,084,145
2003	1,052,828
2004	1,066,535
2005	895,150
Thereafter	640,248
	$5,867,051

Rent expense under all operating leases was $988,000 in 2000, $794,000 in 1999 and $630,000 in 1998.

WORKERS' COMPENSATION POLICY-

In September 1998, the Company negotiated and settled with Liberty Mutual Insurance Company for its liability on all workers' compensation claims incurred during the three year period 1995, 1996 and 1997. In return for terminating all future exposure under the Liberty Mutual workers' compensation policy, the Company agreed to make a one-time payment of approximately $919,000. The settlement was funded by allocating $738,000 of the Company's restricted cash, which had been used to collateralize a portion of the letter of credit to Liberty Mutual and by internal funds of $181,000.

On April 1, 1997, the Company entered into a workers' compensation policy under the terms of which the Company is required to fund the anticipated loss reserves on a current basis. On April 1, 1999, the Company terminated its program with the insurance carrier and consolidated its workers' compensation program under a new carrier who had been the carrier for the TeamStaff Companies.

LEGAL PROCEEDINGS-

The Company's subsidiary, DSI Staff Connxions-Southwest, Inc., was the defendant in a lawsuit (Frederico Farias v. Thomson Consumer Electronics and DSI Staff Connxions-Southwest, Inc.; 327th Judicial District Case No. 96-3036; District Court of El Paso County, Texas) whereby a former leased employee of a client obtained a judgment against the Company during August, 1998 in the amount of $315,000 including interest. The judgment includes approximately $95,000 in compensatory damages, $200,000 in punitive damages and $20,000 in pre-trial interest. The Company posted a bond for the full amount of the judgment plus accrued interest and appealed the judgement. On May 31, 2000 the Company was notified that it lost its initial appeal. The Company filed another appeal to the Texas Supreme Court. In November, 2000 the parties settled this case resulting in the payment of $230,000 by the Company which has been accrued for as of September 30, 2000.

One of the Company's subsidiaries (TeamStaff V. Inc., formerly named Employer Support Services Inc.) which was acquired in January 1999 is party to a litigation entitled Georgia Department of Insurance v. Peach State Pies et al (Superior Court, Fulton County, GA Case No. E-37623). The litigation involves the receivership proceedings related to the United States Employer Consumer Group Self-Insurance Fund of Georgia ("USEC") of which TeamStaff V was a member. To date TeamStaff V has paid approximately $113,000 to the receivership fund. There can be no estimate of whether the receiver will request that former members of the USEC fund contribute more to the fund. Under the terms of the acquisition agreements governing the acquisition of the TeamStaff companies in January 1999, the former shareholders agreed to indemnify the Company against certain claims, including proceedings related to the Georgia USEC fund. Although the Company seeks to obtain indemnification for payments made after the acquisition (approximately $75,000 to date), there can be no assurance that it will be able to collect all or any portion of the payments.

In July, 2000, the Company made claims for indemnification against the selling shareholders of the TeamStaff Companies, which were acquired by the Company in January, 1999. As of January 8, 2001, these claims approximate $1,000,000. The claims consist of various liabilities and expenses either actually, or potentially to be, incurred based on breaches of representations and warranties contained in the acquisition agreement. The sellers have disputed these claims and have attempted to assert claims of their own. Under the terms of the acquisition agreements, the sellers secured their indemnification obligation by depositing 420,000 shares of the Company's common stock in escrow. The Company believes that it has good and meritorious claims against the sellers and good and meritorious defenses to any of the sellers' claims against the Company. However, there can be no assurance that the Company will obtain a successful resolution of all of its claims. In the event that the Company is obligated to pay third parties in respect of breaches for which it cannot obtain indemnification from the former shareholders (or reimbursement of previously paid sums) the Company's consolidated financial condition may be adversely impacted and may have a material adverse effect on the Company's consolidated results of operations.

At September 30, 2000 the Company is involved in various other legal proceedings incurred in the normal course of business. In the opinion of management, after consultation with its counsel, none of these proceedings would have a material effect, if adversely decided, on the consolidated financial position or results of operations of the Company.

(8) SHAREHOLDERS' EQUITY:

During 2000 and 1999, the Company repurchased 17,100 and 18,300 shares of its common stock for $61,000 and $75,000 respectively.

STOCK WARRANTS-

The following is a summary of the outstanding warrants to purchase the Company's common stock at September 30, 2000 as a result of various debt and equity offerings that have occurred since the Company's inception:

Exercise Period From	Exercise Period To	Exercise Price Per Common Share	Number of Shares of Common Stock Reserved
October 1991	October 2001	2.63	28,571
October 1995	October 2000	7.88	7,144
December 1995	December 2000	5.47	1,429
June 1996	June 2001	9.45	60,564
February 1998	February 2003	7.20	7,143
January 1999	January 2004	5.25	21,429
November 1999	November 2002	4.15	100,000
			226,280

During the fiscal year ended September 30, 2000, the Company granted 100,000 additional warrants and 2,257 warrants expired, unexercised. 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 current year grants was determined to be $200,000 which has been included in selling, general and administrative expenses in the accompanying statement of income for the year ended September 30, 2000.

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.

2000 EMPLOYEE STOCK OPTION PLAN

During 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 2000 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 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, 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 1st, 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 which 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, 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, 2000, 1999 and 1998:

	NUMBER OF SHARE	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE FAIR VALUE
Options outstanding, September 30, 1997	241,250	$9.52	
Granted	74,286	6.83	$3.68
Cancelled	(28,071)	9.77	
Options outstanding, September 30, 1998	287,465	8.82	
Granted	116,857	3.85	$2.10
Exercised	(5,715)	2.84	
Cancelled	(143,893)	10.82	
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	

As of September 30, 2000 and 1999, 211,973 and 134,429 options, respectively, were exercisable.

