

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended March 31, 2006

**OR**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 0-18492

TEAMSTAFF, INC.

(Exact name of registrant as specified in its charter)

NEW JERSEY  
(State or other jurisdiction of  
incorporation or organization)

22-1899798  
(I.R.S. Employer  
Identification No.)

300 ATRIUM DRIVE,  
SOMERSET, NEW JERSEY  
(Address of principal executive offices)

08873  
(Zip Code)

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

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

Yes  No

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

Yes  No

19,278,270 shares of Common Stock, par value \$.001 per share, were outstanding as of March 31, 2006 and 19,278,270 shares of Common Stock, par value \$.001 per share, were outstanding as of May 11, 2006.

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**TEAMSTAFF, INC. AND SUBSIDIARIES**  
**FORM 10-Q**  
**March 31, 2006**

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**TEAMSTAFF, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**(AMOUNTS IN THOUSANDS)**  
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	March 31, 2006 (unaudited)	September 30, 2005
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 845	\$ 1,304
Accounts receivable, net of allowance for doubtful accounts of \$128 and \$41 at March 31, 2006 and September 30, 2005, respectively	9,876	9,470
Deferred tax asset	717	634
Prepaid workers' compensation	1,076	1,461
Other current assets	1,580	1,155
Total current assets	<u>14,094</u>	<u>14,024</u>
<b>EQUIPMENT AND IMPROVEMENTS:</b>		
Furniture and equipment	3,416	3,360
Computer equipment	533	516
Computer software	1,250	1,250
Leasehold improvements	177	177
	<u>5,376</u>	<u>5,303</u>
Less accumulated depreciation and amortization	<u>(4,263)</u>	<u>(4,037)</u>
Equipment and improvements, net	1,113	1,266
DEFERRED TAX ASSET, net of current portion	17,947	17,848
TRADENAME	4,199	4,199
GOODWILL	12,278	10,281
<b>OTHER ASSETS:</b>		

Prepaid workers' compensation, net of current portion	350	2,200
Other assets	205	236
Total other assets	555	2,436
<b>TOTAL ASSETS</b>	<b>\$ 50,186</b>	<b>\$ 50,054</b>

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

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**TEAMSTAFF, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)**  
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	March 31, 2006 (unaudited)	September 30, 2005
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Bank line of credit	\$ 4,021	\$ 4,006
Notes payable	1,661	1,543
Current portion of capital lease obligations	124	120
Accrued workers' compensation	—	2,050
Accrued payroll	1,599	1,512
Accrued pension liability	210	294
Accrued acquisition earn out	2,000	—
Accounts payable	2,252	1,537
Accrued expenses and other current liabilities	1,812	1,960
Total current liabilities	13,679	13,022
CAPITAL LEASE OBLIGATIONS, net of current portion	161	220
NOTES PAYABLE, net of current portion	1,500	1,500
ACCRUED PENSION LIABILITY, net of current portion	449	578
LIABILITIES FROM DISCONTINUED OPERATIONS	254	422
Total liabilities	16,043	15,742
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred stock, \$.10 par value; authorized 5,000 shares; 0 issued and outstanding	—	—
Common stock, \$.001 par value; authorized 40,000 shares; issued 19,285 at March 31, 2006 and September 30, 2005; outstanding 19,278 at March 31, 2006 and September 30, 2005	19	19
Additional paid-in capital	68,626	68,615
Accumulated deficit	(34,370)	(34,140)
Accumulated comprehensive losses	(108)	(158)
Treasury stock, 7 shares at cost at March 31, 2006 and September 30, 2005	(24)	(24)
Total shareholders' equity	34,143	34,312
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 50,186</b>	<b>\$ 50,054</b>

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

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

	For the three months ended March 31,	
	2006	2005
REVENUES	\$ 19,676	\$ 10,899
DIRECT EXPENSES	15,818	8,273
Gross profit	3,858	2,626
OPERATING EXPENSES	3,882	3,429
DEPRECIATION AND AMORTIZATION	123	184
Loss from operations	(147)	(987)
OTHER INCOME (EXPENSE):		
Interest income	8	15
Interest expense	(194)	(12)
Other income	38	37
	(148)	40
Loss from continuing operations before tax	(295)	(947)
INCOME TAX BENEFIT	105	362
Loss from continuing operations	(190)	(585)
LOSS FROM DISCONTINUED OPERATIONS:		
Loss from operations, net of tax benefit of \$14 and \$23 for quarters ended March 31, 2006 and 2005, respectively	(22)	(36)
Net loss	(212)	(621)
OTHER COMPREHENSIVE INCOME (LOSS):		
Minimum pension liability adjustment, net of tax	5	30
COMPREHENSIVE INCOME (LOSS)	\$ (207)	\$ (591)
LOSS PER SHARE – BASIC AND DILUTED		
Loss from continuing operations	\$ (0.01)	\$ (0.03)
Loss from discontinued operations	(0.00)	(0.00)
Net loss	\$ (0.01)	\$ (0.03)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING – BASIC	19,278	18,106
WEIGHTED AVERAGE NUMBER OF COMMON SHARES AND EQUIVALENTS OUTSTANDING – DILUTED	19,278	18,106

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

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

	For the six months ended March 31,	
	2006	2005
REVENUES	\$ 40,559	\$ 21,100
DIRECT EXPENSES	32,390	15,885
Gross profit	8,169	5,215
OPERATING EXPENSES	7,934	6,563
DEPRECIATION AND AMORTIZATION	245	332
Loss from operations	(10)	(1,680)
OTHER INCOME (EXPENSE):		
Interest income	11	35
Interest expense	(371)	(32)
Other income	77	97
	(283)	100
Loss from continuing operations before tax	(293)	(1,580)
INCOME TAX BENEFIT	104	601
Loss from continuing operations	(189)	(979)
LOSS FROM DISCONTINUED OPERATIONS:		
Loss from operations, net of tax benefit of \$26 and \$138 for six months ended March 31, 2006 and 2005, respectively	(41)	(222)

