
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

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

For the quarterly period ended June 30, 2010

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

For the transition period from _____ to _____

Commission File No. 0-18492

TEAMSTAFF, INC.

(Exact name of registrant as specified in its charter)

New Jersey

(State or other jurisdiction of incorporation or organization)

22-1899798

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

1 Executive Drive, Suite 130

Somerset, New Jersey

(Address of principal executive offices)

08873

(Zip Code)

(866) 352-5304

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company
(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:
5,103,482 shares of Common Stock, par value \$.001 per share, were outstanding as of August 16, 2010.

TEAMSTAFF, INC.
FORM 10-Q
For the Quarter Ended June 30, 2010

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

ASSETS	June 30, 2010	September 30, 2009
	(unaudited)	
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,220	\$ 2,992
Accounts receivable, net of allowance for doubtful accounts of \$0 as of June 30, 2010 and September 30, 2009	11,499	11,427
Prepaid workers' compensation	512	517
Other current assets	213	257
Assets from discontinued operation	—	1,418
Total current assets	13,444	16,611
EQUIPMENT AND IMPROVEMENTS:		
Furniture and equipment	2,260	2,262
Computer equipment	215	255
Computer software	960	788
Leasehold improvements	9	9
	3,444	3,314
Less accumulated depreciation and amortization	(3,080)	(3,054)
Equipment and improvements, net	364	260
TRADENAME	3,924	3,924
GOODWILL	8,595	8,595
OTHER ASSETS	349	267
TOTAL ASSETS	\$ 26,676	\$ 29,657

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

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

LIABILITIES AND SHAREHOLDERS' EQUITY	June 30, 2010	September 30, 2009
	(unaudited)	
CURRENT LIABILITIES:		
Notes payable	\$ 1,500	\$ 1,500
Current portion of capital lease obligations	20	20
Accrued payroll	10,788	10,694
Accounts payable	1,809	1,890
Accrued expenses and other current liabilities	1,447	1,241
Liabilities from discontinued operation	341	392
Total current liabilities	15,905	15,737
CAPITAL LEASE OBLIGATIONS, net of current portion	12	27
OTHER LONG TERM LIABILITY	5	13
LONG TERM LIABILITIES FROM DISCONTINUED OPERATION	—	64
Total Liabilities	15,922	15,841
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred stock, \$.10 par value; authorized 5,000 shares; none issued and outstanding	—	—
Common stock, \$.001 par value; authorized 40,000 shares; issued 5,105 at June 30, 2010 and 4,900 at September 30, 2009, outstanding 5,103 at June 30, 2010 and 4,898 at September 30, 2009	5	5
Additional paid-in capital	69,431	69,124
Accumulated deficit	(58,658)	(55,289)
Treasury stock, 2 shares at cost at June 30, 2010 and September 30, 2009	(24)	(24)
Total shareholders' equity	10,754	13,816
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 26,676	\$ 29,657

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

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

	For the Three Months Ended	
	June 30, 2010	June 30, 2009
REVENUES	\$ 10,079	\$ 11,344
DIRECT EXPENSES	8,740	9,625
GROSS PROFIT	1,339	1,719
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,783	1,733
DEPRECIATION AND AMORTIZATION	34	28
Loss from operations	(478)	(42)
OTHER INCOME (EXPENSE)		
Interest income	7	9
Interest expense	(47)	(29)
Other income, net	10	153
Legal expense related to pre-acquisition activity of acquired company	(35)	(4)
	(65)	129
(Loss) income from continuing operations before taxes	(543)	87
INCOME TAX (EXPENSE) BENEFIT	(33)	39
(Loss) income from continuing operations	(576)	126
LOSS FROM DISCONTINUED OPERATION		
Loss from operations	—	(659)
Loss from discontinued operation	—	(659)
NET LOSS	(576)	(533)
OTHER COMPREHENSIVE INCOME		
Minimum pension liability adjustment, net of tax of \$0	—	—
COMPREHENSIVE LOSS	\$ (576)	\$ (533)
(LOSS) EARNINGS PER SHARE — BASIC		
(Loss) income from continuing operations	\$ (0.11)	\$ 0.03
Loss from discontinued operation	—	(0.14)
Net loss per share	<u>\$ (0.11)</u>	<u>\$ (0.11)</u>
(LOSS) EARNINGS PER SHARE — DILUTED		
(Loss) income from continuing operations	\$ (0.11)	\$ 0.03
Loss from discontinued operation	—	(0.13)
Net loss per share	<u>\$ (0.11)</u>	<u>\$ (0.10)</u>
WEIGHTED AVERAGE BASIC SHARES OUTSTANDING	<u>5,080</u>	<u>4,897</u>
WEIGHTED AVERAGE DILUTED SHARES OUTSTANDING	<u>5,080</u>	<u>5,086</u>

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

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

	For the Nine Months Ended	
	June 30, 2010	June 30, 2009
REVENUES	\$ 30,667	\$ 34,829
DIRECT EXPENSES	26,997	29,273
GROSS PROFIT	3,670	5,556
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	5,272	4,856
OFFICER SEVERANCE	310	—
DEPRECIATION AND AMORTIZATION	87	83
(Loss) income from operations	(1,999)	617
OTHER INCOME (EXPENSE)		
Interest income	12	41
Interest expense	(100)	(80)
Other income, net	12	158
Legal expense related to pre-acquisition activity of acquired company	(92)	(16)
	<u>(168)</u>	<u>103</u>
(Loss) income from continuing operations before taxes	(2,167)	720
INCOME TAX (EXPENSE) BENEFIT	(43)	28
(Loss) income from continuing operations	(2,210)	748
LOSS FROM DISCONTINUED OPERATION		
Loss from operations	(810)	(1,792)
Loss from disposal	(349)	—
Loss from discontinued operation	(1,159)	(1,792)
NET LOSS	(3,369)	(1,044)
OTHER COMPREHENSIVE INCOME		
Minimum pension liability adjustment	—	5
COMPREHENSIVE LOSS	\$ (3,369)	\$ (1,039)
(LOSS) EARNINGS PER SHARE — BASIC		
(Loss) income from continuing operations	\$ (0.44)	\$ 0.15
Loss from discontinued operation	(0.23)	(0.36)
Net loss per share	<u>\$ (0.67)</u>	<u>\$ (0.21)</u>
(LOSS) EARNINGS PER SHARE — DILUTED		
(Loss) income from continuing operations	\$ (0.44)	\$ 0.15
Loss from discontinued operation	(0.23)	(0.35)
Net loss per share	<u>\$ (0.67)</u>	<u>\$ (0.20)</u>
WEIGHTED AVERAGE BASIC SHARES OUTSTANDING	<u>5,009</u>	<u>4,901</u>
WEIGHTED AVERAGE DILUTED SHARES OUTSTANDING	<u>5,009</u>	<u>5,090</u>

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

TEAMSTAFF, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amount in thousands)
(Unaudited)

	For the Nine Months Ended	
	June 30,	June 30,
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (3,369)	\$ (1,044)
Adjustments to reconcile net loss to net cash used in operating activities, net of divested businesses:		
Depreciation and amortization	87	83
Compensation expense related to employee stock option grants	88	—
Compensation expense related to director restricted stock grants	57	—
Compensation expense related to employee restricted stock grants	161	164
Loss on retirement of equipment	1	—
Changes in operating assets and liabilities, net of divested business:		
Accounts receivable	(72)	499
Other current assets	49	213
Other assets	(82)	(145)
Accounts payable, accrued payroll, accrued expenses and other current liabilities	219	(1,456)
Other long term liabilities	(8)	(14)
Pension liability	—	(70)
Cash flows from discontinued operation	1,386	148
Net cash used in operating activities	<u>(1,483)</u>	<u>(1,622)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment, leasehold improvements and software	(191)	(50)
Cash flow from discontinued operation	—	(19)
Net cash used in investing activities	<u>(191)</u>	<u>(69)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments on capital lease obligations	(15)	(31)
Net comprehensive income on pension	—	5
Cash flows from discontinued operation	(83)	(20)
Net cash used in financing activities	<u>(98)</u>	<u>(46)</u>
Net decrease in cash and cash equivalents	(1,772)	(1,737)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,992	5,213
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 1,220</u>	<u>\$ 3,476</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	\$ 26	\$ 39
Cash paid during the period for income taxes	\$ 94	\$ 113

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

TEAMSTAFF, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2010 (Unaudited)

(1) ORGANIZATION AND BUSINESS:

TeamStaff, Inc. and its subsidiaries (“TeamStaff” or the “Company”, also referred to as “we,” “us” and “our”), provide a range of technical services to the United States Department of Veterans Affairs (“DVA”), the United States Department of Defense (“DOD”) and other US governmental entities. TeamStaff’s primary operations are located in Loganville, Georgia and its principal executive office is located at 1 Executive Drive, Suite 130, Somerset, New Jersey 08873 where its telephone number is (866) 352-5304. TeamStaff, Inc., a New Jersey corporation, was founded in 1969 as a payroll service company and evolved into a national provider of logistics and healthcare services. Its principal operations are conducted through its subsidiary, TeamStaff Government Solutions, (“TeamStaff GS”), a wholly-owned subsidiary of TeamStaff, Inc. TeamStaff GS changed its name from RS Staffing Services, Inc on February 12, 2008 to reflect the subsidiary’s expanding service offerings.

On December 28, 2009, TeamStaff and TeamStaff Rx, Inc. (“TeamStaff Rx”), its wholly-owned subsidiary, entered into a definitive Asset Purchase Agreement with Advantage RN, LLC, an Ohio limited liability company (“Advantage RN”), providing for the sale to Advantage RN of substantially all of the operating assets of TeamStaff Rx related to our business of providing travel nurse and allied healthcare professionals for temporary assignments. The closing of this transaction occurred on January 4, 2010. The Asset Purchase Agreement provided that the purchased assets were acquired by Advantage RN for a purchase price of up to \$425,000, of which: (i) \$350,000 in cash was paid at the closing, and (ii) \$75,000 was subject to an escrowed holdback as described in the Asset Purchase Agreement. On March 25, 2010, the Company and Advantage RN completed the analysis related to escrow release conditions and reached an agreement as to the final purchase price. Of the \$75,000 held in escrow, \$25,000 was released to the Company and \$50,000 was returned to Advantage RN, resulting in a final purchase price of \$375,000. Additionally, Advantage RN has and will continue to make rent subsidy payments to TeamStaff Rx totaling \$125,000, consisting of: (i) \$25,000 paid at closing, and (ii) an additional \$100,000 payable in 10 equal monthly installments beginning on March 1, 2010. Under the terms of the Asset Purchase Agreement, Advantage RN did not assume any debts, obligations or liabilities of TeamStaff Rx nor did it purchase any accounts receivable outstanding as of the closing date. As described in Note 3 to these consolidated financial statements, the results of operations, cash flows and related assets and liabilities of TeamStaff Rx have been reclassified to discontinued operations in the accompanying consolidated financial statements from those of continuing businesses for all periods presented.

Following the disposition of its TeamStaff Rx business, TeamStaff provides healthcare and logistics services to U.S. government entities through TeamStaff GS. Teamstaff provides its range of technical services through competitively awarded government contracts including those through existing United States General Services Administration (GSA) contract vehicles. TeamStaff employs over 800 employees in over 25 states in support of the DVA, the DOD and other government agencies. Additional services include engineering support, contingency and staff augmentation.

TeamStaff remains particularly dependent on the continuation of its relationship with the DVA. As previously reported, in January 2008 Teamstaff GS was issued purchase orders for the DVA’s consolidated pharmacy distribution centers from the DVA national contracting office. Although the current task orders expired on December 31, 2009, continuation of services extensions for all six locations serviced by TeamStaff GS were granted by the DVA to us through December 31, 2010. Representatives of the DVA have indicated that the DVA may release new requests for proposals related to technical services at its pharmacy distribution facilities in 2010. In such an event, the Company intends to submit a proposal to address any such solicitation. Although the Company believes it is well-positioned to continue its relationship with the DVA, no assurances can be given that the DVA would further extend our current service order or that the Company will be successful in its bid for the new contract. If the DVA does not further extend the Company’s current service contract or the Company is not successful in its efforts to obtain contract awards pursuant to new solicitations, the Company’s results of operations and financial condition would be materially adversely affected.

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TeamStaff's other wholly-owned subsidiaries include DSI Staff ConnXions Northeast, Inc., DSI Staff ConnXions Southwest, Inc., TeamStaff Solutions, Inc., TeamStaff I, Inc., TeamStaff II, Inc., TeamStaff III, Inc., TeamStaff IV, Inc., TeamStaff VIII, Inc., TeamStaff IX, Inc., Digital Insurance Services, Inc., HR2, Inc. and BrightLane.com, Inc. As a result of the sale of our Professional Employer Organization business in fiscal year 2004 and other Company business changes, these "other" subsidiaries are not actively operating.

Basis of Presentation

The consolidated interim financial statements included herein have been prepared by TeamStaff, without audit, pursuant to the applicable rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. TeamStaff believes that the disclosures are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in TeamStaff's fiscal 2009 Annual Report on Form 10-K. This interim financial information reflects, in the opinion of management, all adjustments necessary (consisting only of normal recurring adjustments and changes in estimates, where appropriate) to present fairly the results for the interim periods. The results of operations and cash flows for fiscal 2010 interim periods are not necessarily indicative of the results for the full year.

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

Certain prior period amounts have been reclassified to conform to the current period presentation. The results of operations and cash flows of TeamStaff Rx have been reclassified to discontinued operations in the accompanying consolidated financial statements from those of continuing businesses for all periods presented.

(2) SIGNIFICANT ACCOUNTING POLICIES:

Revenue Recognition

TeamStaff accounts for its revenues in accordance with ACS 605-45, *Reporting Revenues Gross as a Principal Versus Net as an Agent*, and SAB 104, *Revenue Recognition*. TeamStaff recognizes all amounts billed to its customers as gross revenue because, among other things, TeamStaff is the primary obligor in the contract arrangement; TeamStaff has pricing latitude; TeamStaff selects employees for a given assignment from a broad pool of individuals; TeamStaff is at risk for the payment of its direct costs; and TeamStaff assumes a significant amount of other risks and liabilities as an employer, and therefore, is deemed to be a principal in regard to these services. TeamStaff also recognizes as gross revenue and as unbilled receivables, on an accrual basis, any such amounts that relate to services performed by employees which have not yet been billed to the customer as of the end of the accounting period.

Revenues related to retroactive billings in 2008 (see Note 4) from an agency of the Federal government were recognized when: (1) the Company developed and calculated an amount for such prior period services and had a contractual right to bill for such amounts under its arrangements, (2) there were no remaining unfulfilled conditions for approval of such billings and (3) collectability is reasonably assured based on historical practices with the DVA. The related direct costs, principally comprised of salaries and benefits, are recognized to match the recognized reimbursements from the Federal agency; upon approval, wages will be processed for payment to the employees.

During the year ended September 30, 2008, TeamStaff recognized revenues of \$10.8 million and direct costs of \$10.1 million related to these non-recurring arrangements. At June 30, 2010 and September 30, 2009, the amount of the remaining accounts receivable with the DVA approximated \$9.3 million and accrued liabilities for salaries to employees and related benefits totaled \$8.7 million. The \$9.3 million in accounts receivable was unbilled to the DVA at June 30, 2010 and September 30, 2009. At present, the Company expects to finalize the timing of collecting such amounts during fiscal 2010 based on current discussions and collection efforts.

Revenue is recognized as service is rendered. TeamStaff bills its clients based on an hourly rate. The hourly rate is intended to cover TeamStaff's direct labor costs of the employees, plus an estimate for overhead expenses and a profit margin.

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

Stock-Based Compensation

Compensation costs for the portion of awards (for which the requisite service has not been rendered) that are outstanding are recognized as the requisite service is rendered over explicit or derived periods. The compensation cost for that portion of awards shall be based on the grant-date fair value of those awards as calculated for recognition purposes under applicable guidance. There was share-based compensation expense for options for the three and nine months ended June 30, 2010 of \$18,000 and \$88,000 respectively. There was no share-based compensation expense for options for the three and nine months ended June 30, 2009. As of June 30, 2010 there was \$0.3 million of unrecognized compensation expense related to non-vested stock option awards to be recognized in future periods.

During the three months ended June 30, 2010, TeamStaff did not grant any options, no options expired or were cancelled unexercised and no options were exercised. During the nine months ended June 30, 2010, TeamStaff granted 75,000 options per the terms of an employment agreement with the Company’s Chief Financial Officer and recorded share-based compensation expense of \$30,000. An additional \$7,000 of share-based compensation expense will be recognized over the remainder of fiscal 2010 related to this grant. Also during the nine months ended June 30, 2010, the Company granted 500,000 options per the terms of an employment agreement with the Company’s new Chief Executive Officer and President and recorded share-based compensation expense of \$45,000. For the remaining unvested options, the Company will recognize a non cash compensation charge over the Chief Executive Officer’s remaining service period, for the calculated fair value of these options based on market values, historical stock performance and exercisability assumptions specific to this grant. Such charges will be material in future periods. During the nine months ended June 30, 2010, 5,750 options expired or were cancelled unexercised and no options were exercised. There were 614,375 options outstanding as of June 30, 2010. During the three and nine months ended June 30, 2009, TeamStaff did not grant any options, 12,500 options expired or were cancelled unexercised and no options were exercised. There were 20,125 options outstanding as of June 30, 2009.

During the three months ended June 30, 2010, TeamStaff did not grant any shares of restricted common stock. During the nine months ended June 30, 2010, TeamStaff granted 42,500 shares of restricted stock to non-employee directors under its 2006 Long Term Incentive Plan (“2006 Plan”), at the closing price on the award date of \$1.34. All of these shares vested immediately. Stock compensation expense associated with these grants and all other grants totaled \$23,000 and \$218,000 for the three and nine months ended June 30, 2010, respectively.

During the three months ended June 30, 2009, TeamStaff did not grant any restricted common stock under its 2006 Long Term Incentive Plan (“2006 Plan”). During the nine months ended June 30, 2009, TeamStaff granted an aggregate of 341,612 shares of restricted stock under its 2006 Plan. Of these shares, 16,612 shares vested immediately, 50,000 shares are subject to certain performance based vesting requirements and 275,000 shares vest over two years. During the nine months ended June 30, 2010, 40,000 of these performance based shares were cancelled as it was determined that the performance based vesting requirements had not been met. Stock compensation expense associated with these grants and all other grants totaled \$0.08 million and \$0.1 million for the three and nine months ended June 30, 2009, respectively. As permitted, the Company will not recognize expense on the performance based shares until it is probable that these conditions will be achieved. Such charges could be material in future periods.

Option activity for the nine months ended June 30, 2010 is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding, September 30, 2009	15,125	\$ 6.30	1.6	\$ —
Granted	605,000	\$ 1.03		
Exercised	—			
Cancelled	(5,750)	\$ 7.38		
Options outstanding and exercisable, June 30, 2010	<u>614,375</u>	<u>\$ 1.35</u>	<u>9.3</u>	<u>\$ —</u>

At June 30, 2010 there were 487,500 unvested options outstanding.

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The aggregate intrinsic value in the table above represents the total pretax intrinsic value (i.e., the difference between the Company's closing common stock price on the last trading day of the period and the exercise price, times the number of shares) that would have been received by the option holders had all option holders exercised their in the money options on those dates. This amount changes based on the fair market value of the Company's common stock.

Restricted stock activity for the nine months ended June 30, 2010 is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Restricted stock outstanding, September 30, 2009	391,250	\$ 1.96
Granted	42,500	\$ 1.34
Issued	(205,000)	\$ 1.63
Cancelled	(113,750)	\$ 2.01
Restricted stock outstanding, June 30, 2010	<u>115,000</u>	<u>\$ 2.30</u>

At June 30, 2010, there were 115,000 shares of unvested restricted common stock outstanding. As of June 30, 2010, approximately \$49,000 of unrecognized compensation costs related to non-vested restricted stock awards is expected to be recognized over the next 6 months. This amount does not include compensation costs, if any, related to conditional, performance based restricted stock awards.

At June 30, 2010, the Company had reserved 635,919 shares of common stock for issuance under various option, shares and warrant plans and arrangements.

Additional paid in capital increased \$0.3 million as a result of stock compensation charges.

Earnings (Loss) Per Share

Basic earnings (loss) per share is calculated by dividing income (loss) available to common shareholders by the weighted average number of common shares outstanding and restricted stock grants that vested or are likely to vest during the period. Diluted earnings (loss) per share for the 2009 periods are calculated by dividing income (loss) available to common shareholders by the weighted average number of basic common shares outstanding, adjusted to reflect potentially dilutive securities.

The respective determination of weighted average shares used in the computation of earnings (loss) per share is as follows (amounts in thousands);

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
Basic:				
(Loss) income from continuing operations	5,080	4,897	5,009	4,901
Loss from discontinued operation	5,080	4,897	5,009	4,901
Diluted:				
(Loss) income from continuing operations	5,080	5,086	5,009	5,090
Loss from discontinued operation	5,080	5,086	5,009	5,090

Under guidance for determining earnings (loss) per share, the effects of common stock equivalents of approximately 189,000 shares are included (even though the shares are anti dilutive) for each of the three and nine months ended June 30, 2009, in the calculation of loss per share for discontinued operations.

Income Taxes

TeamStaff accounts for income taxes in accordance with the “liability” method, whereby deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are reflected on the consolidated balance sheet when it is determined that it is more likely than not that the asset will be realized. This guidance also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some or all of the deferred tax asset will not be realized. At June 30, 2010 and September 30, 2009, the Company recorded a 100% valuation allowance against its net deferred tax assets.

Recently Issued Accounting Pronouncements Affecting the Company

In June 2009, the FASB issued a standard which stipulated the *FASB Accounting Standards Codification*TM is the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. This standard is effective for financial statements issued for interim and annual periods that ended after September 15, 2009. The implementation of this standard did not have a material impact on the Company’s financial position, results of operations and cash flows.