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING AT 9/30/00	WEIGHTED AVERAGE REMAINING LIFE	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS EXERCISABLE AT 9/30/00	WEIGHTED AVERAGE EXERCISE PRICE
$2.63 - 3.83	170,005	4.0	$3.63	75,859	$ 3.68
$4.05 - 5.91	59,251	3.5	$4.48	42,400	$ 4.39
$6.34 - 9.45	118,000	2.8	$6.81	89,429	$ 6.79
$13.65 - 19.92	4,285	.9	$15.53	4,285	$15.53

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 5.73% and expected option life of 4 years. Expected volatility was assumed to be 69%, 68% and 64% in 2000, 1999 and 1998, 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)	2000	1999	1998
Net income as reported	$ 951	$ 1,776	$ 2,703
Estimated fair value of option grants, net of tax	(206)	(153)	(82)
Net income adjusted	$ 745	$ 1,623	$ 2,621
Adjusted earnings per share - Basic	$ 0.09	$ 0.23	$ 0.48
Adjusted earnings per share - Diluted	$ 0.09	$ 0.23	$ 0.47

(9) SEGMENT REPORTING:

During fiscal 1999, the Company adopted the provisions of the Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information: ("SFAS No. 131"). SFAS No. 131 establishes standards for reporting information about operating segments and related disclosures about products, geographic information and major customers.

The Company operates three different lines of business: Professional Employer Organization (PEO), temporary staffing and payroll services. Each business is managed by individual executives.

The PEO segment provides services such as payroll processing, personnel and 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 provides two forms of temporary staffing: one for technical employees such as engineers, information systems specialists and project managers and another for medical specialists, such as radiologic technologists, diagnostic sonographers, cardiovascular technologists, radiation therapists and other medical professionals with hospitals, clinics and therapy centers. Temporary 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, 70% of whom are in the construction industry. Services provided include the preparation of payroll checks, filing of taxes, government reports, W-2's, remote processing directly to the client's offices and certified payrolls.

Corporate is a separate unit which reflects all corporate expenses, amortization of recently acquired goodwill, interest expense on all debt as well as depreciation on corporate assets and miscellaneous charges.

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	Temporary Staffing	Payroll Services	Corporate	Consolidated
2000					
Revenues	$ 392,760,000	$ 51,225,000	$ 3,758,000	$--	$447,743,000
Depreciation and amortization	249,000	233,000	124,000	727,000	1,333,000
Income/(loss) from operations	153,000	5,473,000	1,402,000	(4,609,000)	2,419,000
Interest income	--	473,000	--	111,000	584,000
Interest expense	--	--	--	(1,601,000)	(1,601,000)
Other expense	(22,000)	--	--	--	(22,000)
Income/(loss) before income taxes	131,000	5,946,000	1,401,000	(6,099,000)	1,379,000
Capital spending	147,000	232,000	--	107,000	486,000
Total assets	16,683,000	11,676,000	660,500	20,494,500	49,514,000
1999					
Revenues	$ 204,797,000	$ 36,421,500	$ 3,611,500	$--	$244,830,000
Depreciation and amortization	265,000	208,000	122,000	529,000	1,124,000
Income/(loss) from operations	2,641,000	3,324,000	1,477,500	(4,211,500)	3,231,000
Interest income	77,000	350,000	--	65,000	492,000
Interest expense	--	--	--	(1,133,000)	(1,133,000)
Other income	35,000	--	--		35,000
Income/(loss) before income taxes	2,753,000	3,674,000	1,477,500	(5,279,500)	2,625,000
Capital spending	10,000	72,000	2,000	165,000	249,000
Total assets	11,371,000	6,651,000	660,500	17,699,500	36,382,000
1998					
Revenues	$ 104,193,000	$ 31,706,000	$ 3,536,000	$--	$ 139,435,000
Depreciation and amortization	165,000	184,000	121,000	191,000	661,000
Income/(loss) from operations	1,338,500	2,011,000	1,444,500	(3,156,000)	1,638,000
Interest income	35,000	240,000	--	48,000	323,000
Interest expense	--	--	--	(554,000)	(554,000)
Income/(loss) before income taxes	1,373,500	2,251,000	1,444,500	(3,662,000)	1,407,000
Capital spending	--	87,000	19,000	78,000	184,000
Total assets	4,500,000	4,559,000	598,000	6,991,000	16,648,000

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

(10) QUARTERLY FINANCIAL DATA (UNAUDITED):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2000				
Net revenues	$ 82,222,000	$ 79,602,000	$137,316,000	$148,603,000
Gross profit	4,884,000	4,497,000	5,625,000	5,750,000
Net income	428,000	198,000	310,000	15,000
Earnings per share				
Basic	$ 0.05	$ 0.02	$ 0.04	$--
Diluted	$ 0.05	$ 0.02	$ 0.04	$--
Fiscal 1999				
Net revenues	$ 39,699,000	$ 55,248,000	$ 70,747,000	$ 79,136,000
Gross profit	2,994,000	3,610,000	4,776,000	5,156,000
Net income	335,000	527,000	489,000	425,000
Earnings per share				
Basic	$ .06	$ .07	$ .06	$ .05
Diluted	$ .06	$ .07	$ .06	$ .05

SCHEDULE I

TEAMSTAFF, INC. AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

FOR THE YEARS ENDED SEPTEMBER 30, 2000, 1999 AND 1998

(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, 2000	$209,000	$162,000	($90,000)	$281,000
September 30, 1999	$284,000	$27,000	($102,000)	$209,000
September 30, 1998	$862,000	($247,000)	($331,000)	$284,000

EXHIBIT 10.27

EMPLOYMENT AGREEMENT

AGREEMENT made as of the 1st day of October, 1999 by and between Donald T. Kelly, residing at 458 Fairmont Avenue, Chatham, New Jersey 07928 (hereinafter referred to as the "Employee") and TEAMSTAFF, INC., a New Jersey corporation with principal offices located at 300 Atrium Drive, Somerset, New Jersey 08873 (hereinafter referred to as the "Company").

W I T N E S S E T H :

WHEREAS, the Company and its subsidiaries are engaged in the business of providing Human Resource Administrative Services; and

WHEREAS, the Company desires to employ the Employee for the purpose of securing for the Company the experience, ability and services of the Employee; and

WHEREAS, the Employee desires to be employed with the Company, pursuant to the terms and conditions herein set forth, superseding all prior agreements between the Company, its subsidiaries and/or predecessors and Employee;

NOW, THEREFORE, it is mutually agreed by and between the parties hereto as follows:

ARTICLE I

EMPLOYMENT

1.1 Subject to and upon the terms and conditions of this Agreement, the Company hereby employs and agrees to continue the employment of the Employee, and the Employee hereby accepts such continued employment in his capacity as Vice-President, Chief Financial Officer and Corporate Secretary.

