SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

(MARK ONE)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 ON 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2003

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NO. 0-18492

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

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

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

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

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

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

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

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

Yes [X]   No [ ]

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

Yes [ ]   No [X]

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

At the close of our second quarter, March 31, 2003, the aggregate market value of the voting stock of TeamStaff, Inc. (consisting of Common Stock, $.001 par value per share) held by non-affiliates of the Registrant was approximately $29,446,000 based upon the closing sales price of $3.04 for such Common Stock on March 31, 2003 as reported by NASDAQ National Market. At the close of our fiscal year, September 30, 2003, the aggregate market value of the voting stock of TeamStaff, Inc. (consisting of Common Stock, $.001 par value per share) held by non-affiliates of the Registrant was approximately $22,664,000 based upon the closing sales price of $2.23 for such Common Stock on said date as reported by NASDAQ National Market. On December 12, 2003 there were 15,714,229 shares outstanding of Common Stock of the Registrant.

DOCUMENTS INCORPORATED BY REFERENCE

None

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PART I

ITEM 1. BUSINESS

INTRODUCTION

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

As of the fiscal year ended September 30, 2003, TeamStaff provided a variety of employment related services through three business units: (1) Our TeamStaff Rx unit provides allied health professionals and nurses to doctors' offices and medical facilities throughout the United States on a temporary or permanent basis; (2) our payroll services division provides customized payroll management and tax filing services to select industries, such as construction, and (3) our professional employer organization, or PEO, division provided comprehensive human resource management and administrative services, including payroll administration and payroll tax filing, procurement and administration of employee benefit plans, procurement and administration of workers' compensation insurance, management of employment related risks, and assistance in compliance with employment-related laws and regulations. We believe our medical staffing subsidiary is one of the top providers in the niche medical imaging field, placing temporary employees for over 550 clients. Until its sale to Gevity HR, Inc., completed November 17, 2003, the PEO division provided services to over 1500 client organizations with approximately 17,000 worksite employees. The payroll processing division processes payrolls for approximately 750 clients with more than 30,000 employees.

TeamStaff's corporate headquarters is in Somerset, New Jersey and it has offices located in Clearwater, Florida, Woburn, Massachusetts, and Alpharetta, Georgia.

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

RECENT DEVELOPMENTS

SALE OF PEO DIVISION ASSETS TO GEVITY HR, INC.

Effective November 17, 2003, TeamStaff sold certain of the assets of the subsidiaries through which it operated its PEO business to Gevity HR, Inc. for the sum of $9.5 million in cash, $2.5 million of which has been placed in escrow. The escrowed sum will be released after 90 days from the November 17, 2003, closing, but is subject to downward adjustment based on any reduction in annualized administrative fees payable by the former TeamStaff PEO clients. Any such downward adjustment may be offset by annualized administrative fees of certain clients produced by former TeamStaff sales representatives during the 90-day period. The assets consisted primarily of client contracts, marketing agreements and internally developed software for use in reconciling certain monthly benefit provider invoices. As part of the transaction, Gevity HR, Inc. agreed, among other things, to hire certain former TeamStaff employees assigned to the PEO division and assume certain of TeamStaff's lease obligations. Further, TeamStaff agreed to a non-competition agreement which prohibits us from engaging in the PEO business for a period of five years. As a result of the transaction with Gevity HR, Inc., our internal corporate employee staff was reduced by approximately 95 persons, and our workforce staff was reduced by approximately 17,000 worksite employees.

As of September 30, 2003, TeamStaff met the criteria for reporting the pending sale of the PEO division as an asset held for sale and discontinued operations per Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), and has accounted for the discontinued operation as such within the consolidated financial statements and notes to consolidated financial statements included in this Form 10-K filing.

NEW PRESIDENT AND CHIEF EXECUTIVE OFFICER

On June 18, 2003, T. Kent Smith was appointed TeamStaff's President and Chief Executive Officer at an initial annual base salary of $250,000. Mr. Smith was also appointed to TeamStaff's Board of Directors. Effective as of June 18, 2003, TeamStaff entered into an employment agreement with Mr. Smith. The agreement expires on September 30, 2005. See "Executive Compensation: Employment Agreement" for further information.

NEW CHIEF FINANCIAL OFFICER

On September 15, 2003, Rick J. Filippelli was appointed TeamStaff's Vice President, Finance and Chief Financial Officer at an initial annual base salary of $225,000. Mr. Filippelli is eligible to receive a bonus of up to 35% of his base salary. Additionally, Mr. Filippelli was granted an option to purchase 50,000 shares of TeamStaff common stock, one half of which will vest on September 15, 2004, and the remaining one half will vest on September 15, 2005. Mr. Filippelli also receives four weeks of annual vacation and is offered welfare benefit plans, 401(k) and fringe benefits generally made available to other TeamStaff employees.

NEW PRESIDENT OF TEAMSTAFF RX

On December 12, 2003, Timothy Nieman was appointed as President of TeamStaff Rx at an initial annual base salary of $175,000. He assumed the responsibilities formerly held by Elizabeth Hoaglin. Mr. Nieman is eligible to receive a bonus of up to 40% of his base salary. Additionally, Mr. Nieman was granted an option to purchase 50,000 shares of TeamStaff common stock, one half of which will vest on December 12, 2004, and the remaining one half will vest on December 12, 2005. Mr. Nieman also receives four weeks of annual vacation and is offered welfare benefit plans, 401(k) and fringe benefits generally made available to other TeamStaff employees.

SERVICES

I. MEDICAL STAFFING SERVICES

TeamStaff provides medical staffing services through its wholly-owned subsidiary, TeamStaff Rx, Inc., which has more than 22 years of experience in placing temporary and permanent employees with specialized skills and talents to regional and national medical facilities. Temporary medical staffing enables clients to attain management and productivity goals by matching highly trained professional and technical personnel to specific staffing requirements. During the fiscal year ended September 30, 2003, this unit generated $58.1 million of revenue.

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

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

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

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

The current shortage in the availability of certain allied health and nursing personnel has, in management's opinion, created a strong market opportunity for TeamStaff Rx. TeamStaff believes that TeamStaff Rx is in a pivotal position to increase its market share based on its reputation and experience in the temporary medical staffing industry.

TeamStaff is implementing a new sales and marketing and product development strategy with respect to its medical staffing division. Historically, TeamStaff Rx has utilized only a telephonic sales force to generate sales. Over the upcoming fiscal year, TeamStaff Rx will be expanding its sales organization to include relationship-based inside and outside sales professionals who maintain contact with existing and prospective clients. Additionally, our recent product development efforts have focused on the introduction of our Vendor Integration Program, which represents a new business strategy for the medical staffing division. The Vendor Integration Program, or VIP, is intended to provide both large and middle-market healthcare institutions and facilities the opportunity to manage their medical staffing needs quickly and efficiently through a web-based application. The VIP centralizes a client's management of its multiple orders, vendors and locations and is intended to free the client of paperwork and time associated with obtaining, tracking and paying for temporary medical staffing personnel.

II. PAYROLL SERVICES

TeamStaff was originally established as a payroll service firm in 1969 and continues to provide payroll and tax reporting services to its clients. During the fiscal year ended September 30, 2003, this unit generated $4.7 million of revenue. Historically, the payroll division has provided these services primarily to the construction industry and currently more than 75% of TeamStaff's approximately 750 payroll service clients are in the construction industry located in the greater New York metropolitan area. TeamStaff offers most, if not all, of what other payroll services provide, including the preparation of payroll checks, direct deposit, government compliance reports, workers' compensation reports and workers' compensation audit reports as required by New York State, quarter and year end tax reports, W-2's (including federal and state magnetic media), and remote processing (via modem or internet) directly from the clients' offices, as well as certified payrolls. Tax reporting services include the impounding of tax payments, timely deposit of tax liability, filing of payroll tax returns, distribution of quarter and year-end payroll tax statements and timely response to agency inquiries.

III. PROFESSIONAL EMPLOYER ORGANIZATION (PEO)

During the fiscal year ended September 30, 2003, the PEO division generated $88.0 million of revenue. Effective November 17, 2003, TeamStaff sold certain of the assets of the subsidiaries through which it operated its PEO business to Gevity HR, Inc. When a client utilized TeamStaff's PEO services, the client administratively transferred all or essentially all of its employees to TeamStaff. TeamStaff thereby became a co-employer of the client's employees and became responsible for all human resource functions, including payroll, benefits administration, tax reporting and personnel record keeping. The client still managed the employees, determined compensation rates and assigned duties in the same fashion as any employer. The client was, however, relieved of certain reporting and tax filing requirements and other administrative tasks associated with employment.

As a PEO service provider, TeamStaff offered, among others, the following benefits to its clients' employees: comprehensive major medical plans, dental and vision coverage, life insurance, IRC Code Section 125 premium conversion plan, 401(k) retirement plan, flexible spending accounts, workers' compensation cost management and unemployment cost management.

See "Recent Developments: Sale of PEO division assets to Gevity HR, Inc." for further information.

CUSTOMERS

As of September 30, 2003, TeamStaff's customer base consisted of over 2,800 client companies, representing over 47,000 employees (including client employees who receive payroll services and are not considered TeamStaff co-employees). Due to the sale of the PEO division, TeamStaff had a significant reduction in the number of clients companies and workforce employees. Currently, TeamStaff has approximately 1300 payroll and medical staffing clients. More than 75% of the clients in the payroll services division are in the construction industry and substantially all of the customers of our TeamStaff Rx, Inc. subsidiary are engaged in the healthcare industry. No single client in any operating unit constitutes more than 5% of that unit's revenues.

SALES AND MARKETING

TeamStaff maintains payroll and medical staffing sales and marketing personnel in its Somerset, New Jersey and Clearwater, Florida locations, respectively. Our medical staffing division sales efforts have primarily been

telephonic, while our payroll services division sales force travels throughout the metropolitan New York area in an effort to expand our business.

COMPETITION

The payroll services industry is characterized by intense competition. The principal competitive factors are price and service. Management believes that Automatic Data Processing, Inc. and Paychex, Inc. are major competitors. TeamStaff also competes with in-house payroll software sold by numerous companies, as well as other providers of computerized payroll services, including banks, and smaller independent companies. The increasing availability of personal computers and software packages at low cost may result in additional businesses acquiring such capabilities.

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

TeamStaff competes with these companies by offering customized products, personalized service, competitive prices and specialized personnel to satisfy a client's particular requirements. Management believes that its broad scope of services and its commitment to quality service differentiate it from its competition.

INDUSTRY/GOVERNMENT REGULATION

INTRODUCTION

TeamStaff's operations are affected by numerous federal and state laws relating to labor, tax and employment matters. As an employer, TeamStaff is subject to all federal statutes and regulations governing its employer-employee relationships. The development of additional statutes and regulations and interpretation of existing statutes and regulations with respect to the alternative staffing industry can be expected to evolve over time. TeamStaff cannot predict with certainty the nature or direction of the development of federal, state and local statutes and regulations.

FEDERAL AND STATE EMPLOYMENT TAXES

TeamStaff assumes the sole responsibility and liability for the payment of federal and state employment taxes with respect to wages and salaries paid to its employees. There are essentially three types of federal employment tax obligations: (i) withholding of income tax requirements; (ii) obligations under FICA; and, (iii) obligations under the Federal Unemployment Tax Act. Under these statutes, employers have the obligation to withhold and remit the employer portion and, where applicable, the employee portion of these taxes.

EMPLOYEE BENEFIT PLANS

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

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

Employee pension and welfare benefit plans are also governed by ERISA. ERISA defines "employer" as "any person acting directly as an employer, or indirectly in the interest of an employer, in relation to an employee benefit plan." ERISA defines the term "employee" as "any individual employed by an employer." A definitive judicial interpretation of "employer" in the context of a PEO arrangement has not been established, although the Internal Revenue Service released Rev. Proc. 2002-21 on April 24, 2002, to help clarify the ability of PEOs to maintain multiple employer 401(k) plans.

IRS ISSUANCE OF REV. PROC. 2002-21

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

STATE REGULATION

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

INFORMATION AND TECHNOLOGY SYSTEMS

Effective August 31, 2001, TeamStaff acquired BrightLane.com, Inc., a technology company founded in 1999 that provided an online business center. Focusing on the small business segment, BrightLane developed several patent-pending information exchange and transaction oriented software solutions to facilitate access across a variety of essential and Internet deliverable administrative products and services. Since the acquisition, BrightLane has applied its core competencies mainly toward internal technology enablement and the integration of various disparate systems in TeamStaff's operating entities.

TeamStaff developed a web-based remote entry system for the Payroll Services Division that was launched in August 2003. This product will allow payroll clients to enter and send payroll data via the Internet. This technology will enable us to better serve our client base as well as reduce operating costs. It should also eliminate the need to support the multiple versions of the current remote processing system installed at client locations and will provide the payroll services client base with a more efficient and flexible processing tool.

TeamStaff also implemented its new financial and reporting system licensed from Lawson, effective May 2, 2003.

EMPLOYEES

As of September 30, 2003, TeamStaff employed 245 corporate (non worksite) employees, both full-time and part-time, including executive officers, a decrease from 282 during the previous fiscal year. TeamStaff also employed approximately 17,000 worksite employees (this number excludes payroll services employees) and approximately 325 temporary employees on client assignments. TeamStaff believes its relationship with its current employees is satisfactory. None of TeamStaff's corporate employees is covered by a collective bargaining agreement.

As a result of the transaction with Gevity HR, Inc. completed on November 17, 2003, we sold our PEO related business. With the consummation of this transaction, our internal corporate workforce was reduced by approximately 95 persons. Additionally, our worksite employee staff was reduced by approximately 17,000 employees.

RISK FACTORS

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

- the statements may discuss our future expectations;
- the statements may contain projections of our future earnings or of our financial condition; and
- the statements may state other "forward-looking" information.

SAFE HARBOR STATEMENT

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

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

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

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

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

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

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

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

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

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

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

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

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

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

OUR MEDICAL STAFFING BUSINESS MAY BE ADVERSELY AFFECTED IF THERE IS AN ECONOMIC DOWNTURN IN THE HEALTHCARE INDUSTRY.

Our medical staffing business is concentrated entirely in the healthcare industry. The economic downturn in the last two years has caused a reduction in our clients' utilization of our services. Any continued economic weakness generally or in the healthcare industry specifically could have an adverse impact on our results of operations.

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

A significant portion of our revenues are derived from California and North Carolina with respect to our temporary medical staffing division, and the metropolitan New York City area with respect to our payroll services division. While we believe that our market diversification will eventually lessen this risk in addition to generating significant revenue growth, we may not be able to duplicate in other markets the revenue growth and operating results experienced in our California, North Carolina and metropolitan New York City area markets.

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

Because many of the laws related to the employment relationship were enacted prior to the development of alternative staffing businesses, many of these laws do not specifically address the obligations and responsibilities of non-traditional employers. Our operations are affected by numerous federal, state and local laws and regulations relating to labor, tax, insurance and employment matters. Many states require licensure or registration of entities providing temporary health care or nursing services as well as those offering permanent placement services. There can be no assurance that we will be able to comply with any such regulations, which may be imposed upon us now or in the future, and our inability to comply with any such regulations could have a material adverse effect on our results of operations and financial condition. In addition, there can be no assurance that existing laws and regulations which are not currently applicable to us will not be interpreted more broadly in the future to apply to our existing activities or that new laws and regulations will not be enacted with respect to our activities. Either of these changes could have a material adverse effect on our business, financial condition, results of operations and liquidity.

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

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

HEALTH CARE REFORM COULD IMPOSE UNEXPECTED BURDENS ON OUR ABILITY TO CONDUCT OUR BUSINESS.

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

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

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

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

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

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

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

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

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

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

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

OUR BUSINESS WILL SUFFER IF OUR SERVICES ARE NOT COMPETITIVE.

Both the payroll and temporary employee placement industries are characterized by vigorous competition. Since we compete with numerous entities that have greater resources than us in each of our business lines, our business will suffer if we are not competitive with respect to each of the services we provide. We believe that our major competitors with respect to payroll and tax services are Automatic Data Processing, Inc., Ceridian Corp. and Paychex, Inc. Our major competitors with respect to temporary medical staffing resources are CompHealth, Aureus Medical Group, Resources on Call, Cross Country Travcorps, Inc., AMN Healthcare Services, Inc. and Medical Staffing Network Holdings, Inc. These companies may have greater financial and marketing resources than we. We also compete with manual payroll systems and computerized payroll services provided by banks, and smaller independent companies.

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

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

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

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

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

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

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

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

- require certain supermajority votes;

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

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

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

ITEM 2. PROPERTIES

OPERATION AND FACILITIES

TeamStaff maintained client payroll processing centers in Somerset, New Jersey; Houston, Texas; Northampton, Massachusetts; and Clearwater and Boca Raton, Florida. At the end of September 2003, PEO division payroll administration was consolidated and centralized to the Clearwater, Florida office. TeamStaff also had sales service centers that are located in New York, New York; Somerset, New Jersey; Clearwater and Boca Raton Florida; Alpharetta, Georgia; Houston, Texas; and Woburn and Northampton, Massachusetts. A sales service center was an office used primarily or partially for sales efforts and client services.

TeamStaff leases its 19,883 square foot corporate headquarters in Somerset, New Jersey, as well as offices in Clearwater and Boca Raton, Florida; Alpharetta, Georgia; Houston, Texas; New York City; and Woburn and Northampton, Massachusetts. The facilities provide sufficient capacity to meet demands for the foreseeable future. In the fiscal year ended September 30, 2003, TeamStaff's total lease expenses were $1.9 million.

The following is summary information on TeamStaff's facilities:

LOCATION	APPROXIMATE SQUARE FEET	EXPIRATION DATE	TERMS
2 Northpoint Drive**** Suite 760 Houston, TX	4,610	7/31/04	$7,299 per month
1901 Ulmerton Road Suite 800/450 Clearwater, FL	32,402	5/31/05	$61,109 per month
Corporate Headquarters 300 Atrium Drive Somerset, NJ	15,244	9/30/07	$26,677 per month
Corporate Headquarters* 300 Atrium Drive Somerset, NJ	4,639	5/30/04	$5,000 per month
245 Fifth Avenue, Suite 701**** New York, NY	3,560	7/31/06	$12,652 per month
2650 N. Military Trail** Suite 300 Boca Raton, FL 33431	10,823	7/31/07	$12,216 per month
800 West Cummings Park Suite 1500 Woburn, MA	1,900	9/14/05	$4,992 per month
3650 Mansell Road Suite 200 Alpharetta, GA	11,848	11/15/04	$22,969 per month
136 West Street*** Northampton, MA	3,148	9/30/05	$3,798 per month

*As part of the transaction with Gevity HR, Inc., Gevity has agreed to reimburse TeamStaff for the lease and operating costs of this office space through the expiration of the lease term.

**As part of the transaction with Gevity HR, Inc., Gevity has agreed to sublease this office space for a six-month period commencing on December 1, 2003.

***As part of the transaction with Gevity HR, Inc., Gevity has agreed to assume the lease for this office space.

****As a result of the sale of the PEO division, the company will no longer utilize the facilities at these locations, but continues to have a financial obligation for the term of the lease.

ITEM 3. LEGAL PROCEEDINGS

In July 2000, TeamStaff made claims for indemnification against the selling shareholders of the TeamStaff Companies (the Sellers), which were acquired by TeamStaff in January 1999. The claims consisted of various potential liabilities and expenses incurred based on breaches of representations and warranties contained in the acquisition agreement. The Sellers disputed these claims and attempted to assert claims of their own. On January 12, 2001, TeamStaff entered into a settlement agreement with the Sellers. Under the settlement agreement, the Sellers agreed to be liable and responsible for certain potential liabilities estimated at approximately $0.5 million and agreed that 55,000 shares of TeamStaff common stock, which had been held in escrow since the acquisition, were to be cancelled and TeamStaff agreed to release 29,915 escrow shares to the Sellers. TeamStaff retains 75,000 shares in escrow to provide security for the Seller's obligations. Each party agreed to release each other from all other claims under the acquisition agreements. No third parties have contacted TeamStaff seeking payment in the last fiscal year for these potential liabilities. In the event that TeamStaff incurs liability to third parties with respect to the claims, TeamStaff would declare an event of default under the settlement agreement and seek collection from the Sellers.

TeamStaff's subsidiary, BrightLane, is party to a suit brought by one of its former shareholders (Atomic Fusion, Inc. v. BrightLane.com, Inc. Civil Action No ONS02246OE, Fulton County State Court, Georgia). The plaintiff seeks damages for alleged unpaid contractual services provided to BrightLane, alleging that the shares (both in number and value) of BrightLane stock provided to the plaintiff in payment of services were inadequate to pay for the alleged agreed upon value of services. TeamStaff and BrightLane intend to defend themselves vigorously in this matter and believes that they have meritorious and valid defenses to plaintiff's claims. In addition, the former shareholders of BrightLane have placed approximately 158,000 shares in escrow to provide indemnification for any claims made by TeamStaff under the acquisition agreement, subject to a $0.3 million threshold. Some or all of these shares may be canceled in an amount equal to the amount of any claim or expense in excess of the threshold. Under the terms of the agreements between TeamStaff and BrightLane, the value of the shares held in escrow is $8.10/share. It is possible that an award in favor of Atomic Fusion would result in monetary damages against TeamStaff, which could not be recovered under the indemnification provisions because cancellation of the shares in escrow is the sole method of satisfying these indemnification obligations. On November 20, 2003, the Fulton County Superior Court (to which the action was transferred) awarded summary judgment in BrightLane's favor on all counts of Atomic Fusion's complaint except for a beach of contract claim. We intend to continue our defense in the matter.

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

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

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

On August 12, 2003, TeamStaff held its Annual Meeting of Shareholders. The only matters before the shareholders was the election of two persons as Class I directors for a term of three years. The persons nominated for election were T. Stephen Johnson and Ben J. Dyer. The record date for persons eligible to vote was June 16, 2003 and as of that date there were 15,676,172 shares of common stock issued and outstanding. Voting of the shares of common stock was on a noncumulative basis.

Both nominees were elected to the Board of Directors. The results of the vote were:

Nominees	Votes Cast For	Withheld Authority to Vote	Votes Cast Against
T. Stephen Johnson	12,494,745	210,537	0
Ben J. Dyer	12,494,315	210,967	0

PART II

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

A. PRINCIPAL MARKET

TeamStaff's Common Stock is traded in the over-the-counter market and included in the National Market System of the National Association of Securities Dealers, Inc. ("NASDAQ") under the symbol "TSTF." TeamStaff started trading on the National Market in June 2001. Prior to that date, TeamStaff was trading on the SmallCap market system.

B. MARKET INFORMATION

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

COMMON STOCK

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

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

FISCAL YEAR 2003	HIGH	LOW
1st Quarter	4.05	2.47
2nd Quarter	3.62	2.48
3rd Quarter	3.09	2.00
4th Quarter	2.70	2.01

The above quotations, reported by NASDAQ, represent prices between dealers and do not include retail mark-ups, markdowns or commissions. Such quotations do not necessarily represent actual transactions. On December 12, 2003, TeamStaff's Common Stock had a closing price of $2.08 per share.

C. DIVIDENDS

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

D. APPROXIMATE NUMBER OF EQUITY SECURITY HOLDERS

Effective August 31, 2001, TeamStaff acquired all of the capital stock of BrightLane. As contemplated under the agreements governing the transaction, TeamStaff agreed to issue 8,216,522 shares of its Common Stock in exchange for all of the outstanding capital stock of BrightLane. The issuance of 8,216,522 shares includes the issuance of 158,000 shares into escrow to provide for potential indemnification to TeamStaff for claims against Brightlane covered by the acquisition agreements and is before deduction for fractional shares, which were paid in cash. As of December 12, 2003, not all of the BrightLane shareholders had submitted their capital stock for exchange.

As of December 12, 2003, there were 15,714,229 shares outstanding held of record by 298 persons. TeamStaff believes it has approximately 2,500 beneficial owners of its common stock.

E. SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

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

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

Options are no longer being issued under the 1990 Employee Stock Option Plan, the 1990 Non-Executive Director Option Plan or the 1990 Senior Management Plan and no options were issued under these plans during the fiscal years ended September 30, 2003 or 2002.

EQUITY COMPENSATION PLAN INFORMATION

PLAN CATEGORY	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	WEIGHED AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS AND RIGHTS	NUMBER OF SECURITIES REMAINING AVAILABLE FOR FUTURE ISSUANCES UNDER EQUITY COMPENSATION PLANS (EXCLUDING SECURITIES REFLECTED IN COLUMN (a))
Equity Compensation Plans Approved by Security Holders	1,506,900*	$4.60	501,286
Equity Compensation Plans Not Approved by Security Holders	0	0	0

*Subsequent to September 30, 2003 TeamStaff granted options to purchase 50,000 shares of common stock to the new TeamStaff RX President Timothy Nieman which is reflected above.

ITEM 6. SELECTED FINANCIAL DATA
(AMOUNTS IN THOUSANDS)

	2003	2002 As Restated	2001	2000	1999
Revenues	$ 62,805	$ 79,820	$ 69,054	$ 46,557	$ 40,033
Direct expenses	50,615	63,796	54,730	37,145	30,574
Gross profit	12,190	16,024	14,324	9,412	9,459
Selling, general & administrative expenses (includes depreciation and amortization)	15,095	12,283	9,812	6,866	6,891
(Loss) income from continuing operations	(2,905)	3,741	4,512	2,546	2,568
(Loss) income before extraordinary item and discontinued operations	(1,594)	2,974	2,955	1,680	1,834
Extraordinary item net of tax	0	0	(354)	0	0
Discontinued operations net of tax	(27,291)	101	(1,251)	(729)	(58)
(Loss) net income	($ 28,885)	$ 3,075	$ 1,350	$ 951	$ 1,776
Earnings per share - Basic					
(Loss) income from continuing operations	(0.10)	$ 0.18	$ 0.34	$ 0.21	$ 0.26
Extraordinary item	-	-	(0.04)	-	-
(Loss) income from discontinued operations	(1.74)	0.01	(0.14)	(0.09)	(0.01)
Net income	(1.84)	$ 0.19	$ 0.16	$ 0.12	$ 0.25
Earnings per share - Diluted					
(Loss) income from continuing operations	(0.10)	$ 0.18	$ 0.33	$ 0.21	$ 0.26
Extraordinary item	-	-	(0.04)	-	-
(Loss) income from discontinued operations	(1.74)	0.01	(0.14)	(0.09)	(0.01)
Net income	(1.84)	$ 0.19	$ 0.15	$ 0.12	$ 0.25
Weighted average shares outstanding:					
Basic	15,732	16,014	8,693	7,954	7,128
Diluted	15,732	16,183	8,907	7,991	7,145
BALANCE SHEET DATA:					
Assets from continuing operations	38,168	42,540	42,636	21,775	17,827
Assets held for sale	22,449	51,426	49,224	27,739	18,555
Total Assets	60,617	93,966	91,860	49,514	36,382
Long-term liabilities	1,818	1,418	1,197	6,222	4,502
Liabilities from continuing operations	9,123	10,883	11,406	15,248	9,926
Liabilities held for sale	16,384	18,344	19,311	16,207	9,491
Liabilities	25,507	29,227	30,717	31,455	19,417
Working capital from continuing operations	8,305	17,938	14,636	5,199	4,461
Shareholders' equity	$ 35,110	$ 64,739	$ 61,143	$ 18,059	$ 16,965

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

FORWARD LOOKING AND CAUTIONARY STATEMENTS

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

TeamStaff believes the accounting policies below represent its critical accounting policies due to the significance or estimation process involved in each.