In October 2009, the FASB issued a standard addressing the recognition of revenue in multiple-deliverable revenue arrangements. This standard establishes a new selling price hierarchy to use when allocating the revenue of a multiple element arrangement between delivered and undelivered elements. This standard is generally expected to result in revenue recognition for more delivered elements than under current rules. The Company is required to adopt this guidance prospectively for new or materially modified agreements entered into on or after October 1, 2010. The Company is evaluating the impact of this standard but, given its current business model and arrangements, does not expect its adoption will have a material effect on our financial position or results of operations.

In January 2010, the FASB issued a standard addressing fair value measurements and disclosures, which amends previously released guidance on fair value measurements and disclosures. The amendment requires additional disclosures about fair value measurements including transfers in and out of Levels 1 and 2 and more disaggregation for the different types of financial instruments. This standard is effective for annual and interim reporting periods beginning after December 15, 2009 for most of the new disclosures and for periods beginning after December 15, 2010 for the new Level 3 disclosures. Comparative disclosures are not required in the first year the disclosures are required. The Company does not have, at present, assets or liabilities that are subject to this standard; accordingly, adoption of this standard had no effect on the Company’s financial statements.

(3) DISCONTINUED OPERATION:

Sale of TeamStaff Rx

Based on an analysis of historical and forecasted results and the Company’s strategic initiative to focus on core government service business, in the fourth quarter of fiscal 2009, the Company approved and committed to a formal plan to divest the operations of TeamStaff Rx, our wholly-owned subsidiary, based at its Clearwater, Florida location. In evaluating the facets of TeamStaff Rx’s operations, management concluded that this business component meets the definition of a discontinued operation. Accordingly, the results of operations, cash flows and related assets and liabilities of TeamStaff Rx for all periods presented have been reclassified to discontinued operations in the accompanying consolidated financial statements from those of continuing businesses.

Effective December 28, 2009, TeamStaff and TeamStaff Rx entered into a definitive Asset Purchase Agreement with Advantage RN, providing for the sale to Advantage RN of substantially all of the operating assets of TeamStaff Rx related to TeamStaff Rx’s business of providing travel nurse and allied healthcare professionals for temporary assignments. The closing of this transaction occurred on January 4, 2010. The Asset Purchase Agreement provided that the purchased assets were acquired by Advantage RN for a purchase price of up to \$425,000, of which (i) \$350,000 in cash was paid at the closing, and (ii) \$75,000 was subject to an escrowed holdback as described in the Asset Purchase Agreement. On March 25, 2010, the Company and Advantage RN completed the analysis related to escrow release conditions and reached an agreement as to the final purchase price. Of the \$75,000 held in escrow, \$25,000 was returned to the Company and \$50,000 was released to Advantage RN, resulting in a final purchase price of \$375,000. Additionally, Advantage RN has and will continue to make rent subsidy payments to TeamStaff Rx totaling \$125,000, consisting of: (i) \$25,000 paid at closing, and (ii) an additional \$100,000 payable in 10 equal monthly installments beginning on March 1, 2010. Under the terms of the Asset Purchase Agreement, Advantage RN will not assume any debts, obligations or liabilities of TeamStaff Rx nor will it purchase any accounts receivable outstanding as of the closing date.

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Condensed financial statement information and results of discontinued operations are as follows:

(amounts in thousands)	For the Three Months Ended		For the Nine Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Revenues	\$ —	\$ 1,779	\$ 1,418	\$ 6,699
Direct expenses	—	1,398	1,255	5,225
Selling, general and administrative expenses	—	1,010	971	3,211
Depreciation and amortization	—	34	—	102
Other income (expense), net	—	4	(2)	47
Loss from operations	—	(659)	(810)	(1,792)
Loss from disposal	—	—	(349)	—
Net loss	\$ —	\$ (659)	\$ (1,159)	\$ (1,792)

Included in selling, general and administrative expense from discontinued operations for the nine months ended June 30, 2010 is a charge of \$0.1 million for severance to certain TeamStaff Rx employees, \$0.3 million in various accrued expenses related to the sale and shut down of the business, and a loss on the disposal of TeamStaff Rx approximating \$0.3 million principally from recognition of the remaining unfunded operating lease payments. There were no tax benefits associated with the losses from these discontinued operations.

The following chart details assets and liabilities from all discontinued operations (amounts in thousands):

	June 30, 2010	September 30, 2009
ASSETS		
Cash	\$ —	\$ 245
Accounts receivable	—	674
Other current assets	—	124
Total current assets	—	1,043
Fixed assets	—	1,878
Accumulated depreciation	—	(1,602)
Net fixed assets	—	276
Goodwill and intangibles	—	99
Total assets	\$ —	\$ 1,418
Liabilities		
Current portion capital leases	\$ —	\$ 44
Accrued payroll	42	237
Accrued expenses and other current liabilities	299	111
Total current liabilities	341	392
Long term capital leases	—	39
Other long term liabilities	—	25
Total liabilities	\$ 341	\$ 456

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Activity in the liabilities of discontinued operations for the nine months ended June 30, 2010 is as follows:

	September 30, 2009 Balance	Expensed This Period	Paid This Period	June 30, 2010 Balance
Current portion capital leases	\$ 44	\$ 1	\$ (45)	\$ —
Accrued payroll	237	—	(195)	42
Accrued expenses and other current liabilities	111	498	(310)	299
Capital leases	39	—	(39)	—
Other long term liabilities	25	—	(25)	—
Total	<u>\$ 456</u>	<u>\$ 499</u>	<u>\$ (614)</u>	<u>\$ 341</u>

(4) COMMITMENTS AND CONTINGENCIES:

Payroll Taxes

TeamStaff has received notices from the Internal Revenue Service (“IRS”) claiming taxes, interest and penalties due related to payroll taxes predominantly from its former PEO operations which were sold in fiscal 2003. TeamStaff has also received notices from the IRS reporting overpayments of taxes. Management believes that these notices are predominantly the result of misapplication of payroll tax payments between its legal entities. If not resolved favorably, the Company may incur interest and penalties. Until the sale of certain assets related to the former PEO operations, TeamStaff operated through 17 subsidiaries, and management believes that the IRS has not correctly identified payments made through certain of the different entities, therefore leading to the notices. To date, TeamStaff has been working with the IRS to resolve these discrepancies and has had certain interest and penalty claims abated. TeamStaff has also received notices from the Social Security Administration claiming variances in wage reporting compared to IRS transcripts. TeamStaff believes the notices from the Social Security Administration are directly related to the IRS notices received. TeamStaff had retained the services of Ernst & Young LLP as a consultant to assist in resolving certain of these matters with the IRS and Social Security Administration. TeamStaff believes that after the IRS applies all the funds correctly, any significant interest and penalties will be abated; however, there can be no assurance that each of these matters will be resolved favorably. In settling various years for specific subsidiaries with the IRS, the Company has received refunds for those specific periods; however, as the process of settling and concluding on other periods and subsidiaries is not yet completed, the potential exists for related penalties and interest. In fiscal 2009, the Company paid \$1.1 million, related to this matter. No payments have been made in fiscal 2010. Management believes that the ultimate resolution of these remaining payroll tax matters will not have a significant adverse effect on its financial position or future results of operations.

Legal Proceedings

RS Staffing Services, Inc.

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

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

The Company originally acquired RS Staffing Services in June 2005. As part of the purchase price of the acquisition, the Company issued to the former owners of RS Staffing Services a \$3.0 million promissory note, of which \$1.5 million in principal and interest of \$150,000 was paid in June 2006. On May 31, 2007, the Company sent a notice of indemnification claim to the former owners for costs that have been incurred in connection with the investigation. Effective June 1, 2007, the Company and former owners of RS Staffing Services reached an agreement to extend the due date from June 8, 2007 to December 31, 2008 with respect to the remaining \$1.5 million principal payable and accrued interest payable. Such agreement has been extended to August 31, 2010. As of June 30, 2010, the amount has not been settled. The Company recognized expenses related to legal representation and costs incurred in connection with the investigation in the amount of \$35,000 and \$4,000 in the three months ended June 30, 2010 and 2009, respectively, and \$92,000 and \$16,000 in the respective nine month periods as a component of other income (expense). Cumulative costs related to this matter approximate \$1.8 million. Pursuant to the acquisition agreement with RS Staffing Services, the Company has notified the former owners of RS Staffing Services that it is the Company's intention to exercise its right to setoff the payment of such expenses against the remaining principal and accrued interest due under such promissory notes to the former owners of RS Staffing Services.

The Company will pursue the recovery as a right of offset in future periods. Management has a good faith belief that the Company will recover such amounts; however, generally accepted accounting principles preclude the Company from recording an offset to the note payable to the former owners of RS Staffing Services until the final amount of the claim is settled and determinable. At present, no assurances can be given that the former owners of RS Staffing Services would not pursue action against us or that the Company will be successful in the offset of such amounts against the outstanding debt and accrued interest from notice date forward, if any. Accordingly, the Company has expensed costs incurred related to the investigation through June 30, 2010.

Other Matters

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

Potential Contractual Billing Adjustments

At June 30, 2010, TeamStaff GS is seeking approval from the Federal government for gross profit on retroactive billing rate increases associated with certain government contracts at which it has employees staffed on contract assignments. These adjustments are due to changes in the contracted wage determination rates for these employees. A wage determination is the listing of wage rates and fringe benefit rates for each classification of laborers whom the Administrator of the Wage and Hour Division of the U.S. Department of Labor ("DOL") has determined to be prevailing in a given locality. Contractors performing services for the Federal government under certain contracts are required to pay service employees in various classes no less than the wage rates and fringe benefits found prevailing in these localities. An audit by the DOL at one of the facilities revealed that notification, as required by contract, was not provided to TeamStaff GS in order to effectuate the wage increases in a timely manner. Wages for employees currently on assignment have been adjusted prospectively to the prevailing rate and hourly billing rates to the DVA have been increased accordingly. During the fiscal year ended September 30, 2008, TeamStaff recognized nonrecurring revenues of \$10.8 million and direct costs of \$10.1 million, based on amounts that are contractually due under its arrangements with the Federal agencies. At June 30, 2010 and September 30, 2009, the amount of the remaining accounts receivable with the DVA approximates \$9.3 million. The Company has been and continues to be in discussions with representatives of the DVA regarding the matter and anticipates resolution during fiscal 2010. TeamStaff is currently in the process of negotiating a final amount related to gross profit on these adjustments. As such, there may be additional revenues recognized in future periods once the approval for such additional amounts is obtained. The ranges of additional revenue and gross profit are estimated to be between \$0.4 million and \$0.6 million. At present, the Company expects to make the final determination of such amounts during fiscal 2010 based on current discussions and collection efforts. Because these amounts are subject to government review, no assurances can be given that we will receive any additional billings from our government contracts or that if additional amounts are received, that the amount will be within the range specified above.

(5) PREPAID WORKERS' COMPENSATION:

From November 17, 2003 through April 14, 2009, inclusive, TeamStaff's workers' compensation insurance program was provided by Zurich American Insurance Company ("Zurich"). This program covered TeamStaff's temporary, contract and corporate employees. This program was a fully insured, guaranteed cost program that contained no deductible or retention feature. The premium for the program was paid monthly based upon actual payroll and is subject to a policy year-end audit. Effective April 15, 2009, TeamStaff entered into a partially self-funded workers' compensation insurance program with a national insurance carrier for the premium year April 15, 2009 through April 14, 2010. The policy was renewed for the premium year April 15, 2010 through April 14, 2011. The Company will pay a base premium plus actual losses incurred, not to exceed certain stop-loss limits. The Company is insured for losses above these limits, both per occurrence and in the aggregate. The Company accrues for estimated claims incurred based on data provided by its insurance carrier.

As part of the Company's discontinued PEO operations, TeamStaff had a workers' compensation program with Zurich, which covered the period from March 22, 2002 through November 16, 2003, inclusive. Payments for the policy were made to the trust monthly based on projected claims for the policy period. Interest on all assets held in the trust is credited to TeamStaff. Payments for claims and claims expenses are made from the trust. From time-to-time, trust assets have been refunded to the Company based on Zurich's and management's overall assessment of claims experience and historical and projected settlements. In June 2009 and March 2008, Zurich reduced the collateral requirements on outstanding workers' compensation claims and released \$114,000 and \$350,000, respectively, in trust account funds back to the Company. The final amount of trust funds that could be refunded to the Company is subject to a number of uncertainties (e.g. claim settlements and experience, health care costs, the extended statutory filing periods for such claims); however, based on a third party's study of claims experience, TeamStaff estimates that at June 30, 2010, the remaining prepaid asset of \$0.3 million will be received within the next twelve months. A portion of this is reflected on TeamStaff's balance sheet as of June 30, 2010 as a current asset, in addition to approximately \$0.2 million related to current policy deposits.

As of June 30, 2010 the adequacy of the workers' compensation reserves under the Zurich program (which are offset against the trust fund balances in prepaid assets) was determined, in management's opinion, to be reasonable. In determining our reserves we rely in part upon information regarding loss data received from our workers' compensation insurance carriers that may include loss data for claims incurred during prior policy periods. In addition, these reserves are for claims that have not been sufficiently developed and such variables as timing of payments and investment returns thereon are uncertain or unknown, therefore actual results may vary from current estimates. TeamStaff will continue to monitor the development of these reserves, the actual payments made against the claims incurred, the timing of these payments, the interest accumulated in TeamStaff's prepayments and adjust the related reserves as deemed appropriate.

(6) DEBT:

Predecessor Facility

On April 7, 2010, TeamStaff notified Sovereign Business Capital ("Sovereign") that it was terminating, effective immediately, the Amended and Restated Loan and Security Agreement dated as of March 28, 2008, as amended by that certain Modification Agreement dated as of January 8, 2010 (together, the "Sovereign Agreement"), by and between the Company and Sovereign. Pursuant to the Sovereign Agreement, Sovereign had provided the Company with a three-year secured revolving credit line with an initial borrowing availability of up to \$3 million; however, effective in January 2010, Sovereign reduced the borrowing availability to \$2 million in connection with providing its consent to the Company's disposition of the operating assets of its TeamStaff Rx subsidiary (see Note 3). The credit provided by Sovereign under the Sovereign Agreement was secured by a first priority lien on all of the Company's assets.

As the Company previously reported, on February 12, 2010, the Company determined that as of December 31, 2009, it was not in compliance with the debt service coverage ratio covenant of the Sovereign Agreement. The Company also reported that it was in discussions with Sovereign regarding obtaining a waiver of its default under the debt service coverage ratio. Subsequently, the Company was notified by Sovereign that it did not intend to renew the Sovereign Agreement beyond its stated termination date of March 21, 2011 and further that it would waive payment of a termination fee in the event the Company satisfied its obligations under the Sovereign Agreement prior to August 31, 2010. The Company's decision to terminate the Sovereign Agreement followed its discussions with Sovereign of these matters and was made to provide the Company with greater flexibility as it pursued various financing alternatives, including seeking to obtain a substitute credit facility on more favorable terms and being able to avoid the payment of the termination fee to Sovereign. In the third quarter of fiscal 2010, the Company recognized a charge of \$44,000 (included as a component of interest expense) related to the write off of unamortized financing costs associated with the Sovereign Agreement.

Current Facility

On July 29, 2010, TeamStaff GS entered into a Loan and Security Agreement dated as of July 29, 2010 (the "Loan Agreement") with Presidential Financial Corporation (the "Lender").

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Under the Loan Agreement, the Lender agreed to provide a two (2) year loan and security facility to TeamStaff GS in an aggregate amount of up to \$1.5 million upon the further terms and subject to the conditions of the Loan Agreement. The loan is secured by a security interest and lien on all of TeamStaff GS's accounts, account deposits, letters of credit and investment property, chattel paper, furniture, fixtures and equipment, instruments, investment property, general intangibles, deposit accounts, inventory, other property, all proceeds and products of the foregoing (including proceeds of any insurance policies and claims against third parties for loss of any of the foregoing) and all books and records related thereto. TeamStaff GS's ability to request loan advances under the Loan Agreement is subject to (i) computation of TeamStaff GS's advance availability limit based on "eligible accounts receivables" (as defined in the Loan Agreement) multiplied by the "Accounts Advance Rate" established by the Lender which initially shall be 85% and may be increased or decreased by the Lender in exercise of its discretion; and (ii) compliance with the covenants and conditions of the loan. The loan is for a term of 24 months and matures on July 29, 2012. Interest on the loan accrues on the daily unpaid balance of the loan advances at the greater of one point ninety-five percent (1.95%) above the Prime Rate (as published in effect in The Wall Street Journal from time to time) or at the rate of three point two-five percent (3.25%) per annum. The initial interest rate shall be 5.20%. In addition, TeamStaff GS will pay certain other related fees and expense reimbursements including a monthly service charge of 0.65% based on the average daily loan balance which shall accrue daily and be due and payable on the last day of each month so long as the Loan Agreement is outstanding.

The Loan Agreement requires compliance with customary covenants and restrictions on the Company's ability to, among other things, dispose of certain assets, engage in certain transactions, incur indebtedness and pay dividends, and TeamStaff GS's tangible net worth. The Loan Agreement also provides for customary events of default following which, the Lender may, at its option, accelerate the amounts outstanding under the Loan Agreement.

TeamStaff has concurrently executed a Corporate Guaranty Agreement with Lender pursuant to which it has guaranteed all of the obligations of Teamstaff GS under the Loan Agreement.

Liquidity

As of June 30, 2010, TeamStaff had cash and cash equivalents of \$1.2 million and net accounts receivable of \$11.5 million. At June 30, 2010, the amount of the accounts receivable associated with the DVA retroactive billings approximates \$9.3 million and was unbilled at June 30, 2010. As of June 30, 2010, we had a working capital deficiency of \$2.5 million. The disposition of TeamStaff Rx and the related liabilities the Company incurred as a result of severance and disposal accruals has had a negative impact on our working capital position. The Company also classifies a \$1.5 million balance of the \$3.0 million note payable related to the acquisition of RS Staffing Services as a current liability (See Note 4 of Notes to Consolidated Financial Statements). However, the Company plans to pursue its right of offset against the note for legal expenses incurred and has a good faith belief that we will recover such amounts.

Promissory Note (see Note (4) Commitments and Contingencies: "Legal Proceedings")

In connection with the acquisition of RS Staffing Services, TeamStaff issued two promissory notes to the former owners of RS Staffing Services as part of the acquisition price, in the aggregate principal amount of \$3.0 million. The notes bear interest at 5% per annum. One half of the principal (\$1.5 million) and interest (\$150,000) was due and paid on June 8, 2006. The remaining principal and interest was due in June 2007. As described in Note (4) above, effective June 1, 2007, the Company and former owners of RS Staffing Services reached an agreement to extend the due date of the \$1.5 million principal payable and accrued interest to August 31, 2010.

Based on contractual terms of the initial agreement and the status of the parties' discussions, this debt at June 30, 2010 and September 30, 2009 is classified as a current liability.

(7) STOCK WARRANTS:

The Company had no outstanding warrants during the three months ended June 30, 2010 and 2009.

(8) MANAGEMENT TRANSITION AND NEW CHIEF EXECUTIVE OFFICER

On February 9, 2010, the Company entered into an employment agreement with Mr. Zachary C. Parker pursuant to which he became the Company's Chief Executive Officer and President commencing on February 22, 2010 and was elected to the Company's Board of Directors effective on February 22, 2010. Mr. Parker has over 25 years of leadership experience in the government services business. Mr. Parker succeeded Rick J. Filippelli, who served as the Company's Chief Executive Officer and President and a member of its Board of Directors. As previously reported, Mr. Filippelli resigned from his positions with TeamStaff effective February 5, 2010. The following is a description of the Company's employment agreement with Mr. Parker, which is qualified in its entirety by reference to the full text of such agreement.

Mr. Parker's employment agreement is for an initial term expiring September 30, 2013. Under the employment agreement, Mr. Parker will receive a base salary of \$288,000. Upon any termination of his employment on or after the expiration date, other than for cause (as defined in the employment agreement), Mr. Parker will be entitled to a severance payment equal to 12 months of his then-current base salary. Mr. Parker may receive a bonus in the sole discretion of the Management Resources and Compensation Committee of the Board of Directors of up to 70% of his base salary for each fiscal year of employment. The bonus will be based on performance targets and other key objectives established by the committee at the commencement of each fiscal year. For the period commencing on the effective date of the employment agreement to September 30, 2010, Mr. Parker shall be guaranteed a bonus of \$45,000. The committee will establish performance targets for the balance of fiscal 2010 in consultation with Mr. Parker within 30 days of the commencement date to enable him to earn an additional bonus for fiscal 2010, not to exceed in the aggregate 70% of the portion of the base salary actually paid in fiscal 2010.

The Company granted Mr. Parker options to purchase 500,000 shares of common stock under the 2006 Plan. The options shall vest as follows: 50,000 options vest on the commencement of his employment; 150,000 options shall vest if the closing price of the Company's common stock equals or exceeds \$3.00 per share for ten consecutive trading days; an additional 50,000 options shall vest if the closing price of the Company's common stock equals or exceeds \$4.00 per share for ten consecutive trading days; an additional 50,000 options shall vest if the closing price of the Company's common stock equals or exceeds \$5.00 per share for ten consecutive trading days; an additional 50,000 options shall vest if the closing price of the Company's common stock equals or exceeds \$6.00 per share for ten consecutive trading days; an additional 50,000 options shall vest if the closing price of the Company's common stock equals or exceeds \$7.00 per share for ten consecutive trading days; and the remaining 100,000 options shall vest if the closing price of the Company's common stock equals or exceeds \$9.00 per share for ten consecutive trading days. The options, to the extent vested, shall be exercisable for a period of ten years at the per share exercise price of \$1.03, which was the closing price of the Company's common stock on the date of execution of the employment agreement.