ARTICLE II

DUTIES

2.1 The Employee shall, during the term of his employment with the Company, and subject to the direction and control of the Company's CEO, perform such duties and functions as he may be called upon to perform by the Company's CEO during the term of this Agreement.

2.2 The Employee agrees to devote full business time and his best efforts in the performance of his duties for the Company and any subsidiary corporation of the Company.

2.3 The Employee shall perform, in conjunction with the Company's Executive Management, to the best of his ability the following services and duties for the Company and its subsidiary corporations (by way of example, and not by way of limitation):

(i) Those duties attendant to the position with the Company for which he is hired;

(ii) Establish and implement current and long range objectives, plans, and policies, subject to the approval of the CEO and Board of Directors;

(iii) Financial planning for the Company

(iv) Managerial oversight of the Company's accounting department;

(v) Primary responsibility for the preparation and filing of all financial activity reports with federal and state regulatory authorities;

(vi) Acquiring appropriate insurance coverage to safeguard Company's assets (excluding workers' compensation coverage and medical benefits).

(vii) Acting as Corporate Secretary and the Company and its subsidiaries;

(viii) Promotion of the relationships of the Company and its subsidiaries with their respective employees, customers, suppliers, shareholders, analysts, mareket makers, and others in the business community.

2.4 Employee shall be based in the New Jersey area, and shall undertake such occasional travel, within or without the United States as is or may be reasonably necessary in the interests of the Company. The Company will not base Employee in any other office without Employee's express written consent.

ARTICLE III

COMPENSATION

3.1 Commencing the date hereof and during the term hereof, Employee shall be compensated at the rate of $170,000 per annum, effective March 1, 2000, and then subject to such increases to be determined on each 12-month anniversary of the last increase during the term of this Agreement (the "Base Salary"), which shall be paid to Employee as in accordance with the Company's regular payroll periods.

3.2 Employee shall be entitled to receive a bonus (the "Bonus") in accordance with the Company's Executive Officer Bonus Program to be determined at the commencement of each fiscal year; provided, however, for the fiscal year ended September 30, 2000, Employee shall be entitled to be paid as a Bonus provided that in Schedule A annexed hereto.

3.3 The Company shall deduct from Employee's compensation all federal, state, and local taxes which it may now or may hereafter be required to deduct.

3.4 Employee may receive such other additional compensation as may be determined from time to time by the Board of Directors including bonuses and nonqualified executive benefit plans such as a split dollar life insurance arrangement, supplemental executive retirement plan ("SERP") and other long term compensation plans. Nothing herein shall be deemed or construed to require the Board to award any bonus or additional compensation except a split dollar life insurance arrangement, the terms of which will be subject to the reasonable agreement of the Employee and the Board.

ARTICLE IV

BENEFITS

4.1 During the term hereof, the Company shall provide Employee with group health care and insurance benefits as generally made available to the Company's senior management; provide such other insurance benefits obtained by the Company and made generally available to the Company's senior management; reimburse the Employee, upon presentation of appropriate vouchers, for all reasonable business expenses incurred by the Employee on behalf of the Company upon presentation of suitable documentation; and pay to Employee the sum of $800 per month as and for an automobile allowance.

4.2 In the event the Company wishes to obtain Key Man life insurance on the life of Employee, Employee agrees to cooperate with the Company in completing any applications necessary to obtain such insurance and promptly submit to such physical examinations and furnish such information as any proposed insurance carrier may request.

4.3 For each year of the term hereof, Employee shall be entitled to five (5) weeks paid vacation.

ARTICLE V

NON-DISCLOSURE

5.1 The Employee shall not, at any time during or after the termination of his employment hereunder, except when acting on behalf of and with the authorization of the Company, make use of or disclose to any person, corporation, or other entity, for any purpose whatsoever, any trade secret or other confidential information concerning the Company's business, finances, marketing, computerized payroll, accounting and information business, personnel and/or employee leasing business of the Company and its subsidiaries, including information relating to any customer of the Company or pool of temporary employees, or any

other nonpublic business information of the Company and/or its subsidiaries learned as a consequence of Employee's employment with the Company (collectively referred to as the "Proprietary Information"). For the purposes of this Agreement, trade secrets and confidential information shall mean information disclosed to the Employee or known by him as a consequence of his employment by the Company, whether or not pursuant to this Agreement, and not generally known in the industry. The Employee acknowledges that trade secrets and other items of confidential information, as they may exist from time to time, are valuable and unique assets of the Company, and that disclosure of any such information would cause substantial injury to the Company.

ARTICLE VI

RESTRICTIVE COVENANT

6.1 In the event of the voluntary termination of employment with the Company prior to the expiration of the term hereof, or Employee's discharge in accordance with Article VIII, or the expiration of the term hereof without renewal, Employee agrees that he will not, for a period of one (1) year following such termination (or expiration, as the case may be) directly or indirectly enter into or become associated with or engage in any other business (whether as a partner, officer, director, shareholder, employee, consultant, or otherwise), which business is located in the States of Florida, New Jersey, New York, and Texas or any other state the Company is operating in and is involved in the professional employer organization business, or is otherwise engaged in the same or similar business as the Company shall be engaged and is in direct competition with the Company, or which the Company is in the process of developing, during the tenure of Employee's employment by the Company. Notwithstanding the foregoing, the ownership by Employee of less than 5 percent of the shares of any publicly held corporation shall not violate the provisions of this Article VI.

6.2 In furtherance of the foregoing, Employee shall not during the aforesaid period

of non-competition, directly or indirectly, in connection with any computerized payroll, employee leasing, or permanent or temporary personnel business, or any business similar to the business in which the Company was engaged, or in the process of developing during Employee's tenure with the Company, solicit any customer or employee of the Company who was a customer or employee of the Company during the tenure of his employment.

6.3 If any court shall hold that the duration of non-competition or any other restriction contained in this Article is unenforceable, it is our intention that same shall not thereby be terminated but shall be deemed amended to delete therefrom such provision or portion adjudicated to be invalid or unenforceable or, in the alternative, such judicially substituted term may be substituted therefor.

ARTICLE VII

TERM

7.1 This Agreement shall be for a term of two (2) years commencing October 1, 1999 and terminating on September 30, 2001 unless sooner terminated as provided for herein (the "Expiration Date").