REVENUE RECOGNITION AND CHANGE IN POLICY

As of September 30, 2003, TeamStaff operated three different lines of business from which it derived substantially all of its revenue: temporary staffing, payroll services, and professional employer organization (PEO).

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

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

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

In connection with its discontinued operation, TeamStaff's professional employer organization division revenues historically had been derived from its PEO division gross billings, which were based on: (i) the payroll cost of its worksite employees; and (ii) associated payroll taxes, benefit costs, workers' compensation charges and administrative fees. The gross billings were invoiced to clients concurrently with each periodic payroll of its worksite employees. Historically, TeamStaff had included both components of its PEO gross billings in revenues (gross method) due primarily to the assumption of significant contractual rights and obligations and other liabilities TeamStaff assumed as an employer, regardless of whether it actually collected its gross billings. After discussions with Securities and Exchange Commission staff, and with the concurrence of its auditors, TeamStaff changed its presentation of PEO revenues from the gross method to an approach that presented its revenues net of worksite employee payroll costs (net method) primarily because TeamStaff was not generally responsible for the output and quality of work performed by the worksite employees. This change in accounting method reduced both the revenue and direct costs for fiscal years ended September 30, 2003, 2002 and 2001 by $409.0 million, $485.1 million and $483.8 million, respectively, but had no effect on gross profit, operating income or net income (loss). The above amounts have now been reflected as part of income (loss) from discontinued operations in the consolidated financial statements. Consistent with this change in revenue recognition policy, TeamStaff's PEO division direct costs did not include the payroll costs of its worksite employees. TeamStaff's PEO division direct costs associated with its revenue generating activities were comprised of all other costs related to its worksite employees, such as the employer portion of payroll-related taxes, employee benefit plan premiums and contributions and workers' compensation insurance premiums. See "Recent Developments: Sale of PEO division assets to Gevity HR, Inc." for further information.

TeamStaff negotiated the pricing for its various services on a client-by-client basis based on factors such as market conditions, client needs and services requested, the client's workers' compensation experience, the type of client business and the required resources to service the account, among other factors. Because the pricing was negotiated separately with each client and vary according to circumstances, TeamStaff's revenue, and therefore its gross margin, fluctuated based on its client mix.

Direct costs of services are reflected in TeamStaff's Statement of Operations as "direct expenses" and are reflective of the type of revenue being generated. Direct costs of the temporary staffing business include wages, employment related taxes and reimbursable expenses. Payroll services' direct costs includes salaries and supplies associated with the processing of the payroll service.

GOODWILL AND INTANGIBLE ASSETS

Beginning October 1, 2001, with the adoption of accounting standard (SFAS 142), TeamStaff no longer amortizes goodwill or indefinite life intangible assets, but continues to amortize software at its expected useful life. TeamStaff continues to review its goodwill and other intangible assets for possible impairment or loss of value at least annually or more frequently upon the occurrence of an event or when circumstances indicate that a reporting unit's carrying amount is greater than its fair value.

WORKERS' COMPENSATION

As of the fiscal year ended September 30, 2003, TeamStaff's insurance provider is Zurich American Insurance Company (Zurich). The program is managed by Cedar Hill Insurance Agency, Inc. (Cedar Hill), whose duties include underwriting analysis of potential and current clients, loss control services, and other program management services. In addition, TeamStaff's workers' compensation insurance broker, The Hobbs Group, provides claims oversight and also provided certain underwriting and claims management services. This policy covers TeamStaff's corporate employees, the worksite employees co-employed by TeamStaff and its PEO clients, and the temporary employees employed by TeamStaff to fulfill various client-staffing assignments. TeamStaff does not provide workers' compensation coverage to non-employees.

The Zurich program originally covered the period March 22, 2002 through March 31, 2003, inclusive. The program contained a large deductible feature of $0.5 million for each claim, with no maximum liability cap. The premium for the program was paid monthly based upon estimated payroll for the year and is subject to a policy year end audit, which was completed prior to the end of our fiscal year end September 30, 2003. The Zurich deductible program was collateralized by a letter of credit inuring to the benefit of Zurich, and cash held in a trust account with a third party. The letter of credit for $4.2 million was secured through Fleet, as part of TeamStaff's line of credit. In connection with the renewal of this program discussed below, Zurich released this letter of credit. Payments were made to the trust monthly based on projected claims for the year. Interest on all assets held in the trust is credited to TeamStaff. Payments for claims and claims expenses will be made from the trust. Assets in the trust may be adjusted from time to time based on program claims experience. Claims handling services for the program is provided by a third party administrator assigned by Cedar Hill. At September 30, 2003, TeamStaff has a prepaid current asset of $1.5 million for the premiums and the prepayments made to the trust.

On March 28, 2003, TeamStaff renewed its workers' compensation program with Zurich for the period from April 1, 2003, through March 31, 2004, inclusive. (See Note 3 to the consolidated financial statements) The renewal program contains a large deductible feature of $0.5 million for each claim, with a maximum liability cap of the greater of 104.41% of manual premium or $15.6 million. The premium for the program is paid monthly based upon estimated payroll for the year and is subject to a policy year-end audit. The new program is collateralized by a letter of credit inuring to the benefit of Zurich, and cash held in a trust account with a third party. The new letter of credit for $3.5 million was secured through Fleet, as part of TeamStaff's line of credit. Payments are made to the trust monthly based on projected claims for the year. Interest on all assets held in the trust is credited to TeamStaff. Payments for claims and claims expenses will be made from the trust. Assets in the trust may be adjusted from time to time based on program experience. Claims handling services for the program are provided by GAB Robins, a third party administrator. At September 30, 2003, TeamStaff has a prepaid current asset of $2.1 million for the premiums and the prepayments made to the trust.

In conjunction with the sale of its PEO assets to GevityHR, Inc., TeamStaff requested a pro rata cancellation of this policy effective as of November 17, 2003. TeamStaff entered into a new workers' compensation program with Zurich covering TeamStaff's temporary employees. The program is managed by Cedar Hill and claims handling services for the program are provided by GAB Robins. This program is a fully-insured, guaranteed cost program that contains no deductible or retention feature. This new policy will terminate effective April 1, 2004.

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

The CNA policy originally covered the period from January 22, 2001 through January 21, 2002, but was extended to March 21, 2002. It was a large deductible program ($250,000 for each claim) with a maximum liability cap. The premium for the policy was paid monthly based upon estimated payroll for the year and is subject to a year-end audit by the provider. TeamStaff also maintained a separate policy insuring a portion of the maximum deductible cap, which it may be required to pay if claims exceed a determined number. The policy, including the extension, insures payment of the maximum cap in excess of the first $2.1 million, which TeamStaff pays, up to $8.7 million. Once the $8.7 million is exceeded, TeamStaff pays 89.5% of paid claims up to $12.1 million. If the claims and fixed costs under the policy are less than the amounts TeamStaff paid, plus investment returns thereon, the insurer is contractually obligated to refund the difference to TeamStaff.

As part of the two-month extension, which was negotiated in January 2002, TeamStaff was required to pay $0.5 million, which CNA asserted was owed to cover costs for claims incurred during the policy years 1997 - 1999. As previously disclosed, TeamStaff had received a release for those periods from CNA in January 2001, when TeamStaff accepted CNA as its new insurance carrier. TeamStaff has denied CNA's claim and, to date, has received $0.2 million back from the original $0.5 million payment. TeamStaff believes that the remaining funds should be returned as well. Should TeamStaff be unsuccessful in receiving a refund of all monies paid, it will be required to absorb these claims. However, TeamStaff has recorded a liability on its books for the estimated claims for the two-month extension, which exceeds the $0.3 million disputed amount. Accordingly, TeamStaff plans to offset this $0.3 million amount from any monies potentially owed by TeamStaff to CNA. On January 27, 2003, TeamStaff filed a complaint of unfair or deceptive acts or practices in the business of insurance against CNA with the New Jersey Division of Insurance. The New Jersey Division of Insurance referred the matter to the New Jersey Compensation Rating and Inspection Bureau, which has investigated the complaint and proposed a fine against CNA and a refund of $0.2 million in policy issuance costs to TeamStaff. TeamStaff and CNA are attempting to resolve these matters amicably.

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

As of September 30, 2003, the adequacy of the workers' compensation reserves was determined, in management's opinion, to be reasonable. In determining our reserves we rely in part upon information regarding loss data received from our workers' compensation insurance carriers which may include loss data for claims incurred during prior policy periods. As disclosed in our Form 10-K for the fiscal year ended September 30, 2002, TeamStaff has encountered difficulties in receiving timely reporting of claims from CNA. In the future, similar problems from our insurance carriers may result in adjustments to our reserves. In addition, these reserves are for claims that have not been sufficiently developed due to their relatively young age, and such variables as timing of payments and investment returns thereon are uncertain or unknown, actual results may vary from current estimates. TeamStaff will continue to monitor the development of these reserves, the actual payments made against the claims incurred, the timing of these payments, the interest accumulated in TeamStaff's prepayments and adjust the reserves as deemed appropriate.

EMPLOYEE PENSION PLAN

Effective October 1, 2000, TeamStaff adopted a non-qualified, supplemental executive retirement plan. As of September 30, 2003, only two former officers were covered under the SERP plan. TeamStaff records annual amounts relating to this plan in accordance with calculations which include various actuarial assumptions, such as discount rates and assumed rates of return. TeamStaff reviews its actuarial assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is deemed appropriate to do so.

SERP participants also are provided with a split dollar life insurance policy, insuring the life of the participant until the participant reaches age 65. Under the terms of an agreement between each participant and TeamStaff, although the participant is the owner of the Policy, each participant has collaterally assigned his Policy to TeamStaff to secure repayment of the premiums through either its cash surrender value or the Policy proceeds. Additionally, pursuant to the agreement, the participant's right to the Policy vests and becomes nonforfeitable in accordance with the same schedule as the SERP and with similar change of control provisions. Upon the participant's 65th birthday (and in certain other circumstances provided by the agreement), TeamStaff will release the collateral assignment of the Policy provided the participant releases TeamStaff from all obligations it may have with respect to the participant (including those under the SERP). Under the agreement, TeamStaff is required to pay all Policy premium costs. However, given the uncertainty of TeamStaff's ability to continue to maintain this payment arrangement in light of certain of the provisions of the Sarbanes-Oxley Act of 2002, TeamStaff had, with the former President and Chief Executive Officer's consent, deferred paying Policy premiums on his behalf. TeamStaff paid the former President and Chief Executive Officer a bonus in the amount of Policy premiums covering the period through September 30, 2003, grossed-up to cover allocable income taxes.

During fiscal 2003, two events were recognized as curtailments under SFAS No. 88. Donald Kelly was relieved of his duties as Chief Financial Officer. A curtailment charge related to this event of $254,000 was recognized during the second quarter. Donald Kappauf relinquished his positions as President and Chief

Executive Officer. A curtailment charge related to this event of $445,000 was taken during the third quarter. TeamStaff is not aware of any other events that might constitute settlement or curtailment under SFAS No. 88.

DEFERRED TAXES

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

ALLOWANCE FOR DOUBTFUL ACCOUNTS

TeamStaff maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to pay. However, if the financial condition of TeamStaff's customers were to deteriorate rapidly, resulting in nonpayment, TeamStaff's accounts receivable balances could grow and TeamStaff could be required to provide for additional allowances, which would decrease net income in the period that such determination was made.

In connection with its discontinued operation, TeamStaff believed that the success of its PEO business was heavily dependent on its ability to collect these service fees for several reasons, including (i) the large volume and dollar amount of transactions processed by TeamStaff, (ii) the periodic and recurring nature of payroll, upon which the service fees were based, and (iii) the fact that TeamStaff was at risk for the payment of its direct costs regardless of whether its clients paid their service fees. To mitigate this risk, TeamStaff established very tight credit policies. TeamStaff generally required its clients to pay their service fees no later than one day prior to the applicable payroll date. In addition, TeamStaff maintained the right to terminate its Client Service Agreement and associated worksite employees or to require prepayment, letters of credit or other collateral upon deterioration in a client's financial position or upon nonpayment by a client. As a result of these efforts, the outstanding balance of accounts receivable and subsequent losses related to customer nonpayment had historically been very low as a percentage of revenues.

FISCAL YEAR 2003 AS COMPARED TO FISCAL YEAR 2002-CONTINUING OPERATIONS

TeamStaff's revenues for the fiscal years ended September 30, 2003 and 2002 were $62.8 million and $79.8 million, respectively, which represents a decrease of $17.0 million, or 21.3%, over the prior year fiscal year. Decreased revenues in TeamStaff's Medical Staffing division accounted for approximately $16.7 million less revenue. This decrease has partially been attributed to our closing of the division's Houston, Texas office in April 2002. This office was primarily involved in staffing per diem nurses in the local Houston market. Our Medical Staffing business places predominantly long term temporary medical personnel in assignments that average at least thirteen weeks compared to per diem staffing, which are typically staffed on an hourly or daily basis. The overhead necessary to support per diem nursing did not justify keeping this location in operation. In addition, due to the increased number of temporary medical staffing companies that have appeared over the last few years, our Medical Staffing business segment is facing increased competition from a number of companies. While many of these companies had traditionally concentrated in the nursing market, they have expanded their operations into markets, such as imaging personnel staffing, where TeamStaff Rx has concentrated, and which previously were substantially less competitive. Also contributing to the decrease in revenues is the recent practice among hospitals of forcing overtime to permanent staff and replacing temporary positions with permanent hires. Longer term, we believe the demand for temporary medical personnel will increase, driven, in part, by an aging population and an improving economy.

Direct expenses were $50.6 million for the fiscal year ended September 30, 2003 and $63.8 million for last year, representing a decrease of $13.2 million, or 20.7 %. This decrease is a direct result of the lower consolidated revenues. As a percentage of revenue, direct expenses for the fiscal years ended September 30, 2003 and 2002 were 80.6% and 79.9%, respectively.

Gross profits were $12.2 million and $16.0 million for the fiscal years ended September 30, 2003 and 2002, respectively, a decrease of $3.8 million, or 23.9%. This decrease is attributed to the reduction in our Medical Staffing revenue. Gross profits, as a percentage of revenue, were 19.4% and 20.1% for the fiscal years ended September 30, 2003 and 2002, respectively

Selling, general and administrative (SG&A) expenses for the fiscal years ended September 30, 2003 and 2002 were $14.8 million and $12.1 million respectively, representing an increase of $2.7 million or 22.2%. The overall increase in SG&A is primarily attributable to an accrual for severance agreement obligations related to TeamStaff's former President and Chief Executive Officer and former Chief Financial Officer under their severance agreements and the SERP of $2.6 million.

Depreciation and amortization for the fiscal years ended September 30, 2003 and 2002 were $0.3 million and $0.2 million respectively.

Interest and other income was $0.6 million and $1.1 million for the fiscal years ended September 30, 2003 and 2002, respectively, a decrease of $0.5 million. This decrease is primarily attributable to the reduction in late payment fees received by our Medical Staffing division due to a more competitive pricing environment, and referral fees received in fiscal 2002 due to the closing of the Houston Medical Staffing service office.

Interest and other expense was $0.2 million for the fiscal years ended September 30, 2003 and 2002

Income tax benefit from continuing operations for the fiscal year ended September 30, 2003 was $0.9 million versus income tax expense of $1.7 million for the fiscal ended September 30, 2002. These tax benefits in 2003 are a result of losses from operations.

Loss from continuing operations for the fiscal year ended September 30, 2003 was $1.6 million or $.10 per fully diluted share, as compared to income from continuing operations of $3.0 million or $0.18 per fully diluted share for the same period last year. This decrease is due to the decreased performance of TeamStaff's Medical Staffing division and the accrual for TeamStaff's potential obligations to its former Chief Executive Officer and Chief Financial Officer under their severance agreement and under its SERP.

Losses from discontinued operations net of tax for the fiscal year ended September 30, 2003 was $27.3 million compared to income from discontinued operations net of tax of $0.1 million for the same period last year. This decrease is predominantly due to the after-tax write down of impaired goodwill and the intangibles related to the Wachovia relationship of $25.4 million. See "Recent Developments: Sale of PEO division assets to Gevity HR, Inc." for further information.

Net loss for the fiscal year ended September 30, 2003 was $28.9 million or $1.84 per fully diluted share, as compared to net income of $3.1 million or $0.19 per fully diluted share for the same period last year.

FISCAL YEAR 2002 AS COMPARED TO FISCAL YEAR 2001 AS RESTATED-CONTINUING OPERATIONS

The results below reflect a restatement of the balance sheet and statement of income for the September 30, 2001 fiscal year end. As discussed in Note 13 of the financial statements included in this Form 10-K, the restatement has been required in order to properly reflect certain footnote disclosures and adjustments regarding the Company's supplemental executive retirement plan adopted on October 1, 2000.

TeamStaff's revenues for the fiscal years ended September 30, 2002 and 2001 were $79.8 million and $69.1 million respectively, which represents an increase of $10.7 million or 15.6%. Our Medical Staffing business continued its strong growth, growing $10.4 million, or 16.2%, over fiscal year 2001

Direct expenses were $63.8 million for the fiscal year ended September 30, 2002 and $54.7 million for the comparable period of fiscal year 2001, representing an increase of $9.1 million or 16.6%. This increase was attributable to the revenue growth in our Medical Staffing business. As a percentage of revenue, direct expenses for 2002 and 2001 were 79.9% and 79.3%, respectively.

Gross profit was $16.0 million and $14.3 million for the fiscal years ended September 30, 2002 and 2001, respectively, representing an increase of $1.7 million or 11.9%. Gross profit, as a percentage of revenue, was 20.1% and 20.7% for the fiscal years ended September 30, 2002 and 2001, respectively.

Selling, general and administrative (SG&A) expenses for the fiscal years ended September 30, 2002 and 2001 were $12.1 million and $9.4 million, respectively, representing an increase of $2.7 million or 28.1%. The SG&A expenses in the Medical Staffing business grew by $1.1 million, in order to support its growing business. Corporate overhead grew by $1.4 million which was mainly due to: $0.2 million in acquisition costs incurred in two aborted PEO acquisition efforts; $0.2 million due to a bonus given to the Chief Executive Officer upon the successful negotiation of TeamStaff's new workers' compensation policy; $0.2 million due to investment banking fees and related costs incurred with respect to the analysis of strategic alternatives associated with the Medical Staffing business; $0.3

million in higher corporate insurance associated with the growth of TeamStaff as well as due to much higher rate increases throughout the insurance market; and $0.3 million in costs associated with TeamStaff's year-end accounting issues associated with the restatement of 2001 and the hiring of new auditors.

Depreciation and amortization for the fiscal years ended September 30, 2002 and 2001 were $0.2 million and $0.4 million, respectively. As a result of implementing SFAS No.142 as of October 1, 2001, TeamStaff has ceased amortizing any indefinite life intangible assets and goodwill. In the fiscal year ended September 30, 2001, we amortized $0.2 million in intangible assets and goodwill.

Interest and other income for the fiscal years ended September 30, 2002 and 2001 were $1.1 million and $1.0 million, respectively, representing an increase of $0.1 million or 16.5%. Of this increase, $0.2 million relates to increased late payment fee income in the Medical Staffing business, and $0.1 million reflects the referral fees TeamStaff is receiving as a result of the referral to a third party of certain of the former Medical Staffing business when we closed our Houston Medical Staffing service office in April 2002. This was reduced somewhat by lower interest rates on overnight investments.

Interest and other expense were $0.2 million in the fiscal year ended September 30, 2002 as compared to $0.4 million in fiscal year ended September 30, 2001, representing a decrease of $0.2 million or 60.1%. These decreases were due to the retirement of our debt facility with FINOVA Capital effective August 31, 2001.

Income tax expense, before the impact of an extraordinary item, for the fiscal year ended September 30, 2002 was $1.7 million versus $2.1 million fiscal 2001. TeamStaff's effective tax rate was 36.6% and 41.8% for the fiscal years ended September 30, 2002 and 2001, respectively. The decrease in the effective tax rate relates primarily to non-deductible goodwill, which, as of October 1, 2001, is no longer amortized as a result of implementing SFAS No. 142.

Income before discontinued operations and extraordinary item for the fiscal years ended September 30, 2002 and 2001 were $3.0 million or $.18 per fully diluted share and $3.0 million or $.33 per fully diluted share, respectively. Both business units' profitability increased over last year as reported in TeamStaff's Segment Reporting disclosure. See "Recent Developments: Sale of PEO division assets to Gevity HR, Inc." for further information.

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

Income after-tax from discontinued operations for the fiscal year ended September 30, 2002 was $0.1 million compared to losses after-tax from discontinued operations of $1.3 million for the same period of the prior year. This favorable improvement was due to the favorable settlement of workers' compensation claims offset by an increase in our CNA workers' compensation reserves.

Net income for the fiscal year ended September 30, 2002 was $3.1 million, or $0.19 per fully diluted share, as compared to $1.3 million, or $0.15 per fully diluted share, for the fiscal year ended September 30, 2001.

LIQUIDITY AND CAPITAL RESOURCES

Net cash used in operating activities in the fiscal year 2003 was $6.8 million compared to $1.3 million in fiscal 2002. The change in cash from operations compared to last year relates to a loss from continuing operations in 2003 compared to income from continuing operations in 2002, increases in deferred taxes and increase in restricted cash primarily associated with potential obligations to our former Chief Executive Officer and Chief Financial Officer's under their SERP agreements.

Cash used in investing activities of $0.4 million was primarily related to internally developed capitalized software of $0.2 million, additional fees incurred for Lawson implementation for $0.1 million and software license fees of $0.1 million.

The cash used in financing activities of $0.9 million was primarily due to spending $0.8 million in repurchasing 251,214 shares of TeamStaff stock in fiscal 2003.

As of September 30, 2003, TeamStaff had cash and cash equivalents of $4.3 million and net accounts receivable of $4.9 million. The amount of available cash includes cash held for future payroll and other related taxes payable on a quarterly basis. Management believes its existing cash will be sufficient to support cash needs for at least the next twelve months. TeamStaff anticipates that it will continue to sustain losses from operations during the first three quarters of fiscal 2004 and, based on the projected timetable for the implementation of its new business strategy for TeamStaff Rx, will not realize profits from operations until the fourth quarter of fiscal 2004. In the event TeamStaff's business strategy for TeamStaff Rx requires additional time to fully implement, or proves unsuccessful in the marketplace, TeamStaff could continue to sustain losses throughout the next fiscal year.

On July 22, 1999, the Board of Directors authorized the repurchase up to 3% of the outstanding shares of TeamStaff's common stock. On November 19, 2002, the Board of Directors authorized an additional repurchase of up to $1.0 million in common stock. Since inception through September 30, 2003, we have repurchased 581,470 shares at an average cost of $4.18 per share for a total cost of $2.4 million. These share repurchases are reflected as treasury shares in these financial statements and will eventually be retired. As of September 30, 2003, TeamStaff retired 28,456 shares of treasury stock. As of December 1, 2003, TeamStaff retired an additional 546,014 shares of treasury stock.

On April 9, 2002, TeamStaff entered into a revolving loan facility with Fleet National Bank ("Fleet"). The total outstanding loan amount cannot exceed at any one time the lesser of $7.0 million or the sum of 85% of qualified accounts receivable, less an amount reserved by Fleet to support direct debit processing exposure. The annual interest rate is either the Fleet prime rate or LIBOR, at the discretion of TeamStaff, and is currently 4.00%. The facility is collateralized by substantially all of the assets of TeamStaff, including its accounts receivables. The facility is subject to certain covenants including, but not limited to, interest rate coverage of 2.0 to 1.0, total liabilities to tangible net worth ratio of 2.0 to 1.0, and minimum working capital of $10.0 million.

Effective March 21, 2003, TeamStaff and Fleet agreed to a renewal of the revolving loan facility, which now expires on March 31, 2004. The terms of the facility are substantially as described above, except that the total outstanding loan amount at any one time cannot exceed the lesser of $6.0 million or the sum of 85% of the qualified accounts receivable less an amount reserved by Fleet. At September 30, 2003, the sole outstanding amount of the facility represented an outstanding letter of credit in the amount of $3.5 million issued with respect to TeamStaff's workers' compensation program with Zurich effective April 1, 2003 described above. During the year, Fleet amended the agreement by deleting covenants related to interest rate coverage and replaced it with minimum earnings before interest expense and minimum working capital covenants. At September 30, 2003, TeamStaff was not in compliance with the earnings before interest expense and minimum working capital covenants. Fleet has agreed to waive the requirements as of September 30, 2003. TeamStaff and Fleet are working to determine new covenants for the remaining quarters of the loan. In connection with the sale of certain PEO assets to Gevity HR, Inc., we were required to obtain the consent of Fleet to the transaction. As part of its agreement to the sale of PEO assets (which served as collateral for the loan) Fleet required that we provide substitution collateral in the form of a $3,500,000 deposit at Fleet. This deposit may be considered restricted cash in that until the parties review the loan conditions, we may not use it for general purposes.

Obligations (Amounts in Thousands)	Total	Payments Due By Period: Less than 1 year	1-3 years	4-5 years
Long-term debt	$ 155	$ 61	$ 94	$ 0
Operating leases	4,363	1,816	2,084	463
Workers' compensation(1)	2,723	2,723	0	0
Pension liability(2)	1,724	1,010	249	465
Severance(3)	1,391	782	406	203
Total Obligations	$ 10,356	$ 6,392	$ 2,833	$ 1,131

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(1) Payments required in October and November 2003. Policy cancelled effective November 17, 2003. See Note 3 "Subsequent Events: Discontinued Operations" in Notes to Consolidated Financial Statements.

(2) Represents pension liability for the former CEO and former CFO.