Income from disposal, net of tax benefit of \$0 for six months ended March 31, 2005	—	1
	(41)	(221)
Net loss	(230)	(1,200)
OTHER COMPREHENSIVE INCOME (LOSS):		
Minimum pension liability adjustment, net of tax	50	88
COMPREHENSIVE INCOME (LOSS)	\$ (180)	\$ (1,112)
LOSS PER SHARE – BASIC AND DILUTED		
Loss from continuing operations	\$ (0.01)	\$ (0.06)
Loss from discontinued operations	(0.00)	(0.01)
Net loss	\$ (0.01)	\$ (0.07)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES		
OUTSTANDING – BASIC	19,278	17,567
WEIGHTED AVERAGE NUMBER OF COMMON SHARES AND		
EQUIVALENTS OUTSTANDING – DILUTED	19,278	17,567

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

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**TEAMSTAFF, INC. AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(AMOUNTS IN THOUSANDS)**  
**(Page 1 of 2)**

	For the six months ended	
	March 31,	
	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss from continuing operations	\$ (189)	\$ (979)
Adjustments to reconcile net loss to net cash (used in) operating activities, net of acquired businesses:		
Deferred income taxes	(182)	(693)
Depreciation and amortization	245	332
Compensation expense related to director stock option grants	10	—
Provision for doubtful accounts	79	15
Changes in operating assets and liabilities, net of acquired businesses:		
Decrease in restricted cash	—	1,800
(Increase) in accounts receivable	(485)	(1,845)
Decrease in other current assets	357	85
Decrease in other assets	1,878	185
(Decrease) increase in accounts payable, accrued payroll, accrued expenses and other current liabilities	(1,409)	740
(Decrease) in pension liability	(213)	(310)
Change in net operating assets resulting from disposal of discontinued operations	(209)	(485)
Net cash (used in) operating activities	(118)	(1,155)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of equipment, leasehold improvements and software	(85)	(47)
Payment for acquisition of RS Staffing Services, net of cash acquired	3	—
Payment for acquisition of Nursing Innovations	—	(1,865)
Net cash (used in) investing activities	(82)	(1,912)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Borrowings on revolving line of credit	44,925	—
Payments on revolving line of credit	(44,910)	—
Principal payments on notes payable	(278)	—
Repayments on capital leases obligations	(46)	(102)
Net proceeds from issuance of common stock, net of expense	—	3,954
Net comprehensive income on pension	50	88
Net cash (used in) provided by financing activities	(259)	3,940
Net (decrease) increase in cash and cash equivalents	(459)	873
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>1,304</b>	<b>3060</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 845</b>	<b>\$ 3,933</b>

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

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**TEAMSTAFF, INC. AND SUBSIDIARIES**  
**UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(AMOUNTS IN THOUSANDS)**  
**(Page 2 of 2)**

	For the six months ended	
	March 31,	
	2006	2005
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid during the period for-		
Interest	\$ 296	\$ 32
Income taxes	\$ 84	\$ 73

**SUPPLEMENTAL DISCLOSURE OF NON CASH FINANCING ACTIVITY:**

The Company recorded \$396,000 in notes payable related to the funding of the RS Staffing workers' compensation insurance policy renewal during the six months ended March 31, 2006.

The Company recorded \$5,000 in capital leases during the six months ended March 31, 2006.

The Company recorded \$2,000,000 in accrued earn-outs related to the RS Staffing acquisition during the six months ended March 31, 2006.

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

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**TEAMSTAFF, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**March 31, 2006**  
**(Unaudited)**

**(1) ORGANIZATION AND BUSINESS:**

TeamStaff, Inc., a New Jersey corporation ("TeamStaff" or the "Company"), was founded in 1969 as a payroll service company and has evolved into a national provider of payroll and temporary and permanent medical and administrative staffing services. TeamStaff's corporate headquarters is in Somerset, New Jersey. TeamStaff has offices located in Clearwater, Florida, Memphis, Tennessee, Monroe, Georgia and Atlanta, Georgia.

When we use the term "TeamStaff," or the "Company" we mean TeamStaff and its subsidiaries. Currently, we operate only through the parent corporation, TeamStaff, Inc. (including its DSI Payroll Services division), and our TeamStaff Rx, Inc. (including its Nursing Innovations division) and RS Staffing Services, Inc. wholly-owned subsidiaries. TeamStaff's other wholly-owned subsidiaries include DSI Staff ConnXions Northeast, Inc., DSI Staff ConnXions Southwest, Inc., TeamStaff Solutions, Inc., TeamStaff I, Inc., TeamStaff II, Inc., TeamStaff III, Inc., TeamStaff IV, Inc., TeamStaff 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. As a result of the sale of our PEO business in fiscal year 2004, most of these subsidiaries are not actively operating.

TeamStaff provides specialized medical, nursing and administrative staffing and payroll administration services. TeamStaff provides allied healthcare and nursing professionals and administrative personnel through three staffing units. The Company's TeamStaff Rx subsidiary operates throughout the United States and specializes in providing allied medical employees and nurses, especially "travel" staff (typically on a thirteen-week assignment basis). Allied medical staff includes MRI technicians, mammographers, dosimetrists, ultrasound staff and physicists. TeamStaff Rx places temporary employees for over 250 clients. TeamStaff Rx's Nursing Innovations unit provides travel nursing, per diem nursing, temporary-to-permanent nursing and permanent nursing placement services. Nursing Innovations places temporary employees for over 85 clients. The Company's RS Staffing subsidiary specializes in providing medical and office administration/technical professionals through nationwide Schedule contracts with both the General Services Administration and Veterans Affairs. RS Staffing places temporary employees at over 75 facilities.

Through its DSI Payroll Services division, TeamStaff provides customized payroll management and tax services, primarily to the construction industry. DSI's service offerings include payroll check processing via web, phone or fax, federal and state quarterly and year-end tax compliance reports, W-2 processing and financial management reports, including certified payroll reports and custom software interfaces. DSI processes payrolls for over 700 clients that have more than 30,000 employees.

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.

#### **Basis of Presentation:**

The consolidated financial statements included herein have been prepared by TeamStaff, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. TeamStaff believes that the disclosures are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in TeamStaff's latest annual report on Form 10-K. This financial information reflects, in the opinion of management, all

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adjustments necessary (consisting only of normal recurring adjustments) to present fairly the results for the interim periods. The results of operations for such interim periods are not necessarily indicative of the results for the full year.