7.2 Unless this Agreement is earlier terminated pursuant to the terms hereof, the Company agrees to notify Employee in writing whether it intends to negotiate a renewal of this Agreement by notice six (6) months prior to the Expiration Date. In the event the Company fails to so notify the Employee, the term of this Agreement shall be extended for an additional one (1) year.

7.3 If the Company elects not to seek to renegotiate a renewal as provided in paragraph 7.2 above, or if the Company fails to reach agreement with Employee as to the terms of renewal, upon the termination of Employee's employment with the Company for any reason after the Expiration Date, the Company shall pay to Employee, in addition to any other payments due hereunder, a severance payment equal to twelve months of Employee's Base

Salary ("Severance Payments") payable in twelve equal monthly installments commencing on the first day of the first month following the date of such termination; provided, however, if Employee secures alternate employment within such twelve month period, the Company will be responsible only for the negative difference between the severance payments and the amount derived from such alternative employment.

7.4 In the event this Agreement expires without renewal, or is terminated for any reason except for cause, the Company shall pay for executive outplacement services.

ARTICLE VIII

DISABILITY DURING TERM

8.1 In the event Employee becomes totally disabled so that he is unable or prevented from performing any one or all of his usual duties hereunder for a period of four (4) consecutive months, and the Company elects to terminate this agreement in accordance with Article IX, paragraph (B) then, and in that event, Employee shall receive his Base Salary as provided under Article III of this Agreement for a period of twelve (12) months commencing from the date of such total disability or the balance of the original term of this agreement, whichever is greater. The obligation of the Company to make the aforesaid payments shall be modified and reduced and the Company shall receive a credit for all disability insurance payments which Employee may receive from insurance policies provided by the Company.

ARTICLE IX

TERMINATION

9.1 The Company may terminate this Agreement:

a. Upon the death of Employee during the term hereof, except that the Employee's legal representatives, successors, assigns, and heirs shall have those rights and interests as otherwise provided in this Agreement, including the right to receive accrued but unpaid incentive compensation and special bonus compensation on a pro rata basis.

b. Subject to the terms of Article VIII, upon written notice from the Company to the Employee, if Employee becomes totally disabled and as a result of such total disability, has been prevented from and unable to perform all of his duties hereunder for a consecutive period of four (4) months.

c. Upon written notice from the Company to the Employee, at any time for "Cause." For purposes of this Agreement, "Cause" shall be defined as: willful disobedience by the Employee of a material and lawful instruction of the Board of Directors of the Company; conviction of the Employee of any misdemeanor involving fraud or embezzlement or similar crime, or any felony; breach by the Employee of any material provision of this Agreement; or conduct amounting to fraud, dishonesty, negligence, willful misconduct, recurring insubordination, inattention to or unsatisfactory performance of duties which adversely affects operations of the Company, or excessive absences from work, provided that the Company shall not have the right to terminate the employment of Employee pursuant to the foregoing clauses (a) and (b) above unless written notice specifying such breach shall have been given to the Employee and, in the case of breach which is capable of being cured, the Employee shall have failed to cure such breach within thirty (30) days after his receipt of such notice.

9.2 In the event the Company demotes, substantially reduces the duties of or reduces the salary or benefits of the employee, the employee may elect to treat this Agreement as terminated for "good reason" upon ten (10) days prior written notice to the Company. In the event of termination of this Agreement for good reason, the employee shall be entitled to payment of the greater of all salary, benefits and stock grants or options due for the remaining term of the Agreement or the severance payments as defined in Article VII herein, in addition to any rights or remedies available to the employee at law or in equity.

9.3 In the event of the termination of this Agreement and the discharge of Employee by the Company in breach and violation of this Agreement, Employee shall not be obligated to

mitigate damages by seeking or obtaining alternate employment.

ARTICLE X

TERMINATION OF PRIOR AGREEMENTS

10.1 This Agreement sets forth the entire agreement between the parties and supersedes all prior agreements between the parties, whether oral or written prior to the effective date of this Agreement.

ARTICLE XI

STOCK OPTIONS

11.1 As an inducement to Employee to enter into this Agreement the Company hereby grants to Employee options to purchase shares of the Company's Common Stock, $.001 par value, as follows:

Subject to the terms and conditions of the Company's Senior Management Incentive Plan (the "Plan"), and the terms and conditions set forth in the Stock Option Certificate which are incorporated herein by reference, the Employee is hereby granted options to purchase 50,000 shares of the Company's Common Stock, of which options to purchase 25,000 shares shall vest immediately, 25,000 shall vest on the first anniversary hereof, and the balance shall vest on the second anniversary hereof. The exercise price of the option shall be $1.0625 per share and shall contain such other terms and conditions as set forth in the stock option agreement. The foregoing options shall be qualified as incentive stock options to the maximum as allowed by law. The Options provided for herein are not transferable by Employee and shall be exercised only by Employee, or by his legal representative or executor, as provided in the Plan. Such Option shall terminate as provided in the Plan.

ARTICLE XII

EXTRAORDINARY TRANSACTIONS

12.1 The Company's Board of Directors has determined that it is appropriate to reinforce and encourage the continued attention and dedication of members of the Company's management, including the Employee, to their assigned duties without distraction in potentially disturbing circumstances arising from the possibility of a change in control of the Company. A "Change in Control" of the Company shall be deemed to have occurred if there shall be consummated (i)(x) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of the Company's Common Stock would be converted into cash, securities or other property, other than a merger of the Company in which the holders of the Company's Common Stock immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger, or (y) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company, or (ii) the stockholders of the Company approved any plan or proposal for the liquidation or dissolution of the Company, or (iii) any person (as such term is used in Sections 13(d) and l3(d)(2) of the Securities Exchange Act of l934, as amended (the "Exchange Act")), shall become the beneficial owner (within the meaning of Rule l3d-3 under the Exchange Act) of 20% or more of the Company's outstanding Common Stock, except in connection with a transaction approved by the Board of Directors; or (iv) during any period of two consecutive years, individuals who at the beginning of such period constituted the entire Board of Directors shall cease for any reason to constitute a majority thereof unless the election, or the nomination for election by the Company's stockholders, of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period.