(3) Represents accrual for termination agreements with former CEO and former CFO. This amount is included within accrued payroll on Teamstaff's balance sheet.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

In January 2003, FASB Interpretation No. 46 ("FIN No. 46"), "Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51," was issued. In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN No. 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or is entitled to receive a majority of the entity's residual returns or both. Currently this standard has not had an impact on TeamStaff's consolidated financial statements.

In April 2003, FASB issued Statements of Financial Accounting Standards No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS 149"). SFAS 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under FASB Statement No. 133 "Accounting for Derivative Instruments and Hedging Activities". SFAS 149 is generally effective for contracts entered into or modified after June 30, 2003. Currently this standard has not had an impact on TeamStaff's consolidated financial statements.

In May 2003, FASB issued Statements of Financial Accounting Standards No. 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS 150"). SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003. Currently this standard has not had an impact on TeamStaff's consolidated financial statements.

ITEM 7a QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

TeamStaff does not undertake trading practices in securities or other financial instruments and therefore does not have any material exposure to interest rate risk, foreign currency exchange rate risk, commodity price risk or other similar risks, which might otherwise result from such practices. TeamStaff has no material interest rate risk, except with respect to our workers' compensation programs, and is not materially subject to fluctuations in foreign exchange rates, commodity prices or other market rates or prices from market sensitive instruments. In connection with TeamStaff's workers' compensation programs, prepayments of future claims are deposited into trust funds for possible future payments of these claims in accordance with the policies. The interest income resulting from these prepayments is for the benefit of TeamStaff, and is used to offset workers' compensation expense. If interest rates in these future periods decrease, TeamStaff's workers' compensation expense would increase because TeamStaff would be entitled to less interest income on the deposited funds.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

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

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

On April 10, 2002, the Board of Directors of TeamStaff and its Audit Committee decided to change independent public accountants from Arthur Andersen LLP to PricewaterhouseCoopers, LLP for the fiscal year ending September 30, 2002. The change was made due to the uncertainties surrounding Arthur Andersen, LLP at the time.

Arthur Andersen's reports on TeamStaff's consolidated financial statements for each of the years ended September 30, 2001 and 2000 did not contain an adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles. During the years ended September 30, 2001 and 2000 and through the date hereof, there were no disagreements with Arthur Andersen on any matter of accounting principle or practice, financial statement disclosure, or auditing scope or procedure which, if not resolved to Arthur Andersen's satisfaction, would have caused them to make reference to the subject matter in connection with their report on our consolidated financial statements for such years; and there were no reportable events as defined in Item 304(a)(1)(v) of Regulation S-K.

During the years ended September 30, 2001 and 2000 and through April 10, 2002 , TeamStaff did not consult PricewaterhouseCoopers with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on its consolidated financial statements, or any other matters or reportable events as set forth in Items 304(a)(2)(i) and (ii) of Regulation S-K.

At a meeting held on December 10, 2002, prior to concluding their audit for fiscal 2002, PricewaterhouseCoopers expressed its opinion to the Audit Committee of TeamStaff that there were material weaknesses in TeamStaff's system of internal controls, including the adequacy, competency and reliability of operational and financial information, information systems and finance personnel. PricewaterhouseCoopers further stated that information had come to its attention, that if further investigated may materially impact the fairness or reliability of the previously issued financial statements for fiscal year 2001 and/or the financial statements to be issued for fiscal year 2002. PricewaterhouseCoopers also stated that due to an accounting error in the treatment of a supplemental retirement plan, a restatement and a reaudit of fiscal 2001 would be required but it declined the engagement for the reaudit of fiscal year 2001.

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

In response to the foregoing advice from PricewaterhouseCoopers, the Audit Committee recommended to the Board of Directors that TeamStaff's Chief Financial Officer be relieved of his duties immediately, and a search for a new Chief Financial Officer be commenced. The Board accepted and implemented the recommendations of the Audit Committee in full. We have since retained a new Chief Financial Officer and have established, and will continue to establish, new policies and procedures designed to improve the reliability and reporting of operational and financial information.

Our consolidated financial statements for Fiscal 2001 were audited by Arthur Andersen which is no longer licensed to practice before the Securities and Exchange Commission. Therefore, the restatement of Fiscal 2001 required the reaudit of the Fiscal 2001 financial statements. PricewaterhouseCoopers advised the Audit Committee that it would not accept an engagement for the reaudit of Fiscal 2001 due to its concerns regarding the internal control issues described above. In light of the need to engage a new auditor for Fiscal 2001, the Audit Committee determined that the interests of TeamStaff were best served by engaging new independent accountants willing to audit both Fiscal 2001 and Fiscal 2002.

On December 13, 2002, the Audit Committee dismissed PricewaterhouseCoopers and engaged Lazar Levine & Felix LLP to serve as TeamStaff's independent public accountants. In conducting the audit for fiscal year ended September 30, 2002, Lazar expanded its testing of TeamStaff's internal controls, including information technology controls, to include the fiscal year ended September 30, 2001. This procedure was followed since the Arthur Anderson work papers were not readily available for review by Lazar and to investigate the concerns regarding internal controls raised by PricewaterhouseCoopers. As a result of this expanded testing, no material weaknesses in the systems was revealed and, based on these results, Lazar concluded that only an audit of one restatement adjustment, as discussed below, was appropriate and not a full reaudit of the Fiscal 2001 consolidated financial statements.

Prior to its dismissal, PricewaterhouseCoopers had advised the Audit Committee that, in PricewaterhouseCoopers' opinion, TeamStaff should not have applied pension plan accounting to its supplemental retirement plan adopted on October 1, 2000, resulting in a material error requiring the restatement of the fiscal year 2001 financial statements. This would have resulted in an additional after-tax charge to earnings of approximately $408,000 in fiscal year 2001. TeamStaff had engaged an independent firm to design the plan and had reviewed the plan's accounting treatment with Arthur Andersen prior to its certification of TeamStaff's fiscal year 2001 financial statements. Lazar advised the Audit Committee that it had undertaken its own analysis of the appropriate accounting treatment for the supplemental retirement plan. Lazar determined that the plan is indeed a pension plan and TeamStaff had accounted for it as such. Nevertheless, Lazar determined that a restatement of TeamStaff's fiscal year 2001 financial statements was appropriate due to the omission of a note in the fiscal year 2001 consolidated financial statements containing certain required disclosures for the plan. Further, an adjustment in the expense calculation of the plan resulted in a reduction in net income after-tax for fiscal year 2001 of $76,000 from $1,424,000 to $1,348,000.

In light of the foregoing, TeamStaff determined that the conclusions reached by PricewaterhouseCoopers concerning TeamStaff's internal controls and financial and operational systems were not supported by Lazar's independent analysis or TeamStaff's own assessment of its financial and operational systems.

During the period of PricewaterhouseCoopers's engagement, which commenced on April 10, 2002, there were no disagreements with PricewaterhouseCoopers on any matter of accounting principle or practices, financial statement disclosure, or auditing scope or procedure which, if not resolved to PricewaterhouseCoopers 's satisfaction, would have caused them to make reference to the subject matter in connection with their report on TeamStaff's consolidated financial statements. PricewaterhouseCoopers did not report on our consolidated financial statements for any fiscal year. PricewaterhouseCoopers expressed its opinion to the Audit Committee that there were material weaknesses in our system of internal controls, including the adequacy, competency and reliability of operational and financial information, information systems and finance personnel, as described above.

During the years ended September 30, 2002 and 2001 and the interim periods up to and including the date of Lazar's engagement, TeamStaff did not consult Lazar with respect to the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on its consolidated financial statements, or any other matters or reportable events as set forth in Items 304(a)(2)(i) and (ii) of Regulation S-K.

The Audit Committee retained Lazar to serve as our independent accountants for the fiscal year ending September 30, 2003. The audit services provided by Lazar consist of examining financial statements, reviewing filings with the Securities and Exchange Commission, and consulting in regard to various accounting matters as permitted under the Sarbanes-Oxley Act of 2002.

ITEM 9A. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES:

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

CHANGES IN INTERNAL CONTROLS:

TeamStaff implemented its new financial and reporting system licensed from Lawson, effective May 2, 2003.

In accordance with Section 202 of the Sarbanes-Oxley Act of 2002 and the rules of the United States Securities and Exchange Commission promulgated thereunder, the Audit Committee of the Board of Directors adopted policies and procedures for the pre-approval of audit and permissible non-audit services effective as of May 6, 2003. These policies and procedures require that all audit and otherwise permissible non-audit services performed by TeamStaff's independent auditors be pre-approved by the Audit Committee. These policies and procedures have been shared and reviewed with TeamStaff's auditors. In compliance with the disclosure requirements of the Sarbanes-Oxley Act of 2002.

Additionally, in response to the passage of the Sarbanes-Oxley Act of 2002, TeamStaff, among other actions, formed a Disclosure Committee comprised of various members of our management team. The Disclosure Committee is charged with, among other things, reviewing and developing policies and procedures to enhance our disclosure controls and procedures as well as with reviewing our periodic reports and other public disclosures. On September 9 and 10, 2003, representatives of the Disclosure Committee and the Chief Financial Officer met with consultants engaged by TeamStaff to formalize the process for compliance with Section 404 of the Sarbanes Oxley Act of 2002. The Disclosure Committee anticipates that the sale of the assets of the PEO division will have an impact on the overall design of its internal control framework and will refine the Section 404 compliance process to reflect the cessation of this business.

Other than as described above, there have been no significant changes, including corrective actions with regard to significant deficiencies or material weaknesses in our internal controls or in other factors that could significantly affect these controls subsequent to the Evaluation Date set forth above.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS

The executive officers and directors of TeamStaff as of December 12, 2003 are as follows:

NAME	AGE	OFFICE
T. Stephen Johnson	54	Chairman of the Board of Directors Class 1
Karl W. Dieckmann	75	Vice-Chairman Class 2
Martin Delaney	60	Director Class 3
Ben J. Dyer	55	Director Class 1
Rocco J. Marano	75	Director Class 3
T. Kent Smith	47	President, Chief Executive Officer, Director Class 3
Rick J. Filippelli	47	Vice President, Finance, Chief Financial Officer
Edmund Kenealy	41	Vice President, General Counsel
Wayne Lynn	59	Chief Operating Officer, PEO Division
Timothy Nieman	44	President, TeamStaff Rx, Inc.
Gerard A. Romano	46	Corporate Controller

Our board is classified into three classes which are each elected in staggered three year terms. Class 1 consists of T. Stephen Johnson and Ben J. Dyer and the term expires in 2006; Class 2 consists of Karl Dieckmann and a vacancy with a term expiring in 2004 and Class 3 consists of Rocco Marano, T. Kent Smith and Martin Delaney, with a term expiring in 2005.

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

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

Ben J. Dyer joined the Board of Directors in December 2002. Mr. Dyer is currently a general partner of Cordova Intellimedia Ventures and is President of Innovations Publishing, LLC, an Atlanta based company, which provides a subscription-based online catalog of emerging technology ventures. He also chairs the editorial boards of Catalyst magazine in Atlanta. In the 1980s Mr. Dyer served as chairman and CEO of Comsell, Inc., a pioneering multimedia development firm and was president and a director of the de novo Enterprise National Bank. Mr. Dyer founded Intellimedia Sports, Inc. in 1992 to create the ESPN-branded sports instruction category in the CD-ROM industry. He was earlier a founder of Peachtree Software, Inc. and served as its President from 1977 to September 1983. He currently serves on a number of private and nonprofit boards including PMFM, Quellan, FundRaisingInfo.com and Georgia Advanced Technology Ventures. He concentrates his community activities on higher education and has been president of the Georgia Tech Alumni Association, a director of the Georgia Tech Foundation and chairman of the Alumni Advisory Board for Tech's School of Industrial & Systems Engineering. He is currently Chairman of the Georgia Tech Research Corporation (through December 31, 2003), is a Senior Fellow of the Center for Entrepreneurship and Corporate Growth at Emory University's Goizueta Business School, and serves on the advisory boards of the Georgia Tech Research Institute and Georgia State University's Robinson College of Business. Mr. Dyer holds a Bachelors degree in Industrial Engineering from Georgia Tech and an MBA in finance from Georgia State University.

Rick J. Filippelli assumed his current position as Vice President and Chief Financial Officer in September 2003. Prior to joining TeamStaff, Mr. Filippelli spent approximately two years as Chief Financial Officer of Rediff.com, a publicly traded global information technology company. From 1985 through 2001 Mr. Filippelli held various financial positions including that of Chief Financial Officer with Financial Guaranty Insurance Company ("FGIC"), a subsidiary of GE Capital. Prior to joining FGIC Mr. Filippelli spent six years in public accounting including three years with the Big 4 firm of Ernst and Young. Mr. Filippelli holds a BS in Accounting from Brooklyn College and is a Certified Public Accountant as well as a member of the American Institute of Certified Public Accountants.

Elizabeth L. Hoaglin joined TeamStaff as President of the TeamStaff Rx Division in 1994, when TeamStaff acquired RADS Technology, Inc. ("RADS"), of which she was President and founder. Ms. Hoaglin served as President of TeamStaff Rx until December 12, 2003, when Timothy Nieman assumed that role. Ms. Hoaglin established RADS in 1980 in Clearwater, FL. This was the first temporary staffing firm that specialized in placing radiology professionals. In 1983, RADS began providing traveler technologists to hospitals and clinics nationwide. In 1984, RADS began staffing radiation therapy, providing a niche market for Therapists, Dosimetrists and Medical Physicists. Prior to starting RADS, Ms. Hoaglin was a Radiological Technologist herself, graduating from Saint Anthony's Hospital in St. Petersburg, Florida. Ms. Hoaglin worked as a technologist for major hospitals and physicians office for over fifteen years. Ms. Hoaglin is active in numerous professional, business and civic organizations and frequently writes articles for publication in the radiology industry's journals.

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

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

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

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

Timothy Nieman was appointed President of TeamStaff Rx on December 12, 2003. Prior to joining TeamStaff, Mr. Nieman operated an independent consulting firm providing advisory services to the human capital and staffing industries. Mr. Nieman was employed with Spherion Corporation and its predecessor, Norrell Services Corporation, from January 1985 through September 2002, where he held a number of positions, including Senior Vice President and General Manager of Spherion's Enthusian business unit, which provided application service provider interfaces for the contingent workforce and financial services arenas. Prior to assuming his role with Enthusian, Mr. Nieman held the position of Vice President of Integration, overseeing the merger between Norrell and Interim, as well as a number of executive operational and sales leadership positions with Norrell. Mr. Nieman received his Bachelor's in Business Administration in 1984 from the University of Memphis.

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

T. Kent Smith was appointed Chief Executive Officer, President and a member of the Board of Directors in June, 2003. From January 2000 to January 2003, Mr. Smith served as the President of HoneyBaked Ham Company and Chief Executive Officer of the Heavenly Ham Company. From 1998 to 1999, Mr. Smith was the Senior Vice President of Organization Services. Prior to that, Mr. Smith served in various executive positions for Norrell Corporation from 1987 to 1998, including Senior Vice President, Service Operations, Vice President and Chief Information Officer and Vice President, Finance & Strategic Planning. Mr. Smith received a Masters in Business Administration from the University of Virginia and is a graduate of Vanderbilt University.

MANAGEMENT RESOURCES AND COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION IN COMPENSATION DECISIONS

Martin J. Delaney, Karl W. Dieckmann and T. Stephen Johnson served on the Management Resources and Compensation Committee during the last fiscal year ended September 30, 2003. There are no interlocks between TeamStaff's Directors and Directors of other companies.

MEETINGS OF THE BOARD OF DIRECTORS AND COMMITTEES

During the fiscal year ended September 30, 2003, the Board of Directors met on 8 occasions. During the fiscal year ended September 30, 2003, non-employee directors met on 4 occasions, two of which were by telephone conference call.

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

For the fiscal year ended September 30, 2003, the members of the committees, and a description of the duties of the Committees were as follows:

Audit Committee. TeamStaff's Audit Committee acts to:(i) review with management the finances, financial condition and interim financial statements of TeamStaff; (ii) review with TeamStaff's independent auditors the year-end financial statements; and (iii) review implementation with the independent auditors and management any action recommended by the independent auditors and the retention and termination of TeamStaff's independent auditors. During the fiscal year ended September 30, 2003, the Audit Committee met on eighteen occasions.

The Audit Committee adopted a written charter governing its actions effective June 14, 2000. Until August 12, 2003, the members of the audit committee were Martin Delaney, Karl W. Dieckmann, T. Stephen Johnson, and Rocco J. Marano. T. Stephen Johnson resigned his position on the audit committee on August 12, 2003. All four of these members of TeamStaff's Audit Committee were "independent" within the definition of that term as provided by Rule 4200(a)(14) of the listing standards of the National Association of Securities Dealers. Martin Delaney was elected as its chairman and Rocco J. Marano has been designated as an "Audit Committee financial expert" in accordance with the Sarbanes Oxley Act of 2002 and the regulations promulgated thereunder.

Management Resources and Compensation Committee. The Management Resources and Compensation Committee functions include administration of TeamStaff's 2000 Employee Stock Option Plan and Non-Executive Director Stock Option Plan and negotiation and review of all employment agreements of executive officers of TeamStaff. The Management Resources and Compensation Committee's members are Martin J. Delaney, Karl W. Dieckmann, and T. Stephen Johnson. Karl W. Dieckmann was elected as its chairman. The Compensation Committee was renamed the Management Resources and Compensation Committee on August 12, 2003. During the fiscal year ended September 30, 2003, the committee met on nine occasions.

Corporate Governance and Nominating Committee. The Nominating Committee functions include the review of all candidates for a position on the board of directors including existing directors for renomination and reports its findings with recommendations to the Board. The Nominating Committee solicits candidates on behalf of TeamStaff to fill any vacancy on the Board. The Nominating Committee performs such other duties and assignments as directed by the Chairman or the Board but shall have no power to add or remove a director without the approval of the Board. During the fiscal year, the Nominating Committee members were Karl W. Dieckmann, Donald W. Kappauf and T. Stephen Johnson. Karl W. Dieckmann served as its chairman. The committee was renamed the Corporate Governance and Nominating Committee effective as of August 12, 2003. On that date, Ben J. Dyer was appointed to the committee and named its chairman. Donald W. Kappauf has resigned from the Board and is no longer a member of the Nominating Committee. Nominating and Corporate Governance Committee members as of December 5, 2003 are Ben J. Dyer, Karl W. Dieckmann and T. Stephen Johnson. During the fiscal year ended September 30, 2003, the committee did not meet.

Executive Committee. The Board of Directors created an Executive Committee effective September 4, 2001. Until the relinquishment by Donald W. Kappauf of his responsibilities as Chief Executive Officer, the members were Karl W. Dieckmann, T. Stephen Johnson and Donald W. Kappauf. T. Kent Smith was elected to the committee in Mr. Kappauf's place. Executive committee members as of December 5, 2003 are Karl W. Dieckmann, T. Stephen Johnson and T. Kent Smith. T. Stephen Johnson serves as its chairman. This committee did not meet during the fiscal year ended September 30, 2003.

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

CODE OF ETHICS

On June 20, 2003, TeamStaff distributed a company-wide Code of Ethics and Business Conduct and Code of Ethics for Chief Executive Officer, Chief Financial Officer and Controller. Additionally, both the Codes were posted on TeamStaff's internal intranet website. A copy of the Code of Ethics for Chief Executive Officer, Chief Financial Officer and Controller is attached to this Annual Report on Form 10-K as Exhibit No. 14. These Codes were adopted by TeamStaff's Board of Directors, and provide employees with a confidential method of reporting suspected Code violations.

ITEM 11. EXECUTIVE COMPENSATION

The following provides certain summary information concerning compensation during the years ended September 30, 2003, 2002 and 2001 paid to or earned by TeamStaff's Chief Executive Officer and each of the executive officers and key employees of TeamStaff who received in excess of $100,000 in compensation during the last fiscal year.

NAME AND PRINCIPAL POSITION	YEAR	SALARY	ANNUAL COMPENSATION BONUS	OTHER	LONG TERM COMPENSATION OPTIONS/SAR'S
T. Kent Smith	2003	$ 70,192	$ 35,616	-0-	400,000
Chief Executive Officer	2002	-0-	-0-	-0-	-0-
	2001	-0-	-0-	-0-	-0-
Donald W. Kappauf*	2003	$300,000	-0-	$175,201	-0-
Former CEO	2002	$300,000	$477,500	$ 26,163	-0-
	2001	$267,130	$200,000	$ 46,268	300,000
Wayne R. Lynn	2003	$150,000	-0-	$ 15,589	-0-
	2002	$139,615	$ 30,000	$ 15,589	50,000
	2001	$117,949	$ 5,000	$ 15,589	22,500
Elizabeth Hoaglin	2003	$127,423	-0-	$ 3,600	-0-
	2002	$114,250	$149,289	$ 3,600	50,000
	2001	$ 95,159	$173,885	$ 3,600	10,000
Edmund Kenealy	2003	$159,944	$ 27,200	$ 15,871	-0-
	2002	$135,000	$ 25,000	$ 15,859	50,000
	2001	$100,000	$ 15,000	$ 15,859	10,000
Gerard A. Romano	2003	$144,962	$ 24,650	$ 7,200	10,000
	2002	$135,002	$ 15,000	$ 7,615	-0-
	2001	$ 7,789	$ 25,000	-0-	20,000

*Mr. Kappauf relinquished his responsibilities as President and CEO effective June 18, 2003. He terminated his employment effective September 30, 2003.

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

COMPENSATION OF DIRECTORS

From October 1, 2002 through November 18, 2002, the Chairman and Vice-Chairman of the Board each received $2,500 per month. Non-Employee Directors received $1,500 per board meeting and $1,000 per non-board meeting, related travel expenses, and $600 for each committee meeting attended. The Directors' Plan also provides that directors, upon joining the Board, and for one (1) year thereafter, will be entitled to purchase restricted stock from TeamStaff at a price equal to 80% of the closing bid price on the date of purchase up to an aggregate purchase price of $50,000.

Effective November 19, 2002, the Board established new cash compensation terms for the members of the Board and committees. The Chairman and Vice-Chairman of the Board each receive $3,000 per month. The Chairman of the Audit Committee receives $2,500 per month. All other non-employee Directors receive $1,667 per month. Effective as of August 12, 2003, the Chairman of the Nominating and Corporate Governance Committee also receives $2,500 per quarter. All non-employee Board members receive $1,500 for each Board meeting attended and $600 for each committee meeting attended (unless the member is Chairman of the committee). The Chairman of each committee receives $1,000 for each committee meeting attended. Non-employee directors may also receive $1,000 per meeting with executives that do not constitute Board or Committee meetings. Non-employee Board members also receive reimbursement of their related travel expenses. The Directors' Plan also provides that directors, upon joining the Board, and for one (1) year thereafter, will be entitled to purchase restricted stock from TeamStaff at a price equal to 80% of the closing bid price on the date of purchase up to an aggregate purchase price of $50,000.

EMPLOYMENT AGREEMENTS

Effective as of June 18, 2003, TeamStaff entered into an employment agreement with T. Kent Smith pursuant to which Mr. Smith serves as TeamStaff's President and Chief Executive Officer. The agreement expires on September 30, 2005. Under the terms of the agreement, Mr. Smith is paid an annual base salary of $250,000 and is eligible to receive a bonus of up to 50% of his base salary based on the achievement of revenue, income and other objectives established by the Management Resources and Compensation Committee. Mr. Smith also was granted an option to purchase 400,000 shares of TeamStaff common stock, one-fourth of which vested on June 18, 2003, one-fourth of which will vest one year thereafter, and the remainder of which will vest on June 18, 2005. Mr. Smith also receives four weeks annual vacation and is offered welfare benefit plans, 401(k) and fringe benefits generally made available to other TeamStaff employees. The agreement provides, among other things, that Mr. Smith will be paid a severance payment of three months of his base salary if Mr. Smith and TeamStaff do not enter into a new employment agreement by September 30, 2005. Additionally, the agreement provides for certain post-termination payments depending upon the reason for the termination of Mr. Smith's employment. The agreement also provides for the payment of nine months of base salary and the provision of certain other benefits should Mr. Smith's employment terminate in connection with a change in control, as defined in the agreement.

Effective September 15, 2003, Rick J. Filippelli was appointed TeamStaff's Vice President, Finance and Chief Financial Officer at an initial annual base salary of $225,000. Mr. Filippelli is eligible to receive a bonus of up to 35% of his base salary. Additionally, Mr. Filippelli was granted an option to purchase 50,000 shares of TeamStaff common stock, one half of which will vest on September 15, 2004, and the remaining one half will vest on September 15, 2005. Mr. Filippelli also receives four weeks of annual vacation and is offered welfare benefit plans, 401(k) and fringe benefits generally made available to other TeamStaff employees.

Effective January 1, 2003, TeamStaff entered into a one-year employment agreement with Edmund C. Kenealy pursuant to which Mr. Kenealy currently serves as Vice President, General Counsel, at an annual salary of $160,000. In addition, Mr. Kenealy is entitled to receive an increase in annual compensation as of October 1, 2003 and a bonus to be determined based on the achievement of certain performance criteria determined as of the commencement of each fiscal year. Mr. Kenealy receives certain other benefits granted to other TeamStaff employees, including health and other insurance benefits, as well as a car allowance of $500 per month and three weeks annual vacation.

Effective January 1, 2003, TeamStaff entered into a one-year employment agreement with Wayne R. Lynn pursuant to which Mr. Lynn currently serves as Chief Operating Officer of TeamStaff's PEO Division, at an annual salary of $150,000 . In addition, Mr. Lynn is entitled to receive a yearly increase in annual compensation as of March 19, 2003 and a bonus to be determined based on the achievement of certain performance criteria determined as of the commencement of each fiscal year. Mr. Lynn receives certain other benefits granted to other TeamStaff employees, including health and other insurance benefits, as well as a car allowance of $500 per month and three weeks annual vacation.

TeamStaff entered into an employment agreement with Mr. Donald Kappauf, TeamStaff's former President and Chief Executive Officer effective April 2, 2001 and terminating on September 30, 2003. As of June 18, 2003, Mr. Kappauf agreed to relinquish his position as President and Chief Executive Officer of TeamStaff. Mr. Kappauf terminated his employment effective as of September 30, 2003. Under the terms of this agreement, Mr. Kappauf's base compensation was initially $230,000, increasing to $300,000 commencing September 1, 2001, and subject to yearly increases thereafter at the discretion of the compensation committee. For the fiscal year ended September 30, 2003, Mr. Kappauf received a base salary of $300,000. Mr. Kappauf also was entitled to an annual bonus based on the achievement of certain performance criteria as determined by the compensation committee.