In the event of the termination of his employment, the options granted under the employment agreement will be treated as follows: (i) in the event his employment is terminated for cause, options granted and not exercised as of the termination date shall terminate immediately and be null and void; (ii) in the event Mr. Parker's employment with the Company is terminated due to death, or disability, his (or his estate's or legal representative's) right to purchase shares of common stock pursuant to any stock option or stock option plan to the extent vested as of the date of termination shall remain exercisable for a period of 12 months, but in no event after the expiration of the option; (iii) in the event of a termination of his employment other than for good reason, such options, to the extent vested as of the date of termination, shall remain exercisable for a period of three months following such termination date, but in no event after the expiration of option; (iv) in the event Mr. Parker's employment is terminated by the Company without cause, or by him for good reason, as such terms are defined in the employment agreement, vested options shall remain exercisable in accordance with the 2006 Plan; and (v) in the event of a Change of Control, as defined in the employment agreement, vested options shall remain exercisable in accordance with the 2006 Plan.

In the event of the termination of employment by us without "cause" or by Mr. Parker for "good reason," as those terms are defined in the employment agreement, or in the event his employment is terminated due to his disability, he would be entitled to: (a) a severance payment of 12 months of base salary; (b) continued participation in our health and welfare plans for a period not to exceed 18 months from the termination date; and (c) all compensation accrued but not paid as of the termination date. In the event of the termination of his employment due to his death, Mr. Parker's estate would be entitled to receive: (a) all compensation accrued but not paid as of the termination date; (b) continued participation in our health and welfare plans for a period not to exceed 18 months from the termination date; and (c) payment of a "Pro Rata Bonus", which is defined as an amount equal to the maximum bonus Mr. Parker had an opportunity to earn multiplied by a fraction, the numerator of which shall be the number of days from the commencement of the fiscal year to the termination date, and the denominator of which shall be the number of days in the fiscal year in which he was terminated. If Mr. Parker's employment is terminated by us for "cause" or by him without "good reason," he is not entitled to any additional compensation or benefits other than his accrued and unpaid compensation.

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In the event that within 90 days of a “Change of Control” as defined in the employment agreement, (a) Mr. Parker is terminated, or (b) his status, title, position or responsibilities are materially reduced and he terminates his employment, the Company shall pay and/or provide to him, the following compensation and benefits: (i) the accrued compensation; (ii) the continuation benefits; and (iii) a lump sum payment equal to 150% of his base salary in effect on the effective date of the change of control. If the payments due in the event of a change in control would constitute an “excess parachute payment” as defined in Section 280G of the Internal Revenue Code of 1986, as amended (the “Code”), the aggregate of such credits or payments under the employment agreement and other agreements shall be reduced to the largest amount as will result in no portion of such aggregate payments being subject to the excise tax imposed by Section 4999 of the Code. The priority of the reduction of excess parachute payments shall be in the discretion of Mr. Parker. Pursuant to the employment agreement, Mr. Parker is subject to customary confidentiality, non-solicitation of employees and non-competition obligations that survive the termination of such agreements.

Separation Agreement

On February 11, 2010, the Company entered into a separation agreement with its former Chief Executive Officer, Rick J. Filippelli, which memorializes the terms of his departure from the Company. As previously reported, Mr. Filippelli resigned from all positions with Company effective as of February 5, 2010. Consistent with the employment agreement the Company entered into with Mr. Filippelli in November 2009, pursuant to the separation agreement and in consideration of the general release granted by Mr. Filippelli to the Company, the Company agreed to provide Mr. Filippelli with the following: (a) a severance payment of \$290,000; (b) the provision of health benefits through February 5, 2011; and (c) all unvested stock options and restricted stock awards shall be deemed vested as of the termination date of his employment and all outstanding options shall remain exercisable for their original exercise period. Mr. Filippelli also agreed that he will not sell the 35,000 restricted shares of the Company’s Common Stock originally scheduled to vest in January 2011, and the 30,000 shares of Common Stock underlying the option granted pursuant to the November 2009 employment agreement until the earlier of a change of control of the Company, as defined in such employment agreement, or January 31, 2011.

(9) SUBSEQUENT EVENTS:

The Company has evaluated subsequent events occurring after the balance sheet date of June 30, 2010. Based on this evaluation, the Company has determined that no subsequent events except for the matters discussed below, has occurred which require disclosure in the consolidated financial statements.

As discussed in greater detail in Note 6 (Debt), on July 29, 2010, TeamStaff GS entered into a Loan and Security Agreement dated as of July 29, 2010 with Presidential Financial Corporation.

On August 9, 2010, the Company announced that Cheryl Presuto, the Company’s Chief Financial Officer, will be leaving the Company effective as of August 27, 2010 to pursue another career opportunity. The Company has commenced a recruitment process and is implementing a plan to ensure operational and financial reporting continuity.

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

Forward Looking and Cautionary Statements

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

continue to recruit and retain qualified healthcare and logistics professionals at reasonable costs; our ability to attract and retain sales and operational personnel; our ability to enter into contracts with the United States Government on terms attractive to us and to secure orders related to those contracts; changes in the timing of orders for and our placement of contract and permanent healthcare professionals and administrative staff; the overall level of demand for services; the variation in pricing of the healthcare facility contracts under which we place healthcare professionals; our ability to manage growth effectively; the performance of our management information and communication systems; the effect of existing or future government legislation and regulation; the impact of medical malpractice and other claims asserted against us; the disruption or adverse impact to our business as a result of a terrorist attack; our ability to carry out our business strategy; the loss of key officers, and management personnel that could adversely affect our ability to remain competitive; the effect of recognition by us of an impairment to goodwill and intangible assets; other tax and regulatory issues and developments; and the effect of adjustments by us to accruals for self-insured retentions.

Other factors that could cause actual results to differ from those implied by the forward-looking statements in this Quarterly Report on Form 10-Q are set forth in our Annual Report on Form 10-K for the year ended September 30, 2009, this Quarterly Report on Form 10-Q and our other reports filed with the SEC. We undertake no obligation to update any forward-looking statement or statements in this filing to reflect events or circumstances that occur after the date on which the statement is made or to reflect the occurrence of unanticipated events.

Critical Accounting Policies and Estimates

TeamStaff believes the accounting policies below represent its critical accounting policies due to the significance or estimation process involved in each. See Note 2 of TeamStaff's 2009 Annual Report on Form 10-K as well as "Critical Accounting Policies" contained therein for a detailed discussion on the application of these and other accounting policies.

Revenue Recognition

TeamStaff accounts for its revenues in accordance with ACS 605-45, *Reporting Revenues Gross as a Principal Versus Net as an Agent*, and SAB 104, *Revenue Recognition*. TeamStaff recognizes all amounts billed to its customers as gross revenue because, among other things, TeamStaff is the primary obligor in the contract arrangement; TeamStaff has pricing latitude; TeamStaff selects employees for a given assignment from a broad pool of individuals; TeamStaff is at risk for the payment of its direct costs; and TeamStaff assumes a significant amount of other risks and liabilities as an employer, and therefore, is deemed to be a principal in regard to these services. TeamStaff also recognizes as gross revenue and as unbilled receivables, on an accrual basis, any such amounts that relate to services performed by employees which have not yet been billed to the customer as of the end of the accounting period.

Revenues related to retroactive billings in 2008 (see Note 4 of Notes to Consolidated Financial Statements) from an agency of the Federal government were recognized when: (1) the Company developed and calculated an amount for such prior period services and had a contractual right to bill for such amounts under its arrangements, (2) there were no remaining unfulfilled conditions for approval of such billings and (3) collectability is reasonably assured based on historical practices with the DVA. The related direct costs, principally comprised of salaries and benefits, are recognized to match the recognized reimbursements from the Federal agency; upon approval, wages will be processed for payment to the employees.

During the year ended September 30, 2008, TeamStaff recognized revenues of \$10.8 million and direct costs of \$10.1 million related to these non-recurring arrangements. At June 30, 2010 and September 30, 2009, the amount of the remaining accounts receivable with the DVA approximated \$9.3 million and accrued liabilities for salaries to employees and related benefits totaled \$8.7 million. The \$9.3 million in accounts receivable was unbilled to the DVA at June 30, 2010 and September 30, 2009. At present, the Company expects to finalize the timing of collecting such amounts by the end of fiscal 2010 based on current discussions and collection efforts.

Revenue is recognized as service is rendered. TeamStaff bills its clients based on an hourly rate. The hourly rate is intended to cover TeamStaff's direct labor costs of the employees, plus an estimate for overhead expenses and a profit margin.

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

Prepaid Workers' Compensation

From November 17, 2003 through April 14, 2009, inclusive, TeamStaff's workers' compensation insurance program was provided by Zurich American Insurance Company ("Zurich"). This program covered TeamStaff's temporary, contract and corporate employees. This program was a fully insured, guaranteed cost program that contained no deductible or retention feature. The premium for the program was paid monthly based upon actual payroll and is subject to a policy year-end audit. Effective April 15, 2009, TeamStaff entered into a partially self-funded workers' compensation insurance program with a national insurance carrier for the premium year April 15, 2009 through April 14, 2010. The policy was renewed for the premium year April 15, 2010 through April 14, 2011. The Company will pay a base premium plus actual losses incurred, not to exceed certain stop-loss limits. The Company is insured for losses above these limits, both per occurrence and in the aggregate. The Company accrues for estimated claims incurred based on data provided by its insurance carrier.

As part of the Company's discontinued PEO operations, TeamStaff had a workers' compensation program with Zurich, which covered the period from March 22, 2002 through November 16, 2003, inclusive. Payments for the policy were made to the trust monthly based on projected claims for the policy period. Interest on all assets held in the trust is credited to TeamStaff. Payments for claims and claims expenses are made from the trust. From time-to-time, trust assets have been refunded to the Company based on Zurich's and management's overall assessment of claims experience and historical and projected settlements. In June 2009 and March 2008, Zurich reduced the collateral requirements on outstanding workers' compensation claims and released \$114,000 and \$350,000, respectively, in trust account funds back to the Company. The final amount of trust funds that could be refunded to the Company is subject to a number of uncertainties (e.g. claim settlements and experience, health care costs, the extended statutory filing periods for such claims); however, based on a third party's study of claims experience, TeamStaff estimates that at June 30, 2010, the remaining prepaid asset of \$0.3 million will be received within the next twelve months. A portion of this is reflected on TeamStaff's consolidated balance sheet as of June 30, 2010 as a current asset, in addition to approximately \$0.2 million related to current policy deposits.

As of June 30, 2010 the adequacy of the workers' compensation reserves under the Zurich program (which are offset against the trust fund balances in prepaid assets) was determined, in management's opinion, to be reasonable. In determining our reserves we rely in part upon information regarding loss data received from our workers' compensation insurance carriers that may include loss data for claims incurred during prior policy periods. In addition, these reserves are for claims that have not been sufficiently developed and such variables as timing of payments and investment returns thereon are uncertain or unknown, therefore actual results may vary from current estimates. TeamStaff will continue to monitor the development of these reserves, the actual payments made against the claims incurred, the timing of these payments, the interest accumulated in TeamStaff's prepayments and adjust the related reserves as deemed appropriate.

Income Taxes

TeamStaff accounts for income taxes in accordance with the "liability" method, whereby deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are reflected on the consolidated balance sheet when it is determined that it is more likely than not that the asset will be realized. This guidance also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some or all of the deferred tax asset will not be realized. At June 30, 2010, the Company provided a 100% deferred tax valuation allowance of approximately \$14.5 million.

Recently Issued Accounting Pronouncements Affecting the Company

In June 2009, the FASB issued a standard which stipulated the *FASB Accounting Standards Codification*TM is the source of authoritative U.S. GAAP recognized by the FASB to be applied by nongovernmental entities. This standard is effective for financial statements issued for interim and annual periods that ended after September 15, 2009. The implementation of this standard did not have a material impact on the Company's financial position, results of operations and cash flows.

In October 2009, the FASB issued a standard addressing the recognition of revenue in multiple-deliverable revenue arrangements. This standard establishes a new selling price hierarchy to use when allocating the revenue of a multiple element arrangement between delivered and undelivered elements. This standard is generally expected to result in revenue recognition for more delivered elements than under current rules. The Company is required to adopt this guidance prospectively for new or materially modified agreements entered into on or after October 1, 2010. The Company is evaluating the impact of this standard but, given its current business model and arrangements, does not expect its adoption will have a material effect on our financial position or results of operations.

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In January 2010, the FASB issued a standard addressing fair value measurements and disclosures, which amends previously released guidance on fair value measurements and disclosures. The amendment requires additional disclosures about fair value measurements including transfers in and out of Levels 1 and 2 and more disaggregation for the different types of financial instruments. This standard is effective for annual and interim reporting periods beginning after December 15, 2009 for most of the new disclosures and for periods beginning after December 15, 2010 for the new Level 3 disclosures. Comparative disclosures are not required in the first year the disclosures are required. The Company does not have, at present, assets or liabilities that are subject to this standard; accordingly, adoption of this standard had no effect on the Company's financial statements.

Overview

Business Description

TeamStaff, through its TeamStaff GS subsidiary, is a healthcare and logistics service provider which has been serving the Federal Government for over a decade. TeamStaff GS's primary client has been the United States Government and its various agencies. TeamStaff GS has developed a strong track record of delivering best-value and on-schedule technical services to its varied clients. TeamStaff is transforming its infrastructure to align with its remaining core business of government services. TeamStaff remains fully committed to high quality performance and cost-effectiveness for our customers. TeamStaff GS is committed to providing on-time delivery of multi-disciplined employees who possess the necessary experience, expertise, and dedication required to meet contract specifications. The staffing services offered by TeamStaff GS are provided through independent FSS contracts through the GSA. The provision of logistical and administrative personnel is accomplished through the Logistics Worldwide Schedule and medical personnel are supplied through the Professional and Allied Healthcare Staffing Services Schedule. TeamStaff also provides its staffing services to federal government agencies through competitively bid contracts. TeamStaff provides these services to the DVA, the DOD and other US governmental agencies and placed employees at approximately 30 facilities during the nine months ended June 30, 2010. Presently, TeamStaff has over 800 employees at these agencies and operates in over 25 states.

TeamStaff remains particularly dependent on the continuation of its relationship with the DVA. As previously reported, in January 2008 Teamstaff GS was issued purchase orders for the DVA's consolidated pharmacy distribution centers from the DVA national contracting office. Although the current task orders expired on December 31, 2009, continuation of services extensions for all six locations serviced by TeamStaff GS were granted by the DVA to us through December 31, 2010. Representatives of the DVA have indicated that the DVA may release new requests for proposals related to technical services at its pharmacy distribution facilities in 2010. In such an event, the Company intends to submit a proposal to address any such solicitation. Although the Company believes it is well-positioned to continue its relationship with the DVA, no assurances can be given that the DVA would further extend our current service order or that the Company will be successful in its bid for the new contract. If the DVA does not further extend the Company's current service contract or the Company is not successful in its efforts to obtain contract awards pursuant to new solicitations, the Company's results of operations and financial condition would be materially adversely affected.

As described in greater detail in Note 3 (Discontinued Operation) of Notes to Consolidated Financial Statements, on December 28, 2009, TeamStaff and TeamStaff Rx entered into a definitive Asset Purchase Agreement with Advantage RN, LLC, an Ohio limited liability company, providing for the sale to Advantage RN of substantially all of the operating assets of TeamStaff Rx related to TeamStaff Rx's business of providing travel nurse and allied healthcare professionals for temporary assignments. The closing of this transaction occurred on January 4, 2010. The Asset Purchase Agreement provided that the purchased assets were acquired by Advantage RN for a purchase price of up to \$425,000, of which (i) \$350,000 in cash was paid at the closing, and (ii) \$75,000 was subject to an escrowed holdback as described in the Asset Purchase Agreement. On March 25, 2010, the Company and Advantage RN completed the analysis related to escrow release conditions and reached an agreement as to the final purchase price. Of the \$75,000 held in escrow, \$25,000 was returned to the Company and \$50,000 was released to Advantage RN, resulting in a final purchase price of \$375,000. Additionally, Advantage RN has and will continue to make rent subsidy payments to TeamStaff Rx totaling \$125,000, consisting of: (i) \$25,000 payable at closing, and (ii) an additional \$100,000 payable in 10 equal monthly installments beginning on March 1, 2010.

Following the disposition of our TeamStaff Rx business, TeamStaff provides staffing services through TeamStaff GS.

As described in greater detail in Note 3 to our consolidated financial statements, the results of operations, cash flows and related assets and liabilities of our TeamStaff Rx business were reclassified in the accompanying consolidated financial statements from those of our continuing businesses to discontinued operations.

Management Transition

On February 9, 2010, we entered into an employment agreement with Mr. Zachary C. Parker pursuant to which he became Chief Executive Officer and President of TeamStaff commencing on February 22, 2010. Mr. Parker's employment agreement also provides for his election to the Company's Board of Directors effective on February 22, 2010. Mr. Parker succeeded Rick J. Filippelli, who served as the Company's Chief Executive Officer and President and a member of its Board of Directors. As previously reported, in the first quarter of fiscal 2010, Mr. Filippelli resigned from his positions with TeamStaff effective February 5, 2010. On February 5, 2010, the Board of Directors had named Cheryl Presuto, the Company's Chief Financial Officer, to serve as the Company's Acting President until Mr. Parker commenced employment as TeamStaff's Chief Executive Officer and President.

On August 9, 2010, the Company announced that Cheryl Presuto, the Company's Chief Financial Officer, will be leaving the Company effective as of August 27, 2010 to pursue another career opportunity. The Company has commenced a recruitment process and is implementing a plan to ensure operational and financial reporting continuity.

Recent Business Trends

Under Mr. Parker's leadership, TeamStaff has begun transforming the Company to leverage the performance of TeamStaff GS to achieve more profitable growth in the broader government services market sector. TeamStaff has also retained the services of a Washington DC-based strategic planning firm to assist the leadership team in developing the Company's new long-range strategic plan. The Company is looking to expand its footprint in the logistics and healthcare business within DOD and other agencies. At the same time, the Company is staying closely tuned to the actions of the Obama Administration with regard to converting private industry jobs into government positions; an initiative commonly referred to as "in-sourcing". Government in-sourcing in FY2009 lead to a significant reduction in TeamStaff GS sales revenue and associated profit. As such, TeamStaff has recently become a corporate member of the Washington DC-based Professional Services Council which often represents the interests of member companies on Capitol Hill and to relevant government agencies including matters of "in-sourcing".

With the President and Pentagon's recent budgetary commitment to veterans and those Warfighters soon to return from two major offshore wars, TeamStaff is well-positioned for stability and growth. Our significant share of the DVA's Consolidated Mail Outpatient Pharmacy (CMOP) business provides a cornerstone upon which we can build in this national priority area. We also intend to pursue opportunities from new DVA programs which may be introduced.

TeamStaff GS is expanding its reach within the government sector beyond DVA opportunities by bidding on DOD contracts afforded to large businesses and GSA's *e-Buy* portal, an electronic Request for Quote (RFQ) / Request for Proposal (RFP) system designed to allow Federal buyers to request information, find sources, and prepare RFQs/RFPs, online, for various services offered through GSA's Multiple Award Schedule. TeamStaff GS is evaluating opportunities to satisfy the staffing needs of other government agencies in addition to the DVA and DOD as a means of horizontal expansion of its client base. TeamStaff GS is also seeking to develop and maintain a nationwide network of teaming partners, including small businesses, Service Disabled Veteran Owned Small Businesses and other small-businesses certified under Section 8(a) of the Small Business Administration in order to expand and diversify its service offerings.

Although we saw a delay in new solicitation activity based, in part, on the change in administration, we experienced increased solicitation activity during the second fiscal quarter (as well as the current quarter) in areas of our revised strategic focus. We have begun to submit more contract proposals in areas within the scope of our revised strategic business plan, including logistics opportunities within the DOD. However, no assurances can be given that we will be granted contract awards in these fields or that contracts, if awarded, will translate into future revenues. In addition, we believe the government staffing business is stable in an economic downturn due to the longer term duration of its contracts. Management believes that, under the current administration, there will not be a reduction in government spending supporting social programs that benefit military personnel and veterans.

Results of Operations

The following table summarizes (in rounded percentages), for the periods indicated, selected consolidated statements of operations data expressed as a percentage of revenue:

Condensed Consolidated Statement of Operations:	Three Months Ended		Nine Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
Revenues	100.0%	100.0%	100.0%	100.0%
Direct Expenses	86.7%	84.8%	88.0%	84.0%
Gross Profit	13.3%	15.2%	12.0%	16.0%
Selling, general and administrative	17.7%	15.3%	17.2%	13.9%
Officer Severance	0.0%	0.0%	1.0%	0.0%
Depreciation and amortization expense	0.3%	0.2%	0.3%	0.3%
(Loss) income from operations	-4.7%	-0.3%	-6.5%	1.8%
Other income (expense)	-0.6%	1.1%	-0.5%	0.3%
(Loss) income from continuing operations before tax	-5.3%	0.8%	-7.0%	2.1%
Income tax (expense) benefit	-0.3%	0.3%	-0.1%	0.1%
(Loss) income from continuing operations	-5.6%	1.1%	-7.1%	2.2%
Loss from discontinued operation	0.0%	-5.8%	-3.8%	-5.1%
Net loss	-5.6%	-4.7%	-10.9%	-2.9%

Revenues from TeamStaff's continuing operations for the three months ended June 30, 2010 and 2009 were \$10.1 million and \$11.3 million, respectively, which represents a decrease of \$1.2 million or 10.6% over the prior fiscal year period. New business revenue for the third quarter of 2010 was \$0.3 million compared to the third quarter of 2009 and \$0.2 million compared to the sequential quarter ended March 31, 2010. This helped to offset the decrease in operating revenues year over year due primarily to government in-sourcing of selected positions under our existing contracts of \$0.9 million and \$0.5 million related to the conclusion of our only commercial contract.