12.2 The Company agrees that, if during the term hereof, or during such time as the Employee is otherwise employed by the Company, a Change in Control shall occur, all additional compensation arrangements and plans provided Employee under paragraph 3.3 shall be funded to the maximum allowable under their terms and all options to purchase Common Stock of the Company held by Employee, either pursuant to this Agreement or otherwise, shall immediately vest and become exercisable on the first day following a Change in Control. Further, the options shall be deemed amended to provide that in the event of termination after an event enumerated in this Article X, the options shall remain exercisable for the duration of their term; and further, at the Employee's option, an amount equal to three times the aggregate annual compensation paid to the Employee during the calendar year preceding the Change in Control shall be credited against the exercise price of any options held by Employee at the time Employee elects to exercise such options; provided, however, that if the lump sum severance payment under this Article XI, either alone or together with other payments which the Employee has the right to receive from the Company, would constitute a "parachute payment" (as defined in Section 280G of the Internal Revenue Code of l954, as amended (the "Code")), such credit shall be reduced to the largest amount as will result in no portion of the credit under this Article XI being subject to the excise tax imposed by Section 4999 of the Code.

ARTICLE XIII

ARBITRATION AND INDEMNIFICATION

13.1 Any dispute arising out of the interpretation, application, and/or performance of this Agreement with the sole exception of any claim, breach, or violation arising under Articles V or VI hereof shall be settled through final and binding arbitration before a single arbitrator in the State of New Jersey in accordance with the Rules of the American Arbitration Association. The arbitrator shall be selected by the Association and shall be an attorney-at-law experienced in the field of corporate law. Any judgment upon any arbitration award may be entered in any court, federal or state, having competent jurisdiction of the parties.

13.2 The Company hereby agrees to indemnify, defend, and hold harmless the Employee for any and all claims arising from or related to his employment by the Company at any time asserted, at any place asserted, and to the fullest extent permitted by law. The Company shall maintain such insurance as is necessary and reasonable to protect the Employee from any and all claims arising from or in connection with his employment by the Company, provided such insurance can be obtained without unreasonable effort and expense.

ARTICLE XIV

SEVERABILITY

If any provision of this Agreement shall be held invalid and unenforceable, the remainder of this Agreement shall remain in full force and effect. If any provision is held invalid or unenforceable with respect to particular circumstances, it shall remain in full force and effect in all other circumstances.

ARTICLE XV

NOTICE

All notices required to be given under the terms of this Agreement shall be in writing and shall be deemed to have been duly given only if delivered to the addressee in person, with written acknowledgment received, or mailed by certified mail, return receipt requested, 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

or to any such other address as the party to receive the notice shall advise by due notice given in accordance with this paragraph. Notice shall be effective three (3) days after delivery or mailing.

ARTICLE XVI

BENEFIT

This Agreement shall inure to, and shall be binding upon, the parties hereto, the successors and assigns of the Company, and the heirs and personal representatives of the Employee.

ARTICLE XVII

WAIVER

The waiver by either party of any breach or violation of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach of construction and validity.

ARTICLE XVIII

GOVERNING LAW

This Agreement has been negotiated and executed in the State of New Jersey shall govern its construction and validity.

ARTICLE XIX

JURISDICTION

Any or all actions or proceedings which may be brought by the Company or Employee under this Agreement shall be brought in courts having a situs within the State of New Jersey, and Employee and the Company each hereby consent to the jurisdiction of any local, state, or federal court located within the State of New Jersey.

ARTICLE XX

ENTIRE AGREEMENT

This Agreement contains the entire agreement between the parties hereto. No change, addition, or amendment shall be made hereto, except by written agreement signed by the parties hereto.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement and affixed their hands and seals the day and year first above written.

(Corporate Seal) TEAMSTAFF, INC.

Donald W. Kappauf
President & Chief Executive Officer

Donald T. Kelly
Employee

Schedule A

(A) For the fiscal year ended September 30, 2000, Employee shall be entitled to be paid as a Bonus a percentage of the net pre-tax profit of the Company as determined by the Company's independent auditors no later than 75 days following the end of the Company's fiscal year without giving effect to tax loss carry forwards or the payment of any bonus under the Company's Executive Officer Bonus Program (the "EBT") as follows: (1) if EBT is at least $3,115,380 but less than $3,894,225, a percentage of EBT determined as follows: (a) the sum of 2% plus the percentage equal to the amount of EBT earned in excess of $3,115,000 divided by 778,845 and multiplied by 2; (2) if EBT is at least $3,894,225 but less than $5,062,500, a percentage EBT determined as follows: (a) the sum of 3% plus the percentage equal to the amount of EBT earned in excess of $3,894,225 divided by 1,168,275 and multiplied by 2; and (3) if EBT is equal to or in excess of $5,062,500, 4% of EBT; provided that in the event EBT is less than $3,115,380 no bonus shall be paid by the Company to the Employee other than at the discretion of the Compensation Committee. Such determination, for Bonus purposes only, shall be made in accordance with generally accepted accounting principles, as modified by this Schedule A.

(B) In the event the Company consummates a divestiture (a "Divestiture") of a subsidiary or business unit, the EBT required for each percentage level of Bonus shall be proportionately adjusted downward based on the Company's profit plan projections to reflect the loss of EBT for the remainder of the fiscal year attributable to the divested business unit or subsidiary. A Divestiture does not include a transaction involving the sale of all or substantially all of the assets of the Company.

EXHIBIT 10.28

EMPLOYMENT AGREEMENT

AGREEMENT made as of the 1st day of October, 1999 by and between Donald W. Kappauf, residing at1044 Tullo Farm Road, Bridgewater, New Jersey 08807 (hereinafter referred to as the "Employee") and TEAMSTAFF, INC., a New Jersey corporation with principal offices located at 300 Atrium Drive, Somerset, New Jersey 08873 (hereinafter referred to as the "Company").

W I T N E S S E T H :

WHEREAS, the Company and its subsidiaries are engaged in the business of providing Human Resource Administrative Services; and

WHEREAS, the Company desires to employ the Employee for the purpose of securing for the Company the experience, ability and services of the Employee; and

WHEREAS, the Employee desires to be employed with the Company, pursuant to the terms and conditions herein set forth, superseding all prior agreements between the Company, its subsidiaries and/or predecessors and Employee;

NOW, THEREFORE, it is mutually agreed by and between the parties hereto as follows:

ARTICLE I

EMPLOYMENT

1.1 Subject to and upon the terms and conditions of this Agreement, the Company hereby employs and agrees to continue the employment of the Employee, and the Employee hereby accepts such continued employment in his capacity as President, Chief Executive Officer and Corporate Secretary.