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

TeamStaff entered into an employment agreement with Mr. Donald Kelly, TeamStaff's former Chief Financial Officer, effective April 2, 2001 and terminating on September 30, 2003. In June 2003, Mr. Kelly notified TeamStaff that he would be terminating his employment on July 2, 2003 purportedly for "good reason," as defined in his severance agreement, as described below. Under the terms of his employment agreement, Mr. Kelly's base compensation was initially $170,000, increasing to $200,000 commencing September 1, 2001, and subject to yearly increases thereafter at the discretion of the compensation committee. For the fiscal year ended September 30, 2003, Mr. Kelly received a base salary of $200,000. Mr. Kelly also was entitled to a bonus based on the achievement of certain performance criteria as determined by the compensation committee.

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

The split dollar life insurance agreements and supplemental retirement plan were approved by the Compensation Committee of the Board during the 2000 fiscal year and implemented effective October 1, 2000. Under the terms of the SERP, a participant receives a benefit sufficient to provide lump sum annual payments equal to approximately one-third of the participant's base salary on the date the participant becomes a participant. Payment of benefits commences when the participant reaches 65 years of age. The benefit under the SERP is subject to a seven-year vesting schedule (0%, 0%, 20%, 40%, 60%, 80%, 100%), based on the participant's original date of employment with TeamStaff and contingent on the participant's reaching age 55; provided, however, a participant's benefit becomes fully vested upon a change of control, as defined in the SERP, if within two years of the change of control there is a material change in the participant's job title or responsibilities or if the participant's employment is terminated by TeamStaff for any reason other than conviction for theft or embezzlement from TeamStaff. Additionally, if a participant retires by means of total disability (as defined in the SERP), the participant's benefit becomes fully vested and benefit payments commence as of the disability retirement date. The SERP does not provide a death benefit. Mr. Kappauf and Mr. Kelly are the only SERP participants at the present time.

SERP participants also are provided with a split dollar life insurance policy, insuring the life of the participant until the participant reaches age 65. Although the participant is the owner of the Policy, TeamStaff pays all Policy premiums. Each participant has collaterally assigned the Policy to TeamStaff to secure repayment of the premiums through either its cash surrender value or the Policy proceeds. The participant's right to the Policy vests in accordance with the same schedule as the SERP and with similar change of control provisions. Upon the participant's 65th birthday (and in certain other circumstances provided by the Policy agreement), TeamStaff will release the collateral assignment of the Policy provided the participant releases TeamStaff from all obligations it may have with respect to the participant (including those under the SERP). However, given the uncertainty of TeamStaff's ability to continue to maintain this payment arrangement in light of certain of the provisions of the Sarbanes-Oxley Act of 2002, TeamStaff had, with the President and Chief Executive Officer's consent, deferred paying Policy premiums on behalf of the Chief Executive Officer, pending review of the SERP to comply with the Sarbanes-Oxley Act. For the fiscal quarter ended December 31, 2002, TeamStaff paid the Chief Executive Officer a bonus in the amount of the Policy premiums, grossed-up to cover allocable income taxes. Pursuant to the severance agreement with Mr. Kappauf, in the event he were terminated for cause, he would be entitled only to his accrued compensation, which means his base salary, reimbursement of business expenses, vacation pay and earned but unpaid bonuses to the date of termination. "Cause" is defined to include conviction of a felony, an intentional and continual failure to substantially perform his duties or an intentional failure to follow or perform a lawful direction of the Board of Directors. If Mr. Kappauf were terminated for disability or death, he would be entitled to his accrued compensation and certain other payments, such as the pro rata bonus amount. The pro rata bonus amount is defined as the amount equal to the greater of the most recent annual bonus amount paid or the annual bonus paid or payable for the full fiscal year ended prior to the termination, in either case pro-rated through the date of death or disability. In the event that Mr. Kappauf's employment terminated for any other reason, the agreement provides for payment of his accrued compensation, a pro rata bonus amount, a bonus amount allocated to the remainder of the term of his employment agreement, his base salary through the remainder of the term of his employment agreement, a severance payment equal to one year's base compensation, a payment equal to the cost of health and other similar benefits for a period of two years and costs associated with outplacement services.

On June 18, 2003, Donald W. Kappauf relinquished his positions of President and Chief Executive Officer of TeamStaff. In light of the circumstances regarding the relinquishment by Mr. Kappauf of his positions, Mr. Kappauf may have had reason to terminate his employment with TeamStaff for "good reason" and exercise his rights under the severance agreement. The term good reason includes "a change in the [e]xecutive's status, title, position or responsibilities . . . ." In addition, TeamStaff may have been required to contribute funds to an irrevocable trust to meet the premium obligations of the split dollar life insurance policy granted to Mr. Kappauf in connection with the SERP. TeamStaff and Mr. Kappauf have reached a definitive agreement concerning the payment of his severance payments and the creation and funding of the trust. Under the agreement, among other things, TeamStaff will pay Mr. Kappauf's severance benefits over a 48 month period and contribute, initially, three years of premiums (approximately $249,000) to the irrevocable trust, which is reflected as restricted cash as of September 30, 2003.

The severance agreement with Mr. Kelly has terms which are substantially similar to those described above for Mr. Kappauf. Until December 10, 2002, Mr. Kelly held the positions of Chief Financial Officer, Vice President, Finance and Secretary of TeamStaff. As a result of the previously disclosed change in his duties, the former Chief Financial Officer may have had "good reason" to terminate his employment with TeamStaff and may have claims for the severance payments and benefits provided by the severance agreement. The term good reason includes "a change in the [e]xecutive's status, title, position or responsibilities ...." In June 2003, Mr. Kelly notified the Board of Directors that he would terminate his employment, effective July 2, 2003, for "good reason" and exercise his rights under the severance agreement. Additionally, the change in Mr. Kelly's duties may have caused his benefits under the SERP to become fully vested. In the event that Mr. Kelly's exercise of these rights is appropriate, such termination is deemed proper, and Mr. Kelly is eligible to receive all potential compensation under the severance agreement and the SERP, TeamStaff may be required to make payments, either directly to Mr. Kelly, in the case of the severance agreement, or to a trust, in the case of any payments to be made pursuant to the SERP. TeamStaff and the former Chief Financial Officer are currently negotiating the terms of the payment of the benefits provided by the severance agreement and the funding of irrevocable grantor trust. However, there can be no assurance that an agreement can be reached. In the absence of such an agreement, TeamStaff may be required to fully fund the trust and make certain lump sum payments and provide certain other benefits required by the severance agreement. As of September 30, 2003, TeamStaff has reflected $636,000 as restricted cash for this potential obligation.

MANAGEMENT RESOURCES AND COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

This report is submitted by the management resources and compensation committee of the Board of Directors of TeamStaff. During the fiscal year ended September 30, 2003, the management resources and compensation committee was responsible for reviewing TeamStaff's stock option plans and reviewing and approving compensation matters concerning the executive officers.

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

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

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

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

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

TeamStaff also recognizes that the possibility of a termination without cause after a change in control of TeamStaff can create significant distractions for its key management personnel due to the uncertainties inherent in such situations. Under such circumstances, it is in the best interests of TeamStaff to:

- establish incentives to induce key executives and employees to remain in the employ of TeamStaff during the period a change of control transaction is under consideration,

- ensure executives agree to any restrictive covenant necessary to effectuate a transaction in the interests of the TeamStaff's shareholders, and

- align the interests of key employees with the shareholders with respect to specific transactions that may increase shareholder value but would also result in a change of control.

Compensation under the executive compensation program is comprised of cash compensation in the form of base salary, bonus compensation and automobile allowances. Executives are also granted severance plans providing various benefits upon a change of control of TeamStaff or termination of employment. In addition, the compensation program includes various other benefits, including medical and insurance plans, TeamStaff's 401(k) Plan, which plans are generally available to all employees of TeamStaff. The committee considers the eligibility of certain executive officers in a supplemental executive retirement plan ("SERP") as discussed below.

The principal factors which the management resources and compensation committee considered with respect to each officer's compensation package for fiscal year ended September 30, 2003 are summarized below. The management resources and compensation committee may, however, in its discretion, apply different or additional factors in making decisions with respect to executive compensation in future years.

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

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

In making stock option grants, the management resources and compensation committee considers general corporate performance, individual contributions to TeamStaff's financial, operational and strategic objectives, the Chief Executive Officer's recommendations, level of seniority and experience, existing levels of stock ownership, previous grants of restricted stock or options, vesting schedules of outstanding restricted stock or options and the current stock price. With respect to the compensation determination for the fiscal year ended September 30, 2003, TeamStaff employed a new Chief Executive Officer and a new Chief Financial Officer and the management resources and compensation committee awarded these new officers employee stock options as part of their compensation plans. During the fiscal year ended September 30, 2003, the management resources and compensation committee approved the grant of 518,000 options, 460,000 of which were granted to executive officers.

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

During the fiscal year ended September 30, 2001, the management resources and compensation committee created the supplemental executive retirement plan or SERP to provide retirement benefits comparable with plans offered executives in comparable positions at other companies. Each corporate executive whose eligibility is specifically approved by the management resources and compensation committee will receive a benefit sufficient to provide lump sum annual payments equal to approximately one-third of the participant's base salary in effect on the date the participant enters the Plan for a period of 15 years. Payment of benefits commences upon the executive's reaching 65 years of age. The commencement of benefit payments is accelerated in the event the participant becomes totally disabled prior to retirement. A split dollar life insurance policy also is in place for each participant. The split dollar life insurance policy is designed to provide either a death benefit if the employee dies prior to retirement age, or, if the employee attains retirement age, the funds necessary for the payment of the SERP retirement benefit at retirement through the application of the policy's cash surrender value. At the present time, no current executive officers are participants in the SERP. Donald Kappauf and Donald Kelly, former executive officers, were the only participants in the SERP. The SERP became effective on October 1, 2000.

Chief Executive Officer Compensation. In the fiscal year ended September 30, 2003, until he relinquished his duties as Chief Executive Officer in June 2003, Mr. Donald Kappauf, received a base salary at the annual rate of $300,000, which was equal to his base salary for the prior year. In the fiscal year ended September 30, 2002, Mr. Kappauf's base salary of $300,000 represented a 12.3% increase from his base salary in fiscal 2001. The base salary is believed by the management resources and compensation committee to be consistent with the range of salary levels received by executives in a similar capacity in companies of comparable size. Mr. Kappauf did not receive a bonus during the fiscal year ended September 30, 2003 but he did receive severance benefits under his severance agreement dated May 2002, which represented, in part, a pro rata bonus based on his prior year's bonus payment. The terms of Mr. Kappauf's employment compensation were determined primarily pursuant to his employment agreement, which was entered into in April 2001.

In June, 2003, T. Kent Smith was employed as TeamStaff's new Chief Executive Officer. Mr. Smith's compensation is determined pursuant to an employment agreement dated June 18, 2003, which provides for base compensation of $250,000 per annum and a bonus, in the discretion of the management resources and compensation committee, of up to 50 % of his base salary. Mr. Smith was also awarded options to purchase 400,000 shares of Common Stock exercisable at $3.00 per share subject to certain vesting requirements. During the interim period between June 18, 2003 and the end of fiscal 2003, Mr. Smith was awarded a bonus of $35,616 in light of the difficult circumstances under which Mr. Smith was employed and the success he achieved in stabilizing TeamStaff's operations.

The management resources and compensation committee approved severance agreements for certain key executive employees that provide for the payment of six months base compensation in the event of a termination without cause.

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

By the Management Resources and
Compensation Committee of
the Board of Directors of TeamStaff, Inc.

T. Stephen Johnson
Karl W. Dieckmann
Martin Delaney

OPTION/SAR GRANTS IN LAST FISCAL YEAR

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

Name	No. of Securities Underlying Options Granted	Percentage of Total Options/ Granted in Fiscal Year	Exercise of Base Price Per Share	Expiration Date
T. Kent Smith	400,000	77%	$3.00	6/18/2008
Rick J. Filippelli	50,000	10%	$2.29	9/15/2008
Elizabeth Hoaglin	0	0%	-	-
Edmund Kenealy	0	0%	-	-
Wayne Lynn	0	0%	-	-
Gerard A. Romano	10,000	2%	$3.00	11/19/2007

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

The following table sets forth information with respect to the named executive officers concerning exercise of stock options and SARs during the last fiscal year and the value of unexercised options and SARs held as of the year ended September 30, 2003.

NAME	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS/SARS AS OF SEPTEMBER 30, 2003 EXERCISABLE/ UNEXERCISABLE	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AS OF SEPTEMBER 30, 2003 EXERCISABLE/ UNEXERCISABLE(1)
T. Kent Smith	0	$0	100,000/300,000	$0/$0
Rick J. Filippelli	0	$0	0/50,000	$0/$111,500
Elizabeth Hoaglin	0	$0	67,142/0	$0/$0
Edmund Kenealy	0	$0	35,000/25,000	$0/$0
Wayne Lynn	0	$0	47,500/25,000	$0/$0
Gerard A. Romano	0	$0	20,000/10,000	$0/$0

(1) Based upon a closing sales price of the Common Stock at $2.23 per share on September 30, 2003.

STOCK OPTION PLANS

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

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

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

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

2000 EMPLOYEE STOCK OPTION PLAN

In the fiscal year 2000, the Board of Directors and shareholders approved the adoption of the 2000 Employees Stock Option Plan (the "2000 Plan") to provide for the grant of options to purchase up to 1,714,286 shares of TeamStaff's common stock to all employees, including senior management. The 2000 Plan replaces the 1990 Employee Plan and Senior Management Plans, both of which expired. Under the terms of the approved 2000 Plan, options granted there under may be designated as options which qualify for incentive stock option treatment ("ISOs") under Section 422A of the Code, or options which do not so qualify ("Non-ISO's"). As of September 30, 2003, there were 109,995 options outstanding under the 2000 Plan.

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

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

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

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

NON-EXECUTIVE DIRECTOR PLAN

In fiscal 2000, the Board of Directors and stockholders approved the adoption of the 2000 Non-Executive Director Stock Option Plan (the "Director Plan") to provide for the grant of options to non-employee directors of TeamStaff. Under the terms of the Director Plan, each non-executive director is automatically granted an option to purchase 5,000 shares upon joining the Board and each September 1st, pro rata, based on the time the director has served in such capacity during the previous year. The Directors' Plan also provides that directors, upon joining the Board, and for one (1) year thereafter, will be entitled to purchase restricted stock from TeamStaff at a price equal to 80% of the closing bid price on the date of purchase up to an aggregate purchase price of $50,000. The Director Plan replaced the previous Director Plan that expired in April 2000.

Under the Director Plan, the exercise price for options granted under the Director Plan shall be 100% of the fair market value of the common stock on the date of grant. Until otherwise provided in the Stock Option Plan, the exercise price of options granted under the Director Plan must be paid at the time of exercise, either in cash, by delivery of shares of common stock of TeamStaff or by a combination of each. The term of each option commences on the date it is granted and unless terminated sooner as provided in the Director Plan, expires five (5) years from the date of grant. The Committee has no discretion to determine which non-executive director or advisory board member will receive options or the number of shares subject to the option, the term of the option or the exercisability of the option. However, the Committee will make all determinations of the interpretation of the Director Plan. Options granted under the Director Plan are not qualified for incentive stock option treatment. As of September 30, 2003, there were 75,000 options held by directors outstanding under the Director Plan.

SHAREHOLDER RETURN PERFORMANCE PRESENTATION

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

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN
ASSUMES INITIAL INVESTMENT OF $100
SEPTEMBER 2003

	1998	1999	2000	2001	2002	2003
Teamstaff Inc	$100.00	$103.01	$ 92.49	$166.55	$78.03	$ 60.00
S&P 500	$100.00	$127.81	$144.78	$106.24	$84.48	$105.09
Peer Group	$100.00	$ 62.93	$177.37	$126.79	$63.95	$ 62.97

NOTES

(1) Assumes that the value of the investment in TeamStaff's Common Stock and each index was $100 on September 30, 1998 and that dividends were reinvested at years ended September 30th.

(2) Industry composite includes Administaff, Gevity HR, Team America Corp., Cross Country Healthcare, Medical Staffing Network Holdings, On Assignment, and Rehabcare Group. The industry composite has been determined in good faith by management to represent entities that compete with TeamStaff in certain of its significant business segments. Management does not believe there are any publicly held entities that compete with all TeamStaff's business segments.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information as of December 12, 2003 with respect to each director, each of the named executive officers as defined in Item 402(a)(3), and directors and executive officers of TeamStaff as a group, and to the persons known by TeamStaff to be the beneficial owner of more than five percent of any class of TeamStaff's voting securities. At December 12, 2003, TeamStaff had 15,714,229 outstanding.

Name of Shareholder	Number of Shares Currently Owned (1)	Percent of Company's Outstanding Stock
Martin J. Delaney (2) C/o TeamStaff, Inc. 300 Atrium Drive Somerset, NJ 08873	68,663	0.4%
Karl W. Dieckmann (3) C/o TeamStaff, Inc. 300 Atrium Drive Somerset, NJ 08873	102,352	0.7%
Ben J. Dyer (4) C/o TeamStaff, Inc. 300 Atrium Drive Somerset, NJ 08873	22,526	0.1%
Rick J. Filippelli (5) C/o TeamStaff, Inc. 300 Atrium Drive Somerset, NJ 08873	0	0.0%
Elizabeth Hoaglin (6) C/o TeamStaff, Inc. 300 Atrium Drive Somerset, NJ 08873	67,428	0.4%
T. Stephen Johnson (7) C/o T. Stephen Johnson & Associates, Inc. 3650 Mansell Road, Suite 200 Alpharetta, GA 30022	274,011	1.7%
Edmund Kenealy (8) C/o TeamStaff, Inc. 300 Atrium Drive Somerset, NJ 08873	68,031	0.4%
Wayne Lynn (9) C/o TeamStaff, Inc. 300 Atrium Drive Somerset, NJ 08873	79,620	0.5%
Rocco Marano (10) C/o TeamStaff, Inc. 300 Atrium Drive Somerset, NJ 08873	28,857	0.2%
Timothy Nieman (11) C/o TeamStaff, Inc. 300 Atrium Drive Somerset, NJ 08873	0	0.0%
Gerard A. Romano (12) C/o TeamStaff, Inc. 300 Atrium Drive Somerset, NJ 08873	25,000	0.2%
T. Kent Smith (13) C/o TeamStaff, Inc. 300 Atrium Drive Somerset, NJ 08873	100,000	0.6%
Wachovia Corp (14) One First Union Center Charlotte, NC 28288	2,822,417	18.0%
Nationwide Financial Services (15) One Nationwide Plaza Mail Stop 01-12-13 Columbus, OH 43215	2,256,488	14.3%
All officers and directors as a group (12) persons (2,3,4,5,6,7,8,9,10,11,12,13)	836,488	5.3%

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

(2) Includes options to purchase 16,428 shares of TeamStaff's common stock and excludes unvested options to purchase 5,000 shares of TeamStaff's common stock. Also includes warrants to purchase 10,000 shares of TeamStaff's common stock.

(3) Includes options to purchase 16,428 shares of TeamStaff's common stock and excludes unvested options to purchase 5,000 shares of TeamStaff's common stock.

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

(5) Excludes unvested options to purchase 50,000 shares of TeamStaff's common stock.

(6) Includes options to purchase 67,142 shares of TeamStaff's common stock.

(7) Includes an aggregate of 147,790 shares owned by or on behalf of certain of the holder's family members and as to which shares the listed holder expressly disclaims beneficial ownership. Includes options to purchase 10,000 shares of TeamStaff's common stock, and excludes unvested options to purchase 5,000 shares of TeamStaff's common stock.

(8) Includes options to purchase 60,000 shares of TeamStaff's common stock.

(9) Includes options to purchase 47,500 shares of TeamStaff's common stock and excludes unvested options to purchase 25,000 shares of TeamStaff's common stock.

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

(11) Excludes unvested options to purchase 50,000 shares of TeamStaff's common stock.

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

(13) Includes options to purchase 100,000 shares of TeamStaff's common stock and excludes unvested options to purchase 300,000 shares of TeamStaff's common stock.

(14) Wachovia Corporation obtained these shares in connection with the acquisition of BrightLane completed as of August 31, 2001.

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

For information concerning employment and severance agreements with, and compensation of, the Corporation's executive officers and directors, see "Executive Compensation". The Directors' Plan provides that directors, upon joining the Board, and for one year thereafter, will be entitled to purchase restricted stock from TeamStaff at a price equal to 80% of the closing bid price on the date of purchase up to an aggregate purchase price of $50,000.

Effective August 31,2001, TeamStaff, Inc. completed its acquisition of BrightLane. As a result of a reverse subsidiary merger with a subsidiary of TeamStaff, BrightLane is now a wholly owned subsidiary of TeamStaff.

In connection with the transaction, persons holding BrightLane options to acquire approximately 2.1 million BrightLane shares (the equivalent of approximately 481,000 TeamStaff shares) exercised their options. TeamStaff made recourse loans of approximately $1.0 million principal amount to the holders of these options to assist them in payment of tax obligations incurred with exercise of the options. The loans are repayable upon the earlier of (i) sale of the TeamStaff shares or (ii) three years. As of September 30, 2003, approximately $0.7 million of these loans has been repaid or forgiven. All loans must be repaid in cash with the exception of one loan. Under the terms of TeamStaff's employment agreement with an executive officer of TeamStaff's BrightLane subsidiary, the loan ($131,000) was forgiven over a two-year period of time. One of our current directors, Ben J. Dyer, was a former shareholder of Brightlane, and received a loan in the amount of $67,840 in connection with the transaction. The loan was on the same terms as provided to all other option holders of BrightLane. The loan was made and repaid prior to Mr. Dyer joining the Board.

Wachovia Corporation, through an affiliate held all of the BrightLane Series B Preferred stock, and therefore owns 2,822,417 shares of TeamStaff's Common Stock (approximately 18%). In addition, Nationwide Financial Services, Inc. held all of the BrightLane Series C Preferred stock, and therefore owns 2,256,488 shares of TeamStaff's Common Stock (approximately 14%).

As part of its acquisition of BrightLane, completed in August 2001, TeamStaff entered into a two-year, extendable marketing relationship with First Union Corporation (renamed Wachovia). The Wachovia relationship provided TeamStaff with the ability to market its PEO services to Wachovia's small business customers through Wachovia's network of small business bankers. TeamStaff received written notice from Wachovia terminating the agreement effective as of October 14, 2003. Wachovia Corporation continues as a major shareholder of TeamStaff's stock.

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

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

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

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

As described in greater detail earlier in this Annual Report on Form 10-K (see Item 9 - "Changes in and Disagreements with Accountants on Accounting and Financial Disclosure), Lazar Levine & Felix LLP served as our independent auditor for the fiscal year ended September 30, 2003 and PricewaterhouseCoopers LLP and Arthur Andersen, LLP served as our independent auditors during the fiscal year ended September 30, 2002. As described above, Lazar Levine & Felix LLP also provided audit services to us in connection with the audit of our financial statements for the fiscal year ended September 30, 2002. The following table presents the total fees paid for professional audit and non-audit services rendered by our independent auditors for the audit of our annual financial statements for the years ended September 30, 2003, and September 30, 2002, and fees billed for other services rendered by our independent auditors during those periods.

	Fiscal Years Ended September 30, 2003	2002
Audit Fees (1)	$284,000	$503,000
Audit-Related Fees (2)	34,000	0
Tax Fees (3)	186,000	130,000
All Other Fees (4)	24,000	231,000
Total	$528,000	$864,000

(1) Audit services consist of audit work performed in the preparation of financial statements, as well as work that generally only the independent auditor can reasonably be expected to provide, including comfort letters, statutory audits, and attest services and consultation regarding financial accounting and/or reporting standards. During the fiscal year ended September 30, 2002, we paid and/or accrued an aggregate of $293,000 to PricewaterhouseCoopers, $15,000 to Arthur Andersen, and $195,000 to Lazar, Levine & Felix LLP for fees related to the audit of our financial statements.

(2) Audit-related services consist of assurance and related services that are traditionally performed by the independent auditor, including due diligence related to mergers and acquisitions, employee benefit plan audits, and special procedures required to meet certain regulatory requirements. During the fiscal year ended September 30, 2002, we did not pay any additional fees to our auditing firms for any assurance and related services related to such firms' audit services other than as reported under the caption "Audit Fees."

(3) Tax services consist of all services performed by the independent auditor's tax personnel, except those services specifically related to the audit of the financial statements, and includes fees in the areas of tax compliance, tax planning, and tax advice. During the fiscal year ended September 30, 2002, we paid and/or accrued an aggregate of $26,000 to PricewaterhouseCoopers and $104,000 to Lazar, Levine & Felix LLP for tax provision review and tax compliance services.

(4) Other services consist of those service not captured in the other categories. During the fiscal year ended September 30, 2003, we paid and/or accrued an aggregate of $24,000 to Lazar, Levine & Felix LLP. During the fiscal year ended September 30, 2002, we paid and/or accrued an aggregate of $231,000 in fees to PricewaterhouseCoopers for various due diligence, advisory services and benefit reconciliations.

Our Audit Committee has determined that the services provided by our independent auditors and the fees paid to them for such services has not compromised the independence of our independent auditors.

Consistent with SEC policies regarding auditor independence, the Audit Committee has responsibility for appointing, setting compensation and overseeing the work of the independent auditor. In recognition of this responsibility, the Audit Committee has established a policy to pre-approve all audit and permissible non-audit services provided by the independent auditor. Prior to engagement of the independent auditor for the next year's audit, management will submit a detailed description of the audit and permissible non-audit services expected to be rendered during that year for each of four categories of services provided by the independent auditor to the Audit Committee for approval. The four categories of services provided by the independent auditor are as defined in the footnotes to the fee table set forth above. In addition, management will also provide to the Audit Committee for its approval a fee proposal for the services proposed to be rendered by the independent auditor. Prior to the engagement of the independent auditor, the Audit Committee will approve both the description of audit and permissible non-audit services proposed to be rendered by the independent auditor and the budget for all such services. The fees are budgeted and the Audit Committee requires the independent auditor and management to report actual fees versus the budget periodically throughout the year by category of service.

During the year, circumstances may arise when it may become necessary to engage the independent auditor for additional services not contemplated in the original pre-approval. In those instances, the Audit Committee requires separate pre-approval before engaging the independent auditor. To ensure prompt handling of unexpected matters, the Audit Committee may delegate pre-approval authority to one or more of its members. The member to whom such authority is delegated must report any pre-approval decisions to the Audit Committee at its next scheduled meeting.

PART IV

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

1. Financial Statements

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

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

3. Exhibit List

The exhibits designated with an asterisk (*) are filed herewith. All other exhibits have been previously filed with the Commission and, pursuant to 17 C.F.R. Secs. 201.24 and 240.12b-32, are incorporated by reference to the document referenced in brackets following the descriptions of such exhibits.