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

Certain prior period amounts have been reclassified to conform to current year presentation.

#### **(2) SIGNIFICANT ACCOUNTING POLICIES:**

##### **Revenue Recognition**

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

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

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 include salaries and supplies associated with the processing of the payroll service.

##### **Stock-Based Compensation**

The Company's 2000 Employee Stock Option Plan (the "2000 Plan"), which is shareholder approved, permits the grant of options to purchase up to 1,714,286 shares of common stock to all employees as stock compensation. All stock options under the 2000 Plan are granted at the fair market value of the common stock at the grant date. Employee stock options vest ratably over a three year period and expire 5 years from the grant date.

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

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(revised 2004), Share-Based Payment ("FAS 123(R)"), which replaces FAS No. 123, Accounting for Stock-Based Compensation, and supersedes Accounting Principles Board Opinion ("APB") No. 25, Accounting for Stock Issued to Employees, and related interpretations. FAS 123 (R) requires compensation costs related to share-based payment transactions, including employee stock options, to be recognized in the financial statements. In addition, the Company adheres to the guidance set forth within Securities and Exchange Commission ("SEC") Staff Accounting Bulletin ("SAB") No. 107, which provides the Staff's views regarding the interaction between SFAS No. 123(R) and certain SEC rules and regulations and provides interpretations with respect to the valuation of share-based payments for public companies.

Prior to October 1, 2005, the Company accounted for similar transactions in accordance with APB No. 25 which employed the intrinsic value method of measuring compensation cost. Accordingly, compensation expense was not recognized for fixed stock options if the exercise price of the option equaled or exceeded the fair value of the underlying stock at the grant date.

While FAS No. 123 encouraged recognition of the fair value of all stock-based awards on the date of grant as expense over the vesting period, companies were permitted to continue to apply the intrinsic value-based method of accounting prescribed by APB No. 25 and disclose certain pro-forma amounts as if the fair value approach of SFAS No. 123 had been applied. In December 2002, FAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure, an amendment of SFAS No. 123, was issued, which, in addition to providing alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation, required more prominent pro-forma disclosures in both the annual and interim financial statements. The Company complied with these disclosure requirements for all applicable periods prior to October 1, 2005.

In adopting FAS 123(R), the Company applied the modified prospective approach to transition. Under the modified prospective approach, the provisions of FAS 123 (R) are to be applied to new awards and to awards modified, repurchased, or cancelled after the required effective date. Additionally, compensation cost for the portion of awards for which the requisite service has not been rendered that are outstanding as of the required effective date shall be recognized as the requisite service is rendered on or after the required effective date. The compensation cost for that portion of awards shall be based on the grant-date fair value of those awards as calculated for either recognition or pro-forma disclosures under FAS 123.

As a result of the adoption of FAS 123 (R), the Company's results for the three and six month period ended March 31, 2006 include share-based compensation expense totaling approximately \$5,000 and \$10,000, respectively. Such amounts have been included in the Consolidated Statements of Operations within operating expenses. The Company recognized related tax benefits associated with its share-based compensation arrangements totaling approximately \$2,000 and \$4,000, respectively, for the three and six month period ended March 31, 2006.

Stock option compensation expense in 2006 is the estimated fair value of options granted amortized on a straight-line basis over the requisite service period for entire portion of the award.

During the three and six months ended March 31, 2006, TeamStaff did not grant any options, no options expired or were cancelled unexercised and no options were exercised. There were 1,318,000 options outstanding as of March 31, 2006. During the quarter ended March 31, 2005, TeamStaff granted 105,000 options at an average price of \$1.73 per share, 4,742 options expired or were cancelled unexercised, and no options were exercised. During the six months ended March 31, 2005, TeamStaff granted 285,000 options at an average price of \$1.94 per share, 91,941 options expired or were cancelled unexercised, and no options were exercised. There were 1,420,000 options outstanding as of March 31, 2005.

The weighted average estimated fair value of stock options granted in the six months ended March 31, 2005 was \$0.94. The fair value of options at the date of grant was estimated using the Black-Scholes option pricing model. During 2006, the Company took into consideration guidance under SFAS 123R and SEC Staff Accounting Bulletin No. 107 (SAB 107) when reviewing and updating assumptions. The expected volatility is based upon historical volatility of our stock and other contributing factors.

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The expected term is based upon observation of actual time elapsed between date of grant and exercise of options for all employees. Previously such assumptions were determined based on historical data.

The assumptions made in calculating the fair values of options are as follows:



Expected term (in years)	4	4
Expected volatility	51.1-51.2%	43.8-54.4%
Expected dividend yield	0%	0%
Risk-free interest rate	3.72-4.26%	3.37-4.26%

The following table addresses the additional disclosure requirements of 123(R) in the period of adoption. The table illustrates the effect on net income and earnings per share as if the fair value recognition provisions of FAS No. 123 had been applied to all outstanding and unvested awards in the prior year comparable period.

(Amounts in thousands, except per share data)	Three Months Ended March 31, 2005	Six Months Ended March 31, 2005
Net loss, as reported	\$ (621)	\$ (1,200)
Add: Total stock-based employee compensation expense included in reported net income, net of related tax effects	—	—
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(76)	(140)
Pro forma net loss	\$ (697)	\$ (1,340)
Loss per share:		
Basic and diluted-as reported	\$ (0.03)	\$ (0.07)
Basic and diluted-pro forma	\$ (0.04)	\$ (0.08)

	Number Of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding, December 31, 2005	1,318,000	\$ 3.58		
Granted	—			
Exercised	—			
Cancelled	—			
Options outstanding, March 31, 2006	1,318,000	\$ 3.58	3.0	\$ 0
Options exercisable, March 31, 2006	1,283,000	\$ 3.56	2.8	\$ 0

### Earnings Per Share

Basic earnings per share ("Basic EPS") 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 ("Diluted EPS") 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.