ARTICLE II

DUTIES

2.1 The Employee shall, during the term of his employment with the Company, and subject to the direction and control of the Company's Board of Directors, perform such duties and functions as he may be called upon to perform by the Company's Board of Directors during the term of this Agreement.

2.2 The Employee agrees to devote full business time and his best efforts in the performance of his duties for the Company and any subsidiary corporation of the Company.

2.3 The Employee shall perform, in conjunction with the Company's Executive Management, to the best of his ability the following services and duties for the Company and its subsidiary corporations (by way of example, and not by way of limitation):

(i) Those duties attendant to the position with the Company for which he is hired;

(ii) Establish and implement current and long range objectives, plans, and policies, subject to the approval of the Board of Directors;

(iii) Financial planning including the development of, liaison with, financing sources and investment bankers;

(iv) Managerial oversight of the Company's business;

(v) Shareholder's relations;

(vi) Ensure that all Company activities and operations are carried out in compliance with local, state and federal regulations and laws governing business operations.

(vii) Business expansion of the Company including acquisitions, joint ventures, and other opportunities; and

(viii) Promotion of the relationships of the Company and its subsidiaries with their respective employees, customers, suppliers and others in the business community.

2.4 Employee shall be based in the New Jersey area, and shall undertake such occasional travel, within or without the United States as is or may be reasonably necessary in the interests of the Company. The Company will not base Employee in any other office without Employee's express written consent.

ARTICLE III

COMPENSATION

3.1 Commencing the date hereof and during the term hereof, Employee shall be compensated initially at the rate of $225,000 per annum, subject to such increases to be determined on each 12-month anniversary during the term of this Agreement (the "Base Salary"), which shall be paid to Employee as in accordance with the Company's regular payroll periods.

3.2 Employee shall be entitled to receive a bonus (the "Bonus") in accordance with the Company's Executive Officer Bonus Program to be determined at the commencement of each fiscal year; provided, however, for the fiscal year ended September 30, 2000, Employee shall be entitled to be paid as a Bonus provided that in Schedule A annexed hereto.

3.3 The Company shall deduct from Employee's compensation all federal, state, and local taxes which it may now or may hereafter be required to deduct.

3.4 Employee may receive such other additional compensation as may be determined from time to time by the Board of Directors including bonuses and nonqualified executive benefit plans such as a split dollar life insurance arrangement, supplemental executive retirement plan ("SERP") and other long term compensation plans. Nothing herein shall be deemed or construed to require the Board to award any bonus or additional compensation except a split dollar life insurance arrangement, the terms of which will be subject to the reasonable agreement of the Employee and the Board.

ARTICLE IV

BENEFITS

4.1 During the term hereof, the Company shall provide Employee with group health care and insurance benefits as generally made available to the Company's senior management; provide such other insurance benefits obtained by the Company and made generally available to the Company's senior management; reimburse the Employee, upon presentation of appropriate vouchers, for all reasonable business expenses incurred by the Employee on behalf of the Company upon presentation of suitable documentation; and pay to Employee the sum of $1,000 per month as and for an automobile allowance.

4.2 In the event the Company wishes to obtain Key Man life insurance on the life of Employee, Employee agrees to cooperate with the Company in completing any applications necessary to obtain such insurance and promptly submit to such physical examinations and furnish such information as any proposed insurance carrier may request.

4.3 For each year of the term hereof, Employee shall be entitled to six (6) weeks paid vacation.

ARTICLE V

NON-DISCLOSURE

5.1 The Employee shall not, at any time during or after the termination of his employment hereunder, except when acting on behalf of and with the authorization of the Company, make use of or disclose to any person, corporation, or other entity, for any purpose whatsoever, any trade secret or other confidential information concerning the Company's business, finances, marketing, computerized payroll, accounting and information business, personnel and/or employee leasing business of the Company and its subsidiaries, including information relating to any customer of the Company or pool of temporary employees, or any other nonpublic business information of the Company and/or its subsidiaries learned as a consequence of Employee's employment with the Company (collectively referred to as the

"Proprietary Information"). For the purposes of this Agreement, trade secrets and confidential information shall mean information disclosed to the Employee or known by him as a consequence of his employment by the Company, whether or not pursuant to this Agreement, and not generally known in the industry. The Employee acknowledges that trade secrets and other items of confidential information, as they may exist from time to time, are valuable and unique assets of the Company, and that disclosure of any such information would cause substantial injury to the Company.

ARTICLE VI

RESTRICTIVE COVENANT

6.1 In the event of the voluntary termination of employment with the Company prior to the expiration of the term hereof, or Employee's discharge in accordance with Article VIII, or the expiration of the term hereof without renewal, Employee agrees that he will not, for a period of one (1) year following such termination (or expiration, as the case may be) directly or indirectly enter into or become associated with or engage in any other business (whether as a partner, officer, director, shareholder, employee, consultant, or otherwise), which business is located in the States of Florida, New Jersey, New York, and Texas or any other state the Company is operating in and is involved in the professional employer organization business, or is otherwise engaged in the same or similar business as the Company shall be engaged and is in direct competition with the Company, or which the Company is in the process of developing, during the tenure of Employee's employment by the Company. Notwithstanding the foregoing, the ownership by Employee of less than 5 percent of the shares of any publicly held corporation shall not violate the provisions of this Article VI.

6.2 In furtherance of the foregoing, Employee shall not during the aforesaid period of non-competition, directly or indirectly, in connection with any computerized payroll, employee leasing, or permanent or temporary personnel business, or any business similar to the

business in which the Company was engaged, or in the process of developing during Employee's tenure with the Company, solicit any customer or employee of the Company who was a customer or employee of the Company during the tenure of his employment.

6.3 If any court shall hold that the duration of non-competition or any other restriction contained in this Article is unenforceable, it is our intention that same shall not thereby be terminated but shall be deemed amended to delete therefrom such provision or portion adjudicated to be invalid or unenforceable or, in the alternative, such judicially substituted term may be substituted therefor.