EXHIBIT NO.	DESCRIPTION
2.1	--Plan and Agreement of Merger and Reorganization dated as of October 29, 1998 among the Company, the merger corporations (as defined), the TeamStaff Entities and certain individuals and trusts as shareholders of the TeamStaff entities (filed as Exhibit A to Proxy Statement of Digital Solutions, Inc, dated November 12, 1998).
2.2	--Form of Asset Purchase Agreement dated as of April 7, 2000 by and between TeamStaff, Inc., TeamStaff V, Inc. Outsource International, Inc., and Synadyne I, Inc., Synadyne II, Inc., Synadyne III, Inc., Synadyne IV, Inc., Synadyne V, Inc., Guardian Employer East LLC and Guardian Employer West LLC.
2.3	--Agreement and Plan of Merger by and among TeamStaff, Inc., TeamSub, Inc and BrightLane.com, Inc., dated as of March 6, 2001, as amended by Amendment No. 1 dated as of March 21, 2001 and Amendment No. 2 dated as of April 6, 2001 (filed as Appendix A to the Proxy Statement/prospectus filed on August 7, 2001, SEC File no. 333-61730, as part of Registrant's Registration Statement on Form S-4).
2.4	--Form of Asset Purchase Agreement between TeamStaff, Inc and Gevity HR, Inc. dated as of November 14, 2003 (filed as Exhibit 2 to Form 8K dated November 14, 2003)
3.1	--Amended and Restated Certificate of Incorporation (filed as Exhibit A to Definitive Proxy Statement dated May 1, 2000 as filed with the Securities and Exchange Commission).
3.2	--Form of Form of Certificate of Designation of Series A Preferred Stock (filed as Exhibit 3.1 to Form 8-K dated April 6, 2001).

3.3	--Amended By-Laws of Registrant adopted as of May 15, 2001 (filed as Exhibit 3.4 to the Registration Statement on Form S-4 File No. 333-61730).
3.4	--Amended and restated by-laws of Registrent adopted as of August 29, 2001 (filed as Exhibit 3,5 to the Registrant's Form S-3 filed on December 19,2001)
4.1	--Form of the Common Stock Certificate (Exhibit 4.1 to Registration Statement on Form S-18, File No. 33-46246-NY).
4.2	--2000 Employee Stock Option Plan (filed as Exhibit B to the Proxy Statement dated as of March 8, 2000 with respect to the Annual meeting of Shareholders held on April 13, 2000).
4.3	--2000 Non-Executive Director Stock Option Plan (filed as Exhibit B to the Proxy Statement dated as of March 8, 2000 with respect to the Annual meeting of Shareholders held on April 13, 2000).
10.1	--Form of Employment Agreement between TeamStaff, Inc. and Donald Kappauf dated as of April 2, 2001 (filed as Exhibit 10.1 to the Registrants Proxy Statement/Prospectus on form S-4 File No. 333-61730)
10.2	--Form of Employment Agreement between TeamStaff, Inc. and Donald Kelly dated as of April 2, 2001 (filed as Exhibit 10.2 to the Registrants Proxy Statement/Prospectus on form S-4 File No. 333-61730)
10.3	--Lease dated May 30, 1997 for office space at 300 Atrium Drive, Somerset, New Jersey (Exhibit 10.6.1 to Form 10-K for the fiscal year ended September 30, 1997).
10.4	--Form of Agreement between TeamStaff Inc. and Donald & Co. Securities, Inc. (filed as Exhibit 10.27 to Form S-3/A dated June 28, 2000).
10.5	--Employment Agreement dated October 1, 1999 between TeamStaff, Inc.and Donald Kappauf (filed as Exhibit 10.32 to Form S-3/A dated June 28, 2000).
10.6	--Employment Agreement dated October 1, 1999 between TeamStaff, Inc.and Donald Kelly (filed as Exhibit 10.33 to Form S-3/A dated June 28, 2000).
10.7	--Form of Stock Purchase Agreement dated as of April 6, 2001 between TeamStaff, Inc. and BrightLane.com, Inc. with respect to purchase of Series A Preferred Stock (filed as Exhibit 10.1 to Form 8-K dated April 6, 2001).
10.8	--Form of Registration Rights Agreement dated as of April 6, 2001 between TeamStaff, Inc. and BrightLane.com, Inc. (filed as Exhibit 10.2 to Form 8-K dated April 6, 2001).
10.9	--Form of Marketing Agreement dated as of April 11, 2001 between First Union Corporation and TeamStaff, Inc.
10.10	--Form of Voting Agreement provided by BrightLane Shareholders as provided in the Agreement and Pla of Merger by and among TeamStaff, Inc., TeamSub, Inc., and BrightLane.com, Inc., dated as of March 6, 2001 as amended by Amendment No. 1 dated as of March 21, 2001 and Amendment No. 2 dated as of April 6, 2001.
10.11	--Form of Escrow Agreement between TeamStaff, Inc. and BrightLane Shareholders with respect to the placement of 150,000 shares into escrow by the BrightLane shareholders (filed as Appendix B to the proxy statement/prospectus filed on August 7, 2001 SEC File No. 333.61730).
10.12	--Form of Severance Agreement dated as of May 22, 2002 between the Registrant and Donald Kappauf.
10.13	--Form of Severance Agreement dated as of May 22, 2002 between the Registrant and Donald Kelly.
10.14	--Form of Loan and Security Agreement dated as of April 9, 2002 by and among the Registrant, its subsidiaries and Fleet National Bank

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

10.16* --Form of Employment Agreement made as of June 18, 2003 between TeamStaff, Inc. and T. Kent Smith.

14.1* --Code of Ethics for Chief Executive Officer, Chief Financial Officer and Controller.

21.0* --Subsidiaries of Registrants.

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

31.1 --Certification of Chief Executive Officer pursuant to Section 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a)

31.2 --Certification of Chief Financial Officer pursuant to Section 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a)

32.1 --Certification of Chief Executive Officer and Chief Financial Officer pursuant to 17 CFR 240.13a-14(b) or 17 CFR 240.15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code

(b) Reports on Form 8-K

On August 18, 2003, TeamStaff filed a report on Form 8-K under Item 5 Other Events and Item 9 Regulation FD Disclosure in connection with its earnings release for the fiscal quarter ended June 30, 2003.

On September 2, 2003, TeamStaff filed a report on Form 8-K in connection with its employment of Rick J. Filippelli as its Vice President, Finance and Chief Financial Officer.

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

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

SIGNATURES

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

TEAMSTAFF, INC.

/s/T. Kent Smith

T. Kent Smith
President and Chief Executive Officer

/s/ Rick Filippelli

Rick Filippelli
Vice President Finance and Chief
Financial Officer

Dated: December 22, 2003

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

/s/ T. Stephen Johnson ------------------------- T. Stephen Johnson	Chairman of the Board	December 22, 2003
/s/ Karl W. Dieckmann ------------------------- Karl W. Dieckmann	Vice-Chairman of the Board	December 22, 2003
/s/ Martin J. Delaney ------------------------- Martin J. Delaney	Director	December 22, 2003
/s/ Ben J. Dyer ------------------------- Ben J. Dyer	Director	December 22, 2003
/s/ Rocco Marano ------------------------- Rocco Marano	Director	December 22, 2003
/s/ T. Kent Smith ------------------------- T. Kent Smith	President, Chief Executive Officer and Director	December 22, 2003

TEAMSTAFF, INC. AND SUBSIDIARIES

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

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

We have audited the accompanying consolidated balance sheets of TeamStaff, Inc. as of September 30, 2003 and 2002, and the related consolidated statements of income and comprehensive income, shareholders' equity, and cash flows for the years then ended. Our audits also included the financial statement schedule listed in Part IV, Item 15. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TeamStaff, Inc. as of September 30, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The financial statements of TeamStaff, Inc. as of September 30, 2001, and for the years ended September 30, 2001 and 2000, before the restatement described in Note (13), were audited by other auditors who have ceased operations and whose report dated January 1, 2002, expressed an unqualified opinion on those statements. We audited the adjustments described in Note (13) that were applied to restate the 2001 financial statements, and in our opinion, such adjustments are appropriate and have been properly applied. However, we were not engaged to audit or apply any procedures to the 2001 financial statements of the Company, other than with respect to such adjustments and, accordingly we do not express an opinion or any other form of assurance on the 2001 financial statements taken as a whole.

Lazar, Levine & Felix LLP

New York, NY
December 1, 2003

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders of

TeamStaff, Inc.:

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

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

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

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

ARTHUR ANDERSEN LLP

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

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

TEAMSTAFF, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF SEPTEMBER 30, 2003 AND 2002
(AMOUNTS IN THOUSANDS)

	2003	2002
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 4,329	$ 12,455
Restricted cash	1,264	129
Accounts receivable, net of allowance for doubtful accounts of $142 and $17 at September 30, 2003 and 2002	4,926	7,617
Deferred tax asset	-	1,791
Prepaid workers' compensation	3,645	2,341
Other current assets	1,447	3,069
Total current assets	15,611	27,402
EQUIPMENT AND IMPROVEMENTS:		
Equipment	2,628	2,603
Computer equipment	1,073	1,025
Computer software	1,060	606
Leasehold improvements	146	129
	4,907	4,363
Less - accumulated depreciation and amortization	(3,689)	(3,341)
Equipment and improvements, net	1,218	1,022
DEFERRED TAX ASSET	14,875	6,680
TRADENAME	4,199	4,199
AMORTIZED INTANGIBLE-PENSION	-	612
GOODWILL	1,710	1,710
OTHER ASSETS	555	915
ASSETS HELD FOR SALE	22,449	51,426
TOTAL ASSETS	$ 60,617	$ 93,966

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

TEAMSTAFF, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF SEPTEMBER 30, 2003 AND 2002
(AMOUNTS IN THOUSANDS)

	2003	2002
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 61	$ 59
Accounts payable	669	1,400
Accrued payroll	2,856	1,784
Deferred tax liability	538	-
Accrued expenses and other current liabilities	3,181	6,222
Total current liabilities	7,305	9,465
LONG-TERM DEBT, net of current portion	94	147
ACCRUED PENSION LIABILITY	1,724	1,271
LIABILITIES HELD FOR SALE	16,384	18,344
Total liabilities	25,507	29,227
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred stock, $.10 par value; authorized 5,000 shares; 0 issued and outstanding	-	-
Common stock, $.001 par value; authorized 40,000 shares; issued 16,267 and 16,229; outstanding 15,714 and 15,899, respectively	16	16
Additional paid-in capital	65,256	65,200
Accumulated retained (deficit) earnings	(27,572)	1,313
Accumulated comprehensive losses	(273)	(142)
Treasury stock, 553 and 330 shares at cost, respectively	(2,317)	(1,648)
Total shareholders' equity	35,110	64,739
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 60,617	$ 93,966

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

TEAMSTAFF, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE DATA)

	For the Years Ended September 30,		
	2003	2002	2001 As Restated
REVENUES	$ 62,805	$ 79,820	$ 69,054
DIRECT EXPENSES	50,615	63,796	54,730
Gross profit	12,190	16,024	14,324
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	14,766	12,085	9,433
DEPRECIATION AND AMORTIZATION	329	198	379
(Loss) income from continuing operations	(2,905)	3,741	4,512
OTHER INCOME (EXPENSE):			
Interest income	588	1,057	911
Interest expense	(220)	(167)	(419)
Other income (expense)	13	60	48
	381	950	540
(Loss) income before tax	(2,524)	4,691	5,052
INCOME TAX BENEFIT (EXPENSE)	930	(1,717)	(2,097)
(Loss) income before extraordinary item and discontinued operations	(1,594)	2,974	2,955
EXTRAORDINARY ITEM - EARLY EXTINGUISTMENT OF DEBT, NET OF TAX BENEFIT OF $256	-	-	(354)
(LOSS) INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX BENEFIT (EXPENSE) OF $2,946, $(68), AND $834	(27,291)	101	(1,253)
Net (loss) income	(28,885)	3,075	1,348
OTHER COMPREHENSIVE EXPENSE:			
Minimum pension liability adjustment, net of tax	(131)	(79)	(63)
COMPREHENSIVE INCOME	$(29,016)	$ 2,966	$ 1,285
EARNINGS PER SHARE - BASIC			
(Loss) income from continuing operations before extraordinary item	$ (0.10)	$ 0.18	$ 0.34
Extraordinary item	-	-	(0.04)
(Loss) income from discontinued operations	(1.74)	0.01	(0.14)
Net (loss) income	$ (1.84)	$ 0.19	$ 0.16
EARNINGS PER SHARE - DILUTED			
(Loss) income from continuing operations before extraordinary item	$ (0.10)	$ 0.18	$ 0.33
Extraordinary item	-	-	(0.04)
(Loss) income from discontinued operations	(1.74)	0.01	(0.14)
Net (loss) income	$ (1.84)	$ 0.19	$ 0.15
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING - BASIC	15,732	16,014	8,693
WEIGHTED AVERAGE NUMBER OF COMMON SHARES AND EQUIVALENTS OUTSTANDING - DILUTED	15,732	16,183	8,907

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

TEAMSTAFF, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED SEPTEMBER 30, 2003, 2002, AND 2001
(AMOUNTS IN THOUSANDS)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Retained Earnings/ (Deficit)	Receivable From Shareholder	Treasury Stock Shares	Treasury Stock Amount	Other Comprehensive Loss	Total Shareholders Equity
BALANCE, September 30, 2000	7,975	$ 8	$ 21,297	$ (3,110)	$ -	35	$ (136)	$ -	$ 18,059
Common stock repurchased	-	-	-	-	-	52	(366)	-	(366)
Exercise of stock options	17	-	16	-	-	-	-	-	16
Exercise of stock warrants	73	-	179	-	-	-	-	-	179
Common stock issued in connection with the acquisition of BrightLane	8,066	8	41,892	-	-	-	-	-	41,900
Common stock issued in connection with the acquisition of HR2	89	-	300	-	-	-	-	-	300
Settlement of certain escrow shares	(55)	-	(340)	-	-	-	-	-	(340)
Stock sold to director	10		40	-	-	-	-	-	40
Receivable from shareholder in connection with option exercise	14	-	90	-	(90)	-	-	-	-
Non-cash compensation expense related to warrants	-	-	70	-	-	-	-	-	70
Minimum pension liability adjustment								(63)	(63)
Net income, as restated	-	-	-	1,348	-	-	-	-	1,348
BALANCE, September 30, 2001 As Restated	16,189	16	63,544	(1,762)	(90)	87	(502)	(63)	61,143
Common stock repurchased	-	-	-	-	-	243	(1,146)	-	(1,146)
Exercise of stock options	37	-	129	-	-	-	-	-	129
Exercise of stock warrants	3	-	14	-	-	-	-	-	14
Repayment of loan to Shareholder	-	-	-	-	90	-	-	-	90
Income tax benefit from stock options exercised	-	-	1,513	-	-	-	-	-	1,513
Minimum pension liability adjustment	-	-	-	-	-	-	-	(79)	(79)
Net income	-	-	-	3,075	-	-	-	-	3,075
BALANCE, September 30, 2002	16,229	16	65,200	1,313	-	330	(1,648)	(142)	64,739
Common stock repurchased to treasury	-	-	-	-	-	251	(782)	-	(782)
Common stock retirement from treasury	(28)	-	(113)	-	-	(28)	113	-	-
Common stock issued in connection with buyout obligation of Corporate Staffing Concepts	27	-	79	-	-	-	-	-	79
Minimum pension liability adjustment	-	-	-	-	-	-	-	(131)	(131)
Stock sold to director	39		90	-	-	-	-	-	90
Net loss	-	-	-	(28,885)	-	-	-	-	(28,885)
BALANCE, September 30, 2003	16,267	$ 16	$ 65,256	$(27,572)	$ -	553	$ (2,317)	$ (273)	$ 35,110

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

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

	For the Years Ended September 30, 2003	2002	2001 As Restated
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (loss) income from continuing operations	$ (1,594)	$ 2,974	$ 2,601
Adjustments to reconcile net income to net cash provided by operating activities, net of acquired businesses:			
Deferred income taxes	(1,083)	1,173	(123)
Depreciation and amortization	329	198	379
Provision for doubtful accounts	128	-	46
Non-cash write-off of deferred financing cost	-	-	435
Pension amortization	612	58	59
Non-cash compensation expense related to warrants	-	-	70
Changes in operating assets and liabilities, net of acquired businesses:			
Decrease (increase) in accounts receivable	2,563	2,259	(3,010)
Decrease (increase) in other current assets	320	(4,296)	(466)
(Increase) in other assets	(4,963)	(117)	(1,326)
(Decrease) increase in accounts payable, accrued expenses and other current liabilities	(2,162)	(733)	3,085
(Increase) decrease in restricted cash	(1,135)	-	246
Increase in pension liability	453	267	1,004
Change in net assets held for sale	27,017	(3,169)	278
(Loss) from discontinued operations	(27,291)	101	(1,251)
Net cash (used in) provided by operating activities	(6,806)	(1,285)	2,027
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of equipment and leasehold improvements	(525)	(449)	(113)
Acquisition of businesses, net of cash acquired	-	-	12,151
Earn out provision on prior acquisition	79	-	-
Net cash (used in) provided by investing activities	(446)	(449)	12,038
CASH FLOWS FROM FINANCING ACTIVITIES:			
Retirement of treasury stock	113	-	-
Principal payments on long-term debt	-	-	(6,983)
Payments on revolving line of credit	-	-	(899)
Net proceeds from issuance of preferred stock	-	-	3,500
Repayments on capital leases obligations	(51)	(57)	(49)
Net proceeds from issuance of common stock, net of expenses	(23)	-	40
Net proceeds from the exercise of stock options and warrants	-	144	195
Common shares repurchased	(782)	(1,146)	(366)
Repayment of loan from Shareholder	-	90	-
Net comprehensive expense on pension	(131)	(79)	(63)
Income tax benefit on stock options exercised	-	1,512	-
Net cash (used in) provided by financing activities	(874)	464	(4,625)
Net (decrease) increase in cash and cash equivalents	(8,126)	(1,270)	9,440
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	12,455	13,725	4,285
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 4,329	$ 12,455	$ 13,725
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for-			
Interest	$ 144	$ 168	$ 1,892
Income taxes	556	1,190	797
SUPPLEMENTAL DISCLOSURES OF NONCASH TRANSACTIONS:			
Fair value of escrow shares received in settlement	-	-	340
Note receivable in connection with sale of regional office (El Paso)	-	125	425
Retirement of preferred stock	-	-	3,500
Receivable from shareholder in connection with option exercised	-	-	90

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) ORGANIZATION AND BUSINESS:

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

As of the fiscal year ended September 30, 2003, TeamStaff provided a variety of employment related services through three business units: (1) Its TeamStaff Rx unit provides medical allied health professionals and nurses to doctors' offices and medical facilities throughout the United States on a temporary or permanent basis; (2) the payroll services division provides customized payroll management and tax filing services to select industries, such as construction, and (3) the professional employer organization, or PEO, division provided comprehensive human resource management and administrative services, including payroll administration and payroll tax filing, procurement and administration of employee benefit plans, procurement and administration of workers' compensation insurance, management of employment related risks, and assistance in compliance with employment-related laws and regulations. We believe our medical staffing subsidiary is one of the top providers in the niche medical imaging field, placing temporary employees for over 550 clients. The payroll processing division processes payrolls for approximately 750 clients with more than 30,000 employees. BrightLane, an acquired business unit that is not engaged in the provision of employment related services, applies many of its core competencies towards internal technology enablement and the integration of various disparate systems used in TeamStaff's operating entities.

Effective November 17, 2003, TeamStaff sold certain of the assets of the subsidiaries through which it operated its PEO business to Gevity HR, Inc. for the sum of $9.5 million in cash, $2.5 million of which has been placed in escrow. The escrowed sum will be released after 90 days from the November 17, 2003, closing, but is subject to downward adjustment based on any reduction in annualized administrative fees payable by the former TeamStaff PEO clients. Any such downward adjustment may be offset by annualized administrative fees of certain clients produced by former TeamStaff sales representatives during the 90-day period. The assets sold consisted primarily of client contracts, marketing agreements and internally developed software for use in reconciling certain benefit provider monthly invoices. As part of the transaction, Gevity HR, Inc. agreed, among other things, to hire certain former TeamStaff employees assigned to the PEO division and assume certain of TeamStaff's lease obligations. Further, TeamStaff agreed to a non-competition agreement which prohibits us from engaging in the PEO business for a period of five years. As a result of the transaction with Gevity, our internal corporate employee staff was reduced by approximately 95 persons, and our workforce staff was reduced by approximately 17,000 worksite employees. See also Note 3 "Subsequent Events/Discontinued Operations".

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF PRESENTATION-

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

The financial statements related to fiscal year 2001 contained in these financial statements have been restated to reflect certain adjustments which are described in detail in Note 13.

USE OF ESTIMATES-

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

REVENUE RECOGNITION-

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

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

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

In connection with its discontinued operation, TeamStaff's professional employer organization division revenues historically had been derived from its PEO division gross billings, which were based on: (i) the payroll cost of its worksite employees; and (ii) associated payroll taxes, benefit costs, workers' compensation charges and administrative fees. The gross billings were invoiced to clients concurrently with each periodic payroll of its worksite employees. Historically, TeamStaff had included both components of its PEO gross billings in revenues (gross method) due primarily to the assumption of significant contractual rights and obligations and other liabilities TeamStaff assumed as an employer, regardless of whether it actually collected its gross billings. After discussions with Securities and Exchange Commission staff, and with the concurrence of its auditors, TeamStaff changed its presentation of PEO revenues from the gross method to an approach that presented its revenues net of worksite employee payroll costs (net method) primarily because TeamStaff was not generally responsible for the output and quality of work performed by the worksite employees. This change in accounting method reduced both the revenue and direct costs for fiscal years ended September 30, 2003, 2002 and 2001 by $409.0 million, $485.1 million and $483.8 million, respectively, but had no effect on gross profit, operating income (loss) or net income (loss). The above amounts have now been reflected as part of income (loss) from discontinued operations in the consolidated financial statements. Consistent with this change in revenue recognition policy, TeamStaff's PEO division direct costs did not include the payroll costs of its worksite employees. TeamStaff's PEO division direct costs associated with its revenue generating activities were comprised of all other costs related to its worksite employees, such as the employer portion of payroll-related taxes, employee benefit plan premiums and contributions and workers' compensation insurance premiums.

CONCENTRATIONS OF CREDIT RISK-

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

TeamStaff's customer base consists of over 1,300 client companies, representing approximately 30,000 employees (including payroll services employees) as of September 30, 2003. TeamStaff's client base is broadly distributed throughout a wide variety of industries; however, more than 75% of the customers in the payroll processing area are in the construction industry and substantially all of TeamStaff-Rx customers are in the healthcare industry. Credit, when given, is generally granted on an unsecured basis.

CASH EQUIVALENTS-

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

RESTRICTED CASH-

Restricted cash is in connection with a security deposit held for BrightLane's office lease, an ACH processing agreement with SunTrust Bank and for SERP obligations related to the former CEO and former CFO.

ALLOWANCE FOR DOUBTFUL ACCOUNTS-

TeamStaff maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to pay. However, if the financial condition of TeamStaff's customers were to deteriorate rapidly, resulting in nonpayment, TeamStaff's accounts receivable balances could grow and TeamStaff could be required to provide for additional allowances, which would decrease net income in the period that such determination was made.

In connection with its discontinued operation, TeamStaff believed that the success of its PEO business was heavily dependent on its ability to collect these service fees for several reasons, including (i) the large volume and dollar amount of transactions processed by TeamStaff, (ii) the periodic and recurring nature of payroll, upon which the service fees were based, and (iii) the fact that TeamStaff was at risk for the payment of its direct costs regardless of whether its clients paid their service fees. To mitigate this risk, TeamStaff established very tight credit policies. TeamStaff generally required its clients to pay their service fees no later than one day prior to the applicable payroll date. In addition, TeamStaff maintained the right to terminate its Client Service Agreement and associated worksite employees or to require prepayment, letters of credit or other collateral upon deterioration in a client's financial position or upon nonpayment by a client. As a result of these efforts, the outstanding balance of accounts receivable and subsequent losses related to customer nonpayment had historically been very low as a percentage of revenues.

FAIR VALUE-

TeamStaff has financial instruments, none of which is held for trading purposes. TeamStaff estimates that the fair value of all financial instruments at September 30, 2003 and 2002, does not differ materially from the aggregate carrying values of these financial instruments recorded in the accompanying balance sheets. The estimated fair value amounts have been determined by TeamStaff using available market information and appropriate valuation methodologies. Considerable judgment is necessarily required in interpreting market data to develop the estimates of fair value, and, accordingly, the estimates are not necessarily indicative of the amounts that TeamStaff could realize in a current market exchange.

EQUIPMENT AND IMPROVEMENTS-

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

ACQUIRED INTANGIBLE ASSETS-

	As of September 30, 2003		
(Amounts in thousands)	Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets			
Pension	729	(729)	-

	As of September 30, 2002		
	Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets			
Pension	729	(117)	612
Aggregate Amortization Expense			
For year ended 9/30/03	$ 612		
Tradename	$ 4,199		

IMPAIRMENT OF WACHOVIA RELATIONSHIP INTANGIBLES:

Intangible assets that are subject to amortization are reviewed for potential impairment whenever events or circumstances indicate that carrying amounts may not be recoverable. Assets not subject to amortization are tested for impairment at least annually. As part of its acquisition of BrightLane, completed in August 2001, TeamStaff entered into a two-year, extendable marketing relationship with First Union Corporation (renamed Wachovia). The Wachovia relationship was intended to provide TeamStaff with the ability to market its PEO services to Wachovia's small business customers through Wachovia's network of small business bankers. The relationship did not produce the anticipated number of PEO clients or worksite employees. During the fiscal quarter ended March 31, 2003, TeamStaff determined that, based on estimated future cash flows, the carrying amount of the Wachovia marketing relationship, which was assigned to TeamStaff's PEO reporting segment, exceeded its fair value by $5.7 million; accordingly, an impairment loss of that amount, as indicated by an independent outside valuation, was recognized and was included in impairment of intangible assets. TeamStaff has received written notice from Wachovia terminating the current agreement effective as of October 14, 2003. TeamStaff has therefore written-off the full remaining value of the Wachovia relationship, $1.2 million during the third fiscal quarter 2003. The impairment of these intangible assets is included in discontinued operations.

TeamStaff determined that no impairment of its tradename existed as of September 30, 2003. TeamStaff will continue to review annually its remaining indefinite life intangible assets for possible impairment or loss of value.