Revenues from TeamStaff's continuing operations for the nine months ended June 30, 2010 and 2009 were \$30.7 million and \$34.8 million, respectively, which represents a decrease of \$4.1 million or 11.9% over the prior fiscal year period. The decrease in revenues from continuing operations is due primarily to net reductions in headcount at certain Government facilities of \$3.3 million, reduced overtime at these facilities of \$0.6 million and the non-renewal of TeamStaff GS's sole commercial contract of \$1.1 million, offset by new business of \$0.5 million.

TeamStaff GS is seeking approval from the Federal Government for gross profit on retroactive billing rate increases associated with certain government contracts at which it has employees staffed on contract assignments. These adjustments are due to changes in the contracted wage determination rates for these employees. A wage determination is the listing of wage rates and fringe benefit rates for each classification of laborers whom the Administrator of the Wage and Hour Division of the U.S. Department of Labor ("DOL") has determined to be prevailing in a given locality. Contractors performing services for the Federal Government under certain contracts are required to pay service employees in various classes no less than the wage rates and fringe benefits found prevailing in these localities. An audit by the DOL at one of the facilities revealed that notification, as required by contract, was not provided to TeamStaff GS in order to effectuate the wage increases in a timely manner. Wages for employees currently on assignment have been adjusted prospectively to the prevailing rate and hourly billing rates to the DVA have been increased accordingly. During the fiscal year ended September 30, 2008, TeamStaff recognized nonrecurring revenues of \$10.8 million and direct costs of \$10.1 million, based on amounts that are contractually due under its arrangements with the Federal agencies. At June 30, 2010 and September 30, 2009, the amount of the remaining accounts receivable with the DVA approximates \$9.3 million. The Company has been and continues to be in discussions with representatives of the DVA regarding the matter and anticipates finalizing the timing of collecting such amounts in fiscal 2010. In addition, TeamStaff is in the process of negotiating a final amount related to gross profit on these adjustments. As such, there may be additional revenues recognized in future periods once the approval for such additional amounts is obtained. The ranges of additional revenue and gross profit are estimated to be between \$0.4 million and \$0.6 million. At present, the Company expects to make the final determination of such amounts during fiscal 2010 based on current discussions and collection efforts. Because these amounts are subject to government review, no assurances can be given that we will receive any additional billings from our government contracts or that if additional amounts are received, that the amount will be within the range specified above.

Direct expenses from continuing operations for the three months ended June 30, 2010 and 2009 were \$8.7 million and \$9.6 million, respectively which represents a decrease of \$0.9 million or 9.4% over the prior fiscal year period. As a percentage of revenue from continuing operations, direct expenses were 86.1% and 85.0%, respectively, for the three months ended June 30, 2010 and 2009. See the discussion on gross profit below for an explanation of the increase in direct expenses as a percentage of revenue.

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Direct expenses from continuing operations for the nine months ended June 30, 2010 and 2009 were \$27.0 million and \$29.3 million, respectively which represents a decrease of \$2.3 million or 7.8% over the prior fiscal year period. As a percentage of revenue from continuing operations, direct expenses were 87.9% and 84.2%, respectively, for the nine months ended June 30, 2010 and 2009. See the discussion on gross profit directly below for an explanation of the increase in direct expenses as a percentage of revenue.

Gross profit from continuing operations for the three months ended June 30, 2010 and 2009 were \$1.3 million and \$1.7 million, respectively which represents a decrease of \$0.4 million or 23.5% over the prior fiscal year period. Gross profit from continuing operations, as a percentage of revenue, was 12.9% and 15.0%, for the three months ended June 30, 2010 and 2009, respectively. The key drivers for the period over period decrease in gross profit as a percentage of revenue are increased workers' compensation expense, increased health and welfare expense and increased vacation accruals as a result of lower employee turnover rates. TeamStaff GS continued to experience poor workers' compensation claims in the third quarter of fiscal 2010, resulting in increased workers' compensation expense of approximately \$0.2 million over the prior fiscal year period. This additional expense includes required accruals for IBNR (incurred but not reported) claims. The Company has retained a risk control consultant to evaluate practices at the relevant government facilities to recommend improvements in an effort to mitigate this exposure in the future.

Gross profit from continuing operations for the nine months ended June 30, 2010 and 2009 were \$3.7 million and \$5.6 million, respectively which represents a decrease of \$1.9 million or 33.9% over the prior fiscal year period. Gross profit from continuing operations, as a percentage of revenue, was 12.1% and 16.1%, for the nine months ended June 30, 2010 and 2009, respectively. The key drivers for the period over period decrease in gross profit as a percentage of revenue are lower overtime at certain government facilities which earn a higher gross profit margin, increased workers' compensation expense, increased health and welfare expense and increased vacation accruals as a result of lower employee turnover rates. TeamStaff GS experienced poor workers' compensation claims in fiscal 2010 to date, resulting in increased workers' compensation expense of approximately \$0.7 million over the prior fiscal year period. This additional expense includes required accruals for IBNR (incurred but not reported) claims.

Selling, general and administrative ("SG&A") expenses for the three months ended June 30, 2010 and 2009 were \$1.8 million and \$1.7 million, respectively, which represents an increase of \$0.1 million, or 5.9%. TeamStaff GS' SG&A expenses for the three months ended June 30, 2010 include \$0.04 million in management consulting fees related to the strategic business review of the division and \$0.1 million in increased new business expense for additional sales related headcount and marketing expense. The Company continues with its cost saving initiatives, which have resulted in reduced headcount in non-revenue generating departments and lower G&A costs. The Company seeks continued elimination of overhead costs deemed to be non-essential to growth or infrastructure.

SG&A expenses and officer severance for the nine months ended June 30, 2010 and 2009 were \$5.6 million and \$4.9 million, respectively, which represents an increase of \$0.7 million, or 14.3%. Included in the nine months ended June 30, 2010 is \$0.3 million in severance for the Company's former Chief Executive Officer, approximately \$150,000 in fees related to the Company's search for a new CEO, and \$0.2 million in restricted stock grants to non-employee members of the board of directors and Company officers. TeamStaff GS SG&A expenses for the nine months ended June 30, 2010 include \$0.1 million in management consulting fees related to the strategic business review of the division and \$0.3 million in increased new business expense for additional sales related headcount and marketing expense. The Company continues with its cost saving initiatives, which have resulted in reduced headcount in non-revenue generating departments and lower G&A costs. The Company seeks continued elimination of overhead costs deemed to be non-essential to growth or infrastructure.

Depreciation and amortization expense for the three months ended June 30, 2010 and 2009 were \$34,000 and \$28,000, respectively. Depreciation and amortization expense was \$87,000 and \$83,000 for the nine months ended June 30, 2010 and 2009, respectively.

Loss from operations for the three months ended June 30, 2010 and 2009 was \$0.5 million and \$0.04 million respectively. This represents a decline of \$0.4 million in results from operations from the prior fiscal year period. The decrease is due to lower revenues, lower operating gross profit earned in the fiscal period of 2010 as described above, as well as increased SG&A expense for the investment into TeamStaff GS's revised government staffing strategy.

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Loss from operations for the nine months ended June 30, 2010 and 2009 was \$2.0 million as compared to income from operations for the nine months ended June 30, 2009 of \$0.6 million. This represents a decline of \$2.6 million in results from operations from the prior fiscal year period. The decrease is due to lower revenues, lower operating gross profit earned in the fiscal 2010 as described above, as well as increased SG&A expense for officer severance and the investment into TeamStaff GS's revised government staffing strategy.

Interest income and other income was \$17,000 and \$24,000, respectively, for the three and nine months ended June 30, 2010. Interest income and other income was \$162,000 and \$199,000 for the three and nine months ended June 30, 2009, respectively. In the three and nine months ended June 30, 2009, the Company received a notification from the State of Florida regarding a refund of \$151,000 for various taxes. Such amount has been recognized in the related periods' statement of operations as a change in estimate.

Interest expense for the three months ended June 30, 2010 and 2009 was each approximately \$47,000 and \$29,000. Included in the three months ended June 30, 2010 is approximately \$44,000 of unamortized deferred financing costs related to the credit facility with Sovereign Business Capital that were expensed as a result of the Company's termination of the agreement in April 2010. Interest expense for the three months ended June 30, 2009 is due to interest on minimum required borrowings on the Company's credit facility and interest on capital leases. Interest expense for the nine months ended June 30, 2010 and 2009 was approximately \$100,000 and \$80,000, respectively, as a result of the minimum required borrowings on the Company's credit facility and interest on capital leases, as well as the previously mentioned write-off of unamortized deferred financing costs.

The Company recorded other expense of \$35,000 and \$4,000, for the three months ended June 30, 2010 and 2009, respectively, related to legal representation and investigation costs incurred in connection with the Federal Grand Jury subpoena issued to Teamstaff GS, our subsidiary formerly known as RS Staffing Services on April 17, 2007. The subpoena requested production of certain documents dating back to 1997. The Company acquired RS Staffing effective as of June 2005. These expenses are classified as non-operating expenses because the subpoena relates to activity prior to the acquisition. Expenses related to this investigation for the nine months ended June 30, 2010 and 2009 were \$92,000 and \$16,000, respectively.

Beginning in fiscal 2006, the Company provided a 100% deferred tax valuation allowance because it believes that it cannot be considered more likely than not that it will be able to realize the full benefit of the deferred tax asset. The Company determined that negative evidence, including historic and current taxable losses, as well as uncertainties related to the ability to utilize certain Federal and state net loss carry forwards, outweighed any objectively verifiable positive factors, and as such, concluded that a valuation allowance was necessary. In assessing the need for a valuation allowance, the Company historically has considered all positive and negative evidence, including scheduled reversals of deferred tax liabilities, prudent and feasible tax planning strategies and recent financial performance. The Company did not record a Federal tax benefit for the three and nine months ended June 30, 2010 and recorded tax expense of \$33,000 for states' tax provision for the three months ended June 30, 2010 and \$43,000 for the nine months ended June 30, 2010. The Company recorded a state tax benefit for the three and nine months ended June 30, 2009 of \$39,000 and \$28,000, respectively.

Loss from continuing operations for the three months ended June 30, 2010 was \$0.6 million, or \$0.11 per basic and diluted share, as compared to income from continuing operations of \$0.1 million or \$0.03 per basic and diluted share, for the three months ended June 30, 2009. Loss from continuing operations for the nine months ended June 30, 2010 was \$2.2 million, or \$0.44 per basic and diluted share, as compared to income from continuing operations of \$0.7 million, or \$0.15 per basic and diluted share, for the nine months ended June 30, 2009.

There was no activity in discontinued operations for the three months ended June 30, 2010. Loss from discontinued operations for the three months ended June 30, 2009 was \$0.7 million, or \$0.14 per basic and \$0.13 per diluted share related to the operating activities of TeamStaff Rx.

Loss from discontinued operations for the nine months ended June 30, 2010 was \$1.2 million, or \$0.23 per basic and diluted share. Loss from operations of the TeamStaff Rx discontinued business was \$0.8 million. This includes the operating loss as well as a charge of \$0.1 million for severance to certain TeamStaff Rx employees and \$0.3 million in various accrued expenses related to the sale and shut down of the business. Loss from disposal of the TeamStaff Rx discontinued business was \$0.3 million. Included in this loss are expenses principally from recognition of the remaining unfunded operating lease payments, net of estimated rent subsidy, as well as legal expenses related to the sale. Loss from discontinued operations for the nine months ended June 30, 2009 was \$1.8 million or \$0.36 per basic and \$0.35 per diluted share related to the operating activities of TeamStaff Rx.

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Net loss for the three months ended June 30, 2010 was \$0.6 million, or \$0.11 per basic and diluted share, as compared to net loss of \$0.5 million or \$0.11 per basic and \$0.10 per diluted share, for the three months ended June 30, 2009. This represents a decline of \$0.1 million in net income from the prior fiscal period. Net loss for the nine months ended June 30, 2010 was \$3.4 million, or \$0.67 per basic and diluted share, as compared to net loss of \$1.0 million, or \$0.21 per basic and \$0.20 per diluted share, for the nine months ended June 30, 2009. This represents an increased net loss of \$2.4 million from the prior fiscal period.

Liquidity and Capital Resources; Commitments

Presently, our principal sources of cash to fund our working capital needs is cash generated from operating activities.

Cash from operating activities

Net cash used in operating activities for the nine months ended June 30, 2010 was \$1.5 million. This decrease in cash was primarily driven by net losses, including payments related to the disposal of the discontinued operation, as well as an increase in accounts receivable, offset by an increase in accrued payroll and accrued expenses.

Net cash used in operating activities for the nine months ended June 30, 2009 was \$1.6 million. This decrease in cash was primarily driven by a net losses and a decrease in accounts payable of \$1.5 million, of which \$1.1 million was for payments made to the IRS for previously recorded prior period tax liabilities.

Cash from investing activities

Net cash used in investing activities for the nine months ended June 30, 2010 was \$191,000 primarily for costs associated with the purchase and implementation of a new operating system for TeamStaff GS to fulfill Defense Contract Audit Agency (DCAA) cost accounting system requirements for the award of certain larger value government contracts.

Net cash used in investing activities for the nine months ended June 30, 2009 was \$69,000.

Cash from financing activities

Net cash used in financing activities for the nine months ended June 30, 2010 was \$98,000, used primarily to pay off in full capital lease obligations related to the discontinued operation as well as scheduled repayment of capital lease obligations for continuing operations.

Net cash used in financing activities for the nine months ended June 30, 2009 was \$46,000, primarily as a result of repayment of capital lease obligations.

Loan Facility

On April 7, 2010, TeamStaff notified Sovereign Business Capital ("Sovereign") that it was terminating, effective immediately, the Amended and Restated Loan and Security Agreement dated as of March 28, 2008, as amended by that certain Modification Agreement dated as of January 8, 2010 (together, the "Sovereign Agreement"), by and between the Company and Sovereign. Pursuant to the Sovereign Agreement, Sovereign had provided the Company with a three-year secured revolving credit line with an initial borrowing availability of up to \$3 million; however, effective in January 2010, Sovereign reduced the borrowing availability to \$2 million in connection with providing its consent to the Company's disposition of the operating assets of its TeamStaff Rx subsidiary (see Note 3). The credit provided by Sovereign under the Sovereign Agreement was secured by a first priority lien on all of the Company's assets.

As the Company previously reported, on February 12, 2010, the Company determined that as of December 31, 2009, it was not in compliance with the debt service coverage ratio covenant of the Sovereign Agreement. The Company also reported that it was in discussions with Sovereign regarding obtaining a waiver of its default under the debt service coverage ratio. Subsequently, the Company was notified by Sovereign that it did not intend to renew the Sovereign Agreement beyond its stated termination date of March 21, 2011 and further that it would waive payment of a termination fee in the event the Company satisfied its obligations under the Sovereign Agreement prior to August 31, 2010. The Company's decision to terminate the Sovereign Agreement followed its discussions with Sovereign of these matters and was made to provide the Company with greater flexibility as it pursued various financing alternatives, including seeking to obtain a substitute credit facility on more favorable terms and being able to avoid the payment of the termination fee to Sovereign. In the third quarter of fiscal 2010, the Company recognized a charge of \$44,000 related to the write off of unamortized financing costs associated with the Sovereign Agreement.

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On July 29, 2010, TeamStaff GS entered into a Loan and Security Agreement dated as of July 29, 2010 (the "Loan Agreement") with Presidential Financial Corporation (the "Lender").

Under the Loan Agreement, the Lender agreed to provide a two (2) year loan and security facility to TeamStaff GS in an aggregate amount of up to \$1.5 million, upon the further terms and subject to the conditions of the Loan Agreement. The loan is secured by a security interest and lien on all of TeamStaff GS's accounts, account deposits, letters of credit and investment property, chattel paper, furniture, fixtures and equipment, instruments, investment property, general intangibles, deposit accounts, inventory, other property, all proceeds and products of the foregoing (including proceeds of any insurance policies and claims against third parties for loss of any of the foregoing) and all books and records related thereto. TeamStaff GS's ability to request loan advances under the Loan Agreement is subject to (i) computation of TeamStaff GS's advance availability limit based on "eligible accounts receivables" (as defined in the Loan Agreement) multiplied by the "Accounts Advance Rate" established by the Lender which initially shall be 85% and may be increased or decreased by the Lender in exercise of its discretion; and (ii) compliance with the covenants and conditions of the loan. The loan is for a term of 24 months and matures on July 29, 2012. Interest on the loan accrues on the daily unpaid balance of the loan advances at the greater of one point ninety-five percent (1.95%) above the Prime Rate as quoted in effect in The Wall Street Journal from time to time or at the rate of three point two-five percent (3.25%) per annum. The initial interest rate shall be five point two-zero percent (5.20%). In addition, TeamStaff GS will pay certain other related fees and expense reimbursements including a monthly service charge of zero point six-five percent (0.65%) based on the average daily loan balance which shall accrue daily and be due and payable on the last day of each month so long as the Loan Agreement is outstanding.

The Loan Agreement requires compliance with customary covenants and restrictions on the Company's ability to, among other things, dispose of certain assets, engage in certain transactions, incur indebtedness and pay dividends, and TeamStaff GS's tangible net worth. The Loan Agreement also provides for customary events of default following which, the Lender may, at its option, accelerate the amounts outstanding under the Loan Agreement.

TeamStaff has concurrently executed a Corporate Guaranty Agreement with Lender pursuant to which it has guaranteed all of the obligations of TeamStaff GS under the Loan Agreement.

Cash Flows

As of June 30, 2010, TeamStaff had cash and cash equivalents of \$1.2 million and net accounts receivable of \$11.5 million. At June 30, 2010, the amount of the accounts receivable associated with the DVA retroactive billings approximates \$9.3 million and was unbilled at June 30, 2010. As of June 30, 2010, we had a working capital deficiency of \$2.5 million. The disposition of TeamStaff Rx and the related liabilities the Company incurred as a result of severance and disposal accruals has had a negative impact on our working capital position. The Company also classifies a \$1.5 million balance of the \$3.0 million note payable related to the acquisition of RS Staffing Services as a current liability (See Note 4 of Notes to Consolidated Financial Statements). However, the Company plans to pursue its right of offset against the note for legal expenses incurred and has a good faith belief that we will recover such amounts.

Based on its business plan and current credit facility, the Company believes that it has adequate liquidity resources to fund its operations for the next twelve months.

Payroll Taxes

As described in greater detail in the Notes to the Consolidated Financial Statements, TeamStaff had received notices from IRS claiming taxes, interest and penalties due related to payroll taxes predominantly from its former PEO operations which were sold in fiscal 2003. TeamStaff has also received notices from the IRS reporting overpayments of taxes. Management believes that these notices are predominantly the result of misapplication of payroll tax payments between its legal entities. If not resolved favorably, the Company may incur interest and penalties. To date, TeamStaff has been working with the IRS to resolve these discrepancies and has had certain interest and penalty claims abated. TeamStaff has also received notices from the Social Security Administration claiming variances in wage reporting compared to IRS transcripts. TeamStaff believes the notices from the Social Security Administration are directly related to the IRS notices received. TeamStaff believes that after the IRS applies all the funds correctly, any significant interest and penalties will be abated; however, there can be no assurance that each of these matters will be resolved favorably. In settling various years for specific subsidiaries with the IRS, the Company has received refunds for those specific periods; however, as the process of settling and concluding on other periods and subsidiaries is not yet completed and the potential exists for related penalties and interest, the remaining liability (\$1.1 million at June 30, 2010) has been recorded in accounts payable. In fiscal 2009, the Company paid \$1.1 million, related to this matter. No payments have been made in fiscal 2010. Management believes that the ultimate resolution of these remaining payroll tax matters will not have a significant adverse effect on its financial position or future results of operations.

Contractual Obligations

Obligations (Amounts in thousands)	Payments Due By Period			
	Total	Less than 1 Year	1-3 Years	4-5 Years
Long Term Debt (1)	\$ 1,532	\$ 1,520	\$ 12	\$ —
Operating Leases (2)	707	309	316	82
Severance Liabilities (3)	238	238	—	—
Total Obligations	<u>\$ 2,477</u>	<u>\$ 2,067</u>	<u>\$ 328</u>	<u>\$ 82</u>

- (1) Represents the maximum amount of notes payable related to the acquisition of TeamStaff GS, and capital lease obligations.
- (2) Represents lease payments net of sublease income, including those of discontinued operations.
- (3) Represents severance payments related to former employees, including those of discontinued operations.

Employment Agreements

During the fiscal quarter ending March 31, 2010, we entered into an employment agreement with Zachary C. Parker, who became our Chief Executive Officer and President commencing on February 22, 2010. The material terms and conditions of this employment agreement are summarized in our Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2009. The terms and conditions of the employment agreements we have entered into with our other named executive officers are summarized in our Annual Report on Form 10-K for the fiscal year ended September 30, 2009. The summaries of each of the foregoing agreements are incorporated herein by reference.

Off-Balance Sheet Arrangements

We have not created, and are not party to, any special-purpose or off-balance sheet entities for the purpose of raising capital, incurring debt or operating parts of our business that are not consolidated into our financial statements. We do not have any arrangements or relationships with entities that are not consolidated into our financial statements that are reasonably likely to materially affect our liquidity or the availability of our capital resources. We have entered into various agreements by which we may be obligated to indemnify the other party with respect to certain matters. Generally, these indemnification provisions are included in contracts arising in the normal course of business under which we customarily agree to hold the indemnified party harmless against losses arising from a breach of representations related to such matters as intellectual property rights. Payments by us under such indemnification clauses are generally conditioned on the other party making a claim. Such claims are generally subject to challenge by us and to dispute resolution procedures specified in the particular contract. Further, our obligations under these arrangements may be limited in terms of time and/or amount and, in some instances, we may have recourse against third parties for certain payments made by us. It is not possible to predict the maximum potential amount of future payments under these indemnification agreements due to the conditional nature of our obligations and the unique facts of each particular agreement. Historically, we have not made any payments under these agreements that have been material individually or in the aggregate. As of our most recent fiscal year end we were not aware of any obligations under such indemnification agreements that would require material payments.