ARTICLE VII

TERM

7.1 This Agreement shall be for a term of two (2) years commencing October 1, 1999 and terminating on September 30, 2001 unless sooner terminated as provided for herein (the "Expiration Date").

7.2 Unless this Agreement is earlier terminated pursuant to the terms hereof, the Company agrees to notify Employee in writing whether it intends to negotiate a renewal of this Agreement by notice six (6) months prior to the Expiration Date. In the event the Company fails to so notify the Employee, the term of this Agreement shall be extended for an additional one (1) year.

7.3 If the Company elects not to seek to renegotiate a renewal as provided in paragraph 7.2 above, or if the Company fails to reach agreement with Employee as to the terms of renewal, upon the termination of Employee's employment with the Company for any reason after the Expiration Date, the Company shall pay to Employee, in addition to any other payments due hereunder, a severance payment equal to twelve months of Employee's Base Salary ("Severance Payments") payable in twelve equal monthly installments commencing on the first day of the first month following the date of such termination; provided, however, if

Employee secures alternate employment within such twelve month period, the Company will be responsible only for the negative difference between the severance payments and the amount derived from such alternative employment.

7.4 In the event this Agreement expires without renewal, or is terminated for any reason except for cause, the Company shall pay for executive outplacement services.

ARTICLE VIII

DISABILITY DURING TERM

8.1 In the event Employee becomes totally disabled so that he is unable or prevented from performing any one or all of his usual duties hereunder for a period of four (4) consecutive months, and the Company elects to terminate this agreement in accordance with Article IX, paragraph (B) then, and in that event, Employee shall receive his Base Salary as provided under Article III of this Agreement for a period of twelve (12) months commencing from the date of such total disability or the balance of the original term of this agreement, whichever is greater. The obligation of the Company to make the aforesaid payments shall be modified and reduced and the Company shall receive a credit for all disability insurance payments which Employee may receive from insurance policies provided by the Company.

ARTICLE IX

TERMINATION

9.1 The Company may terminate this Agreement:

a. Upon the death of Employee during the term hereof, except that the Employee's legal representatives, successors, assigns, and heirs shall have those rights and interests as otherwise provided in this Agreement, including the right to receive accrued but unpaid incentive compensation and special bonus compensation on a pro rata basis.

b. Subject to the terms of Article VIII, upon written notice from the Company to the Employee, if Employee becomes totally disabled and as a result of such total

disability, has been prevented from and unable to perform all of his duties hereunder for a consecutive period of four (4) months.

c. Upon written notice from the Company to the Employee, at any time for "Cause." For purposes of this Agreement, "Cause" shall be defined as: (i) willful disobedience by the Employee of a material and lawful instruction of the Board of Directors of the Company; (ii) conviction of the Employee of any misdemeanor involving fraud or embezzlement or similar crime, or any felony; (iii) breach by the Employee of any material provision of this Agreement; (iv) conduct amounting to fraud, dishonesty, negligence, willful misconduct or recurring insubordination; (v) inattention to or unsatisfactory performance of duties which adversely affects operations of the Company; or (vi) excessive absences from work, provided that the Company shall not have the right to terminate the employment of Employee pursuant to the foregoing clauses (iii) and (v) above unless written notice specifying such breach shall have been given to the Employee and, in the case of breach which is capable of being cured, the Employee shall have failed to cure such breach within thirty (30) days after his receipt of such notice.

9.2 In the event the Company demotes, substantially reduces the duties of or reduces the salary or benefits of the employee, the employee may elect to treat this Agreement as terminated for "good reason" upon ten (10) days prior written notice to the Company. In the event of termination of this Agreement for good reason, the employee shall be entitled to payment of the greater of all salary, benefits and stock grants or options due for the remaining term of the Agreement or the severance payments as defined in Article VII herein, in addition to any rights or remedies available to the employee at law or in equity.

9.3 In the event of the termination of this Agreement and the discharge of Employee by the Company in breach and violation of this Agreement, Employee shall not be obligated to mitigate damages by seeking or obtaining alternate employment.

ARTICLE X

TERMINATION OF PRIOR AGREEMENTS

10.1 This Agreement sets forth the entire agreement between the parties and supersedes all prior agreements between the parties, whether oral or written prior to the effective date of this Agreement.

ARTICLE XI

STOCK OPTIONS

11.1 As an inducement to Employee to enter into this Agreement the Company hereby grants to Employee options to purchase shares of the Company's Common Stock, $.001 par value, as follows:

Subject to the terms and conditions of the Company's Senior Management Incentive Plan (the "Plan"), and the terms and conditions set forth in the Stock Option Certificate which are incorporated herein by reference, the Employee is hereby granted options to purchase 200,000 shares of the Company's Common Stock, of which options to purchase 100,000 shares shall vest immediately, 50,000 shall vest on the first anniversary hereof, and the balance shall vest on the second anniversary hereof. The exercise price of the option shall be $1.0625 per share and shall contain such other terms and conditions as set forth in the stock option agreement. The foregoing options shall be qualified as incentive stock options to the maximum as allowed by law. The Options provided for herein are not transferable by Employee and shall be exercised only by Employee, or by his legal representative or executor, as provided in the Plan. Such Option shall terminate as provided in the Plan.

ARTICLE XII

EXTRAORDINARY TRANSACTIONS

12.1 The Company's Board of Directors has determined that it is appropriate to reinforce and encourage the continued attention and dedication of members of the Company's management, including the Employee, to their assigned duties without distraction in potentially disturbing circumstances arising from the possibility of a change in control of the Company. A "Change in Control" of the Company shall be deemed to have occurred if there shall be consummated (i)(x) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of the Company's Common Stock would be converted into cash, securities or other property, other than a merger of the Company in which the holders of the Company's Common Stock immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger, or (y) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company, or (ii) the stockholders of the Company approved any plan or proposal for the liquidation or dissolution of the Company, or (iii) any person (as such term is used in Sections 13(d) and l3(d)(2) of the Securities Exchange Act of l934, as amended (the "Exchange Act")), shall become the beneficial owner (within the meaning of Rule l3d-3 under the Exchange Act) of 20% or more of the Company's outstanding Common Stock, except in connection with a transaction approved by the Board of Directors; or (iv) during any period of two consecutive years, individuals who at the beginning of such period constituted the entire Board of Directors shall cease for any reason to constitute a majority thereof unless the election, or the nomination for election by the Company's stockholders, of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period.