GOODWILL
(Amounts in thousands)

	Medical Staffing
Balance as of September 30, 2002	$1,710
Goodwill impairment writedown	-
Goodwill adjustment during year	-
Balance as of September 30, 2003	$1,710

IMPAIRMENT OF GOODWILL:

Goodwill is assigned to specific reporting units and, in accordance with SFAS 142, is reviewed for possible impairment at least annually or more frequently upon the occurrence of an event or when circumstances indicate that a reporting unit's carrying amount may be greater than its fair value. As of the fiscal quarter ended December 31, 2002, TeamStaff carried a total of $27.2 million in goodwill. During the fiscal quarter ended March 31, 2003, TeamStaff determined that the carrying amount of the PEO reporting segment exceeded its fair value, which was estimated based on the present value of expected future cash inflows and the market approach which compares TeamStaff to other comparable entities. The decision to test for impairment was based on a variety of factors, including, but not limited to, the overall downturn in the nation's economy, the relatively recent substantial decrease in the number of TeamStaff PEO worksite employees, the performance of the Wachovia marketing relationship, the reduced valuations of individual PEOs by various market analysts and the associated market downgrade in the PEO industry generally. Accordingly, a goodwill impairment loss of $20.4 million, as indicated by an independent outside valuation, was recognized in the PEO reporting unit for the fiscal quarter ended March 31, 2003. The goodwill impairment loss is included in discontinued operations. No further goodwill impairment loss was recognized during the fiscal year.

LONG-LIVED ASSETS-

TeamStaff reviews it long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Management of TeamStaff believes that no such events or changes in circumstances have occurred though September 30, 2003. If such events or changes in circumstances are present, a loss is recognized to the extent that the carrying value of the asset is in excess of the sum of the undiscounted cash flows expected to result from the use of the asset and its eventual disposition.

WORKERS' COMPENSATION-

TeamStaff applies loss-development factors to its open years' workers' compensation incurred losses in order to estimate fully developed losses as well as other formula driven methodologies supplied by its current third party administrator. (See Note 8)

INCOME TAXES-

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

RECLASSIFICATIONS

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

STOCK-BASED COMPENSATION

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

In accordance with Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), which was effective October 1, 1996, the fair value of option grants is estimated on the date of grant using the Black-Scholes option-pricing model for proforma footnote purposes with the following assumptions; dividend yield of 0%, risk-free interest rate of 2.58%, 4.16%, and 4.59% in 2003, 2002, and 2001 respectively, and expected option life of 4 years. Expected volatility was assumed to be 73%, 72%, and 74% in 2003, 2002, and 2001, respectively.

As permitted by SFAS 123, TeamStaff has chosen to continue to account for its employee stock-based compensation at their intrinsic value in accordance with Accounting Principle Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related Interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the company had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, as amended, to stock-based employee compensation.

(Amounts in thousands, except per share data)	2003	2002	2001 As Restated
Net income(loss), as reported	$(28,885)	$3,075	$1,348
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(471)	(627)	(655)
Pro forma net income (loss)	$(29,356)	$2,448	$ 693
Earnings (loss) per share Basic:			
As reported	$ (1.84)	$ 0.19	$ 0.16
Pro forma	$ (1.87)	$ 0.15	$ 0.08
Earnings (loss) per share Diluted:			
As reported	$ (1.84)	$ 0.19	$ 0.15
Pro forma	$ (1.87)	$ 0.15	$ 0.08

See also "Recent Accounting Standards" regarding implementation of SFAS 148.

EARNINGS (LOSS) PER SHARE-

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

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

	Years Ended September 30, (Amounts in thousands, except per share data)		
	2003	2002	2001 As Restated
Weighted average number of common shares outstanding - Basic	15,732	16,014	8,693
Incremental shares for assumed conversions of stock options/warrants	-	169	214
Weighted average number of common and equivalent shares outstanding-Diluted	15,732	16,183	8,907

Stock options and warrants outstanding at September 30, 2003, 2002, and 2001 to purchase 1,456,900, 257,298, and 157,006 shares of common stock respectively were not included in the computation of Diluted EPS as they were antidilutive.

COMPREHENSIVE INCOME(LOSS):

TeamStaff has comprehensive losses resulting from its Supplemental Executive Retirement Plan (SERP) (See Notes 12 and 13). When TeamStaff's SERP obligations were measured at September 30, 2003, the amount of the Projected Benefits Obligation (PBO) exceeded the recorded SERP liability. This was due to the fact that rates earned on fixed income investments steadily decreased. The discount rates used in the PBO calculations dropped from 7.5% in September 2001 to 6.5% in September 2002, and to 5.5% in 2003. These changes resulted in a comprehensive loss net of tax in fiscal year 2003 of $131,000, in fiscal year 2002 of $79,000 and in fiscal year 2001 of $63,000. No other sources of comprehensive gains or losses occurred.

RECENT ACCOUNTING STANDARDS:

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

In January 2003, FASB Interpretation No. 46 ("FIN No. 46"), "Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51," was issued. In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN No. 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or is entitled to receive a majority of the entity's residual returns or both. Currently this standard has not had an impact on TeamStaff's consolidated financial statements.

In April 2003, FASB issued Statements of Financial Accounting Standards No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS 149"). SFAS 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under FASB Statement No. 133 "Accounting for Derivative Instruments and Hedging Activities". SFAS 149 is generally effective for contracts entered into or modified after June 30, 2003. Currently this standard has not had an impact on TeamStaff's consolidated financial statements.

In May 2003, FASB issued Statements of Financial Accounting Standards No. 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS 150"). SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003. Currently this standard has not had an impact on TeamStaff's consolidated financial statements.

(3) SUBSEQUENT EVENT/DISCONTINUED OPERATIONS:

Effective November 17, 2003, TeamStaff sold certain of the assets of the subsidiaries through which it operated its PEO business to Gevity HR, Inc. for the sum of $9.5 million in cash, $2.5 million of which has been placed in escrow. The escrowed sum will be released after 90 days from the November 17, 2003, closing, but is subject to downward adjustment based on any reduction in annualized administrative fees payable by the former TeamStaff PEO clients. Any such downward adjustment may be offset by annualized administrative fees of certain clients produced by former TeamStaff sales representatives during the 90-day period. The assets consisted primarily of client contracts, marketing agreements and internally developed software for use in reconciling certain benefit provider monthly invoices. As part of the transaction, Gevity HR, Inc. agreed, among other things, to hire certain former TeamStaff employees assigned to the PEO division and assume certain of TeamStaff's lease obligations.

In conjunction with the sale of its PEO assets to Gevity HR, Inc., TeamStaff requested a pro rata cancellation of its workers' compensation policy with Zurich effective as of November 17, 2003. TeamStaff entered into a new workers' compensation program with Zurich covering TeamStaff's temporary employees. The program is managed by Cedar Hill and claims handling services for the program are provided by GAB Robins. This program is a fully-insured, guaranteed cost program that contains no deductible or retention feature. This new policy will terminate effective April 1, 2004.

As of September 30, 2003, TeamStaff met the criteria for reporting the pending sale of the PEO division as an asset held for sale and discontinued operations per SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", and has accounted for the discontinued operation as such within the consolidated financial statements and notes to consolidated financial statements included in this Form 10-K filing.

The following chart details assets and liabilities held for sale:

	For Fiscal Years Ended September 30, 2003	2002
ASSETS		
Accounts Receivable	$14,191	$15,618
Other current assets	353	764
Total current assets	14,544	16,382
Fixed assets	4,874	4,196
Accumulated depreciation	(2,547)	(1,653)
Net fixed assets	2,327	2,543
Goodwill	5,390	25,457
Intangible assets	10	6,910
Other assets	178	134
Total assets	$22,449	$51,426
LIABILITIES		
Accounts payable	$ 1,199	$ 2,431
Accrued payroll	13,905	14,885
Accrued expenses and other current liabilities	859	571
Total current liabilities	15,963	17,887
Client security deposits	421	457
Total liabilities	$16,384	$18,344

Net revenues for the PEO segment for fiscal years ended September 30, 2003, 2002, and 2001 were $88.0 million, $101.0 million, and $96.9 million respectively.

TeamStaff estimates the loss generated on both the sale of the PEO assets to Gevity HR, Inc., as well as the company's decision to discontinue its PEO operations, to be within the $0.5 million to $1.0 million range. This estimate includes the writedown of goodwill and fixed assets, and the severance payout to affected employees. This range is also based on estimates of the anticipated amount in escrow to be released after 90 days from date of sale and the uncertainty of a sublease of soon to be unoccupied office space.

The following information regarding historical PEO acquisitions are now included in discontinued operations:

Corporate Staffing Concepts: Effective January 2, 2002, TeamStaff acquired the accounts and related assets of Corporate Staffing Concepts LLC, a PEO entity operating primarily in western Massachusetts and Connecticut, for $275,000 paid at closing, and stock, which would be paid in connection with an earn out in one year, based upon the number of worksite employees remaining from the accounts being acquired. On January 10, 2003, by mutual agreement, TeamStaff fully settled its earn out obligations to Corporate Staffing Concepts LLC by agreeing to pay the sum of $250,000 in cash and to issue 27,500 shares of TeamStaff Common Stock valued at $79,000, bringing the total purchase price to approximately $604,000. The additional purchase price of $329,000 as a result of the earn out was recorded as additional goodwill.

Sale of El Paso Regional Office: In September 2001, TeamStaff sold its regional PEO office in El Paso, Texas. The business was sold for $925,000: $500,000 in cash at closing and $425,000 to be paid in 17 equal monthly installments from October 2001 until February 2003. The gain on sale of this transaction was $50,000.

(4) INCOME TAXES:

At September 30, 2003, TeamStaff has available operating loss carryforwards of approximately $21.0 million to reduce future periods' taxable income. Substantially all of the operating loss carryforwards were acquired in connection with the acquisition of BrightLane on August 31, 2001 (See Note 6). The carryforwards expire in various years beginning in 2004 and extending through 2021. TeamStaff also has tax credits available of approximately $1.1 million to reduce future taxable income that begin to expire in 2020. In accordance with IRS regulations, the utilization of operating losses acquired from BrightLane are limited to approximately $2.1 million per year.

TeamStaff has recorded a $14.9 million and a $8.5 million deferred tax asset at September 30, 2003 and 2002, respectively. This represents management's estimate of the income tax benefits to be realized upon utilization of its net operating losses and tax credits as well as temporary differences between the financial statement and tax bases of certain assets and liabilities, for which management believes utilization to be more likely than not. In fiscal 2003, 2002, and 2001, TeamStaff reduced its tax provision by $0.3 million, $0.2 million and $0.2 million respectively for certain tax credits which were available to TeamStaff

In order for TeamStaff to realize the operating loss carryforward and the tax credits, TeamStaff would have to generate approximately $41.0 million in future taxable income. Management believes TeamStaff's operations can generate sufficient taxable income to realize this deferred tax asset as a result of the past five years of profitability and its ability to meet its operating plan.

An analysis of TeamStaff's deferred tax asset and liability is as follows-

(Amounts in thousands)	Years Ended September 30, 2003	2002
Deferred income tax asset:		
Net operating loss carry forwards and tax credits	$ 14,456	$ 8,162
Workers' compensation reserves	--	(227)
Allowance for doubtful accounts	121	101
Depreciation expense	(12)	(12)
Professional fees	--	172
Pension	248	142
Other items, net	62	133
	14,875	8,471
Deferred income tax liability:		
Workers' compensation reserves	(683)	--
Other items, net	145	--
	(538)	--
Net deferred tax asset	$ 14,337	$ 8,471

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

	Years Ended September 30, (Amounts in thousands) 2003	2002	2001 As Restated
Current expense	$ 153	$ 544	$ 1,974
Deferred (benefit) expense	(1,083)	1,173	123
Total (benefit) expense	$ (930)	$ 1,717	$ 2,097

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

	Years Ended September 30, 2003	2002	2001 As Restated
Federal statutory rate	(34)%	34%	34%
State taxes, net of federal income tax benefit	(7)	8	8
Tax credits	(7)	(5)	(5)
Goodwill amortization	0	0	6

Valuation allowance	11	0	0
Other	0	0	(1)
	--	--	--
	(37)%	37%	42%
	==	==	==

The tax benefits associated with the exercise of non-qualified stock options reduce taxes currently payable by $1.5 million for 2002. Such benefits are credited to additional paid-in capital.

(5) DEBT:

On April 9, 2002, TeamStaff entered into a revolving loan facility with Fleet National Bank ("Fleet"). The total outstanding loan amount cannot exceed at any one time the lesser of $7.0 million or the sum of 85% of qualified accounts receivable, less an amount reserved by Fleet to support direct debit processing exposure. The annual interest rate is either the Fleet prime rate or LIBOR, at the discretion of TeamStaff, and is currently 4%. The facility is collateralized by substantially all of the assets of TeamStaff, including its accounts receivable. The facility is subject to certain covenants including, but not limited to, interest rate coverage of 2.0 to 1.0, total liabilities to tangible net worth ratio of 2.0 to 1.0, and minimum working capital of $10.0 million.

Effective March 21, 2003, the Company and Fleet agreed to a renewal of the revolving loan facility, which now expires on March 31, 2004. The terms of the facility are substantially as described above, except that the total outstanding loan amount at any one time cannot exceed the lesser of $6.0 million or the sum of 85% of the qualified accounts receivable less an amount reserved by Fleet. At September 30, 2003, the sole outstanding amount of the facility represented an outstanding letter of credit in the amount of $3.5 million issued with respect to TeamStaff's workers' compensation program with Zurich effective April 1, 2003 described above. During the year, Fleet amended the agreement by deleting covenants related to interest rate coverage and replaced it with minimum earnings before interest expense and minimum working capital covenants. At September 30, 2003, TeamStaff was not in compliance with the earnings before interest expense and minimum working capital covenants. Fleet has agreed to waive the requirements as of September 30, 2003. TeamStaff and Fleet are working to determine new covenants for the remaining quarters of the loan. In connection with the sale of certain PEO assets to Gevity HR, Inc., we were required to obtain the consent of Fleet to the transaction. As part of its agreement to the sale of PEO assets (which served as collateral for the loan) Fleet required that we provide substitution collateral in the form of a $3,500,000 deposit at Fleet. This deposit may be considered restricted cash in that until the parties review the loan conditions, we may not use it for general purposes.

During fiscal year 2001 TeamStaff had a long-term credit facility from FINOVA Capital Corporation totaling $12.5 million. Substantially all assets of TeamStaff secured the credit facility. The facility was comprised of (i) two three-year term loans each for $2.5 million, with a five-year amortization, at prime plus 3%; (ii) a three-year term loan for $4.0 million, with a five-year amortization, at prime plus 3% and (iii) a $3.5 million revolving line of credit at prime plus 1% secured by certain accounts receivable of TeamStaff. The credit facility was subject to success fees for each of the $2.5 million term loans in the amounts of $200,000, $225,000 and $250,000 due on the anniversary dates of the loan. In addition the $4.0 million term loan was subject to annual success fees at the beginning of each loan year in the amount of $0.5 million. The credit facility was subject to certain covenants including, but not limited to, a debt to net worth ratio, a minimum net worth and a minimum debt service coverage ratio, as defined.

In connection with the BrightLane acquisition, TeamStaff repaid approximately $8.3 million of total outstanding debt (including interest and related financing fees) owed to FINOVA Capital Corporation during 2001. The loan facility with FINOVA was terminated. Of this amount approximately $3.8 million was paid in April 2001 and the remaining $4.5 million was paid in September 2001. As a result, TeamStaff wrote off $0.4 million of unamortized financing costs and paid additional fees of $0.2 million. This has been recorded as an extraordinary loss on the early extinguishment of debt of $0.4 million, net of tax benefit of $0.3 million in fiscal year 2001.

Long-term debt from continuing operations at September 30, 2003 and 2002 consists of the following- (Amounts in thousands)

	2003	2002
Capital leases	$ 155	$ 206
Less- Current portion	(61)	(59)
Long-term debt	$ 94	$ 147

Maturities of long-term debt as of September 30, 2003 are as follows- (Amounts in thousands)

Years Ending September 30,	
2004	$ 61
2005	94

$155
====

(6) BUSINESS COMBINATIONS/DISPOSITIONS:

ACQUISITION OF BRIGHTLANE.COM

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

In connection with the transaction, persons holding BrightLane options to acquire approximately 2.1 million BrightLane shares (the equivalent of approximately 481,000 TeamStaff shares) exercised their options. TeamStaff made recourse loans of approximately $1.0 million principal amount to the holders of these options to assist them in payment of tax obligations incurred with exercise of the options. The loans are repayable upon the earlier of (i) sale of the TeamStaff shares or (ii) three years. As of September 30, 2002, approximately $0.7 million of these loans has been repaid or forgiven and $0.3 million remains outstanding. All loans must be repaid in cash with the exception of one loan. Under the terms of TeamStaff's employment agreement with an executive officer of TeamStaff's BrightLane subsidiary, the loan ($131,000) has been forgiven over a two-year period.

(7) ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES:

Accrued expenses and other current liabilities at September 30, 2003 and 2002 consist of the following- (Amounts in thousands)

	2003	2002
Workers' compensation insurance	$1,658	$1,673
Bank overdraft	731	1,874
Other	792	2,675
	$3,181	$6,222

(8) COMMITMENTS AND CONTINGENCIES:

LEASES-

Minimum payments under noncancellable lease obligations at September 30, 2003 are as follows- (Amounts in thousands)

Years Ending September 30,	
2004	$1,816*
2005	1,458
2006	626
2007	463
	$4,363

Rent expense under all operating leases was $1.9 million in 2003, $1.8 million in 2002, and $1.2 million in 2001.

*The PEO office located in Boca Raton, Florida has been subleased by Gevity HR, Inc for a term of 6 months for $76,000. This amount excludes lease obligations assumed by Gevity HR, Inc. as of December 1, 2003. (See Note 3)

WORKERS' COMPENSATION POLICY-

As of the fiscal year ended September 30, 2003, TeamStaff's insurance provider is Zurich American Insurance Company (Zurich). The program is managed by Cedar Hill Insurance Agency, Inc. (Cedar Hill), whose duties include underwriting analysis of potential and current clients, loss control services, and other program management services. In addition, TeamStaff's workers' compensation insurance broker, The Hobbs Group, provides claims oversight and also provided certain underwriting and claims management services. This policy covers TeamStaff's corporate employees, the worksite employees co-employed by TeamStaff and its PEO clients, and the temporary employees employed by TeamStaff to fulfill various client-staffing assignments. TeamStaff does not provide workers' compensation coverage to non-employees.

The Zurich program originally covered the period March 22, 2002 through March 31, 2003, inclusive. The program contained a large deductible feature of $0.5 million for each claim, with no maximum liability cap. The premium for the program was paid monthly based upon estimated payroll for the year and is subject to a policy year end audit, which was completed prior to the end of our fiscal year end September 30, 2003. The Zurich deductible program was collateralized by a letter of credit inuring to the benefit of Zurich, and cash held in a trust account with a third party. The letter of credit for $4.2 million was secured through Fleet, as part of TeamStaff's line of credit. In connection with the renewal of this program discussed below, Zurich released this letter of credit. Payments were made to the trust monthly based on projected claims for the year. Interest on all assets held in the trust is credited to TeamStaff. Payments for claims and claims expenses will be made from the trust. Assets in the trust may be adjusted from time to time based on program claims experience. Claims handling services for the program is provided by a third party administrator assigned by Cedar Hill. At September 30, 2003, TeamStaff has a prepaid current asset of $1.5 million for the premiums and the prepayments made to the trust.

On March 28, 2003, TeamStaff renewed its workers' compensation program with Zurich for the period from April 1, 2003, through March 31, 2004, inclusive. (See Note 3 to the consolidated financial statements) The renewal program contains a large deductible feature of $0.5 million for each claim, with a maximum liability cap of the greater of 104.41% of manual premium or $15.6 million. The premium for the program is paid monthly based upon estimated payroll for the year and is subject to a policy year-end audit. The new program is collateralized by a letter of credit inuring to the benefit of Zurich, and cash held in a trust account with a third party. The new letter of credit for $3.5 million was secured through Fleet, as part of TeamStaff's line of credit. Payments are made to the trust monthly based on projected claims for the year. Interest on all assets held in the trust is credited to TeamStaff. Payments for claims and claims expenses will be made from the trust. Assets in the trust may be adjusted from time to time based on program experience. Claims handling services for the program are provided by GAB Robins, a third party administrator. At September 30, 2003, TeamStaff has a prepaid current asset of $2.1 million for the premiums and the prepayments made to the trust.

In conjunction with the sale of its PEO assets to GevityHR, Inc., TeamStaff requested a pro rata cancellation of this policy effective as of November 17, 2003. TeamStaff entered into a new workers' compensation program with Zurich covering TeamStaff's temporary employees. The program is managed by Cedar Hill and claims handling services for the program are provided by GAB Robins. This program is a fully-insured, guaranteed cost program that contains no deductible or retention feature. This new policy will terminate effective April 1, 2004.

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

The CNA policy originally covered the period from January 22, 2001 through January 21, 2002, but was extended to March 21, 2002. It was a large deductible program ($250,000 for each claim) with a maximum liability cap. The premium for the policy was paid monthly based upon estimated payroll for the year and is subject to a year-end audit by the provider. TeamStaff also maintained a separate policy insuring a portion of the maximum deductible cap, which it may be required to pay if claims exceed a determined number. The policy, including the extension, insures payment of the maximum cap in excess of the first $2.1 million, which TeamStaff pays, up to $8.7 million. Once the $8.7 million is exceeded, TeamStaff pays 89.5% of paid claims up to $12.1 million. If the claims and fixed costs under the policy are less than the amounts TeamStaff paid, plus investment returns thereon, the insurer is contractually obligated to refund the difference to TeamStaff.

As part of the two-month extension, which was negotiated in January 2002, TeamStaff was required to pay $0.5 million, which CNA asserted was owed to cover costs for claims incurred during the policy years 1997 - 1999. As previously disclosed, TeamStaff had received a release for those periods from CNA in January 2001, when TeamStaff accepted CNA as its new insurance carrier. TeamStaff has denied CNA's claim and, to date, has received $0.2 million back from the original $0.5 million payment. TeamStaff believes that the remaining funds should be returned as well. Should TeamStaff be unsuccessful in receiving a refund of all monies paid, it will be required to absorb these claims. However, TeamStaff has recorded a liability on its books for the estimated claims for the two-month extension, which exceeds the $0.3 million disputed amount. Accordingly, TeamStaff plans to offset this $0.3 million amount from any monies potentially owed by TeamStaff to CNA. On January 27, 2003, TeamStaff filed a complaint of unfair or deceptive acts or practices in the business of insurance against CNA with the New Jersey Division of Insurance. The New Jersey Division of Insurance referred the matter to the New Jersey Compensation Rating and Inspection Bureau, which has investigated the complaint and proposed a fine against CNA and a refund of $0.2 million in policy issuance costs to TeamStaff. TeamStaff and CNA are attempting to resolve these matters amicably.

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

and the timing of these payments as well as the interest earned on TeamStaff's prepayments, TeamStaff also relies on actuarial tables to estimate its ultimate expense.

As of September 30, 2003, the adequacy of the workers' compensation reserves was determined, in management's opinion, to be reasonable. In determining our reserves we rely in part upon information regarding loss data received from our workers' compensation insurance carriers which may include loss data for claims incurred during prior policy periods. As disclosed in our Form 10-K for the fiscal year ended September 30, 2002, TeamStaff has encountered difficulties in receiving timely reporting of claims from CNA. In the future, similar problems from our insurance carriers may result in adjustments to our reserves. In addition, these reserves are for claims that have not been sufficiently developed due to their relatively young age, and such variables as timing of payments and investment returns thereon are uncertain or unknown, actual results may vary from current estimates. TeamStaff will continue to monitor the development of these reserves, the actual payments made against the claims incurred, the timing of these payments, the interest accumulated in TeamStaff's prepayments and adjust the reserves as deemed appropriate.

PAYROLL TAXES

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

LEGAL PROCEEDINGS

In July 2000, TeamStaff made claims for indemnification against the selling shareholders of the TeamStaff Companies (the Sellers), which were acquired by TeamStaff in January 1999. The claims consisted of various potential liabilities and expenses incurred based on breaches of representations and warranties contained in the acquisition agreement. The Sellers disputed these claims and attempted to assert claims of their own. On January 12, 2001, TeamStaff entered into a settlement agreement with the Sellers. Under the settlement agreement, the Sellers agreed to be liable and responsible for certain potential liabilities estimated at approximately $0.5 million and agreed that 55,000 shares of TeamStaff common stock, which had been held in escrow since the acquisition, were to be cancelled and TeamStaff agreed to release 29,915 escrow shares to the Sellers. TeamStaff retains 75,000 shares in escrow to provide security for the Seller's obligations. Each party agreed to release each other from all other claims under the acquisition agreements. No third parties have contacted TeamStaff seeking payment in the last fiscal year for these potential liabilities. In the event that TeamStaff incurs liability to third parties with respect to the claims, TeamStaff would declare an event of default under the settlement agreement and seek collection from the Sellers.

TeamStaff's subsidiary, BrightLane, is party to a suit brought by one of its former shareholders (Atomic Fusion, Inc. v. BrightLane.com, Inc. Civil Action No ONS02246OE, Fulton County State Court, Georgia). The plaintiff seeks damages for alleged unpaid contractual services provided to BrightLane, alleging that the shares (both in number and value) of BrightLane stock provided to the plaintiff in payment of services were inadequate to pay for the alleged agreed upon value of services. TeamStaff and BrightLane intend to defend themselves vigorously in this matter and believes that they have meritorious and valid defenses to plaintiff's claims. In addition, the former shareholders of BrightLane have placed approximately 158,000 shares in escrow to provide indemnification for any claims made by TeamStaff under the acquisition agreement, subject to a $0.3 million threshold. Some or all of these shares may be canceled in an amount equal to the amount of any claim or expense in excess of the threshold. Under the terms of the agreements between TeamStaff and BrightLane, the value of the shares held in escrow is $8.10/share. It is possible that an award in favor of Atomic Fusion would result in monetary damages against TeamStaff, which could not be recovered under the indemnification provisions because cancellation of the shares in escrow is the sole method of satisfying these indemnification obligations. On November 20, 2003, the Fulton County Superior Court (to which the action was transferred) awarded summary judgment in BrightLane's favor on all counts of Atomic Fusion's complaint except for a breach of contract claim. We intend to continue our defense in the matter.