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

(Amounts in thousands)	Three Months Ended March 31,		Six Months Ended March 31,	
	2006	2005	2006	2005
Weighted average number of common shares outstanding-basic	19,278	18,106	19,278	17,567
Incremental shares for assumed conversion of stock options/warrants	—	—	—	—
Weighted average number of common shares outstanding-diluted	19,278	18,106	19,278	17,567

Stock options and warrants outstanding at March 31, 2006 to purchase 1,932,000 shares of common stock and at March 31, 2005 to purchase 2,044,000 shares of common stock were not included in the computation of diluted earnings per share as they were antidilutive.

### Income Taxes

TeamStaff has recorded a deferred tax asset of \$18.7 million at March 31, 2006 and \$18.5 million at September 30, 2005. 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. Management believes TeamStaff's operations can generate sufficient taxable income to realize this deferred tax asset as a result of historical profitability and its ability to generate operating income in the future. The acquisitions of RS Staffing and Nursing Innovations, two historically profitable companies, coupled with an

improving business climate for temporary medical staffing will help drive TeamStaff's return to profitability. Management believes it will generate enough future income to utilize the carrying value of its deferred tax asset.

### Accumulated Comprehensive Loss and Minimum Pension Liability Adjustment

A minimum pension liability adjustment is required when the actuarial present value of accumulated benefit obligation exceeds the plan assets and accrued pension liabilities. The minimum pension liability adjustment, net of income taxes, is recorded as a component of "Accumulated comprehensive income" on the balance sheet and is reflected in Statement of Comprehensive Income as "Minimum pension liability adjustment, net of tax". The Company used a discount rate of 3.0% each to calculate the projected benefit obligation and the periodic benefit cost calculation for the three and six months ended March 31, 2006. The Company recorded a gain from such adjustment, net of tax of \$5,000 and \$30,000 for the three months ended March 31, 2006 and 2005, respectively, and \$50,000 and \$88,000 for the six months ended March 31, 2006 and 2005, respectively. At March 31, 2006 and September 30, 2005, accumulated comprehensive loss on the balance sheet reflects the cumulative balance due to the minimum pension liability adjustment.

### (3) BUSINESS COMBINATIONS:

#### Acquisition of RS Staffing Services, Inc.:

On June 8, 2005 TeamStaff, Inc. completed its acquisition of RS Staffing Services, Inc., a privately held Georgia corporation, pursuant to the terms of a Stock Purchase Agreement dated as of May 26, 2005. RS Staffing, headquartered in Monroe, GA, specializes in providing medical and office administration/technical professionals through nationwide Schedule contracts with both the General Services Administration ("GSA") and Veterans Affairs ("VA"). Closing of the transaction was completed for accounting purposes as of June 4, 2005. TeamStaff acquired all of the capital stock of RS Staffing for a purchase price of \$8 million consisting of \$3.25 million in cash, \$3 million in a 2-year note, and \$1.75 million in TeamStaff common stock (1,206,896 shares). The shares are restricted shares and can only be sold in accordance with the provisions of Rule 144 of the Securities Act of 1933. The

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Sellers guaranteed a minimum net worth of \$1.4 million and any amounts above or below this amount after a finalized accounting at one year post acquisition, are subject to a purchase price adjustment. In addition, there is a one-year earn out of up to \$2.0 million based upon the achievement of specified performance targets for the business. The Company recorded an earn out liability of \$2.0 million during the quarter ended March 31, 2006, in anticipation of these targets being achieved. Principals of RS Staffing, namely Roger Staggs and Barry Durham, initially continued as management of RS pursuant to employment agreements with each of them. Barry Durham resigned his position effective as of December, 2005. The acquisition agreement also provided for mutual indemnification for breaches of representations and warranties. Further, the note issued by TeamStaff as part of the purchase price bears interest at 5% per annum, is payable one half in one year and the remainder in two years, and is secured by a lien on certain assets of the business, subordinate to any liens granted in connection with financing for the transaction. In connection with the acquisition, TeamStaff obtained financing from PNC Bank, National Association.

The following table summarizes the revised estimated fair values of the assets acquired and liabilities assumed:

(Amounts in thousands)	
Current assets	\$ 5,865
Property, plant, and equipment	204
Goodwill	8,887
Other assets	75
Total assets acquired	15,031
Current liabilities	4,680
Long term liabilities	39
Total liabilities assumed	4,719
Net assets acquired	\$ 10,312

Included in Goodwill is \$315,000 of expenses directly related to the acquisition.

#### Acquisition of Certain Assets of Nursing Innovations, Inc.:

On November 14, 2004, TeamStaff's medical staffing subsidiary, TeamStaff Rx, Inc. acquired the assets of the staffing business of Nursing Innovations, Inc., a Memphis, Tennessee-based provider of travel and per diem nurses. The terms of the agreement provided for TeamStaff Rx to acquire certain assets from Nursing Innovations and its primary shareholder. The combined purchase price was approximately \$1.8 million, of which \$180,000 was held in an escrow account for a period of one year to provide security for the sellers' indemnification obligations. The purchase price was subject to downward adjustment based upon the percentage of former Nursing Innovations business that successfully transferred to TeamStaff Rx. It was determined that no additional purchase price adjustment was due after the first year and on November 18, 2005, we authorized the release of the \$180,000 of funds held in escrow to the sellers. In addition, there are certain deferred purchase price provisions which may increase the total purchase price based upon the performance of the former Nursing

Innovations business during the two years following closing of the transaction. It was determined that no additional purchase price was due for year one of the two year earn-out period.

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The following table summarizes the estimated fair values of the assets acquired and liabilities assumed:

(Amounts in thousands)	
Property, plant, and equipment	\$ 185
Goodwill	1,681
Total assets acquired	1,866
Total liabilities assumed	—
Net assets acquired	\$ 1,866

Included in Goodwill is \$66,000 of expenses directly related to the acquisition.

The following unaudited pro forma information presents a summary of consolidated financial results of operations of the Company and acquired companies as if the acquisitions had occurred on October 1, 2004, the beginning of the earliest period presented. The unaudited pro forma results are not necessarily indicative of what would have actually occurred had the acquisitions been in effect for the periods presented.