Effects of Inflation

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

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

TeamStaff does not undertake trading practices in securities or other financial instruments and therefore does not have any material exposure to interest rate risk, foreign currency exchange rate risk, commodity price risk or other similar risks, which might otherwise result from such practices. TeamStaff is not materially subject to fluctuations in foreign exchange rates, commodity prices or other market rates or prices from market sensitive instruments. TeamStaff believes that it does not have a material interest rate risk with respect to its prior workers' compensation programs. In connection with TeamStaff's prior workers' compensation programs, prepayments of future claims were deposited into trust funds for possible future payments of these claims in accordance with the policies. The interest income resulting from these prepayments is for the benefit of TeamStaff, and is used to offset workers' compensation expense. Interest rates payable on these funds have been relatively static and at a level where any further downward rate adjustments would not be expected to result in a material adverse impact on the Company's exposure to workers' compensation expense.

ITEM 4: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) under the Exchange Act) as of the end of the period covered by this report, have concluded that, based on the evaluation of these controls and procedures, our disclosure controls and procedures were effective at the reasonable assurance level to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Our management, including our Chief Executive Officer and Chief Financial Officer, do not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. Our management, however, believes our disclosure controls and procedures are in fact effective to provide reasonable assurance that the objectives of the control system are met.

Changes in Internal Controls

There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the Company's quarter ended June 30, 2010, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II — OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

RS Staffing Services, Inc.

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

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

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The Company originally acquired RS Staffing Services in June 2005. As part of the purchase price of the acquisition, the Company issued to the former owners of RS Staffing Services a \$3.0 million promissory note, of which \$1.5 million in principal and interest of \$150,000 was paid in June 2006. On May 31, 2007, the Company sent a notice of indemnification claim to the former owners for costs that have been incurred in connection with the investigation. Effective June 1, 2007, the Company and former owners of RS Staffing Services reached an agreement to extend the due date from June 8, 2007 to December 31, 2008 with respect to the remaining \$1.5 million principal payable and accrued interest payable. Such agreement has been extended to August 31, 2010. As of June 30, 2010, the amount has not been settled. The Company recognized expenses related to legal representation and costs incurred in connection with the investigation in the amount of \$35,000 and \$4,000 in the three months ended June 30, 2010 and 2009, respectively, as a component of other income (expense). The Company recognized expenses related to legal representation and costs incurred in connection with the investigation in the amount of \$92,000 and \$16,000 in the nine months ended June 30, 2010 and 2009, respectively, as a component of other income (expense). Cumulative costs related to this matter approximate \$1.8 million. Pursuant to the acquisition agreement with RS Staffing Services, the Company has notified the former owners of RS Staffing Services that it is the Company's intention to exercise its right to setoff the payment of such expenses against the remaining principal and accrued interest due under such promissory notes to the former owners of RS Staffing Services.

The Company will pursue the recovery as a right of offset in future periods. Management has a good faith belief that the Company will recover such amounts; however, generally accepted accounting principles preclude the Company from recording an offset to the note payable to the former owners of RS Staffing Services until the final amount of the claim is settled and determinable. At present, no assurances can be given that the former owners of RS Staffing Services would not pursue action against us or that the Company will be successful in the offset of such amounts against the outstanding debt and accrued interest from notice date forward, if any. Accordingly, the Company has expensed costs incurred related to the investigation through June 30, 2010.

Other Matters

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

In connection with its medical staffing business, TeamStaff is exposed to potential liability for the acts, errors or omissions of its medical employees. The professional liability insurance policy provides up to \$5.0 million aggregate coverage with a \$2.0 million per occurrence limit. Although TeamStaff believes the liability insurance is reasonable under the circumstances to protect it from liability for such claims, there can be no assurance that such insurance will be adequate to cover all potential claims.

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

ITEM 1A: RISK FACTORS

Our operating results and financial condition have varied in the past and may in the future vary significantly depending on a number of factors. In addition to the other information set forth in this report, you should carefully consider the factors discussed in the "Risk Factors" section in our Annual Report on Form 10-K for the year ended September 30, 2009 and our subsequently filed Quarterly Reports on Form 10-Q for a discussion of the risks associated with our business, financial condition and results of operations. These factors, among others, could have a material adverse effect upon our business, results of operations, financial condition or liquidity and cause our actual results to differ materially from those contained in statements made in this report and presented elsewhere by management from time to time. The risks identified by TeamStaff in its reports are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently believe are immaterial also may materially adversely affect our business, results of operations, financial condition or liquidity. We believe that except for the additional risk factors set forth below, there have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2009.

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

On July 29, 2010, our wholly-owned subsidiary, TeamStaff GS, entered into a Loan and Security Agreement (the “Loan Agreement”) with Presidential Financial Corporation (the “Lender”). Under the Loan Agreement, the Lender agreed to provide a two (2) year loan and security facility to TeamStaff GS in an aggregate amount of up to \$1.5 million, upon the terms and subject to the conditions of the Loan Agreement. The loan is secured by a security interest and lien on all of the TeamStaff GS’s accounts, account deposits, letters of credit and investment property, chattel paper, furniture, fixtures and equipment, instruments, investment property, general intangibles, deposit accounts, inventory, other property, all proceeds and products of the foregoing (including proceeds of any insurance policies and claims against third parties for loss of any of the foregoing) and all books and records related thereto. Further, TeamStaff GS’s ability to request loan advances under the Loan Agreement is subject to (i) computation of TeamStaff GS’s advance availability limit based on “eligible accounts receivables” (as defined in the Loan Agreement) multiplied by the “Accounts Advance Rate” established by the Lender and (ii) compliance with the covenants and conditions of the loan. The Loan Agreement also requires compliance with customary covenants and restrictions on our ability to, among other things, dispose of certain assets, engage in certain transactions, incur indebtedness and pay dividends, and TeamStaff GS’s tangible net worth. The Loan Agreement also provides for customary events of default following which, the Lender may, at its option, accelerate the amounts outstanding under the Loan Agreement. Interest on the loan accrues on the daily unpaid balance of the loan advances at the greater of (i) one point ninety-five percent (1.95%) above the Prime Rate as quoted in effect in The Wall Street Journal from time to time or (ii) three point two-five percent (3.25%) per annum. The initial interest rate shall be five point two-zero percent (5.20%). In addition, TeamStaff GS will pay Lender certain other related fees and expense reimbursements including a monthly service charge.

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

There is limited trading volume in our common stock and you may find it difficult to dispose of your shares of common stock; it is possible that our stock may be delisted from The Nasdaq Capital Market.

Our common stock is currently traded on The Nasdaq Capital Market under the symbol “TSTF”. If we fail to meet any of the continued listing standards of The Nasdaq Capital Market, our common stock will be delisted from The Nasdaq Capital Market. These continued listing standards include specifically enumerated criteria, such as a \$1.00 minimum closing bid price. On June 1, 2010, we received a staff deficiency letter from The Nasdaq Stock Market (“Nasdaq”) notifying the Company that for the past 30 consecutive business days, the closing bid price per share of its common stock was below the \$1.00 minimum bid price requirement for continued listing on The Nasdaq Capital Market, as required by Nasdaq Listing Rule 5550(a)(2) (the “Listing Rule”). As a result, the Company was notified by Nasdaq that it is not in compliance with the Listing Rule. Nasdaq has provided the Company with 180 calendar days, or until November 29, 2010, to regain compliance. To regain compliance with the Listing Rule, the closing bid price of the Company’s common stock must meet or exceed \$1.00 per share for a minimum of ten consecutive business days during the 180 day grace period. If this occurs, Nasdaq will provide us with written notification of compliance. If the Company’s common stock does not regain compliance with the Listing Rule during this grace period, it will be eligible for an additional grace period of 180 calendar days provided that the Company satisfies Nasdaq’s initial listing standards for listing on The Nasdaq Capital Market, other than the minimum bid price requirement. If the Company does not regain compliance during the initial grace period and is not eligible for an additional grace period, Nasdaq will provide written notice that the Company’s common stock is subject to delisting from The Nasdaq Capital Market. In that event, the Company may appeal such determination to a hearings panel. There can be no guarantee that the Company will be able to regain compliance with the Listing Rule. Further, this deficiency notice relates exclusively to our bid price deficiency. We may be delisted during the applicable grace periods for failure to maintain compliance with any other listing requirement which may occur.

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If our common stock were to be delisted from The Nasdaq Capital Market, trading of our common stock most likely will be conducted in the over-the-counter market on an electronic bulletin board established for unlisted securities such as the OTC Bulletin Board. Such trading will reduce the market liquidity of our common stock. As a result, an investor would find it more difficult to dispose of, or obtain accurate quotations for the price of, our common stock. If our common stock is delisted from The Nasdaq Capital Market and the trading price remains below \$5.00 per share, trading in our common stock might also become subject to the requirements of certain rules promulgated under the Exchange Act, which require additional disclosure by broker-dealers in connection with any trade involving a stock defined as a “penny stock” (generally, any equity security not listed on a national securities exchange or quoted on Nasdaq that has a market price of less than \$5.00 per share, subject to certain exceptions). Many brokerage firms are reluctant to recommend low-priced stocks to their clients. Moreover, various regulations and policies restrict the ability of shareholders to borrow against or “margin” low-priced stocks, and declines in the stock price below certain levels may trigger unexpected margin calls. Additionally, because brokers’ commissions on low-priced stocks generally represent a higher percentage of the stock price than commissions on higher priced stocks, the current price of the common stock can result in an individual shareholder paying transaction costs that represent a higher percentage of total share value than would be the case if our share price were higher. This factor may also limit the willingness of institutions to purchase our common stock. Finally, the additional burdens imposed upon broker-dealers by these requirements could discourage broker-dealers from facilitating trades in our common stock, which could severely limit the market liquidity of the stock and the ability of investors to trade our common stock.

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

During the period covered by this report, the Company did not issue any securities that were not registered under the Securities act of 1933, as amended, except as has been reported in previous filings with the SEC.

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4: RESERVED

ITEM 5: OTHER INFORMATION

None.

ITEM 6: EXHIBITS

The exhibits designated with an asterisk (*) are filed herewith.

<u>Exhibit No.</u>	<u>Description</u>
10.1	Loan and Security Agreement, dated as of July 29, 2010, between Teamstaff Government Solutions, Inc. and Presidential Financial Corporation †
10.2	Secured Promissory Note, dated July 29, 2010, executed by Teamstaff Government Solutions, Inc.
10.3	Corporate Guaranty Agreement, dated July 29, 2010, executed by Teamstaff, Inc.
31.1*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

† Portions of this exhibit were omitted and filed separately with the Secretary of the Commission pursuant to an application for confidential treatment filed with the Commission pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended.

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/ Zachary C. Parker

Zachary C. Parker

Chief Executive Officer

(Principal Executive Officer)

/s/ Cheryl Presuto

Cheryl Presuto

Chief Financial Officer

(Principal Accounting Officer)

Dated: August 16, 2010



3460 Preston Ridge Rd. / Suite 550 / Alpharetta, GA 30005

LOAN AND SECURITY AGREEMENT

BETWEEN

TEAMSTAFF GOVERNMENT SOLUTIONS, INC.
D/B/A TEAMSTAFF GOVERNMENT SOLUTIONS
D/B/A TEAMSTAFF GOVT SOLUTIONS

AND

PRESIDENTIAL FINANCIAL CORPORATION

DATED AS OF
JULY 29, 2010

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[*CONFIDENTIAL TREATMENT HAS BEEN REQUESTED AS TO CERTAIN PORTIONS OF THIS DOCUMENT, EACH SUCH PORTION, WHICH HAS BEEN OMITTED HEREIN AND REPLACED WITH ASTERISKS [***], HAS BEEN FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION.]

LOAN AND SECURITY AGREEMENT

THIS LOAN AND SECURITY AGREEMENT (as it may be amended, this "**Agreement**") is entered into on July 29, 2010 between **PRESIDENTIAL FINANCIAL CORPORATION** ("**Lender**"), having an address at 3460 Preston Ridge Road, Suite 550, Alpharetta, GA 30005, and **TEAMSTAFF GOVERNMENT SOLUTIONS, INC. D/B/A TEAMSTAFF GOVERNMENT SOLUTIONS; D/B/A TEAMSTAFF GOVT SOLUTIONS** ("**Borrower**"), whose chief executive office is located at 1 Executive Drive, Suite 130, Somerset, NJ 08873 ("**Borrower's Address**"). Capitalized terms not otherwise defined in this Agreement shall have the meanings set forth on **Schedule A**. All other terms contained in this Agreement, unless otherwise indicated, shall have the meaning provided in the UCC to the extent such terms are defined therein. The schedules attached to this Agreement are an integral part of this Agreement and are incorporated herein by reference.

SECTION 1. LOANS AND CREDIT ACCOMMODATIONS

1.1 Amount

Subject to the terms and conditions in this Agreement, at Borrower's request and provided that no Default or Event of Default exists, Lender may, in its discretion, make Advances to Borrower during the Term, to the extent that there is sufficient Availability at the time of such request to cover, dollar for dollar, the requested Advance, and **further provided** that after giving effect to such **Advances**, the outstanding balance of all monetary Obligations will not exceed the Maximum Loan Amount. For this purpose, "**Availability**" means, on any date, an amount equal to:

- (i) the Eligible Accounts on such date multiplied by the Accounts Advance Rate;

minus

- (ii) all Reserves which Lender has established pursuant to Section 1.2 (including any to be established in connection with the requested Advance);

minus

- (iii) the outstanding balance of all monetary Obligations on such date.

1.2 Reserve

Lender may from time to time in its sole and reasonable discretion establish and revise such reserves as Lender deems appropriate ("**Reserves**") to reflect (i) the amount of accrued but unpaid interest with respect to the monetary Obligations on such date, (ii) events, conditions, contingencies or risks which affect or may affect (A) the Collateral or its value, or the Liens and other rights of Lender in the Collateral or (B) the assets, business of Borrower or any Obligor, (iii) Lender's concern that any Collateral or financial information furnished by or on behalf of Borrower to Lender is or may have been incomplete, inaccurate or misleading in any material respect, (iv) any fact or circumstance which Lender determines in its sole and reasonable discretion constitutes, or could constitute, a Default or Event of Default (v) the percentage increase of dilution in excess of 5%, as determined by the month-end accounts receivable aging or (vi) any other events or circumstances which Lender determines in its sole and reasonable discretion make the establishment or revision of a Reserve prudent. Lender may, in its sole and reasonable discretion, establish and revise Reserves by deducting them in determining Availability or by reclassifying Eligible Accounts as ineligible. In no event shall the establishment of a Reserve in respect of a particular actual or contingent liability obligate Lender to make Advances hereunder to pay such liability or otherwise obligate Lender with respect thereto.

[*CONFIDENTIAL TREATMENT HAS BEEN REQUESTED AS TO CERTAIN PORTIONS OF THIS DOCUMENT, EACH SUCH PORTION, WHICH HAS BEEN OMITTED HEREIN AND REPLACED WITH ASTERISKS [***], HAS BEEN FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION.]

1.3 **Use of Proceeds**

Borrower shall be authorized to use the proceeds of the Advances solely to make expenditures for lawful purposes of Borrower to the extent such expenditures are not prohibited by the provisions of this Agreement or Applicable Law. Borrower represents and warrants that Lender's loan or loans to Borrower will be used for nonconsumer purposes and not for personal, family or household purposes.

1.4 **Repayment**

Principal and interest shall be paid as stated in the Secured Promissory Note (the "Note") executed by Borrower in favor of Lender contemporaneously herewith. In addition, if at any time the amount of monetary Obligations exceeds Availability (any such excess, an "Overadvance"), or if at any time or for any reason the outstanding amount of Advances extended or issued pursuant hereto exceeds any of the dollar limitations ("Overline"), Borrower will immediately pay to Lender the amount of such Overadvance or Overline. Notwithstanding the foregoing, Lender may, in its discretion, make or permit the Advances or any other monetary Obligations that give rise to or constitute an Overadvance or Overline, provided that Borrower shall, upon Lender's demand, pay to Lender such amounts as shall eliminate such Overadvance or Overline. All unpaid monetary Obligations shall be due and payable in full upon termination of this Agreement pursuant to Section 9.2.

SECTION 2. ADVANCES TO COVER INTEREST AND FEES; FEES AND EXPENSES

2.1 **Interest**

Principal and interest shall be paid as stated in the Note executed by Borrower in favor of Lender contemporaneously herewith. The parties agree that, and Borrower instructs Lender that, immediately upon accrual of interest and other charges provided for herein and in the Note, such interest and other charges shall be paid by Advances and charged to Borrower's Loan Account with Lender. Such Advances shall thereafter bear interest and be subject to other charges upon the same terms as other Advances, and such Advances are agreed by the parties to be principal pursuant to O.C.G.A. Section 7-4-2(A)(3). Borrower specifically agrees, by execution of this Agreement and the Note, to this treatment of all accrued but unpaid interest and other charges hereunder and under the Note.

2.2 **Fees and Expenses**

In addition to all interest and other sums payable by Borrower to Lender under this Agreement, Borrower shall pay Lender the fees and reimbursements listed on **Schedule B**, which are and shall be deemed earned in full on the date when same is due and payable hereunder and shall not be subject to rebate or proration upon termination of this Agreement for any reason.

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2.3 Loan Account

Lender shall maintain a loan account in the name of Borrower, reflecting all Advances, charges, fees, expenses and payments made pursuant to this Agreement (the "**Loan Account**"). Lender shall provide Borrower with commercially reasonable electronic access to information about Borrower's Loan Account (the "**Online Statement**"); provided, however, that Lender shall not be liable to Borrower for any damages suffered by Borrower as a result of the temporary failure or unavailability of or the lack of updates to the Online Statement. All information posted to the Online Statement shall be deemed to have been delivered to Borrower and, unless Borrower notifies Lender in writing to the contrary (including a detailed description of the alleged error or omission) within 30 days after such information is made available to Borrower, the Online Statement shall be deemed correct, accurate and conclusively binding on Borrower as an account stated (except for reverses and reapplications of payments made and corrections of errors discovered by Lender).

2.4 Expense Reimbursement

Borrower shall reimburse Lender for (i) any Extraordinary Expenses incurred by Lender and (ii) all reasonable legal, accounting, appraisal, consulting, underwriting, and other fees and expenses suffered or incurred by Lender in connection with: (a) the negotiation and preparation of any of the Loan Documents and any amendment or modification thereto; (b) the administration of the Loan Documents and the transactions contemplated thereby; (c) action taken to perfect or maintain the perfection or priority of any of Lender's Liens with respect to any of the Collateral; (d) any inspection of or audits conducted by Lender with respect to Borrower's books and records or any of the Collateral; or (e) any effort by Lender to verify or appraise any of the Collateral. Attorneys fees relating to collection for which Borrower shall be responsible to reimburse Lender shall be equal to the lesser of: (a) actual fees and expenses or (b) fifteen percent (15%) of the principal and interest owed hereunder at the time of commencement of collection activities. All amounts chargeable to or reimbursable by Borrowers under this Section 2.4 shall constitute Obligations payable on demand to Lender. The foregoing shall be in addition to, and shall not be construed to limit, any other provision of any of the Loan Documents regarding the indemnification or reimbursement by Borrower of claims suffered or incurred by Lender

SECTION 3. SECURITY INTEREST

3.1 Grant

To secure the full and timely payment and performance of all of the Obligations, Borrower hereby grants to Lender a continuing security interest in and Lien upon in the following property and interests in property of Borrower, whether tangible or intangible, now owned or in existence or hereafter acquired or arising, and wherever located: all Accounts, Accounts and Securities, Chattel Paper, Furniture, Fixtures and Equipment, Instruments, Investment Property, General Intangibles, Deposit Accounts, Supporting Obligations, Inventory, Other Property, all Proceeds and products of all of the foregoing (including proceeds of any insurance policies and claims against third parties for loss or any destruction of any of the foregoing), and all books and records relating to any of the foregoing.

3.2 Further Assurances

Borrower agrees to comply with all Applicable Laws to perfect Lender's Lien in the Collateral and to execute such documents as Lender may reasonably require to effectuate the foregoing and to implement this Agreement. Borrower irrevocably authorizes Lender to file financing statements, and all amendments and continuations with respect thereto, in order to create, perfect or maintain its Lien in the Collateral as a duly perfected Lien, **subject** to no other Liens except Permitted Liens listed on **Schedule C**. Borrower hereby ratifies and confirms any and all financing statements, amendments and continuations with respect thereto heretofore and hereafter filed by Lender pursuant to the foregoing authorization.

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SECTION 4. ADVANCES AND ADMINISTRATION

4.1 Advance Requests

Whenever Borrower desires to obtain an Advance, Borrower shall give Lender notice of such borrowing request telephonically (and confirmed in writing if requested by Lender) or by facsimile or electronic mail transmission no later than 11:00 a.m. Eastern Standard Time ("EST"), or, if in effect, Daylight Savings Time ("DST") on the Business Day of the requested borrowing, and notices (in the form stipulated herein) received by Lender after 11:00 a.m. EST or DST, whichever is in effect, shall be deemed received on the next Business Day and notices received other than in the form stipulated herein shall be ineffective and deemed not received by Lender. Unless payment is otherwise timely made by Borrower, the becoming due of any amount required to be paid with respect to any of the Obligations (including any interest thereon) shall be deemed irrevocably to be a request (without any requirement for the submission of a notice of borrowing) for an Advance on the due date of and in an aggregate amount required to pay such Obligations and the proceeds of such Advance may be disbursed by way of direct payment of the relevant Obligations, **provided** that Lender shall have no obligation to honor any deemed request for an Advance on or after the date on which this Agreement is terminated pursuant to Section 9.2, or when an Overadvance exists or would result from such funding or when any applicable condition precedent is not satisfied, but Lender may do so in its discretion and without regard to the existence of, and without being deemed to have waived, any Default or Event of Default and regardless of whether such Advance is made after the date on which this Agreement is terminated pursuant to Section 9.2.