12.2 The Company agrees that, if during the term hereof, or during such time as the Employee is otherwise employed by the Company, a Change in Control shall occur, all additional compensation arrangements and plans provided Employee under paragraph 3.3 shall be funded to the maximum allowable under their terms and all options to purchase Common Stock of the Company held by Employee, either pursuant to this Agreement or otherwise, shall immediately vest and become exercisable on the first day following a Change in Control. Further, the options shall be deemed amended to provide that in the event of termination after an event enumerated in this Article XII, the options shall remain exercisable for the duration of their term; and further, at the Employee's option, an amount equal to three times the aggregate annual compensation paid to the Employee during the calendar year preceding the Change in Control shall be credited against the exercise price of any options held by Employee at the time Employee elects to exercise such options; provided, however, that if the lump sum severance payment under this Article XII, either alone or together with other payments which the Employee has the right to receive from the Company, would constitute a "parachute payment" (as defined in Section 280G of the Internal Revenue Code of l954, as amended (the "Code")), such credit shall be reduced to the largest amount as will result in no portion of the credit under this Article XII being subject to the excise tax imposed by Section 4999 of the Code.

ARTICLE XIII

ARBITRATION AND INDEMNIFICATION

13.1 Any dispute arising out of the interpretation, application, and/or performance of this Agreement with the sole exception of any claim, breach, or violation arising under Articles V or VI hereof shall be settled through final and binding arbitration before a single arbitrator in the State of New Jersey in accordance with the Rules of the American Arbitration Association. The arbitrator shall be selected by the Association and shall be an attorney-at-law experienced in the field of corporate law. Any judgment upon any arbitration award may be entered in any court, federal or state, having competent jurisdiction of the parties.

13.2 The Company hereby agrees to indemnify, defend, and hold harmless the Employee for any and all claims arising from or related to his employment by the Company at any time asserted, at any place asserted, and to the fullest extent permitted by law. The Company shall maintain such insurance as is necessary and reasonable to protect the Employee from any and all claims arising from or in connection with his employment by the Company, provided such insurance can be obtained without unreasonable effort and expense.

ARTICLE XIV

SEVERABILITY

If any provision of this Agreement shall be held invalid and unenforceable, the remainder of this Agreement shall remain in full force and effect. If any provision is held invalid or unenforceable with respect to particular circumstances, it shall remain in full force and effect in all other circumstances.

ARTICLE XV

NOTICE

All notices required to be given under the terms of this Agreement shall be in writing and shall be deemed to have been duly given only if delivered to the addressee in person, with written acknowledgment received, or mailed by certified mail, return receipt requested, 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

or to any such other address as the party to receive the notice shall advise by due notice given in accordance with this paragraph. Notice shall be effective three (3) days after delivery or mailing.

ARTICLE XVI

BENEFIT

This Agreement shall inure to, and shall be binding upon, the parties hereto, the successors and assigns of the Company, and the heirs and personal representatives of the Employee.

ARTICLE XVII

WAIVER

The waiver by either party of any breach or violation of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach of construction and validity.

ARTICLE XVIII

GOVERNING LAW

This Agreement has been negotiated and executed in the State of New Jersey shall govern its construction and validity.

ARTICLE XIX

JURISDICTION

Any or all actions or proceedings which may be brought by the Company or Employee under this Agreement shall be brought in courts having a situs within the State of New Jersey, and Employee and the Company each hereby consent to the jurisdiction of any local, state, or federal court located within the State of New Jersey.

ARTICLE XX

ENTIRE AGREEMENT

This Agreement contains the entire agreement between the parties hereto. No change, addition, or amendment shall be made hereto, except by written agreement signed by the parties hereto.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement and affixed their hands and seals the day and year first above written.

(Corporate Seal) TEAMSTAFF, INC.

By:

Donald W. Kappauf
Employee

Schedule A

(A) For the fiscal year ended September 30, 2000, Employee shall be entitled to be paid as a Bonus a percentage of the net pre-tax profit of the Company as determined by the Company's independent auditors no later than 75 days following the end of the Company's fiscal year without giving effect to tax loss carry forwards or the payment of any bonus under the Company's Executive Officer Bonus Program (the "EBT") as follows: (1) if EBT is at least $3,115,380 but less than $3,894,225, a percentage of EBT determined as follows: (a) the sum of 4% plus the percentage equal to the amount of EBT earned in excess of $3,115,000 divided by 778,845 and multiplied by 2; (2) if EBT is at least $3,894,225 but less than $5,062,500, a percentage EBT determined as follows: (a) the sum of 6% plus the percentage equal to the amount of EBT earned in excess of $3,894,225 divided by 1,168,275 and multiplied by 2; and (3) if EBT is equal to or in excess of $5,062,500, 8% of EBT; provided that in the event EBT is less than $3,115,380 no bonus shall be paid by the Company to the Employee other than at the discretion of the Compensation Committee. Such determination, for Bonus purposes only, shall be made in accordance with generally accepted accounting principles, as modified by this Schedule A.

(B) In the event the Company consummates a divestiture (a "Divestiture") of a subsidiary or business unit, the EBT required for each percentage level of Bonus shall be proportionately adjusted downward based on the Company's profit plan projections to reflect the loss of EBT for the remainder of the fiscal year attributable to the divested business unit or subsidiary. A Divestiture does not include a transaction involving the sale of all or substantially all of the assets of the Company.

EXHIBIT 21.0

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.

EXHIBIT 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report included in this Form 10-K, into TeamStaff, Inc.'s previously filed Registration Statements on Form S-3 File No. 33-85526, 33-70928, 33-91700, and 33-09313.

ARTHUR ANDERSEN LLP

Roseland, New Jersey
January 11, 2001

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YEAR
SEP-30-2000
OCT-01-1999
SEP-30-2000
4,285,000
0
21,398,000
281,000
0
28,298,000
4,549,000
3,459,000
49,514,000
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0
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8,000
18,051,000
49,514,000
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0
426,987,000
0
0
1,601,000
1,379,000
428,000
951,000
0
0
0
951,000
.12
.12

Amount reflects EPS - Basic not EPS - Primary