(Amounts in thousands, except per share data)	Three Months Ended March 31, 2005	Six Months Ended March 31, 2005
Revenues	\$ 20,828	\$ 45,539
Net loss	\$ (364)	\$ (764)
Earnings per share – basic and diluted	\$ (0.02)	\$ (0.04)

The number of common shares outstanding used to calculate pro forma earnings per share have been adjusted to include 2,392,000 shares issued as the source of financing for the Nursing Innovations acquisition and 1,206,896 shares issued as part of the RS Staffing Services acquisition, as if these shares had been outstanding as of the earliest period presented.

This table does not reflect cost savings of approximately \$23,000 for the three months ended March 31, 2005 and \$99,000 for the six months ended March 31, 2005 that would have potentially been eliminated due to cost synergies between the companies as part of the acquisition.

**(4) DISCONTINUED OPERATIONS:**

Effective November 17, 2003, TeamStaff sold certain of the assets of the subsidiaries through which it operated its professional employer organization (“PEO”) business to Gevity HR, Inc. (“Gevity”) for the sum of \$9.5 million in cash, \$2.5 million of which had been placed in escrow.

On April 23, 2004, TeamStaff and Gevity agreed that TeamStaff’s share of the \$2.5 million placed in escrow was \$2.25 million. That amount was released from escrow for TeamStaff’s benefit. When added to the \$7.0 million previously paid by Gevity, the total purchase price paid was \$9.25 million. Concurrently, TeamStaff settled obligations to Gevity related to payroll for TeamStaff’s internal employees under a co-employment arrangement of \$1.2 million, and settled obligations predominantly related to PEO client payments received by TeamStaff during the period following the sale, offset in part by invoices paid by TeamStaff on Gevity’s behalf, totaling \$1.1 million. Additionally, effective May 2, 2004, TeamStaff sold certain of the assets of TeamStaff Solutions, Inc., the subsidiary through which it operated its temporary technical staffing business, to Metro Tech Consulting Services, Inc. for the sum of \$65,000.

There were no revenues for the PEO segment for the three and six months ended March 31, 2006 and 2005.

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The following chart details assets and liabilities from discontinued operations:

(amounts in thousands)	March 31, 2006	September 30, 2005
ASSETS	\$ —	\$ —
LIABILITIES		
Accrued expenses and other current liabilities	\$ 254	\$ 422
Total current liabilities	254	422
Total liabilities	\$ 254	\$ 422

Liability Balances (amounts in thousands)	December 31, 2005 Balance	Expensed This Quarter	Paid This Quarter	March 31, 2006 Balance
Accrued expenses and other current liabilities	\$ 348	\$ 36	\$ (130)	\$ 254
Total	\$ 348	\$ 36	\$ (130)	\$ 254

(5) **COMMITMENT AND CONTINGENCY:**

**New Lease Agreement:**

The Company's Nursing Innovations division renewed its lease on its space located at 6555 Quince Road, Suite 303, Memphis, Tennessee for a one (1) year period beginning January 1, 2006. The total value of the commitment is approximately \$100,000.

**Payroll Taxes:**

TeamStaff has received notices from the IRS claiming taxes, interest and penalties due related to payroll taxes predominantly from its former PEO operations. TeamStaff has also received notices from the IRS reporting overpayments of taxes. Management believes that these notices are predominantly the result of misapplication of payroll tax payments between its legal entities. If not resolved favorably, the Company may incur interest and penalties. Until the sale of certain assets as described in Note 4, TeamStaff operated through 17 subsidiaries, and management believes that the IRS has not correctly identified payments made through certain of the different entities, therefore leading to the notices. To date, TeamStaff has been working with the IRS to resolve these discrepancies and has had certain interest and penalty claims abated. TeamStaff has also received notices from the Social Security Administration claiming variances in wage reporting compared to IRS transcripts. TeamStaff believes the notices from the Social Security Administration are directly related to the IRS notices received. TeamStaff has retained the services of Ernst & Young LLP as a consultant to assist it in resolving certain of these matters with the IRS and Social Security Administration. TeamStaff believes that after the IRS applies all the funds correctly, any significant interest and penalties will be abated; however, there can be no assurance that each of these matters will be resolved favorably.

(6) **WORKERS' COMPENSATION:**

**Prepaid Workers' Compensation:**

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

As part of the Company's discontinued operations, TeamStaff had a workers' compensation program with Zurich American Insurance Company, which originally covered the period from March 22, 2002

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through March 31, 2003, inclusive. The Company subsequently renewed the policy with Zurich for the period from April 1, 2003, through March 31, 2004, inclusive. The renewal program was collateralized by a letter of credit inuring to the benefit of Zurich, and cash held in a trust account by a third party. Effective March 31, 2005, Zurich withdrew the requirement for a letter of credit and \$1.8 million of restricted cash held in the form of a certificate of deposit at SunTrust Bank was released to TeamStaff. 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 are made from the trust. Assets in the trust may be adjusted from time to time based on program experience. In conjunction with the sale of its PEO assets to GevityHR, Inc., TeamStaff requested and received a pro rata cancellation of the policy as of November 17, 2003. On March 3, 2006, Zurich reduced the collateral requirements on outstanding workers' compensation claims and released \$2.25 million in trust account funds back to TeamStaff. TeamStaff estimates that, of the remaining prepaid asset, an additional approximately \$1.0 million in return premiums will be received within the next twelve months. This is reflected on the balance sheet at March 31, 2006 as a current asset.

As of March 31, 2006 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 that may include loss data for claims incurred during prior policy periods. In addition, these reserves are for claims that have not been sufficiently developed due to their relatively young age, and such variables as timing of payments and investment returns thereon are uncertain or unknown, therefore actual results may vary from current estimates. TeamStaff will continue to monitor the development of these reserves, the actual payments made against the claims incurred, the timing of these payments, the interest accumulated in TeamStaff's prepayments and adjust the reserves as deemed appropriate.