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

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

EMPLOYMENT AGREEMENTS

Effective as of June 18, 2003, TeamStaff entered into an employment agreement with T. Kent Smith pursuant to which Mr. Smith serves as TeamStaff's President and Chief Executive Officer. The agreement expires on September 30, 2005. Under the terms of the agreement, Mr. Smith is paid an annual base salary of $250,000 and is eligible to receive a bonus of up to 50% of his base salary based on the achievement of revenue, income and other objectives established by the Management Resources and Compensation Committee. Mr. Smith also was granted an option to purchase 400,000 shares of TeamStaff common stock, one-fourth of which vested on June 18, 2003, one-fourth of which will vest one year thereafter, and the remainder of which will vest on June 18, 2005. Mr. Smith also receives four weeks annual vacation and is offered welfare benefit plans, 401(k) and fringe benefits generally made available to other TeamStaff employees. The agreement provides, among other things, that Mr. Smith will be paid a severance payment of three months of his base salary if Mr. Smith and TeamStaff do not enter into a new employment agreement by September 30, 2005. Additionally, the agreement provides for certain post-termination payments depending upon the reason for the termination of Mr. Smith's employment. The agreement also provides for the payment of nine months of base salary and the provision of certain other benefits should Mr. Smith's employment terminate in connection with a change in control, as defined in the agreement.

Effective September 15, 2003, Rick J. Filippelli was appointed TeamStaff's Vice President, Finance and Chief Financial Officer at an initial annual base salary of $225,000. Mr. Filippelli is eligible to receive a bonus of up to 35% of his base salary. Additionally, Mr. Filippelli was granted an option to purchase 50,000 shares of TeamStaff common stock, one half of which will vest on September 15, 2004, and the remaining one half will vest on September 15, 2005. Mr. Filippelli also receives four weeks of annual vacation and is offered welfare benefit plans, 401(k) and fringe benefits generally made available to other TeamStaff employees.

Effective January 1, 2003, TeamStaff entered into a one-year employment agreement with Elizabeth Hoaglin pursuant to which Ms. Hoaglin currently serves as President, TeamStaff Rx, Inc., at an annual salary of $130,000. In addition, Ms. Hoaglin is entitled to receive a bonus to be determined based on the achievement of certain performance criteria determined as of the commencement of each fiscal year. Ms. Hoaglin receives certain other benefits granted to other TeamStaff employees, including health and other insurance benefits, as well as a car allowance of $300 per month and four weeks annual vacation.

Effective January 1, 2003, TeamStaff entered into a one-year employment agreement with Edmund C. Kenealy pursuant to which Mr. Kenealy currently serves as Vice President, General Counsel, at an annual salary of $160,000. In addition, Mr. Kenealy is entitled to receive an increase in annual compensation as of October 1, 2003 and a bonus to be determined based on the achievement of certain performance criteria determined as of the commencement of each fiscal year. Mr. Kenealy receives certain other benefits granted to other TeamStaff employees, including health and other insurance benefits, as well as a car allowance of $500 per month and three weeks annual vacation.

Effective January 1, 2003, TeamStaff entered into a one-year employment agreement with Wayne R. Lynn pursuant to which Mr. Lynn currently serves as Chief Operating Officer of TeamStaff's PEO Division, at an annual salary of $150,000 . In addition, Mr. Lynn is entitled to receive a yearly increase in annual compensation as of March 19, 2003 and a bonus to be determined based on the achievement of certain performance criteria determined as of the commencement of each fiscal year. Mr. Lynn receives certain other benefits granted to other TeamStaff employees, including health and other insurance benefits, as well as a car allowance of $500 per month and three weeks annual vacation.

TeamStaff entered into an employment agreement with Mr. Donald Kappauf, TeamStaff's former President and Chief Executive Officer effective April 2, 2001 and terminating on September 30, 2003. As of June 18, 2003, Mr. Kappauf agreed to relinquish his position as President and Chief Executive Officer of TeamStaff. Mr. Kappauf terminated his employment effective as of September 30, 2003. Under the terms of this agreement, Mr. Kappauf's base compensation was initially $230,000, increasing to $300,000 commencing September 1, 2001, and subject to yearly increases thereafter at the discretion of the compensation committee. For the fiscal year ended September 30, 2003, Mr. Kappauf received a base salary of $300,000. Mr. Kappauf also was entitled to an annual bonus based on the achievement of certain performance criteria as determined by the compensation committee.

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

TeamStaff entered into an employment agreement with Mr. Donald Kelly, TeamStaff's former Chief Financial Officer, effective April 2, 2001 and terminating on September 30, 2003. In June 2003, Mr. Kelly notified TeamStaff that he would be terminating his employment on July 2, 2003 purportedly for "good reason," as defined in his severance agreement, as described below. Under the terms of his employment agreement, Mr. Kelly's base compensation was initially $170,000, increasing to $200,000 commencing September 1, 2001, and subject to yearly increases thereafter at the discretion of the compensation committee. For the fiscal year ended September 30, 2003, Mr. Kelly received a base salary of $200,000. Mr. Kelly also was entitled to a bonus based on the achievement of certain performance criteria as determined by the compensation committee.

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

The split dollar life insurance agreements and supplemental retirement plan were approved by the Compensation Committee of the Board during the 2000 fiscal year and implemented effective October 1, 2000. Under the terms of the SERP, a participant receives a benefit sufficient to provide lump sum annual payments equal to approximately one-third of the participant's base salary on the date the participant becomes a participant. Payment of benefits commences when the participant reaches 65 years of age. The benefit under the SERP is subject to a seven-year vesting schedule (0%, 0%, 20%, 40%, 60%, 80%, 100%), based on the participant's original date of employment with TeamStaff and contingent on the participant's reaching age 55; provided, however, a participant's benefit becomes fully vested upon a change of control, as defined in the SERP, if within two years of the change of control there is a material change in the participant's job title or responsibilities or if the participant's employment is terminated by TeamStaff for any reason other than conviction for theft or embezzlement from TeamStaff. Additionally, if a participant retires by means of total disability (as defined in the SERP), the participant's benefit becomes fully vested and benefit payments commence as of the disability retirement date. The SERP does not provide a death benefit. Mr. Kappauf and Mr. Kelly are the only SERP participants at the present time.

SERP participants also are provided with a split dollar life insurance policy, insuring the life of the participant until the participant reaches age 65. Although the participant is the owner of the Policy, TeamStaff pays all Policy premiums. Each participant has collaterally assigned the Policy to TeamStaff to secure repayment of the premiums through either its cash surrender value or the Policy proceeds. The participant's right to the Policy vests in accordance with the same schedule as the SERP and with similar change of control provisions. Upon the participant's 65th birthday (and in certain other circumstances provided by the Policy agreement), TeamStaff will release the collateral assignment of the Policy provided the participant releases TeamStaff from all obligations it may have with respect to the participant (including those under the SERP). However, given the uncertainty of TeamStaff's ability to continue to maintain this payment arrangement in light of certain of the provisions of the Sarbanes-Oxley Act of 2002, TeamStaff had, with the President and Chief Executive Officer's consent, deferred paying Policy premiums on behalf of the Chief Executive Officer, pending review of the SERP to comply with the Sarbanes-Oxley Act. For the fiscal quarter ended December 31, 2002, TeamStaff paid the Chief Executive Officer a bonus in the amount of the Policy premiums, grossed-up to cover allocable income taxes. Pursuant to the severance agreement with Mr. Kappauf, in the event he were terminated for cause, he would be entitled only to his accrued compensation, which means his base salary, reimbursement of business expenses, vacation pay and earned but unpaid bonuses to the date of termination. "Cause" is defined to include conviction of a felony, an intentional and continual failure to substantially perform his duties or an intentional failure to follow or perform a lawful direction of the Board of Directors. If Mr. Kappauf were terminated for disability or death, he would be entitled to his accrued compensation and certain other payments, such as the pro rata bonus amount. The pro rata bonus amount is defined as the amount equal to the greater of the most recent annual bonus amount paid or the annual bonus paid or payable for the full fiscal year ended prior to the termination, in either case pro-rated through the date of death or disability. In the event that Mr. Kappauf's employment terminated for any other reason, the agreement provides for payment of his accrued compensation, a pro rata bonus amount, a bonus amount allocated to the remainder of the term of his employment agreement, his base salary through the remainder of the term of his employment agreement, a severance payment equal to one year's base compensation, a payment equal to the cost of health and other similar benefits for a period of two years and costs associated with outplacement services.

On June 18, 2003, Donald W. Kappauf relinquished his positions of President and Chief Executive Officer of TeamStaff. In light of the circumstances regarding the relinquishment by Mr. Kappauf of his positions, Mr. Kappauf may have had reason to terminate his employment with TeamStaff for "good reason" and exercise his rights under the severance agreement. The term good reason includes "a change in the [e]xecutive's status, title, position or responsibilities . . .." In addition, TeamStaff may have been required to contribute funds to an irrevocable trust to meet the premium obligations of the split dollar life insurance policy granted to Mr. Kappauf in connection with the SERP. TeamStaff and Mr.

Kappauf have reached a definitive agreement concerning the payment of his severance payments and the creation and funding of the trust. Under the agreement, among other things, TeamStaff will pay Mr. Kappauf's severance benefits over a 48 month period and contribute, initially, three years of premiums (approximately $249,000) to the irrevocable trust, which is reflected as restricted cash as of September 30, 2003.

The severance agreement with Mr. Kelly has terms which are substantially similar to those described above for Mr. Kappauf. Until December 10, 2002, Mr. Kelly held the positions of Chief Financial Officer, Vice President, Finance and Secretary of TeamStaff. As a result of the previously disclosed change in his duties, the former Chief Financial Officer may have had "good reason" to terminate his employment with TeamStaff and may have claims for the severance payments and benefits provided by the severance agreement. The term good reason includes "a change in the [e]xecutive's status, title, position or responsibilities . . . ." In June 2003, Mr. Kelly notified the Board of Directors that he would terminate his employment, effective July 2, 2003, for "good reason" and exercise his rights under the severance agreement. Additionally, the change in Mr. Kelly's duties may have caused his benefits under the SERP to become fully vested. In the event that Mr. Kelly's exercise of these rights is appropriate, such termination is deemed proper, and Mr. Kelly is eligible to receive all potential compensation under the severance agreement and the SERP, TeamStaff may be required to make payments, either directly to Mr. Kelly, in the case of the severance agreement, or to a trust, in the case of any payments to be made pursuant to the SERP. TeamStaff and the former Chief Financial Officer are currently negotiating the terms of the payment of the benefits provided by the severance agreement and the funding of irrevocable grantor trust. However, there can be no assurance that an agreement can be reached. In the absence of such an agreement, TeamStaff may be required to fully fund the trust and make certain lump sum payments and provide certain other benefits required by the severance agreement. As of September 30, 2003, TeamStaff has reflected $636,000 as restricted cash for this potential obligation.

(9) SHAREHOLDERS' EQUITY:

Stock Warrants-

The following is a summary of the outstanding warrants to purchase TeamStaff's common stock at September 30, 2003:

Exercise Period From	Exercise Period To	Exercise Price Per Common Share	Number of Shares of Common Stock Reserved
January 1999	January 2004	5.25	21,428
December 2000	December 2005	3.20	10,000
September 2001	September 2006	5.16	16,000
			47,428

During the fiscal year ending September 30, 2003, TeamStaff granted no warrants and 58,856 warrants expired unexercised. During 2003, no warrants were exercised. During the fiscal year ended September 30, 2002, TeamStaff granted no warrants and no warrants expired unexercised. During 2002, 3,286 warrants were exercised for net proceeds of $14,000. During the fiscal year ended September 30, 2001, TeamStaff granted 26,000 additional warrants and 69,140 warrants expired unexercised. For warrants issued to third parties for services, TeamStaff utilizes the Black-Scholes option pricing model to determine fair value and compensation expense. The fair value of the grants issued in 2001 and other stock based compensation was determined to be $70,000, and was included in selling, general and administrative expenses in the accompanying statements of income for the year ended September 30, 2001.

STOCK OPTION PLANS -

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

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

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

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

2000 EMPLOYEE STOCK OPTION PLAN

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

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

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

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

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

NON-EXECUTIVE DIRECTOR PLAN

In fiscal 2000, the Board of Directors and stockholders approved the adoption of the 2000 Non-Executive Director Stock Option Plan (the "Director Plan") to provide for the grant of options to non-employee directors of TeamStaff. Under the terms of the Director Plan, each non-executive director is automatically granted an option to purchase 5,000 shares upon joining the Board and each September 1st, pro rata, based on the time the director has served in such capacity during the previous year. The Directors' Plan also provides that directors, upon joining the Board, and for one (1) year thereafter, will be entitled to purchase restricted stock from TeamStaff at a price equal to 80% of the closing bid price on the date of purchase up to an aggregate purchase price of $50,000. The Director Plan replaced the previous Director Plan that expired in April 2000.

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

The following tables summarize the activity in TeamStaff's stock option plans for the years ended September 30, 2003, 2002, and 2001:

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE FAIR VALUE
Options outstanding, September 30, 2000	351,541	$5.00	
Granted	597,785	$4.75	$2.77
Exercised	(46,009)	$4.56	
Cancelled	(28,048)	$6.01	
Options outstanding, September 30, 2001	875,269	$4.82	
Granted	256,430	$5.87	$3.47
Exercised	(38,210)	$3.39	
Cancelled	(100,847)	$6.85	
Options outstanding, September 30, 2002	992,642	$4.94	
Granted	558,000	$2.96	$1.42
Exercised	-	-	
Cancelled	(141,170)	$5.15	
Options outstanding, September 30, 2003	1,409,472	$3.97	

As of September 30, 2003, 2002, and 2001, 917,472, 666,642, and 440,762 options, respectively, were exercisable.

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING AT 9/30/03	WEIGHTED AVERAGE REMAINING LIFE	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS EXERCISABLE AT 9/30/03	WEIGHTED AVERAGE EXERCISE PRICE
$2.27 - 4.55	738,990	3.8	$ 3.21	296,990	$ 3.57
$4.55 - 6.82	635,482	2.4	$ 5.19	585,482	$ 5.10
$6.82 - 9.10	25,000	2.7	$ 8.05	25,000	$ 8.05
$9.10 - 11.37	10,000	2.9	$ 10.18	10,000	$ 10.18

During 2003, 2002, and 2001 , TeamStaff repurchased 251,214, 242,945, and 51,855 shares respectively of its common stock for $781,341, $1,146,000, and $366,000 respectively. As of September 30, 2003, TeamStaff retired 28,456 shares of treasury stock. As of December 12, 2003, TeamStaff retired an additional 546,014 shares of treasury stock.

(10) SEGMENT REPORTING:

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

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

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

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

TeamStaff has changed its segment reporting as of October 1, 2002. The voucher processing service business is now managed and reported in the Payroll Services group. BrightLane costs have been allocated to Corporate since BrightLane provides information technology services to the entire company. Prior year figures have been adjusted to conform to the current year presentation.

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

The following table represents the financial results for each of TeamStaff's segments: (Amounts in thousands)

	Medical Staffing	Payroll Services	Corporate	Consolidated
2003				
Revenues	$ 58,119	$ 4,686	$ -	$ 62,805
Depreciation and amortization	138	9	182	329
Income/(loss) from continuing operations	3,805	1,580	(8,290)	(2,905)
Interest income	525	-	63	588
Interest expense	(25)	-	(195)	(220)
Other income	-	-	13	13
Income/(loss) from continuing operations before income taxes	4,306	1,580	(3,362)	(2,524)
Capital spending	170	215	140	525
Total assets from continuing operations	$ 18,353	$ 2,252	$ 17,563	$ 38,168
2002				
Revenues	$ 74,866	$ 4,954	$ -	$ 79,820
Depreciation and amortization	141	12	45	198
Income/(loss) from continuing operations	7,652	2,057	(5,968)	3,741
Interest income	886	-	171	1,057
Interest expense	(15)	-	(152)	(167)
Other income	60	-	-	60
Income/(loss) from continuing operations before income taxes	8,583	2,057	(5,949)	4,691
Capital spending	184	6	259	449
Total assets from continuing operations	$ 16,873	$ 3,969	$ 21,698	$ 42,540
2001 AS RESTATED				
Revenues	$ 64,442	$ 4,612	$ -	$ 69,054
Depreciation and amortization	270	64	45	379
Income/(loss) from continuing operations	7,262	1,830	(4,580)	4,512
Interest income	669	-	242	911
Interest expense	(234)	(36)	(149)	(419)
Other income	-	-	48	48
Income/(loss)from continuing operations before income taxes and extraordinary item	7,697	1,794	(4,439)	5,052
Capital spending	75	-	38	113
Total assets from continuing operations	$ 10,561	$ 2,794	$ 29,281	$ 42,636

TeamStaff has no revenue derived outside of the United States.

(11) QUARTERLY FINANCIAL DATA (UNAUDITED):
(Amounts in thousands, except per share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 2003				
Net revenues	$ 18,457	$ 16,378	$ 14,654	$ 13,316
Gross profit	3,523	3,163	2,901	2,603
Income (loss) before extraordinary item and discontinued operations	273	(790)	(886)	(191)
Loss from discontinued operations net of tax	(187)	(25,168)	(1,378)	(558)
Net income (loss)	86	(25,957)	(2,264)	(750)
Earnings per share - Basic and Diluted	$ .01	$ (1.65)	$ (0.14)	$ (0.05)

	First Quarter As Restated	Second Quarter As Restated	Third Quarter As Restated	Fourth Quarter
Fiscal 2002				
Net revenues	$ 21,265	$ 19,523	$ 19,397	$ 19,635
Gross profit	4,511	3,943	3,928	3,642
Income before extraordinary item and discontinued operations	1,195	871	611	297
(Loss) from discontinued operations net of tax	(568)	(426)	1,426	(331)
Net income	627	445	2,037	(34)
Earnings per share - Basic and Diluted	$ 0.04	$ 0.03	$ 0.13	$ 0.00

	First Quarter As Restated	Second Quarter As Restated	Third Quarter As Restated	Fourth Quarter As Restated
Fiscal 2001				
Net revenues	$ 15,305	$ 15,886	$ 17,307	$ 20,556
Gross profit	3,083	3,200	3,619	4,422
Income before extraordinary item and discontinued operations	543	573	707	1,132
Extraordinary item net of tax	-	-	(143)	(211)
Loss from discontinued operations net of tax	79	(291)	(164)	(877)
Net income	622	282	400	44
Earnings per share - Basic and Diluted	$ 0.07	$ 0.03	$ 0.05	$ 0.01

(12) EMPLOYEE BENEFIT PLANS:

As of September 30, 2003, TeamStaff maintained two defined contribution pension plans for the benefit of its non-worksite employees. The first, the Digital Solutions, Inc. and Affiliated Corporations 401(k) Savings Plan, was "frozen" by TeamStaff as of January 1, 1999. TeamStaff is terminating this plan in accordance with the provisions of Rev. Proc. 2002-21, providing a method for the termination of single employer plans maintained by professional employer organizations. No deferrals or other contributions currently are made to that plan.

TeamStaff also maintained The TeamStaff Retirement Savings Plan. This plan was assumed by Gevity HR, Inc., effective November 17, 2003, as part of their purchase of the PEO operating segment. The TeamStaff Plan is designed to qualify as a multiple employer plan as described in Section 413(c) of the Internal Revenue Code. Additionally, because plan participants have their own account, manage their own plan investments and make their own investment decisions from a broad range of investment options, TeamStaff believes that it is afforded protection from liability for participants' investment decisions under Section 404(c) of the Code. Any TeamStaff corporate employee (including its medical and technical staffing employees), is eligible for participation in the TeamStaff Plan upon completing three months of service with TeamStaff. TeamStaff provides a discretionary matching contribution of 25% of each of the first 4% of a participant's elective contributions under the TeamStaff Plan. TeamStaff recorded expense for this matching of $67,000 in fiscal 2003 and $58,000 in fiscal 2002. A participant is always fully vested in his elective contributions. A participant's interest in TeamStaff discretionary matching contributions vests in accordance with the following schedule:

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

TeamStaff received a favorable determination letter regarding the TeamStaff Plan's tax qualified status on June 25, 1999. The TeamStaff Plan, and the frozen Digital Solutions Plan, both were audited by independent auditors for the plan years ended December 31, 2002 and December 31, 2001, in connection with their required From 5500 Annual Reports filed with the Pension and Welfare Benefits Administration for the plan year ended December 31, 2002.

Effective October 1, 2000, TeamStaff adopted a non-qualified, supplemental retirement plan covering certain corporate officers of TeamStaff (the "SERP"). Under the terms of the SERP, a participant receives a benefit sufficient to provide lump sum annual payments equal to approximately one-third of the participant's base salary on the date the participant becomes a participant. Payment of benefits commences when the participant reaches 65 years of age. The benefit under the SERP is subject to a seven-year vesting schedule (0%,0%,20%,40%, 60%, 80%, 100%), based on the participant's original date of employment with TeamStaff and contingent on the participant's reaching age 55; provided, however, a participant's benefit becomes fully vested upon a change of control, as defined in the SERP, if within two years of the change of control there is a material change in the participant's job title or responsibilities or if the participant's employment is terminated by TeamStaff for any reason other than conviction for theft or embezzlement from TeamStaff.

Additionally, if a participant retires by means of total disability (as defined in the SERP), the participant's benefit becomes fully vested and benefit payments commence as of the disability retirement date. The SERP does not provide a death benefit. TeamStaff's former Chief Executive Officer and its former Chief Financial Officer are the only SERP participants.

SERP participants also are provided with a split dollar life insurance policy ("Policy"), insuring the life of the participant until the participant reaches age 65. Although the participant is the owner of the Policy, TeamStaff pays all Policy premiums. Each participant has collaterally assigned the Policy to TeamStaff to secure repayment of the premiums through either its cash surrender value or the Policy proceeds. The participant's right to the Policy vests in accordance with the same schedule as the SERP and with similar change of control provisions. Upon the participant's 65th birthday (and in certain other circumstances provided by the Policy agreement), TeamStaff will release the collateral assignment of the Policy provided the participant releases TeamStaff from all obligations the Corporation may have with respect to the participant (including those under the SERP).

The following table illustrates TeamStaff's changes in benefit costs and pension benefit obligations for the fiscal years ending September 30, 2003 and September 30, 2002 under the SERP .

	Fiscal Year	
(Amounts in thousands)	2003	2002
Change in Benefit obligation		
Benefit obligation at beginning of year	$ 1,271	$ 1,004
Service cost	17	58
Interest Cost	91	77
Actuarial (gain)/loss	345	132
Benefit obligation at end of year	$ 1,724	$ 1,271
Reconciliation of funded status		
Funded status	$(1,724)	$(1,271)
Unrecognized net actuarial (gain)/loss	455	240
Unrecognized prior service cost	0	612
Net amount recognized	$(1,269)	$ (419)
Amounts recognized in the statement of financial position consist of:		
Accrued benefit liability	$(1,724)	$(1,271)
Intangible asset	0	612
Accumulated other comprehensive income	455	240
Net amount recognized	$(1,269)	$ (419)
Weighted-average assumptions as of September 30:		
Discount rate	5.50%	6.50%
Expected return on plan assets	N/A	N/A
Rate of compensation increase	N/A	N/A
Components of net periodic benefit cost		
Service cost	$ 17	$ 58
Interest cost	91	77
Amortization of prior service cost	29	58
Recognized actuarial (gain)/loss	14	1
Net periodic benefit cost	$ 151	$ 194
Other disclosure items at end of year:		
Projected benefit obligation	$ 1,724	$ 1,271
Accumulated benefit obligation	$ 1,724	$ 1,271
Fair value of plan assets	-	-

There are no plan assets.

During fiscal 2003, two events were recognized as curtailments under SFAS No. 88. Donald Kelly was relieved of his duties as Chief Financial Officer. A curtailment charge related to this event of $254,000 was recognized during the second quarter. Donald Kappauf relinquished his positions as President and Chief Executive Officer.

A curtailment charge related to this event of $445,000 was taken during the third quarter. TeamStaff is not aware of any other events that might constitute settlement or curtailment under SFAS No. 88.

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

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

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

*The 2001 restatement shown above does not reflect discontinued operations.

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

TEAMSTAFF, INC. AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

FOR THE YEARS ENDED SEPTEMBER 30, 2003, 2002, AND 2001
(Amounts in thousands)

(a) Description	(b) Balance at Beginning of Year	(c) Additions Charged to (reversed from) Costs and Expenses	(d) Deductions - Net Write-Offs	(e) Balance at End of Year
Allowance for doubtful accounts, year ended-				
September 30, 2003	$ 17	$125	$ (0)	$142
September 30, 2002	$ 92	$ (0)	$(75)	$ 17
September 30, 2001	$144	$ 68	($120)	$ 92

EXHIBIT 10.16

EMPLOYMENT AGREEMENT

AGREEMENT made as of the 18th day of June, 2003 by and between T. Kent Smith, residing at 137 W. Wesley Road, Atlanta, Georgia 30303 (hereinafter referred to as the "Employee") and TEAMSTAFF, INC., a New Jersey corporation with principal offices located at 300 Atrium Drive, Somerset, New Jersey.

W I T N E S S E T H:

WHEREAS, TeamStaff, Inc. and its subsidiaries (the "Company") are engaged in the business of providing Business Outsource Services; and

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

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

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

ARTICLE I

DEFINITIONS

1.1 Accrued Compensation. Accrued Compensation shall mean an amount which shall include all amounts earned or accrued through the "Termination Date" (as defined below) but not paid as of the Termination Date, including (i) Base Salary, (ii) reimbursement for business expenses incurred by the Employee on behalf of the Company, pursuant to the Company's expense reimbursement policy in effect at such time, (iii) vacation pay, and (iv) unpaid bonuses and incentive compensation earned and awarded prior to the Termination Date.

1.2 Cause. Cause shall mean: (i) willful disobedience by the Employee of a material and lawful instruction of the Board of Directors of the Company; (ii) formal charge, indictment or conviction of the Employee of any misdemeanor involving fraud or embezzlement or similar crime, or any felony; (iii) breach by the Employee of any material provision of this Agreement; (iv) conduct amounting to fraud, dishonesty, gross negligence, willful misconduct or recurring insubordination; (v) excessive absences from work, other than for illness or Disability; or (vi) unsatisfactory performance of duties; provided that the Company shall not have the right to terminate the employment of Employee pursuant to the foregoing clauses (i), (iii), (iv), (v) and (vi) above unless written notice specifying such breach shall have been given to the Employee and, in the case of breach which is capable of being cured, the Employee shall have failed to cure such breach within thirty (30) days after his receipt of such notice.