4.2 Remittance of Collections and Other Proceeds and Procedures

Borrower shall notify all Accounts to direct all Collections to the remittance address provided by Lender in the Procedures Letter (the "Remittance Address"). Lender shall retain the sole discretion to require Borrower to enter into a bank agreement or other agreement governing the remittance of Collections, which agreement shall be in form and substance acceptable to Lender, and only Lender shall have access to withdraw or otherwise direct the disposition of Collections. In the event that Borrower receives any Collections or other proceeds of Collateral, Borrower shall promptly upon receipt (and in all events within one Business Day of receipt by Borrower) remit in kind such Collections or other proceeds of Collateral directly to the Remittance Address and promptly notify Lender of such event. Until so forwarded, any such Collections or other proceeds of Collateral received by Borrower shall not be commingled with Borrower's other funds and shall be held by Borrower, as trustee of an express trust, for Lender's benefit. In the event any Collections are received by Borrower but not remitted to Lender in the time and manner specified herein, the Misdirected Payment Fee set forth on **Schedule B** shall be assessed and charged to the Borrower's Loan Account. Borrower shall specify the Remittance Address on all agreements and contracts, and take all necessary steps to ensure all Collections are directed to the Remittance Address. On all invoices Borrower will place the Payment Notice that each invoice shall only be paid to the Remittance Address. All invoices shall be mailed or otherwise transmitted by Borrower to Account Obligors within five business days of issuance. Borrower will provide Lender with copies of all invoices and evidence of completion of services on all invoices as set forth in the Procedures Letter along with any other information as Lender may reasonably request. Nothing in this section shall require Borrower's income received in the ordinary course of business that does not constitute proceeds of accounts receivable to be sent to the Remittance Address.

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4.3 Application of Payments

Lender may, in its discretion, apply, reverse and re-apply all Collections and other proceeds of Collateral or other payments received with respect to the Obligations, in such order and manner as Lender shall determine, whether or not the Obligations are due, and whether before or after the occurrence of a Default or an Event of Default. For purposes of determining Availability, funds received at the Remittance Address will be credited to the Loan Account upon Lender's receipt of notice that such items have been credited to the Payment Account, subject to final payment and collection; provided, however, that for purposes of computing interest on the Obligations, such items shall be deemed applied by Lender four Business Days after Lender's receipt of advice of deposit in the Payment Account, including such payments received by wire transfer, ACH or other electronic means to an account designated by Lender, in which case such items shall be deemed applied by Lender four Business Day after Lender's receipt of advice of deposit in the Payment Account. If, as the result of Lender's application of Collections to the Obligations as authorized by this Section 4.3 a credit balance exists in favor of Borrower (meaning that, on any date of determination, the collected balance of Collections after the applicable cutoff time on such date exceeds the outstanding principal balance of (and all interest, fees and other amounts payable with respect to) the Obligations after the applicable cutoff time on such date), such credit balance shall not accrue interest in favor of Borrower, but shall be available to, and promptly paid by Lender to Borrower upon Borrower's request, at any time or times for so long as no Default or Event of Default exists.

4.4 Notification; Verification

Lender or its designee may, from time to time and to the extent permitted by Applicable Law, whether or not a Default or Event of Default has occurred verify directly with the Account Obligors the validity, amount and other matters relating to the Accounts, by means of mail, telephone or otherwise, either in the name of Borrower or Lender or such other name as Lender may choose. Lender will notify Borrower of any Account Obligor contacted for verification of Accounts after such verification is performed. Lender or its designee may, after the occurrence of a Default or Event of Default (i) notify Account Obligors that Lender has a Lien in the Accounts and that payment thereof is to be made directly to Lender; and (ii) demand, collect or enforce payment of any Accounts (but without any duty to do so)

4.5 Power of Attorney

Borrower hereby makes, constitutes and appoints each of Lender's officers or agents as Borrower's attorney-in-fact with full power of substitution, in the name of Borrower or in the name of Lender, but for Lender's use and benefit, to do or perform at any time, in Lender's discretion, any of the following: (i) at any time, irrespective of whether there exists an Event of Default, receive, open and dispose of all mail addressed to Borrower and endorse Borrower's name on any checks or other payment items with respect to any Collateral and to deposit same and apply them to such of the Obligations as Lender may elect; and (ii) at any time that an Event of Default exists, cause all mail to be diverted from any post office box in Borrower's name to a post office box or other address designated by Lender; demand, sue for, collect and receive monies due or to become due on any Accounts and to settle, compound, compromise or extend the time of payment of any Account or other Collateral upon terms acceptable to Lender without releasing Borrower from any liability to Lender, and do such other and further acts in Borrower's name which Lender may deem necessary or desirable to enforce any of the terms of this Agreement or to collect any of the Obligations or realize upon any Collateral. This power, being coupled with an interest, is irrevocable. Notwithstanding the foregoing, Lender agrees to forward to Borrower any mail received by Lender that is not a payment that Lender is entitled to keep or apply to the Obligations.

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4.6 **Books and Records**

Borrower irrevocably authorizes all accountants and third parties to disclose and deliver to Lender, at Borrower's expense, all financial information, books and records, work papers, management reports and other information in their possession regarding Borrower. Borrower will not enter into any agreement with any accounting firm, service bureau or third party to store Borrower's books or records at any location other than Borrower's Address or at one or more of the business locations set forth in **Schedule F** hereto without first obtaining Lender's written consent (which consent may be conditioned upon such accounting firm, service bureau or other Person agreeing to give Lender the same rights with respect to access to books and records and related rights as Lender has under this Agreement).

SECTION 5. REPRESENTATIONS AND WARRANTIES

5.1 **General**

To induce Lender to enter into this Agreement and make Advances, Borrower represents and warrants that Borrower's legal name is exactly as set forth on the signature page of this Agreement; Borrower is duly organized and validly existing under the laws of the State of GEORGIA and is qualified to do business in each state where such qualification is required, and failure to so qualify would have a material adverse impact on Borrower, Borrower's business or the Collateral, all of which are listed on **Schedule F** attached hereto; the Lien granted by Borrower in the Collateral is and will at all times remain a duly perfected, first priority Lien in such Collateral; Borrower is able to pay, does pay and will continue to pay its debts as they mature in the ordinary course of business; the most recent financial statements provided to Lender accurately reflect in all material aspects. Borrower's financial condition as of that date and that there has been no Material Adverse Change in Borrower's financial condition since the date of those financial statements; there are no actions, suits or other legal proceedings of any kind now pending or, to Borrower's knowledge, threatened against Borrower that if successful would result in a Material Adverse Change; no Default or Event of Default exists hereunder; Borrower has never carried on business under or used any name other than its legal name and the trade names or trade styles listed on **Schedule F** attached hereto, and have obtained all consents, approvals and authorizations of, made all declarations or filings with, and given all notices to, all Governmental Units and all other Persons as is required or necessary to its assets and to carry on its business, and Borrower has not been notified by any such Governmental Unit or other Person that such Governmental Unit or other Person has rescinded or not renewed, or intends to rescind or not renew, any such license, consent, accreditation, approval or authorization. Each of the foregoing representations and warranties shall be deemed reaffirmed and remade as of the date of each Advance hereunder and shall not be affected by any knowledge of, or any investigation by, Lender. The continuing accuracy of each of the foregoing representations and warranties shall be a condition precedent to each Advance.

5.2 **Accounts**

Lender may rely, in determining which Accounts are Eligible Accounts, on all statements and representations made by Borrower with respect to any Account. With respect to each Account, Borrower warrants that (i) all information relating to such Account that has been delivered to Lender is true and correct in all material respects, such Account has been invoiced after the date the services or goods giving rise to such Account were rendered or provided in the ordinary course of business, as applicable, all information set forth in the invoice is true, complete and correct in all material respects, Borrower has delivered to the Account Obligor all requested supporting claim documents and each

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invoice contains the Payment Notice to remit payments as set forth in Section 4.2; (ii) the Account and any goods sold in respect of such Account are the Borrower's exclusive property and are not and will not be, subject to any consignment, sale on approval, sale or return or "bill and hold" arrangement or any Lien other than in Lender's favor; (iii) any goods the sale or other disposition of which give rise to the Account or other right to payment are not (and will not at any time be) subject to any Lien other than in Lender's favor; (iv) all amounts payable in respect of the Account are payable in Dollars; (v) the Account Obligor has accepted the goods or services relating to the Account; (vi) the Account Obligor owes and is obligated to pay the full amount stated in the invoice relating to the Account according to its terms, without dispute, offset, deduction, defense or counterclaim; (vii) the Account does not arise from a sale to an Affiliate or a sale to a consumer of goods to be used for personal, family or household purposes; (viii) it has absolute ownership of and title to the Account; (ix) the Account is not evidenced by any instrument, negotiable document, warehouse receipt or chattel paper; (x) prior to the date on which the Account arose, it had not received notice of the insolvency of the Account Obligor in respect of such Account or the commencement of any Insolvency Proceedings by or against such Account Obligor.

5.3 Borrower Reports

Borrower will provide Lender the reports listed below in a format and frequency acceptable to the Lender. All reports, which are to be submitted in Excel format and/or via direct data submission to an online computer system authorized and in form and substance acceptable to Lender, are due as follows: (i) completed Borrowing Base Certificate is due weekly (or if needed for advance purposes, daily) to be delivered no later than 10:00 AM EST or DST, whichever is in effect; (ii) a detailed invoice date aging of the Accounts is due on a weekly basis; (iii) A complete customer list of all Accounts with contact information (name of primary contact, address and telephone number) is due at the beginning of each month and (iv) monthly projections for the next fiscal year, due no later than sixty days before the end of the current fiscal year, with the exception of the monthly projections for the fiscal year ending September 30, 2011, which shall be due no later than 5:00 PM DST on September 15, 2010; (v) monthly bank statements for all bank accounts of the Borrower; (vi) monthly evidence of its tax payments; and (vii) together with each delivery of financial statements required above, the certificate of Borrower substantially in the form of Exhibit A hereto signed by the designated officer of Borrower stating, among other things, that no event has occurred which constitutes an event of Default or would constitute an event of Default but for the requirement that notice be given, or time elapse or both, under this Agreement (such certificate shall publish the accounting calculations used to determine compliance or noncompliance with Borrower's financial obligations and financial covenants provided in this Agreement), or, if any such event of Default or Defaults exists, specifying the nature thereof.

SECTION 6. COVENANTS

6.1 Affirmative Covenants

Borrower shall (i) permit representatives of Lender from time to time, as often as may be reasonably requested, but only during normal business hours, to inspect and appraise the Collateral and to inspect, audit, and make extracts from Borrower's books and records and to discuss Borrower's financial affairs with Borrower's independent accountants; (ii) keep adequate records and books of account with respect to its business activities in accordance with prudent accounting practices; (iii) cause to be prepared and furnished to Lender, in accordance with GAAP within 30 days after the end of each month, an unaudited balance sheet of Borrower and its subsidiaries and related unaudited statements of income, and cash flow (on a quarterly basis), and for the portion of Borrower's fiscal year then elapsed, on a consolidated and consolidating basis and certified by an authorized officer of Borrower; (iv) cause to be prepared and furnished to Lender, in accordance with GAAP within 90 days after the end of each fiscal year

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of Borrower, reviewed financial statements of Borrower and its subsidiaries as of the end of such fiscal year, on a consolidated basis, audited by a firm of independent certified public accountants acceptable to Lender; (v) provide Lender log-on access to all government payment portals, including but not limited to the CCR, WAWF, and DEFASE websites relating to Accounts; (vi) promptly provide Lender with notice of all contracts, contract modifications, or contract cancellations and shall execute an Assignment of Claims for all federal contracts as may be required by Lender; (vii) pay and discharge all taxes prior to the date on which such taxes become delinquent or penalties attach thereto (except for taxes being contested in good faith for which Borrower has established reserves reasonably satisfactory to Lender); (viii) comply in all material aspects with all Applicable Laws; (ix) carry property, liability and other insurance, with insurers reasonably acceptable to Lender, in such form and amounts, and with such deductibles and other provisions as Lender shall require, with each such insurance policy naming Lender as loss payee or additional insured pursuant to a form of endorsement reasonably acceptable to Lender; and (x) promptly notify Lender of all disputes or claims relating to Accounts that exceed \$25,000 in the aggregate at any one time.

6.2 Negative Covenants

Borrower will not merge or consolidate with another Person, form any new subsidiary or acquire any interest in any Person (unless such subsidiary or Person has been approved by Lender to join, and actually does join, this Agreement as a co-borrower); acquire any assets except in the ordinary course of business and as otherwise permitted by this Agreement and the other Loan Documents; enter into any transaction outside the ordinary course of business; except as approved in advance by Lender; sell or transfer any Collateral or other assets, except that Borrower may sell finished goods Inventory in the ordinary course of its business; make any loans to, or investments in, any Affiliate or other Person in the form of money or other assets; incur any debt outside the ordinary course of business; guarantee or otherwise become liable with respect to the obligations of another party or entity; pay or declare any dividends or other distributions on Borrower's equity interests (except for dividends payable solely in equity interests of Borrower); redeem, retire, purchase or otherwise acquire, directly or indirectly, any of Borrower's equity interests exceeding \$50,000 in the aggregate; permit any change in more than 15% of the ownership interest of Borrower; dissolve or elect to dissolve; with respect to subsidiary or affiliate entities, Borrower must obtain prior written consent from Lender to dissolve; pay any principal or interest on any indebtedness owing to an Affiliate except as permitted by any written subordination agreement between Lender and such affiliate, enter into any transaction with an Affiliate other than on arms-length terms; compromise or settle any Account for less than the full amount thereof, grant any extension of time of payment of any Account as long as the extension of time does not make the Account ineligible, release (in whole or in part) any Account Obligor or other Person liable for the payment of any Account or grant any credits, discounts, allowances, deductions, return authorizations or the like with respect to any Account other than in the ordinary course of business and provided that the same is promptly reported in its weekly required reports to Lender; or agree to do any of the foregoing and Borrower will report to Lender on a weekly basis any such event in excess of \$25,000.00.

6.3 Financial and Other Covenants

Borrower shall at all times comply with the financial and other covenants set forth in the **Schedule E** attached hereto.

6.4 Permitted Payments

Notwithstanding anything to the contrary in this Agreement, including without limitation Section 6.2, Borrower and its affiliates shall not make any payments in respect of certain outstanding [***] in the current aggregate principal amount of [***] plus accrued and unpaid interest [***] with the express written consent of the Lender, which consent shall be solely in the discretion of the Lender.

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6.5 **Notice of Certain Proceedings**

Borrower shall give Lender (i) 45 days prior written notice, or as soon as practicable, of any scheduled trial date or other court hearing, any arbitration proceeding, or settlement agreement that may result in the Borrower or its affiliates becoming obligated to pay [***] in the aggregate, and (ii) prompt written notice of the filing of any litigation and/or any settlement proposal by the Borrower or its affiliates, in each case relating to the Debentures or involving the Sellers or both.

SECTION 7. EVENTS OF DEFAULT AND REMEDIES

7.1 **Events of Default**

The occurrence of any of the following events shall constitute an “*Event of Default*” under this Agreement, and Borrower shall give Lender immediate written notice thereof: (i) Borrower shall fail to pay any of the Obligations on the due date thereof (whether due at stated maturity, on demand, upon acceleration, or otherwise); (ii) any representation, warranty, or other statement to Lender by or on behalf of Borrower, whether made in or furnished in compliance with or in reference to any of the Loan Documents, proves to have been false or misleading in any material respect when made; (iii) Borrower shall fail or neglect to perform, keep, or observe any covenant contained in this Agreement or any of the other Loan Documents; (iv) any Material Adverse Change shall occur; (v) Borrower shall cease to be solvent or shall stop paying, or be unable to pay, its debts and other obligations to any other creditor as the same become due and payable, or any occurrence which would cause any other liabilities, indebtedness or obligations to any other creditor to be accelerated; (vi) any Insolvency Proceeding shall be commenced by or against Borrower or any Obligor (excluding Validity Guarantors) and, in the case of an Insolvency Proceeding commenced against Borrower or any Obligor (excluding Validity Guarantors), remains unvacated and unstayed for sixty (60) days; (vii) one or more judgments or orders for the payment of money in excess of \$50,000.00 shall be entered against Borrower and remain undismissed and unpaid for thirty (30) days; (viii) any Obligor (excluding Validity Guarantors) shall revoke or attempt to revoke or terminate, or fail to confirm Obligor’s (excluding Validity Guarantors) liability under, any guaranty to which any Obligor (excluding Validity Guarantors) is a party; (ix) the transfer by the present shareholders or members (as listed on Schedule G attached hereto) of Borrower to any person or entity not a shareholder at the time of this Agreement, any or all of the common stock or other ownership interests of Borrower outstanding or in treasury as of the date hereof, or that in the event of any transfer by operation of law, Borrower fails to immediately notify Lender; (x) any instruction or agreement regarding the Remittance Address and procedures related thereto is amended or terminated without the written consent of Lender, or if Borrower fails, within one (1) Business Day of receipt, to forward Collections it receives with respect to any Accounts to the Remittance Address; (xi) any default shall occur under any other agreement or arrangement between Borrower and Lender; (xii) any guarantor of any of the Collateral shall revoke or attempt to revoke, or shall dispute, such guaranty of any of the Obligations; (xiii) any failure of any Obligor to furnish Lender current financial information upon request; (xiv) any failure of any Obligor or any pledgor of any security interest in the Collateral (the “Pledgor”) to observe or perform any agreement, covenant or promise contained in any agreement, instrument or certificate executed in connection with the granting of a security interest in any Collateral to secure the Obligations; (xv) any material and uninsured loss, theft, substantial damage, destruction, sale, foreclosure of or encumbrance to any of the Collateral that would constitute a Material Adverse Change; (xvi) the dissolution, termination of existence, insolvency, business failure, appointment of a receiver of any part of the property of, assignment for the benefit of creditors by, or the commencement of any proceeding under any bankruptcy or insolvency laws, state or federal, by

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or against Borrower or any other Obligor (excluding Validity Guarantors); (xvii) any discontinuance or termination of any guaranty of any of the Obligations by a guarantor; (xviii) any amendment or termination of a financing statement naming the Borrower as debtor and the Lender as secured party, or any corrective statement with respect thereto, is filed by Borrower or at the direction of Borrower or without the prior written consent of the Lender; (xix) if the Collateral declines in value and for any reason becomes insufficient in Lender's sole and exclusive judgment to secure the repayment of the Obligations and Borrower, after demand, fails or refuses to substitute and/or make additions to the Collateral, or pay down the Obligations satisfactory to Lender; (xx) any failure of Borrower to comply with the reporting schedules set forth in section 5.3 or 6.1 or failure to furnish Lender any Collateral report upon request; or (xxi) Lender deeming itself insecure as to the ability of Borrower to repay the Obligations, or as to the sufficiency of the Collateral.

7.2 Remedies

Upon or after the occurrence of an Event of Default (and for so long as such Event of Default shall exist), Lender may in its discretion declare the principal of and accrued interest on the Advances and all other Obligations outstanding to be, and whereupon the same shall thereupon become without further notice or demand (all of which notice and demand Borrower expressly waives), forthwith due and payable and Borrower shall forthwith pay to Lender the entire principal of and accrued and unpaid interest on the Advances and other Obligations, together with reasonable attorneys' fees and court costs if such principal and interest are collected by or through an attorney at law, and Lender may terminate this Agreement. In addition, Lender may, in its discretion, at any time or times exercise all of the rights and remedies of a secured party under the UCC or any other Applicable Law and all other legal and equitable rights to which Lender may be entitled under any of the Loan Documents, all of which rights and remedies shall be cumulative and shall be in addition to any other rights or remedies contained in any of the Loan Documents or available pursuant to Applicable Law, and none of which shall be exclusive. Borrower agrees that any requirement of notice to Borrower of any proposed public or private sale or other disposition of any Collateral by Lender shall be deemed reasonable notice thereof, if given at least ten (10) days prior thereto. Lender may purchase all or any part of the Collateral at a public sale or, if permitted by Applicable Law, at any private sale, and, in lieu of actual payment of such purchase price, may set off the amount of such price against the outstanding Obligations. The proceeds realized from any sale or other disposition of Collateral may be applied first to any Extraordinary Expenses incurred by Lender, second to interest accrued with respect to any of the Obligations, and then to the principal balance of the Obligations. If any deficiency shall arise, Borrower and each Obligor (excluding Validity Guarantors, which Lender shall have no recourse against any individual assets) shall remain liable to Lender therefor. The failure or delay of Lender to require strict performance by Borrower of any provision of the Loan Documents or to exercise or enforce any rights, Liens, powers, or remedies under any of the Loan Documents shall not operate as a waiver of such performance, Liens, rights, powers, and remedies, but all such rights, Liens, powers, and remedies shall continue in full force and effect until all of the Obligations have been fully satisfied.

SECTION 8. RELEASE AND INDEMNITY

8.1 Release

Borrower hereby releases Lender and its affiliates and their respective directors, officers, employees, attorneys and agents and any other Person affiliated with or representing Lender (the "**Released Parties**") from any and all liability arising from acts or omissions under or pursuant to this Agreement, whether based on errors of judgment or mistake of law or fact, except for those arising from gross negligence and willful misconduct. In no circumstance will any of the Released Parties be liable for lost profits or other special or consequential damages. Such release is made on the date hereof and remade upon each request for an Advance by Borrower.