**Accrued Workers' Compensation:**

As was previously reported in TeamStaff's Exchange Act filing on Form 8-K, filed on October 20, 2005, the Company settled certain disputed workers' compensation insurance premium and loss claims totaling nearly \$4.4

million for \$2.05 million payable over two (2) years (subject to certain prepayment requirements), and was fully reserved as of the Company's June 30, 2005 balance sheet. The settlement was entered on or about October 10, 2005. In or about January, 2001, TeamStaff purchased from Transportation Insurance Company ("TPIC"), Transcontinental Insurance Company ("TCIC"), Continental Casualty Company ("CCC"), CNA Claimplus, Inc. ("ClaimPlus") and North Rock Insurance Company Limited ("North Rock") (together, the "CNA Entities") a workers' compensation insurance program to provide workers' compensation insurance and claims services for TeamStaff's professional employee operations nationwide (the "Program"). The Program provided TeamStaff with workers' compensation insurance coverage and claims services for all covered claims incurred during the period from January 22, 2001 to January 22, 2002 (the "Initial Policy Term"). TeamStaff secured its obligations under the Program through its February 5, 2001 purchase of an Exposure Buyback Policy numbered EBP 006/001 from North Rock (the "Exposure Buyback Policy"), also covering the period from January 22, 2001 to January 22, 2002. On or around January 22, 2002, TeamStaff purchased from TCIC and RSKCo an extension of the Program (the "Program Extension"). The Program Extension provided TeamStaff with workers' compensation insurance coverage and claims services for all covered claims incurred during the period from January 22, 2002 to March 22, 2002 (the "Extended Policy Term").

TeamStaff contested the CNA Entities' accounting of the amount due and owing under the Program, the Program Extension and the Exposure Buyback Policy, and of the ultimate losses projected to be due from TeamStaff. TeamStaff additionally asserted that the CNA Entities committed certain errors in claims management which unjustifiably increased the losses incurred under the Program and the Program Extension, and inappropriately included certain non-recoverable items in the premium calculations for both the Program and the Program Extension, thereby entitling TeamStaff to a credit against the amounts ultimately due and owing under the Program, the Program Extension and the Exposure Buyback Policy. The CNA Entities maintained that there was due and owing from TeamStaff the sum of \$1,824,975 in premiums, deductibles, claims services fees, losses and allocated

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loss adjustment expenses under the Program and the Program Extension, and \$835,596 in premiums and losses under the Exposure Buyback Policy. The CNA Entities projected that TeamStaff would be liable for an additional \$1,181,301 of losses under the Program and the Program Extension, and an additional \$556,176 of losses under the Exposure Buyback Policy. The aggregate amounts totaled \$4,398,048.

The settlement fully and completely resolved, without litigation, all of the issues addressed above on the material terms described below and in the Agreement, without admitting and, in fact, expressly denying, the allegations and claims each party could have made against the other. Under the settlement, TeamStaff agreed to pay the CNA Entities the sum of \$2,050,000, plus interest at a rate of 6.0%, as follows: (1) \$300,000 upon execution of the Agreement; (2) \$250,000 every 90 days thereafter, plus interest on the unpaid sum at a rate of 6.0% from the date of the preceding payment, for a total of eight (8) payments. TeamStaff made the first \$250,000 payment on or about January 20, 2006. The \$300,000 payment made at execution was in settlement of the outstanding premiums, deductibles, claims services fees, losses and allocated loss adjustment expenses due and owing under the Program, the Program Extension and the Exposure Buyback Policy. The second through eighth payments are in settlement of liabilities that become due and/or may become due under the Program, the Program Extension and the Exposure Buyback Policy, including but not limited to, premiums, deductibles, claims services fees, losses and allocated loss adjustment expenses. It was also agreed that the payment schedule would be accelerated by and in the amount of any and all payments TeamStaff receives from Zurich North American in settlement of the receivable TeamStaff is carrying from its prior years' workers' compensation insurance programs, up and to the then outstanding balance due the CNA Entities.

As a result of the release of \$2.25 million by Zurich on March 3, 2006, TeamStaff satisfied its remaining obligation to CNA under the settlement agreement by paying the remaining settlement amount of \$1.5 million plus accrued interest in full.

**(7) OTHER CURRENT ASSETS:**

Other current assets at March 31, 2006 and September 30, 2005 consist of the following-

(Amounts in thousands)

	March 31, 2006	September 30, 2005
Miscellaneous receivables	\$ 755	\$ 516
Security deposits	161	181
Prepaid insurance	511	283
Miscellaneous prepaid expense	118	126
Other miscellaneous current assets	35	49
	<u>\$ 1,580</u>	<u>\$ 1,155</u>

**(8) ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES:**

Accrued expenses and other current liabilities at March 31, 2006 and September 30, 2005 consist of the following-

(Amounts in thousands)

	March 31, 2006	September 30, 2005
Accrued bonus and commission	\$ 290	\$ 528
Accrued medical insurance and employee benefit expense	290	420
Accrued audit and tax fees	195	222
Accrued subcontracting expense	95	168
Accrued rebates	92	128
Accrued interest expense	142	74
Accrued payroll taxes and workers' compensation	290	74
Accrued occupancy expense	229	34
Accrued professional fees	—	33
Other miscellaneous accrued expenses	189	279
	<u>\$ 1,812</u>	<u>\$ 1,960</u>

**(9) DEBT:**

In connection with the acquisition of RS Staffing Services, Inc. (see Note 3), TeamStaff secured financing with PNC Bank, National Association in the form of a \$7.0 million revolving credit facility. The credit facility was provided by PNC Bank effective on June 8, 2005 to (i) provide for the acquisition of RS Staffing; (ii) refinance an outstanding senior loan facility; and (iii) provide ongoing working capital. Effective February 13, 2006, TeamStaff entered into an amendment to the revolving credit note, increasing the revolving credit facility to \$8.0 million. Revolving credit advances under the credit facility will bear interest at either a PNC Bank internal rate that approximates the Prime Rate plus 25 basis points or LIBOR plus 275 basis points, whichever is higher. The facility has a three-year life and contains term and line of credit borrowing options. The facility is subject to certain restrictive covenants, including minimum EBITDA, and a minimum consolidated debt service coverage ratio. For the three and six month period ended March 31, 2006, TeamStaff was in compliance with these covenants. The facility is subject to acceleration upon non-payment or various other standard default clauses. In addition, we granted PNC a lien and security interest on all of our assets. At March 31, 2006, the outstanding balance of the credit facility was \$4.0 million and there was \$2.3 million of unused availability under the line, based on billed accounts receivable. The average daily outstanding balance since the date of inception on June 8, 2005 through March 31, 2006, was \$4.5 million. From February 10, 2006 through March 31, 2006, \$3.5 million of the outstanding balance bore interest at LIBOR plus 275 basis points at a weighted average interest rate of 7.38%. The weighted average interest rate on advances for the six months ended March 31, 2006, was 7.44% for balances not subject to the LIBOR rates. The LIBOR plus 275 basis points rate effective on March 31, 2006 was 7.47%. The interest rate effective on the remaining outstanding balance as of March 31, 2006 was 8.0%.