1.3 Continuation Benefits. Continuation Benefits shall be the continuation of the Benefits, as defined in Section 5.1, for the period from the Termination Date to the Expiration Date, or such other period as specifically stated by this agreement (the "Continuation Period") at the Company's expense on behalf of the Employee and his dependents; provided, however, that (i) in no event shall the Continuation Period exceed 18 months from the Termination Date; and (ii) the level and availability of benefits provided during the Continuation Period shall at all times be subject to the post-employment conversion or portability provisions of the benefit plans. The Company's obligation hereunder with respect to the foregoing benefits shall also be limited to the extent that if the Employee obtains any such benefits pursuant to a subsequent employer's benefit plans, the

Company may reduce the coverage of any benefits it is required to provide the Employee hereunder as long as the aggregate coverages and benefits of the combined benefit plans is no less favorable to the Employee than the coverages and benefits required to be provided hereunder. This definition of Continuation Benefits shall not be interpreted so as to limit any benefits to which the Employee, his dependents or beneficiaries may be entitled under any of the Company's employee benefit plans, programs or practices following the Employee's termination of employment, including, without limitation, retiree medical and life insurance benefits.

1.4 Disability. Disability shall mean a physical or mental infirmity which impairs the Employee's ability to substantially perform his duties with the Company for a period of ninety (90) consecutive days.

1.5 Notice of Termination. Notice of Termination shall mean a written notice from the Company, or the Employee, of termination of the Employee's employment which indicates the provision in this Agreement relied upon, if any. A Notice of Termination served by the Company shall specify the effective date of termination.

1.6 Termination Date. Termination Date shall mean (i) in the case of the Employee's death, his date of death; and (ii) in all other cases, the date specified in the Notice of Termination.

ARTICLE II

EMPLOYMENT

2.1 Subject to and upon the terms and conditions of this Agreement, the Company hereby employs, and the Employee hereby accepts such employment, as President and Chief Executive Officer of the Company. The Employee's position includes acting as an officer and/or director of any of the Company's subsidiaries as determined by the Board of Directors.

ARTICLE III

DUTIES

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

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

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

1. Those duties attendant to the position with the Company for which he is hired;

2. Establish and implement current and long range objectives, plans, and policies, subject to the approval of the Board of Directors;

3. Financial planning including the development of, liaison with, financing sources and investment bankers;

4. Managerial oversight of the Company's business;

5. Shareholder relations;

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

7. Business expansion of the Company including acquisitions, joint ventures, and other opportunities; and

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

3.4 Employee shall undertake regular travel to the Company's executive and operational offices, and such other occasional travel within or outside the United States as is or may be reasonably necessary in the interests of the Company. All such travel including travel from Atlanta, Georgia to the Company's executive offices shall be at the sole cost and expense of the Company. All lodging and food costs incurred by Employee while traveling and/or conducting business at the Company's operational offices (outside the Atlanta, Georgia area) shall be paid by the Company.

ARTICLE IV

COMPENSATION

4.1 During the term of this Agreement, Employee shall be compensated initially at the rate of $250,000 per annum, subject to such increases, if any, as determined by the Board of Directors, or if the Board so designates, the Management Resources and Compensation Committee, in its discretion, at the commencement of each of the Company's fiscal years during the term of this Agreement (the "Base Salary"). The base salary shall be paid to the Employee in accordance with the Company's regular executive payroll periods.

4.2 Employee may receive a bonus (the "Bonus") in the sole discretion of the Management Resources and Compensation Committee of the Board of Directors. Employee will have an opportunity to earn a Bonus of up to 50% of Employee's Base Salary for each fiscal year of employment. For the interim period from the commencement of employment to the end of Fiscal 2003, the Bonus awarded will be on a pro rata basis and determined by the Management Resources and Compensation Committee in its discretion. Thereafter, it is anticipated that the Bonus will be based 70% on revenue and income targets and 30% on other key objectives established by the Management Resources and Compensation Committee at the commencement of each fiscal year.

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

4.4 Employee may receive such other additional compensation as may be determined from time to time by the Board of Directors including bonuses and other long term compensation plans. Nothing herein shall be deemed or construed to require the Board to award any bonus or additional compensation.

ARTICLE V

BENEFITS

5.1 During the term hereof, the Company shall provide Employee with the following benefits (the "Benefits"): (i) group health care and insurance benefits as generally made available to the Company's senior management; and (ii) such other insurance benefits obtained by the Company and made generally available to the Company's senior management. The Company shall reimburse Employee, upon presentation of appropriate vouchers, for all reasonable business expenses incurred by Employee on behalf of the Company upon presentation of suitable documentation.

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

5.3 For the term of this Agreement, Employee shall be entitled to paid vacation at the rate of four (4) weeks per annum.

ARTICLE VI

NON-DISCLOSURE

6.1 The Employee shall not, at any time during or after the termination of his employment hereunder, except when acting on behalf of and with the authorization of the Company, make use of or disclose to any person, corporation, or other entity, for any purpose whatsoever, any trade secret or other confidential information concerning the Company's business, finances, marketing, computerized payroll, accounting and information business, personnel and/or employee leasing business of the Company and its subsidiaries, including information relating to any customer of the Company or pool of temporary employees, or any other nonpublic business information of the Company and/or its subsidiaries learned as a consequence of Employee's employment with the Company (collectively referred to as the "Proprietary Information"). For the purposes of this Agreement, trade secrets and confidential information shall mean information disclosed to the Employee or known by him as a consequence of his employment by the Company, whether or not pursuant to this Agreement, and not generally known in the industry. The Employee acknowledges that trade secrets and other items of confidential information, as they may exist from time to time, are valuable and unique assets of the Company, and that disclosure of any such information would cause substantial injury to the Company. Trade secrets and confidential information shall cease to be trade secrets or confidential information, as applicable, at such time as such information becomes public other than through disclosure, directly or indirectly, by Employee in violation of this Agreement.

6.2 If Employee is requested or required (by oral questions, interrogatories, requests for information or document subpoenas, civil investigative demands, or similar process) to disclose any Proprietary Information, Employee shall, unless prohibited by law, promptly notify the Company of such request(s) so that the Company may seek an appropriate protective order.

ARTICLE VII

RESTRICTIVE COVENANT

7.1 In the event of the voluntary termination of employment with the Company prior to the expiration of the term hereof, or Employee's discharge in accordance with Article IX, or the expiration of the term hereof without renewal, Employee agrees that he will not, for a period of one (1) year following such termination, directly or indirectly, enter into or become associated with or engage in any other business (whether as a partner, officer, director, shareholder, employee, consultant, or otherwise), which is involved in the business of providing (i) professional employer organization services, (ii) temporary and/or permanent staffing of travel health professionals and travel nurses, and (iii) payroll processing, or is otherwise engaged in the same or similar business as the Company in direct competition with the Company, or which the Company was in the process of developing, during the tenure of Employee's employment by the Company. Notwithstanding the foregoing, the ownership by Employee of less than five percent of the shares of any publicly held corporation shall not violate the provisions of this Article VII.

7.2 In furtherance of the foregoing, Employee shall not during the aforesaid period of non-competition, directly or indirectly, in connection with any computerized payroll, employee leasing, or permanent or temporary personnel business, or any business similar to the business in which the Company was engaged, or in the process of developing during Employee's tenure with the Company, solicit any customer or employee of the Company who was a customer or employee of the Company during the tenure of his employment.

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

ARTICLE VIII

TERM

8.1 This Agreement shall be for a term (the "Initial Term") commencing on June 18, 2003 (the "Commencement Date") and terminating on September 30, 2005 (the "Expiration Date"), unless sooner terminated upon the death of the Employee, or as otherwise provided herein.

8.2 Unless this Agreement is earlier terminated pursuant to the terms hereof, the Company agrees to use its best efforts to notify Employee in writing whether it intends to negotiate a renewal of this Agreement by notice four (4) months prior to the Expiration Date. In the event (i) the Company shall have failed to notify the Employee of its intention to renew as provided by this Section 8.2, or (ii) the Company fails to reach agreement with Employee as to the terms of a new employment agreement prior to the Expiration Date after providing such notice, in addition to any other payments due hereunder, upon termination of the Employee's employment on or after the Expiration Date for any reason except Cause, the Company shall pay Employee a severance payment equal to three months of Employee's Base Salary ("Severance Payments") payable in equal installments on each of the Company's regular pay dates for executives during the three months commencing on the first regular executive pay date following the date of such termination.

ARTICLE IX

TERMINATION

9.1 The Company may terminate this Agreement by giving a Notice of Termination to the Employee in accordance with this Agreement:

a. For Disability;

b. For Cause.

c. Without Cause.

9.2 Employee may terminate this Agreement by giving a Notice of Termination to the Company in accordance with this Agreement, at any time, with or without good reason.

9.3 If the Employee's employment with the Company shall be terminated, the Company shall pay and/or provide to the Employee the following compensation and benefits in lieu of any other compensation or benefits arising under this Agreement or otherwise:

a. if the Employee was terminated by the Company for Cause, or the Employee terminates, the Accrued Compensation; provided, however, in the event the termination for Cause was based on Section 1.2 (vi) (unsatisfactory performance), in addition to the foregoing, Employee shall be entitled to receive his Base Salary for the lesser of the balance of the term of this agreement or one year.

b. if the Employee was terminated by the Company for Disability, the Accrued Compensation, and Base Salary and Continuation Benefits from the Termination Date through the period ending three (3) months thereafter; or

c. if termination was due to the Employee's death, the Accrued Compensation; and Employee's pro rata bonus for the fiscal year in which the date of death occurred; or

d. if the Employee was terminated by the Company without cause, (i) the Accrued Compensation; (ii) the Employee's Base Salary to the Expiration Date; and (iii) the Continuation Benefits.

9.4 The amounts payable under this Section 9, shall be paid as follows:

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

b. If the Continuation Benefits are paid in cash, the payments shall be made on the first day of each month during the Continuation Period (or earlier, if required by applicable law).

c. The Base Salary through the Expiration Date shall be paid in accordance with the Company's regular pay periods (or earlier, if required by applicable law).

9.5 Notwithstanding the foregoing, in the event Employee is a member of the Board of Directors on the Termination Date, the payment of any and all compensation due hereunder, except Accrued Compensation, and Employee's right to exercise any Employee Stock Option after the Termination Date, is expressly conditioned on Employee's resignation from the Board of Directors within five (5) business days of notice by the Company requesting such resignation. .

9.6 The Employee shall not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise and no such payment shall be offset or reduced by the amount of any compensation or benefits provided to the Employee in any subsequent employment except as provided in Sections 1.3.

ARTICLE X

TERMINATION OF PRIOR AGREEMENTS

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

ARTICLE XI

STOCK OPTIONS

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

Subject to the terms and conditions of the Company's 2000 Employees' Stock Option Plan (the "Plan"), and the terms and conditions set forth in the Stock Option Certificate which are incorporated herein by reference, the Employee is hereby granted options to purchase 400,000 shares of the Company's Common Stock, of which options to purchase 100,000 shares shall vest on June 18, 2003, 100,000 shall vest on June 18, 2004, and the balance shall vest on June 18, 2005. The exercise price of the option shall be $3.00 per share and shall contain such other terms and conditions as set forth in the stock option agreement. The foregoing options shall be qualified as incentive stock options to the maximum as allowed by law. The Options provided for herein are not transferable by Employee and shall be exercised only by Employee, or by his legal representative or executor, as provided in the Plan. Such Option shall terminate as provided in the Plan, except as otherwise modified by this Agreement.

ARTICLE XII

EXTRAORDINARY TRANSACTIONS

12.1 The Company's Board of Directors has determined that it is appropriate to reinforce and encourage the continued attention and dedication of members of the Company's management, including the Employee, to their assigned duties without distraction in potentially disturbing circumstances arising from the possibility of a change in control of the Company.

12.2 Change in Control. For purposes of this Agreement, a "Change in Control" shall mean any of the following events:

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

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

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

c. Approval by stockholders of the Company of:

(i) A merger, consolidation or reorganization involving the Company, unless: (1) the stockholders of the Company, immediately before such merger, consolidation or reorganization, own, directly or indirectly immediately following such merger, consolidation or reorganization, at least sixty percent (60%) of the combined voting power of the outstanding voting securities of the corporation resulting from such merger or consolidation or reorganization (the "Surviving Corporation") in substantially the same proportion as their ownership of the Voting Securities immediately before such merger, consolidation or reorganization, (2) the individuals who were members of the Incumbent Board immediately prior to the execution of the agreement providing for such merger, consolidation or reorganization constitute at least two-thirds of the members of the board of directors of the Surviving Corporation, and (3) no Person (other than the Company, any Subsidiary, any employee benefit plan (or any trust forming a part thereof) maintained by the Company, the Surviving Corporation or any Subsidiary) becomes Beneficial Owner of twenty percent (20%) or more of the combined voting power of the Surviving Corporation's then outstanding voting securities as a result of such merger, consolidation or reorganization, a transaction described in clauses (1) through (3) shall herein be referred to as a "Non-Control Transaction"; or

(ii) An agreement for the sale or other disposition of all or substantially all of the assets of the Company, to any Person, other than a transfer to a Subsidiary, in one transaction or a series of related transactions; or

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

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

e. For the purposes of this Agreement, an agreement for the sale of the PEO and/or payroll division shall not constitute an agreement for the sale or other disposition of all or substantially all of the assets of the Company.

a. 12.3 In the event that within ninety (90) days of a Change of Control as described in Section 12.2, (i) Employee is terminated, or (ii) Employee's status, title, position or responsibilities are materially reduced and Employee terminates his Employment, the Company shall pay and/or provide to the Employee, the following compensation and benefits: The Company shall pay the Employee, in lieu of any other payments due hereunder, (i) the Accrued Compensation; (ii) the Continuation Benefits; and (iii) as severance, Base Salary for a period of nine (9) months payable in equal installments on each of the Company's regular pay dates for executives during the nine months commencing on the first regular executive pay date following the termination Date; and The conditions to the vesting of any outstanding incentive awards (including restricted stock, stock options and granted performance shares or units) granted to the Employee under any of the Company's plans, or under any other incentive plan or arrangement, shall be deemed void and all such incentive awards shall be immediately and fully vested and exercisable. Further, the options shall be deemed amended to provide that in the event of termination after an event enumerated in this Article XII, the options shall remain exercisable for the duration of their term.

12.4 Notwithstanding the foregoing, if the payment under this Article XII, either alone or together with other payments which the Employee has the right to receive from the Company, would constitute 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 this 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 the Employee. The Company shall give notice to the Employee as soon as practicable after its determination that Change of Control payments and benefits are subject to the excise tax, but no later than ten (10) days in advance of the due date of such Change of Control payments and benefits, specifying the proposed date of payment and the Change of Control benefits and payments subject to the excise tax. Employee shall exercise his option under this paragraph 12.4 by written notice to the Company within five (5) days in advance of the due date of the Change of Control payments and benefits specifying the priority of reduction of the excess parachute payments.

ARTICLE XIII

ARBITRATION AND INDEMNIFICATION

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

13.2 The Company hereby agrees to indemnify, defend, and hold harmless the Employee for any and all claims arising from or related to his employment by the Company at any time asserted, at any place asserted, to the fullest extent permitted by law, except for claims based on Employee's fraud, deceit or wilfulness. The Company shall maintain such insurance as is necessary and reasonable to protect the Employee from any and all claims arising from or in connection with his employment by the Company during the term of Employee's employment with the Company and for a period of six (6) years after the date of termination of employment for any reason. The provisions of this Section 13.2 are in addition to and not in lieu of any indemnification, defense or other benefit to which Employee may be entitled by statute, regulation, common law or otherwise.

ARTICLE XIV

SEVERABILITY

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

ARTICLE XV

NOTICE

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

The current addresses of the parties are as follows:

IF TO THE COMPANY: TeamStaff, Inc.
300 Atrium Drive
Somerset, NJ 08873

IF TO THE EMPLOYEE: T. Kent Smith
137 W. Wesley Road
Atlanta, Georgia 30303

ARTICLE XVI

BENEFIT

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

ARTICLE XVII

WAIVER

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

ARTICLE XVIII

GOVERNING LAW

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

ARTICLE XIX

JURISDICTION

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

ARTICLE XX

ENTIRE AGREEMENT

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

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

TEAMSTAFF, INC.

By: ________________________________

T. Stephen Johnson
Chairman of the Board

____

T. Kent Smith
Employee

EXHIBIT 14.1

CODE OF ETHICS FOR
CHIEF EXECUTIVE OFFICER, CHIEF FINANCIAL OFFICER AND
CONTROLLER

TEAMSTAFF, INC.

Effective June 2003

CODE OF ETHICS FOR CHIEF EXECUTIVE OFFICER, CHIEF FINANCIAL OFFICER, AND CONTROLLER

INTRODUCTION

TeamStaff is committed to fostering an environment throughout our organization that supports and reinforces our commitment to the highest ethical standards. To that end, TeamStaff has adopted a Code of Ethics. The Code of Ethics applies to TeamStaff directors, officers and employees alike. However, certain of our officers and employees - our Chief Executive Officer, Chief Financial Officer, and Controller - provide services and perform functions that merit a more detailed expression of their duties, because they are singularly responsible for the integrity, accuracy and timeliness of our periodic financial reports to regulators and the investing public. Thus, TeamStaff's Board of Directors has adopted this Code of Ethics for our Chief Executive Officer, Chief Financial Officer, and Controller.

This Code of Ethics is intended to supplement our company-wide Code of Ethics. Along with our Code of Ethics, Employee Handbook and other policies, procedures and guidelines adopted from time to time, this Code of Ethics is designed to deter wrongdoing and promote:

- Honest and ethical conduct, including ethical handling of actual or apparent conflicts of interest between personal and professional relationships;

- Full, fair, accurate, timely and understandable disclosure in reports and documents that TeamStaff files with, or submits to, the United States Securities and Exchange Commission and in other public communications made by TeamStaff;

- Compliance with applicable governmental laws, rules and regulations;

- The prompt internal reporting of violations of this Code; and

- Accountability for adherence to this Code.

Each one of the individuals covered by this Code of Ethics must abide by its terms. Any waiver of this Code of Ethics must be approved in writing by the Audit Committee of TeamStaff's Board of Directors. Adherence to this Code of Ethics by those covered by it is a condition of employment. Violators are subject to disciplinary action, up to and including dismissal from TeamStaff and criminal prosecution.

REPORTING VIOLATIONS

If you become aware or suspect that a violation of this Code of Ethics or the principles it embodies has occurred, you should immediately report the incident to the General Counsel. You may make a good faith report of a suspected violation secure in the knowledge that TeamStaff will not allow retaliation for reporting your concerns. TeamStaff will make appropriate efforts to safeguard the confidentiality of your report. However, confidentiality cannot be assured in every instance. For example, there may be circumstances that require us to report illegal conduct to appropriate law enforcement authorities.

ENFORCEMENT

The Corporate General Counsel will oversee any investigation into a suspected violation of this Code of Ethics. When appropriate, the Corporate General Counsel will take statements, interview witnesses and prepare a written report of facts and findings. The Corporate General Counsel will report his facts and findings directly to the Audit Committee of the Board of Directors, which will promptly determine appropriate action based on the facts and information presented. It is TeamStaff's goal that this Code of Ethics be enforced fairly and consistently.

The Corporate General Counsel will provide periodic reports directly to the Audit Committee regarding compliance with this Code of Ethics.

RESPONSIBILITIES TO TEAMSTAFF

CONFLICTS OF INTEREST

The business decisions and actions of our principal executive, financial and accounting personnel must never be influenced by personal considerations or personal relationships. These individuals should avoid any relationship or activity that might impair - or even appear to impair - their ability to make objective and fair decisions while performing their jobs. For example, a conflict of interest may occur when family members or close personal friends are involved in business relationships with you, either inside or outside the company. Other examples of potential conflicts of interest include:

- employment by a competitor or potential competitor while you are employed by TeamStaff;

- acceptance of gifts, payments, services or anything of value from anyone seeking to do business with TeamStaff;

- placement of TeamStaff business with an entity in which you or a family member has a financial interest; and

- a significant ownership interest in a TeamStaff competitor.

Where even the appearance of a conflict of interest may exist, share the facts with and seek guidance from your manager or notify the Corporate General Counsel. If you believe that a conflict of interest exists or if you believe that there is a material transaction or relationship that reasonably could be expected to give rise to a conflict of interests, you must report it to the Corporate General Counsel immediately upon its discovery.

ACCEPTANCE OF GIFTS

Gifts, meals and business entertainment are common in business. They can help us build better relationships with our clients and vendors. Although the types of gifts, meals and entertainment that are appropriate in a business environment depends on many factors, generally, TeamStaff employees may accept gifts, meals and business entertainment of a nominal value from clients and vendors. It is often difficult to define "nominal" - and $50.00 may well be an appropriate limit - but common sense and good business ethics should be your guide. If the gift, meal or entertainment seems too lavish, it probably is. A gift, meal or other form of entertainment that is too lavish may give rise to an actual or apparent conflict of interest. Remember, you hold a special position of trust at TeamStaff. You should not be influenced in any way by gifts or other offers - from internal or external sources.

Under no circumstances should you solicit or request gifts, meals, favors or services. Additionally, you should not accept anything if it will obligate you, make you feel obligated or may be construed to obligate you to do business with the giver. You should also never accept gifts of cash or securities. If you are in doubt as to whether a particular gift is appropriate, seek guidance from your manager or the Corporate General Counsel.

CONFIDENTIAL INFORMATION

TeamStaff has expended substantial resources in developing and protecting confidential business information. This sort of information includes, but is not limited to, customer and supplier lists, pricing models and materials, marketing strategies, non-public financial data and other sensitive information to which you may help develop or be provided access while you are a TeamStaff employee. You should take reasonable and appropriate security measures to protect TeamStaff's confidential information.

As one of TeamStaff's principal executive, financial or accounting personnel, you will have special access to TeamStaff's confidential business and financial information. This may include non-public growth and acquisition strategies, trend reports and analyses, pro-forma financial statements and other financial information in draft or preliminary form. You should never disclose this information to individuals outside the Company and you should caution individuals within the Company to whom you provide such information to carefully maintain its confidentiality and prevent its disclosure.

Your responsibility to preserve the confidentiality of TeamStaff's proprietary business information continues even after the termination of your employment with TeamStaff.

OUR RESPONSIBILITIES TO OUR SHAREHOLDERS

INSIDER TRADING

TeamStaff is a publicly traded company, traded on the NASDAQ National Market under the symbol "TSTF." The market price of our shares is based on the public's knowledge of our Company. It is against the law for TeamStaff employees to buy or sell TeamStaff stock based on material, non-public ("inside") information. To do so provides you with an unfair advantage. Remember, because of your position with the company, you have and will continue to have access to a significant amount of inside information. Additionally, it is illegal for you to provide "tips" about inside information to those outside the Company so that they may trade in TeamStaff stock. Simply stated, material, non-public information is not to be used for personal gain, and you should not trade in TeamStaff stock when you possess such information. If you have any question regarding whether it is appropriate to engage in any transaction, contact the Corporate General Counsel.

FINANCIAL AND OTHER REPORTING

TeamStaff has a responsibility to maintain complete, accurate and reliable records of our business and must meet the disclosure requirements imposed by the United States Securities and Exchange Commission and by NASDAQ. You have a special role in the preparation of these reports. To satisfy these requirements TeamStaff has implemented procedures to ensure that only proper transactions are entered into by the Company, that such transactions have proper management approval, that such transactions are properly accounted for in the books and records of the Company and that the reports and financial statements of the Company fairly and accurately reflect such transactions. You should familiarize yourself with these policies, accounting controls, procedures and records and must comply with these requirements. Indeed, you should continually work to identify areas for improvement in our internal controls and procedures for financial reporting. You have a special responsibility for implementing any improvements that are deemed warranted. Ultimately, TeamStaff's principal executive, finance and accounting personnel bear significant responsibility for the accuracy and timeliness of disclosures in reports and documents TeamStaff's files with or submits to the Securities and Exchange Commission and in other public communications.

Additionally, TeamStaff has established a Disclosure Committee. The Disclosure Committee is (or certain of its members are), among other things, charged with reviewing TeamStaff's periodic reports and press releases. It is an especial responsibility of the Committee to ensure that it has reviewed and disseminated all material information about the Company that, by law, should be disseminated. You may be asked to serve on this Committee or to review certain materials in connection with the Committee's responsibilities. When you are asked to do so, you must do so faithfully and in accordance with the Committee's Charter. You also should report to the Committee such information that the Committee needs to carry out its role and duties.

Our Responsibilities Under The Law

COMPLIANCE WITH APPLICABLE STATUTES, RULES AND REGULATIONS

TeamStaff is required to comply with various statutes, rules and regulations. These range from the federal securities laws, including, without limitation, the Sarbanes-Oxley Act of 2002, to the rules of the NASDAQ securities exchange. You must comply with, and assist TeamStaff with compliance with, all applicable statutes, rules and regulations. If you have any questions about applicable statutes, rules and regulations and the conduct required of you, you should speak to your manager or the Corporate General Counsel.

EXHIBIT 21.0

TEAMSTAFF, INC. SUBSIDIARIES OF REGISTRANT

DSI Staff ConnXions-Northeast, Inc.

DSI Staff ConnXions-Southwest, Inc.

TeamStaff Rx, Inc.

TeamStaff Solutions, Inc.

TeamStaff I, Inc.

TeamStaff II, Inc.

TeamStaff III, Inc.

TeamStaff IV, Inc.

TeamStaff V, Inc.

TeamStaff VI, Inc.

TeamStaff VIII, Inc.

TeamStaff IX, Inc.

TeamStaff Insurance Services, Inc.

Employer Support Services, Inc.

Digital Insurance Services, Inc.

HR2, Inc.

BrightLane.com, Inc.

EXHIBIT 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report dated December 1, 2003 included in this Form 10-K for year ended September 30, 2003, into TeamStaff, Inc.'s previously filed Registration Statements on Form S-3 File Nos. 33-85526, 33-70928, 33-91700, 33-09313, 333-74478 and Form S-8 File No. 333-73426.

Lazar Levine and Felix LLP

New York, NY
December 1, 2003

EXHIBIT 31.1

CERTIFICATIONS

I, T. Kent Smith, certify that:

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

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

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

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

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

b) 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 our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect the registrant's internal control over financial reporting; and

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

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

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

Date: December 22, 2003

/s/ T. Kent Smith

T. Kent Smith
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATIONS

I, Rick J. Filippelli, certify that:

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

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

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

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

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

b) 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 our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect the registrant's internal control over financial reporting; and

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

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

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

Date: December 22, 2003

/s/ Rick J. Filippelli

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

EXHIBIT 32.1

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

In connection with the Fiscal Year End Report of TeamStaff, Inc (the Company) on Form 10-K for the period ending September 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, being, T. Kent Smith, Chief Executive Officer of the Company, and Rick J. Filippelli, Chief Financial Officer of the Company, respectfully, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Dated: December 22, 2003

/s/ T. Kent Smith	/s/ Rick J. Filippelli
Chief Executive Officer	Chief Financial Officer