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8.2 Indemnity

Borrower hereby agrees to indemnify the Released Parties and hold them harmless from and against any and all claims, debts, liabilities, demands, obligations, actions, causes of action, penalties, costs and expenses (including attorneys' fees), of every nature, character and description, which the Released Parties may sustain or incur based upon or arising out of any of the transactions contemplated by this Agreement or the other Documents or any of the Obligations or any other matter, cause or thing whatsoever occurred, done, omitted or suffered to be done by Lender relating to Borrower or the Obligations (except any such amounts sustained or incurred as the result of the gross negligence and willful misconduct of the Released Parties). Notwithstanding any provision in this Agreement to the contrary, the indemnity agreement set forth in this Section shall survive any termination of this Agreement.

SECTION 9. TERM

9.1 Effectiveness of Agreement

This Agreement will become effective when executed by Borrower and accepted by Lender in the State of Georgia (the "Effective Date"), and will continue in effect for an initial term of two (2) years (the "Initial Term"), and will continue thereafter automatically renewing annually (the "Renewal Term") unless terminated by either party as set forth in Section 9.2 of this Agreement or as otherwise provided herein. Unless sooner demanded, all Obligations will become immediately due and payable, without further notice or demand, upon any termination of this Agreement.

9.2 Termination

Borrower may terminate this Agreement only as of an Anniversary Date and then only by giving Lender at least sixty (60) days prior written notice of termination, whereupon this Agreement shall terminate on said Anniversary Date. Lender may terminate this Agreement at any time by giving Borrower at least sixty (60) days prior written notice of termination, provided Lender may terminate this Agreement immediately without prior notice to Borrower at any time an Event of Default exists and this Agreement shall be deemed to have automatically terminated upon the commencement of any Insolvency Proceeding by Borrower.

9.3 Early Termination Fee

If this Agreement is terminated by Borrower or automatically on the commencement of an Insolvency Proceeding by Borrower (and whether such termination occurs on an Anniversary Date or otherwise), or by Lender after the occurrence of an Event of Default, Lender will be entitled to a termination fee (the "**Early Termination Fee**"), as liquidated damages for its loss of the benefit of the bargain and not as a penalty (the parties acknowledging that the termination fee is a reasonable calculation of Lender's loss of the benefit of the bargain from any such termination). The Early Termination Fee, calculated as follows, shall be due and payable on the effective date of termination and thereafter shall bear interest at a rate equal to the highest rate applicable to any of the Obligations:

- i. Two percent (2%) of the Maximum Loan Amount, if terminated prior to the first Anniversary Date of the Initial Term;
- ii. One percent (1%) of the Maximum Loan Amount, if terminated after the First Anniversary Date but within the first ten (10) months prior to the second Anniversary Date of the Initial Term or if a Renewal Term is in effect, if terminated prior to the Anniversary Date of the then current Renewal Term;

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9.4 Effect of Termination

No termination shall affect or impair any right or remedy of Lender or relieve Borrower of any of the Obligations until all of the Obligations have been indefeasibly paid in full or performed.

SECTION 10. GENERAL PROVISIONS

10.1 Miscellaneous

This Agreement shall be governed by and construed in accordance with the internal laws of the State of Georgia; may not be amended, except by written agreement of Borrower and Lender; expresses the entire understanding of the parties hereto with respect to the subject matter hereof; may be executed in one or more counterparts, each of which shall constitute an original, but all of which taken together shall constitute but one and the same instrument; and shall be binding upon and inure to the benefit of the respective successors and assigns of Borrower and Lender (provided that Borrower may not assign or transfer any of its rights under this Agreement or other Loan Documents without the prior written consent of Lender). The paragraph and section headings in this Agreement are for convenience of reference only and shall not affect the substantive meaning of any provision of this Agreement. Time is of the essence of this Agreement and all of the other Loan Documents. All notices given under this Agreement shall be in writing and shall be given by hand delivery by a reputable private delivery service, by regular first-class mail or certified mail return receipt requested, addressed to Lender or Borrower at the address set forth hereinabove, or by facsimile transmission to Borrower at 866-415-3534 or Lender at 770-493-5532, or such other address or facsimile number as may be designated in writing by one party to the other delivered in accordance with the provisions hereof.

10.2 Consent to Forum

Borrower hereby consents to the non-exclusive jurisdiction of any United States federal court sitting in or with direct or indirect jurisdiction over the Northern District of Georgia or in any Georgia state or superior court sitting in Fulton County, Georgia, in any action, suit or other proceeding arising out of or relating to this Agreement or any of the other Loan Documents and Borrower irrevocably agrees that all claims and demands in respect of any such action, suit or proceeding may be heard and determined in any such court and irrevocably waives any objection it may now or hereafter have as to the venue of any such action, suit or proceeding brought in any such court or that such court is an inconvenient forum. Nothing herein shall limit the right of Lender to bring proceedings against Borrower or with respect to any Collateral in the courts of any other jurisdiction. Any judicial proceeding commenced by Borrower against Lender involving, directly or indirectly, any matter in any way arising out of, related to or connected with any Loan Document shall be brought only in a United States federal court sitting in or with direct jurisdiction over the Northern District of Georgia or in any Georgia state or superior court sitting in Fulton County, Georgia. Nothing in this Agreement shall be deemed to preclude the enforcement by Lender of any judgment or order obtained in such forum or the taking of any action under this Agreement to enforce same in any other appropriate forum or jurisdiction.

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10.3 **Waivers by Borrower**

To the fullest extent permitted by Applicable Law, Borrower waives (i) the right to trial by jury (which Lender hereby also waives) in any action, suit, proceeding or counterclaim of any kind arising out of or related to any of the Loan Documents, the Obligations or the Collateral; (ii) presentment, demand and protest and notice of presentment, protest, default, non-payment, maturity, release, compromise, settlement, extension or renewal of any or all commercial paper, accounts, contract rights, documents, instruments, chattel paper and guaranties at any time held by Lender on which Borrower may in any way be liable and hereby ratifies and confirms whatever Lender may do in this regard; (iii) notice prior to taking possession or control of the Collateral or any bond or security which might be required by any court prior to allowing Lender to exercise any of Lender's remedies; (iv) the benefit of all valuation, appraisal and exemption laws; (v) any claim against any Lender, on any theory of liability, for special, indirect, consequential, exemplary or punitive damages (as opposed to direct or actual damages) in respect of any claim for breach of contract or any other theory of liability arising out of, or the taking of any enforcement action, or related to any of the Loan Documents, any transaction thereunder or the use of the proceeds of any Advances; and (vi) notice of acceptance hereof. Borrower acknowledges that the foregoing waivers are a material inducement to Lender's entering into this Agreement and that Lender is relying upon the foregoing waivers in its future dealings with Borrower. Borrower warrants and represents that it has reviewed the foregoing waivers with its legal counsel and has knowingly and voluntarily waived its jury trial rights following consultation with legal counsel. In the event of litigation, this Agreement may be filed as a written consent to a trial by the court.

IN WITNESS WHEREOF, Borrower and Lender have signed this Agreement as of the date set forth in the heading.

BORROWER:

**TEAMSTAFF GOVERNMENT SOLUTIONS, INC.
D/B/A TEAMSTAFF GOVERNMENT SOLUTIONS
D/B/A TEAMSTAFF GOVT SOLUTIONS**

By: /s/ Zachary C. Parker
Printed Name: Zachary C. Parker
Its: CEO

LENDER:

PRESIDENTIAL FINANCIAL CORPORATION

By: /s/ Yung Simmons
Printed Name: Yung Simmons
Its: Assistant Vice President

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SCHEDULE A

Definitions

This Schedule is an integral part of the Loan and Security Agreement dated July 29, 2010, between **TEAMSTAFF GOVERNMENT SOLUTIONS, INC. D/B/A TEAMSTAFF GOVERNMENT SOLUTIONS; D/B/A TEAMSTAFF GOVT SOLUTIONS** and **PRESIDENTIAL FINANCIAL CORPORATION** (the "**Agreement**").

In addition to terms defined in the Agreement, as used in the Agreement, the following terms have the following meanings:

"Accounts" means all of Borrower's now owned or existing and future acquired or arising "accounts", as such term is defined in the UCC, and any and all other receivables (whether or not specifically listed on schedules furnished to Lender), including, without limitation, all accounts created by, or arising from, all of Borrower's sales, leases, rentals or other dispositions of goods or renditions of services to its customers (whether or not they have been earned by performance), including but not limited to, those accounts arising from sales, leases, rentals or other dispositions of goods or software sold or licensed or rendition of services made under any of the trade names, logos or styles of Borrower, or through any division of Borrower, all contract rights, notes, drafts, acceptances, general intangibles and other forms of obligations and receivables, and any and all Supporting Obligations in respect thereof.

"Accounts and Securities" means all of Borrower's money, deposit accounts, letters of credit, letter of credit rights and investment property.

"Account Obligor" means the Person primarily obligated to pay an Account or Chattel Paper.

"Account Obligor Claim" means to any Account Obligor such Account Obligor's dispute, claim, offset, defense, deduction, rejection, recoupment, counterclaim or contra account with respect to any Account Obligor, including any dispute or claim relative to price, terms, quality, quantity, performance, workmanship (regardless of the merits of any such dispute or claim).

"Accounts Advance Rate" means a percentage established by Lender, which shall be 85% as of the date of this Agreement, and which may be increased or decreased by Lender from time to time in the exercise of its discretion.

"Advance" or **"Advances"** means a loan advance under this Agreement.

"Affiliate or Affiliates" means, with respect to any Person, any Person that owns or controls directly or indirectly such Person, any Person that controls or is controlled by or is under common control with such Person, and each of such Person's senior executive officers, directors, partners and, for any Person that is a limited liability company, such Persons, managers and members. For purposes hereof, "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of any equity interest, by contract or otherwise.

"Anniversary Date" means the day that is 365 (or 366, as applicable) days after the date of this Agreement and the same date in each year thereafter.

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"Applicable Law" means all laws, rules and regulations applicable to the Person, conduct, transaction, covenant or Loan Document in question, including all applicable common law and equitable principles; all provisions of all applicable state, federal and foreign constitutions, statutes, rules, regulations and orders of governmental bodies; and orders, judgments and decrees of all courts and arbitrators.

"Bankruptcy Code" means the United States Bankruptcy Code (11 U.S.C. § 101 et seq.).

"Borrowing Base Certificate" means the report prepared by Borrower, in the form set forth on **Schedule D** attached hereto, which provides the numerical value of Collateral as of a specific date signed by an authorized officer of Borrower.

"Business Day" means a day other than a Saturday or Sunday or any other day on which Lender or banks in Georgia are authorized to close.

"CCR" means Central Contractor Registration.

"Chattel Paper" means a record or records that evidence both a monetary obligation and a security interest in specific goods, a security interest in specific goods and software used in the goods, a lease of specific goods, or a lease of specific goods and license of software used in the goods. As used in this paragraph, "monetary obligation" means a monetary obligation secured by the goods or owed under a lease of the goods and includes a monetary obligation with respect to software used in the goods.

"Central Contractor Registration" means the primary registrant database for the U.S. Federal Government. CCR validates the registrant information and electronically shares the secure and encrypted data with the federal agencies' finance offices to facilitate paperless payments through electronic funds transfer (EFT).

"Collateral" means all property and interests in property in or upon which a Lien is granted pursuant to this Agreement or the other Loan Documents.

"Collections" means, with respect to any Account, all collections and other payments on or with respect to such Account.

"Default" means any event, which with notice or passage of time, or both, would constitute an Event of Default.

"DEFASE" means a web-based application developed specifically for contractors/vendors to obtain invoice status.

"Department of Defense" means the federal department responsible for safeguarding national security of the United States.

"Deposit Accounts" mean any and all demand, time, savings, passbooks or similar accounts maintained with a bank.

"Deposit Account Agreement" means in form and substance reasonably acceptable to Lender, executed and delivered by each Borrower and the applicable deposit bank.

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“Dilution” means a lessening of the value of the collateral that is caused by, but not limited to, credits, discounts, returns, charge-backs, trade allowances, concentrations, slow pay, and bad debts.

“DoD” means Department of Defense.

“Dollars” mean the legal tender of the United States of America.

“Eligible Account” means an Account which arises in the ordinary course of business of Borrower from the rendition or performance of services and/or for the sale of goods, is payable in Dollars, is subject to Lender’s duly perfected Lien and is deemed by Lender, in its discretion, to be an Eligible Account. Without limiting the generality of the foregoing, the following Accounts shall not be eligible:

1. With respect to an Account Obligor whose total obligations to Borrower exceed 30% of all Accounts, the excess amount shall be excluded from Eligible Accounts, except for the account debtors listed below or otherwise approved in writing by Lender.

(a). With respect to U.S. Governmental Agencies for which Lender has a properly executed Assignment of Claims from Borrower the total obligations owed to Borrower shall be deemed Eligible Accounts, subject to the eligibility criteria herein described in section 2 below.

These above limits shall be adjusted by Lender, in its sole and reasonable discretion, as deemed appropriate.

2. No Account shall be an Eligible Account if:

- (i) the Account is more than 90 days from invoice date relative to invoices with payment terms of 60 days or less);
- (ii) 25% or more of the Accounts from the Account Obligor are more than 90 days from invoice date;
- (iii) the Account is subject to any Account Obligor Claim;
- (iv) the Account is not payable in Dollars;
- (v) the Account is due and owing by an Account Obligor who is an Affiliate of Borrower or a Person controlled by an Affiliate of Borrower;
- (vi) the Account is due and owing by an Account Obligor who is not creditworthy;
- (vii) the Account is due and owing by an Account Obligor who does not have its principal assets and place of business in the United States or Canada, unless the sale is backed by a letter of credit acceptable to Lender;
- (viii) the Account is unbilled;
- (ix) any covenant, representation or warranty contained in the Agreement with respect to such Account has been breached;
- (x) an Insolvency Proceeding has been commenced by or against the Account Obligor or the Account Obligor has failed, suspended business or ceased to be solvent;
- (xi) the Account is subject to a Lien other than a Permitted Lien;
- (xii) the Account is evidenced by Chattel Paper or an Instrument of any kind, or has been reduced to judgment;
- (xiii) the Account represents, in whole or in part, a billing for interest, fees or late charges;
- (xiv) the Account is not evidenced by an invoice, statement or other electronic or documentary evidence satisfactory to Lender;

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- (xv) the Account represents in whole, or the portion of the Account that represents a billing for retro action billing rate increases associated with certain government contracts of which Borrower has or had employees staffed on contract assignments;
- (xvi) the Account has been turned over or submitted to a third party for collection;
- (xvii) such Account is in the form of a cost report receivable owing from any Governmental Authority, unless Lender has expressly agreed to include it in the Borrowing Base as an Eligible Account;
- (xviii) the Account arises from a sale to the Account Obligor on a bill-and-hold, guaranteed sale, sale-or-return, sale-on-approval, consignment or any other repurchase or return basis;
- (xix) the Account is owing from the United States of America or which amount is owing from the United States of America or any agency, department or subdivision thereof, unless a properly executed assignment of claims has been received by Lender; or
- (xx) the Account does not comply with such other criteria and requirements as may be specified from time to time by Lender in its discretion.

“Extraordinary Expenses” means all costs and expenses (including legal fees) incurred by Lender in connection with the enforcement of any of its rights or remedies under this Agreement, including any costs and expenses incurred in connection with its repossession of any of the Collateral, collection of any of the Collateral, storing or removing any of the Collateral, or advertising for sale or selling any of the Collateral.

“Furniture, Fixtures and Equipment” means all of Borrower’s presently owned and hereafter acquired machinery, furniture, fixtures and equipment wherever located (all of the foregoing being hereinafter collectively referred to as the “FF&E”).

“GAAP” means United States generally accepted accounting principles as in effect from time to time, consistently applied.

“General Intangibles” means any personal property, including things in action, other than accounts, chattel paper, commercial tort claims, deposit accounts, documents, goods, instruments, investment property, letter of credit rights, letters of credit, money, and oil, gas, or other minerals before extraction. The term includes payment intangibles and software.

“Governmental Unit” means a subdivision, agency, department, county, parish, municipality, or other unit of the government of the United States, a state, or a foreign country. The term includes an organization having a separate corporate existence if the organization is eligible to issue debt on which interest is exempt from income taxation under the laws of the United States.

“Instruments” mean any and all negotiable instruments or any other writings that evidence a right to the payment of a monetary obligation, are not themselves a security agreement or lease, and are of a type that in ordinary course of business is transferred by delivery with any necessary endorsement or assignment.

“Insolvency Proceeding” means any case or proceeding commenced by or against a Person under the Bankruptcy Code or any other applicable insolvency law; as an assignment by a Person for the benefit of such Person’s creditors; or for the appointment of a receiver, trustee, or other custodian for a Person or any of such Person’s property.

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“Inventory” means all of Borrower’s finished goods and inventory, packing and shipping supplies, all goods intended to be sold or used by Borrower or to be furnished by Borrower under contracts of service, including all raw materials, goods in process, finished goods, materials and supplies of every kind and nature, used or usable in connection with the manufacture, shipping, advertising, selling, leasing or furnishing of such goods, all documents evidencing or representing the same and all documents of title, all negotiable and non-negotiable warehouse receipts representing the same and all products, accounts and proceeds resulting from the sale or other disposition of the foregoing, that may be rejected, returned repossessed or stopped in transit and all other items, customarily classified as inventory (all of the foregoing being hereinafter collectively referred to as the “Inventory”);

“Investment Property” means a security, whether certificated or uncertificated, security entitlement, securities account, commodity contract, or commodity account.

“Lien” means any security interest in, or common law, statutory or contractual lien with respect to, any property of a Person. For the purpose of this Agreement, Borrower shall be deemed to be the owner of any property which it has acquired or holds subject to a conditional sale agreement or other arrangement pursuant to which title to the property has been retained by or vested in some other Person for security purposes.

“Loans” means all monies advanced by the Lender to the Borrower pursuant to the terms of this Agreement.

“Loan Documents” means the Agreement and all notes, guaranties, security agreements, certificates, Landlord’s agreements, Bank Agreements, Deposit Account Agreements and all other agreements, documents and instruments now or hereafter executed or delivered by Borrower or any Obligor in connection with, or to evidence the transactions contemplated by, this Agreement.

“Material Adverse Change” means any of the following occurring after the date of the latest financial statements of Borrower submitted to Lender on or before the effective date of this Agreement: any change in ownership of Borrower prohibited by this Agreement, losses to Borrower significantly in excess of losses in the twelve month period preceding the effective date of this Agreement, any significant decline of revenues, any change that has been or reasonably could be expected to be material and adverse to the value of any of the Collateral or to the business, operations, prospects, properties, assets, liabilities, or financial condition of Borrower.

“Maximum Loan Amount” means One Million Five Hundred Thousand and No/100 Dollars (\$1,500,000.00).

“Obligations” means all present and future Advances, Loans, debts, liabilities, obligations, guaranties, covenants, duties and indebtedness at any time owing by Borrower or any Obligor (excluding Validity Guarantors) to Lender, whether evidenced by or arising under the Agreement or any other Loan Document, whether arising from an extension of credit, guaranty, indemnification or otherwise whether direct or indirect (including those acquired by assignment and any participation by Lender in Borrower’s indebtedness owing to others), whether absolute or contingent, whether due or to become due, and whether arising before or after the commencement of a proceeding under the Bankruptcy Code or any similar statute, including all interest, charges, expenses, fees, attorney’s fees, expert witness fees, audit fees, letter of credit fees, loan fees, Early Termination Fees and any other sums chargeable to, or reimbursable by, Borrower under the Agreement or under any other Loan Document.

“Obligor” means any guarantor, endorser, acceptor, surety or other person liable on, or with respect to, the Obligations or who is the owner of any property that is security for the Obligations, other than Borrower.

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“Other Property” means any and all other property of any nature whatsoever of Borrower now or hereafter in the possession of, assigned to or hypothecated to Lender for any purpose, including, but not limited to balances, credits, deposits, accounts, items and monies of Borrower now or hereafter with Lender and all dividends and distributions on or rights in connection with any such property and all rights of Borrower earned or to be earned under contracts to sell goods or render services.

“Payment Account” means an account maintained by Lender to which all Collections or other monies from time to time remitted as directed and deposited by Lender shall be transferred and all other payments by Borrower to Lender shall be sent in immediately available federal funds.

“Payment Notice” means the notice placed on each invoice, directing the Account to remit only to the Lockbox or if to be made by wire transfer, Automated Clearing House (“ACH”) or other electronic means, to an account designated by Lender. Payment made to any other party or location will not constitute valid payment of the invoice. Notice: TeamStaff Government Solutions, Inc. d/b/a TeamStaff Government Solutions; d/b/a TeamStaff Govt Solutions, P O Box 105328, Atlanta GA 30348-5328.

“Permitted Liens” means Liens in favor of Lender and any other Liens agreed or consented to by Lender in writing.

“Person” means any individual, sole proprietorship, partnership, joint venture, limited liability company, trust, unincorporated organization, association, corporation, government or any agency or political division thereof, or any other entity.

“Prime Rate” means the per annum rate of prime rate of interest quoted in **The Wall Street Journal** from time to time. If the *Wall Street Journal Prime* becomes unavailable during the term of this Agreement, Lender may designate a substitute index after notice to Borrower.

“Procedures Letter” means the letter dated as of July 29, 2010 issued by Lender and agreed to by Borrower which sets forth the procedures with respect to Advances and reporting to the extent such procedures are not covered in this Agreement.

“Proceeds” means all substitutions, improvements, accessions, additions, renewals and replacements of or to any of the Collateral (including, but not limited to, returned or unearned premiums from any insurance written in connection with this Agreement) and all proceeds of any of the foregoing, including, but not limited to, any and all proceeds in the form of Accounts and Inventory.

“Projections” are estimates based on certain assumptions or past trends.

“Records” means all of Borrower’s books and records relating to its business or assets, including records pertaining to any Collateral. Without limiting the generality of the foregoing, Borrower’s accounting and financial records will include all records (whether paper, computer or electronic) data, tapes, discs, or other media and all programs, files, records and procedure manuals relating thereto wherever located.