In connection with the acquisition of RS Staffing, TeamStaff issued two promissory notes to the former owners of RS Staffing as part of the acquisition price, in the aggregate principal amount of \$3.0 million. The notes bear interest at 5% per annum, and are subordinate to the financing provided by PNC Bank described above. One half of the principal and interest is due on June 8, 2006 and the remaining is due in June 2007.

TeamStaff has several short term notes payable with AI Credit Corp in connection with the financing of various RS Staffing insurance premiums. As of March 31, 2006, the remaining principal balance on these notes was approximately \$161,000. Interest rates range from 6.0% to 6.75% with maturity dates ranging through July 2006.

Notes payable at March 31, 2006 and September 30, 2005 consists of the following-

(Amounts in thousands)

	March 31, 2006	September 31, 2005
Notes payable	\$ 3,161	\$ 3,043
Less- Current portion	(1,661)	(1,543)
Long-term debt	<u>\$ 1,500</u>	<u>\$ 1,500</u>

Maturities of notes payable as of September 30, 2006 are as follows-

(Amounts in thousands)

2007	\$	1,500
Total	\$	<u>1,500</u>

**(10) STOCK WARRANTS:**

During the quarter ended March 31, 2006, no warrants were issued, no warrants expired unexercised and no warrants were exercised. During the six months ended March 31, 2006, no warrants were issued, 10,000 warrants expired unexercised, and no warrants were exercised. There were 614,000 warrants outstanding as of March 31, 2006. During the quarter ended March 31, 2005, no warrants were issued, no warrants expired unexercised and no warrants were exercised. During the six months ended March 31, 2005, TeamStaff granted warrants to purchase 598,000 shares of common stock in conjunction with a private placement stock offering. The cash received from the transaction has been allocated among common stock and warrants based on the relative fair market value of the components. During the six months ended March 31, 2005 no warrants expired unexercised, and no warrants were exercised. There were 624,000 warrants outstanding as of March 31, 2005.

**(11) SUPPLEMENTAL RETIREMENT PLAN:**

Effective October 1, 2000, TeamStaff adopted a non-qualified Supplemental Executive Retirement Plan (SERP) covering certain TeamStaff corporate officers. TeamStaff's former President and Chief Executive Officer and its former Chief Financial Officer were the only SERP participants. No current employees are covered under the SERP. SERP participants also were provided with a split dollar life insurance policy, insuring the life of the participant. Each participant collaterally assigned his policy to TeamStaff to secure repayment of policy premiums. In connection with the change in their employment status, TeamStaff engaged in negotiations with its former President and Chief Executive Officer and the former Chief Financial Officer regarding the payment of certain severance benefits and the satisfaction of TeamStaff's obligations to each of them under the SERP and the split dollar life insurance arrangements.

On December 31, 2003, TeamStaff executed an agreement with its former President and Chief Executive Officer pursuant to which TeamStaff agreed to, among other things, release the collateral assignment of the split dollar life insurance policy as of December 31, 2003 and to accelerate the payment of certain agreed upon payments under the SERP in complete satisfaction of TeamStaff's obligations under the SERP.

TeamStaff entered into a similar agreement with its former Chief Financial Officer effective as of December 30, 2003 in complete satisfaction of TeamStaff's obligations under the SERP. That agreement also provided for the payment of severance and other benefits over time in complete satisfaction of TeamStaff's obligations to its former Chief Financial Officer under his severance agreement effective May 22, 2002.

Cash payments aggregating \$0.2 million have been made to the former President and Chief Executive Officer and the former Chief Financial Officer during the first six months of fiscal 2006.

**Components of Net Periodic Benefit Cost:**

(amounts in thousands)	Three Months Ended March 31,		Six Months Ended March 31,	
	2006	2005	2006	2005
Interest cost	\$ 5	\$ 8	\$ 10	\$ 17
Amortization of net loss	8	16	19	35
Settlement charges	—	35	65	113
Total pension cost	<u>\$ 13</u>	<u>\$ 59</u>	<u>\$ 94</u>	<u>\$ 165</u>

**(12) SEGMENT REPORTING:**

As a part of continuing operations, TeamStaff operates two different lines of business: staffing (principally medical staffing) and payroll services. TeamStaff provides nursing and allied healthcare professionals and operates through three medical staffing units. TeamStaff's RS Staffing subsidiary specializes in providing medical and office administration/technical professionals through nationwide schedule contracts with both the General Services Administration and Veterans Affairs, among other customers. The TeamStaff Rx subsidiary operates throughout the US and specializes in the supply of allied medical employees and nurses, especially "travel" staff (typically 13 week assignments). Allied medical staff includes MRI technicians, mammographers, dosimetrists, ultrasound staff and physicists. TeamStaff's Nursing Innovations unit provides travel nursing, per diem nursing, temporary-to-permanent nursing and permanent nursing placement services. All TeamStaff Rx and Nursing Innovations revenues, and approximately 70% of RS Staffing revenues, are derived from medical staffing.

Through its DSI Payroll Services division, TeamStaff provides customized payroll management and tax services, primarily to the construction industry. DSI's service offerings include payroll check processing via web, phone or fax, federal and state quarterly and year-end tax compliance reports, W-2 processing and financial management

reports, including certified payroll reports and custom software interfaces. DSI processes payrolls for approximately 700 clients that have more than 30,000 employees.

All corporate expenses, interest expense, as well as depreciation on corporate assets and miscellaneous charges, are reflected in a separate unit called Corporate. 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. TeamStaff has no revenue derived from outside the United States.