“Supporting Obligations” mean a letter of credit right or secondary obligation that supports the payment or performance of an account, chattel paper, a document, a general intangible, an instrument, or investment property.

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“Term” means the period commencing on the date of this Agreement and ending on the date on which this Agreement is terminated pursuant to Section 9.2.

“UCC” means, at any given time, the Uniform Commercial Code as adopted and in effect at such time in the State of Georgia.

“WAWF” means Wide Area Work Flow.

“Wide Area Work Flow” means a Paperless Contracting DoD-wide application designed to eliminate paper from the receipts and acceptance process of the DoD contracting lifecycle.

All accounting terms used in the Agreement, unless otherwise indicated, shall have the meanings given to such terms in accordance with GAAP. All other terms contained in the Agreement, unless otherwise indicated, shall have the meanings provided by the UCC, to the extent such terms are defined therein. The term “including,” whenever used in the Agreement, shall mean “including, but not limited to.” The singular form of any term shall include the plural form, and vice versa, when the context so requires. References to Sections, subsections and Schedules are to Sections and subsections of, and Schedules to, the Agreement; to agreements and statutes shall include all amendments thereto and successor statutes in the case of statutes; to the time of day shall mean the time of day on the day in question in Alpharetta, Georgia; to Lender’s discretion means Lender’s sole and absolute discretion.

[*CONFIDENTIAL TREATMENT HAS BEEN REQUESTED AS TO CERTAIN PORTIONS OF THIS DOCUMENT, EACH SUCH PORTION, WHICH HAS BEEN OMITTED HEREIN AND REPLACED WITH ASTERISKS [***], HAS BEEN FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION.]

SECURED PROMISSORY NOTE

Alpharetta, Georgia

Date: July 29, 2010

\$1,500,000.00

FOR VALUE RECEIVED, the undersigned (the "Borrower") promises to pay on demand to the order of Presidential Financial Corporation (the "Lender") at the Lender's main office in Alpharetta, Georgia, or at such other place as Lender may designate, the principal amount of ONE MILLION FIVE HUNDRED THOUSAND AND NO/100 DOLLARS (\$1,500,000.00) or so much thereof as may from time to time be unpaid and outstanding, together with interest per annum thereon at the rate of the greater of one point nine-five percent (1.95%) above "Wall Street Journal Prime", with Wall Street Journal Prime being the prime rate of interest quoted in The Wall Street Journal from time to time, or at the rate of three point two-five percent (3.25%) (whichever rate is applicable from time to time shall be referred to herein as the "Interest Rate"). If Wall Street Journal Prime becomes unavailable during the term of this Note, Lender may designate a substitute index. The initial interest rate hereunder shall be five point two-zero percent (5.20%). The interest rate hereunder shall adjust on the published effective date of any change in Wall Street Journal Prime (or any substitute index). All payments received will first be applied to interest and other charges due and owing to the Lender, and any remaining amount shall then be applied to principal.

This Secured Promissory Note (this "Note") is the Secured Promissory Note referred to in, is secured by the collateral in which Borrower granted a security interest under, and is entitled to the benefits of, the Loan and Security Agreement executed by Borrower in favor of Lender contemporaneously herewith (the "Loan Agreement"). Lender, from time to time, shall make advances and re-advances as may be requested by Borrower and accept payments in accordance with and subject to the provisions of this Note and the Loan Agreement. The amount outstanding under this Note may vary from time to time by increases of up to the maximum principal amount stated above plus accrued interest, other charges and expenses, and decreases down to no outstanding principal or accrued interest, other charges and expenses.

The interest rate on the principal indebtedness evidenced by this Note is as stated above. All other fees and charges (including without limitation the "Service Charge" defined below) paid in connection with this Note by Borrower to the Lender are payments for the services of originating, booking, servicing and maintaining the loan and other administrative services (including, but not limited to, periodic audits) as set forth in O.C.G.A. Section 7-4-2(A) (1) and do not constitute fees for the use of money. Interest herein shall accrue daily and is due and payable on the last day of each month.

In addition to interest, Borrower will pay Lender a monthly service charge ("Service Charge"), which shall be earned by and due and payable to Lender as set forth on **Schedule B** of the Loan Agreement. Any Service Charge for which Borrower is obligated shall be added to Borrower's loan account immediately before any payment in full of all of Borrower's obligations under this Note.

THE PARTIES AGREE THAT, AND BORROWER INSTRUCTS LENDER THAT, IMMEDIATELY UPON ACCRUAL OF INTEREST AND OTHER CHARGES PROVIDED FOR HEREIN AND IN THE LOAN AGREEMENT (INCLUDING, BUT NOT LIMITED TO, THE SERVICE CHARGES), SUCH INTEREST AND OTHER CHARGES SHALL BE PAID BY ADVANCES HEREUNDER AND CHARGED TO BORROWER'S LOAN ACCOUNT WITH LENDER. SUCH ADVANCES SHALL THEREAFTER BEAR INTEREST AND BE SUBJECT TO OTHER CHARGES UPON THE SAME TERMS AS OTHER ADVANCES HEREUNDER, AND SUCH ADVANCES ARE AGREED BY THE PARTIES TO BE PRINCIPAL PURSUANT TO O.C.G.A. SECTION 7-4-2(A)(3). BORROWER SPECIFICALLY AGREES, BY EXECUTION OF THIS NOTE, TO THIS TREATMENT OF ALL ACCRUED BUT UNPAID INTEREST AND OTHER CHARGES UNDER THIS NOTE AND THE LOAN AGREEMENT.

All computations of interest shall be calculated on a daily basis upon the unpaid balance with each day representing 1/360th of a year. Each advance under this Note shall be added to the outstanding balance under this Note and shall accrue interest commencing on the effective date of the transfer of the advance proceeds originated by Lender or the date of issue of the check or other payment instrument by Lender disbursing the advance proceeds, regardless of the date Borrower actually obtains access to the funds. Upon and after Lender's sending notice to Borrower that Borrower is in default under this Note or the Loan Agreement, in lieu of the above-described Interest Rate, the Borrower agrees to pay interest at a Default Interest Rate equal to the Wall Street Journal Prime plus 4%, and interest under this Note shall thereafter be calculated using the Default Interest Rate.

It is the intention of Lender and Borrower to conform strictly to any applicable laws. Accordingly, if the transactions contemplated hereby would violate applicable law governing the Highest Lawful Rate (as defined below), then, in that event, notwithstanding anything to the contrary in this Note, the Loan Agreement or any other agreement entered into in connection with or as security for or guaranteeing this Note, the following will apply: the aggregate of all payments which constitute interest under applicable law that is contracted for, taken, reserved, charged, or received by Lender under this Note or the Loan Agreement or under any other agreement entered into in connection with or as security for or guaranteeing this Note shall under no circumstances be in an amount or at a rate that would otherwise cause a violation of law or exceed the Highest Lawful Rate (as defined below), and any excess shall be canceled automatically and, if theretofore paid, shall, at the option of Lender, be credited by Lender on the principal amount of any indebtedness owed to Lender by Borrower or refunded by Lender to Borrower.

"Highest Lawful Rate" means the maximum interest rate that at any time or from time to time may be lawfully contracted for, taken, reserved, charged, or received on amounts due to Lender, under laws applicable to Borrower or Lender with regard to this Note that are presently in effect or, to the extent allowed by law, under such applicable laws that then allow a higher maximum lawful rate than applicable laws now allow.

Any act of default by Borrower under the Loan Agreement and any default by Borrower under its obligations under the Loan Agreement shall constitute a default under this Note. Time is of the essence of this Note.

Borrower hereby waives demand, presentment, notice, protest and notice of dishonor and diligence in collection or bringing suit and agrees that Lender may accept partial payment, or release or exchange security or collateral, without discharging or releasing any unreleased collateral or the obligations evidenced hereby. Borrower further waives any and all rights of exemption, both as to personal and real property, under the constitution or laws of the United States, the State of Georgia, or any other state or jurisdiction. Lender shall not be deemed to waive or have waived any of its rights hereunder unless such waiver is in writing and signed by Lender, and no failure, delay or omission by Lender in exercising any of its rights shall operate as a waiver of such rights. A waiver by Lender in writing on one occasion shall not be construed as a consent to or a waiver of any right or remedy on any future occasion.

Borrower agrees to pay reasonable attorneys' fees and costs incurred by Lender in collecting or attempting to collect this Note, whether by suit or otherwise. Attorney's fees relating to collection for which Borrower shall be responsible to reimburse Lender shall be equal to the lesser of: (a) actual fees and expenses or (b) fifteen percent (15%) of the principal and interest owed hereunder at the time of commencement of collection activities or the maximum amount permitted by law then in effect.

The word "Borrower" as used herein shall include the plural, should more than one execute this Note; the masculine and feminine gender, regardless of the sex of Borrower or any of them; partnerships, corporations, and other legal entities, should such an entity execute this Note; and the heirs, legal representatives, successors and assigns of Borrower. The undersigned, if more than one, shall be jointly and severally liable hereunder and all provisions hereof shall apply to each of them. The word "Lender" as used herein shall when the circumstances or context requires, include the plural and the successors and assigns of Lender.

The loan evidenced hereby has been made and this Note has been made and delivered in the State of Georgia. THIS NOTE SHALL BE GOVERNED AND CONTROLLED BY THE INTERNAL LAWS OF THE STATE OF GEORGIA AS TO INTERPRETATION, ENFORCEMENT, VALIDITY, CONSTRUCTION, EFFECT AND IN ALL OTHER RESPECTS, INCLUDING, WITHOUT LIMITATION, THE LEGALITY OF THE INTEREST RATE AND OTHER CHARGES, and shall be binding upon Borrower (and each one of them, if more than one) and Borrower's heirs, legal representatives, successors and assigns (and each one of them, if more than one). If this Note contains any blanks when executed by Borrower, Lender is hereby authorized, without notice to Borrower, to complete any such blanks according to the terms upon which the loan or loans were granted.

To induce Lender to make the loan evidenced by this Note, the Borrower (i) irrevocably agrees that all actions by Borrower arising directly or indirectly as a result or in consequence of this Note or any other agreement with Lender, or the Collateral, shall be instituted and litigated only in courts having situs in the County of Fulton, State of Georgia; (ii) hereby consents to the exclusive jurisdiction and venue of any state or federal court located and having its situs in said county; and (iii) waives any objection based upon forum non-conveniens. Notwithstanding the foregoing, nothing contained in this paragraph shall prevent Lender from bringing any action or exercising any rights against Borrower, any guarantor (excluding Validity Guarantors, which Lender shall have no recourse to individual assets), any security for the Note, or any of Borrower's or any guarantor's properties in any other county, state or jurisdiction. Initiating such action or proceeding or taking any such action in any other state or jurisdiction shall in no event constitute a waiver by Lender of any of the foregoing. IN ADDITION, LENDER AND THE BORROWER (OR ANY ONE OF THEM, IF MORE THAN ONE) HEREBY WAIVE TRIAL BY JURY IN ANY ACTION OR PROCEEDING WHICH PERTAINS DIRECTLY OR INDIRECTLY TO THIS NOTE, THE OBLIGATIONS, THE COLLATERAL, ANY ALLEGED TORTIOUS CONDUCT BY THE BORROWER OR LENDER WHICH MAY IN ANY WAY, DIRECTLY OR INDIRECTLY, ARISE OUT OF OR RELATES TO THE RELATIONSHIP BETWEEN THE BORROWER AND LENDER.

**TEAMSTAFF GOVERNMENT SOLUTIONS, INC.
D/B/A TEAMSTAFF GOVERNMENT SOLUTIONS;
D/B/A TEAMSTAFF GOVT SOLUTIONS**

By: /s/ Zachary C. Parker

Name: Zachary C. Parker

Title: CEO

CORPORATE GUARANTY AGREEMENT

State of Georgia
County of Fulton

In consideration of the sum of One Dollar (\$1.00) and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by the undersigned, and to induce Presidential Financial Corporation (hereinafter referred to as "Lender") to extend credit to **TeamStaff Government Solutions, Inc. d/b/a TeamStaff Government Solutions; d/b/a TeamStaff Govt Solutions** (hereinafter referred to as "Borrower") and/or to renew or extend, in whole or in part, loans or discounts already contracted for by Borrower, and/or from time to time to make loans to Borrower and/or enter into with Borrower any agreement with regard to the assignment and/or financing of accounts, which extensions, renewals, and other financial accommodations to Borrower will be of direct financial benefit to the undersigned, the undersigned, jointly and severally, do hereby unconditionally guarantee to Lender and to its endorsers, transferees, successors and assigns, of either this Guaranty or any of the Obligations (as hereinafter defined) secured hereby, the due and punctual payment in full of all principal of and interest and premium, if any, on, and all other amounts in respect of all Obligations of Borrower to Lender of any and every kind or character, according to their respective terms, and do agree that if such Obligations, or any of them, are not timely performed or paid by Borrower, the undersigned will immediately perform and/or pay such Obligations according to respective terms.

The "Obligations" covered by this Guaranty include all obligations of Borrower to Lender now existing or hereafter coming into existence, including, but not limited to, all obligations of Borrower to Lender arising under or pertaining to: any agreement regarding accounts receivable; any security device; any promissory note; any loan, advance, over-advance, and/or account; any and all other indebtedness and obligations of Borrower to Lender however evidenced or arising; and any renewals or extensions, in whole or in part, of any of the obligations heretofore described, together with all damages, losses, costs, interest, charges, expenses and liabilities of every kind, nature and description suffered or incurred by Lender, arising in any manner out of or in a way connected with, or growing out of said Obligations of Borrower to Lender. **This is a continuing guaranty and shall remain in force until a written notice revoking it has been received by the Lender via USPS Certified mail to the following address: 3460 Preston Ridge Road, Suite 550, Alpharetta, GA 30005, but such revocation shall not release the undersigned from liability for any and all Obligations of the principal then in existence, or from any renewals or extensions thereof, in whole or in part, and whether such renewals are made before or after such revocation.**

The undersigned hereby consents and agrees that Lender may at any time, either with or without consideration, surrender any property or other security of any kind or nature whatsoever held by it or by any person, firm or corporation on its behalf or for its account securing any of the Obligations covered by this Guaranty, or substitute any collateral so held by it for other collateral of like kind or of any kind without notice to or further consent from the undersigned and such surrender or substitution shall not in any way affect the liability of the undersigned hereunder. The undersigned shall not be discharged from their obligations and undertakings hereunder in the event Lender releases or agrees not to sue any person against whom the undersigned has, to the knowledge of Lender, a right of recourse or in the event Lender agrees to suspend its rights to enforce any promissory note(s) signed by Borrower, or any guaranty given by any other person, or any of Lender's rights in the collateral given by Borrower to secure the loans made by Lender. Lender shall be under no duty to exercise all or any rights and remedies given by any note or agreement signed by Borrower, nor given by any other guaranty given to Lender to secure Borrower's indebtedness to Lender, as a condition or requirement of enforcing this Guaranty.

The undersigned hereby waives any right to direct apportionment of payments provided for in O.C.G.A. Section 13-4-42. The undersigned further consents and agrees that Lender shall have the right to apportion said payments at its election and in its sole discretion. The undersigned waives any further notice of election by Lender.

The undersigned waives notice of: the creation of any of the Obligations, notice of nonpayment or default by Borrower under any of the Obligations or under any agreement now or hereafter existing between Borrower and Lender; notice of presentment, demand, dishonor, or protest; notice of acceptance of this Guaranty or of the creation or extension or renewal of any Obligations of Borrower to which this Guaranty relates; and any other notices whatsoever; and agrees that no modification of any of the Obligations, and that no waiver, extension, renewal, indulgence, settlement, compromise or failure to exercise due diligence in collection, for any period or periods whether or not longer than the original period, nor any surrender, substitution or release of any other person directly or indirectly liable for any of the Obligations, or of any collateral security given by Borrower, shall release the undersigned from any of the indebtedness then accrued or thereafter to accrue under this Guaranty or any part thereof. In the event any claim hereunder is collected by law or through an attorney-at-law, the undersigned shall be liable to Lender for the lesser of (a) actual fees and expenses or (b) fifteen percent (15%) of the principal and interest owed hereunder at the time of commencement of collection activities or the maximum amount permitted by law then in effect.

The undersigned hereby waive and relinquish any right of contribution, reimbursement, recourse, indemnity, subrogation and any other 'claim,' as that term is defined in Title 11 of the United States Code (hereinafter referred to as the 'Bankruptcy Code'), which the undersigned might now have or hereafter acquire, against Borrower or Borrower's estate, which arise from the existence or performance of the Obligations of the undersigned under this Guaranty. In the event that the Borrower files a petition under the Bankruptcy Code or is the subject of an involuntary petition filed under the Bankruptcy Code, then the Obligations covered by this Guaranty shall include all Obligations of the Debtor, Debtor-in-Possession, or a trustee in bankruptcy to the Lender. The Obligations of the undersigned shall not be considered fully paid, performed, and discharged unless and until all payments by Borrower to Lender are no longer subject to any right of any person (including, without limitation, any Debtor, Debtor-in-Possession or any trustee in bankruptcy) to set aside such payments, or to seek to recoup the amount of such payments or any part thereof. Without limiting the generality of the foregoing, the above-referenced right shall include, but is not limited to, any right to recover preferences avoidable under the Bankruptcy Code. If any such payments by the Borrower to the Lender are set aside, in whole or in part, or are settled by Lender (the terms and conditions of any such settlement to be determined in Lender's absolute discretion), then to the extent of such settlement, the undersigned shall indemnify and be liable for the full amount Lender so pays together with costs, interest, attorneys' fees and any and all expenses which Lender pays or incurs in connection therewith.

The undersigned agrees that no act or omission on the part of Lender shall in any way affect or impair this Guaranty. The undersigned hereby waives the right to require the holder of the Obligations guaranteed to take action against the principal as provided for in O.C.G.A. Section 10-7-24.

This Guaranty is made subject to all terms, conditions, agreements, or stipulations contained in the agreements, instruments and other documents evidencing the Obligations hereby guaranteed, which are hereby expressly incorporated herein, and the undersigned agrees that the terms, conditions and provisions of any agreements, instruments or other documents which may be executed by Borrower to evidence such Obligations in the future shall simultaneously with their execution, become a part of this Guaranty.

The undersigned waives and renounces each for himself and family any and all homestead or exemption rights either of them may have under or by virtue of the constitution or laws of Georgia, any other state, or the United States, against the liabilities and Obligations hereby created, and do hereby, jointly and severally, transfer, convey and assign to Lender or holder hereof a sufficient amount of any homestead or exemption that may be allowed to the undersigned, or any of them, including such homestead or exemption as may be set apart in bankruptcy to pay this obligation in full, with all costs of collection; and each of the undersigned hereby directs the trustee in bankruptcy having possession of such homestead or exemption to deliver to Lender a sufficient amount of property or money so set apart as exempt to pay the obligation hereby created.

Where the Obligations of Borrower hereby guaranteed is an obligation of a corporation, this Guaranty is to cover all Obligations to Lender purporting to be made in behalf of Borrower by an officer or agent of Borrower without regard to the actual authority of such officer or agent. The term "Corporation" or Borrower shall include associations of all kinds and all purported corporations whether correctly and legally natural persons. This agreement binds any natural person's heirs, administrators and executors, and where a corporation, its successors and assigns. Where signed by more than one person, the singular term 'undersigned' shall include the plural, and their obligation shall be joint and several.

The undersigned agrees that this Guaranty shall be governed by and construed and enforced according to the laws of the State of Georgia. Wherever possible each provision of the Guaranty shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Guaranty shall be prohibited by or invalid under applicable law, such provision shall be effective to the extent of such prohibition or invalidity, without invalidating the remainder of such provisions or the remaining provisions of the Guaranty. The undersigned irrevocably consents that any legal action or proceeding against it under, arising out of, or in any manner related to this agreement may be brought in any court in Fulton County, Georgia. The undersigned, by the execution and delivery of this agreement, expressly and irrevocably assents to and submits to the personal jurisdiction of such court in any such action or proceeding. The undersigned hereby expressly and irrevocably waives any claim or defense in any such action or proceeding based on any alleged lack of jurisdiction and proper venue or forum non conveniens or any similar defense.

IN WITNESS WHEREOF, the undersigned, has caused this Guaranty to be signed and sealed this twenty-ninth day of July, 2010 at Atlanta, Georgia.

TeamStaff Inc.

By: /s/ Zachary C. Parker
CEO

ACCEPTANCE

The foregoing guaranty is accepted in Alpharetta, Georgia, this 29th day of July, 2010.

PRESIDENTIAL FINANCIAL CORPORATION

By: /s/ Yung Simmons
Assistant Vice President

CERTIFICATIONS

I, Zachary C. Parker, certify that:

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

Date: August 16, 2010

/s/ Zachary C. Parker
Zachary C. Parker
Chief Executive Officer

CERTIFICATIONS

I, Cheryl Presuto, certify that:

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

Date: August 16, 2010

/s/ Cheryl Presuto
Cheryl Presuto
Chief Financial Officer

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

In connection with the Quarterly Report of TeamStaff, Inc. ("TeamStaff") on Form 10-Q for the period ending June 30, 2010 as filed with the Securities and Exchange Commission on the date hereof, the undersigned, being, Zachary C. Parker, Chief Executive Officer, and Cheryl Presuto, Chief Financial Officer and Principal Accounting Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: August 16, 2010

/s/ Zachary C. Parker
Zachary C. Parker
Chief Executive Officer
(Principal Executive Officer)

/s/ Cheryl Presuto
Cheryl Presuto
Chief Financial Officer
(Principal Accounting Officer)

A signed original of this written statement required by Section 906 has been provided to TeamStaff and will be retained by TeamStaff and furnished to the Securities and Exchange Commission or its staff upon request.