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The following table represents the financial information for each of TeamStaff's segments:

(In thousands)	Three Months Ended March 31,		Six Months Ended March 31,	
	2006	2005	2006	2005
<b>Staffing Services:</b>				
Revenues:	\$ 18,451	\$ 9,854	\$ 37,877	\$ 18,751
Income before tax:	\$ 673	\$ 390	\$ 1,527	\$ 681
Capital expenditures:	\$ 51	\$ 6	\$ 62	\$ 6
<b>Payroll Services:</b>				
Revenues:	\$ 1,225	\$ 1,045	\$ 2,682	\$ 2,349
Income before tax:	\$ 462	\$ 264	\$ 1,148	\$ 843
Capital expenditures:	\$ 3	\$ 15	\$ 3	\$ 15
<b>Corporate:</b>				
Revenues:	\$ —	\$ —	\$ —	\$ —
Loss before tax:	\$ (1,430)	\$ (1,601)	\$ (2,968)	\$ (3,104)
Capital expenditures:	\$ 14	\$ 1	\$ 20	\$ 26
<b>Consolidated:</b>				
Revenues:	\$ 19,676	\$ 10,899	\$ 40,559	\$ 21,100
Loss before tax:	\$ (295)	\$ (947)	\$ (293)	\$ (1,580)
Capital expenditures:	\$ 68	\$ 22	\$ 85	\$ 47

The following table represents the total assets for each of TeamStaff's segments:

	March 31, 2006	March 31, 2005
Staffing Services	\$ 23,066	\$ 9,043
Payroll Services	\$ 988	\$ 1,011
Corporate	\$ 26,132	\$ 30,672
Consolidated	\$ 50,186	\$ 40,726

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

**Forward Looking and Cautionary Statements**

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



Quarterly Report: our ability to continue to recruit qualified temporary and permanent healthcare professionals and administrative staff at reasonable costs; our ability to retain qualified temporary healthcare professionals and administrative staff for multiple assignments at reasonable costs; our ability to attract and retain sales and operational personnel; our ability to enter into contracts with hospitals, healthcare facility clients, affiliated healthcare networks, physician practice groups and the United States government on terms attractive to us and to secure orders related to those contracts; our ability to demonstrate the value of our services to our healthcare and other facility clients; changes in the timing of hospital, healthcare facility clients', physician practice groups' and U.S. Government orders for and our placement of temporary and permanent healthcare professionals and administrative staff; the general level of patient occupancy at our hospital, healthcare facility clients' and physician practice groups' facilities; the overall level of demand for services offered by temporary and permanent healthcare staffing providers; the ability of our hospital, healthcare facility and physician practice group clients to retain and increase the productivity of their permanent staff; the variation in pricing of the healthcare facility contracts under which we place temporary and permanent healthcare professionals; our ability to successfully implement our strategic growth, acquisition and integration strategies; our ability to successfully integrate completed acquisitions into our current operations; our ability to manage growth effectively; our ability to leverage our cost structure; the performance of our management information and communication systems; the effect of existing or future government legislation and regulation; our ability to grow and operate our business in compliance with these legislation and regulations; the impact of medical malpractice and other claims asserted against us; the disruption or adverse impact to our business as a result of a terrorist attack; our ability to carry out our business strategy; the loss of key officers, and management personnel that could adversely affect our ability to remain competitive; the effect of recognition by us of an impairment to goodwill; other tax and regulatory issues and developments; and the effect of adjustments by us to accruals for self-insured retentions.

Other factors that could cause actual results to differ from those implied by the forward-looking statements in this Quarterly Report on Form 10-Q are set forth in our Annual Report on Form 10-K for the year ended September 30, 2005 and our Current Reports on Form 8-K. We undertake no obligation to update the forward-looking statements in this filing. References in this filing to "TeamStaff" the "Company," "we," "us" and "our" refer to TeamStaff, Inc. and its wholly owned subsidiaries.

### **Critical Accounting Policies and Estimates**

TeamStaff believes the accounting policies below represent its critical accounting policies due to the significance or estimation process involved in each. See Note 2 of TeamStaff's 2005 annual report on

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

### **Revenue Recognition**

As of and for the three and six months ended March 31, 2006, TeamStaff operated two different lines of business from which it derived substantially all of its revenue: temporary and permanent staffing and payroll services.

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

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

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.

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 include salaries and supplies associated with the processing of the payroll service.

### **Workers' Compensation**

#### **Prepaid Workers' Compensation:**

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

As part of the Company's discontinued operations, TeamStaff had a workers' compensation program with Zurich American Insurance Company, which originally covered the period from March 22, 2002 through March 31, 2003, inclusive. The Company subsequently renewed the policy with Zurich for the period from April 1, 2003, through March 31, 2004, inclusive. The renewal program was collateralized by a letter of credit inuring to the benefit of Zurich, and cash held in a trust account by a third party. Effective March 31, 2005, Zurich withdrew the requirement for a letter of credit and \$1.8 million of restricted cash held in the form of a certificate of deposit at SunTrust Bank was released to TeamStaff. 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 are made from the trust. Assets in the trust may be adjusted from time to time based on program experience. In

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conjunction with the sale of its PEO assets to GevityHR, Inc., TeamStaff requested and received a pro rata cancellation of the policy as of November 17, 2003. On March 3, 2006, Zurich reduced the collateral requirements on outstanding workers' compensation claims and released \$2.25 million in trust account funds back to TeamStaff. TeamStaff estimates that, of the remaining prepaid asset, an additional approximately \$1.0 million in return premiums will be received within the next twelve months. This is reflected on the balance sheet at March 31, 2006 as a current asset.

As of March 31, 2006 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 that may include loss data for claims incurred during prior policy periods. In addition, these reserves are for claims that have not been sufficiently developed due to their relatively young age, and such variables as timing of payments and investment returns thereon are uncertain or unknown, therefore actual results may vary from current estimates. TeamStaff will continue to monitor the development of these reserves, the actual payments made against the claims incurred, the timing of these payments, the interest accumulated in TeamStaff's prepayments and adjust the reserves as deemed appropriate.

**Accrued Workers' Compensation:**

As was previously reported in TeamStaff's Exchange Act filing on Form 8-K, filed on October 20, 2005, the Company settled certain disputed workers' compensation insurance premium and loss claims totaling nearly \$4.4 million for \$2.05 million payable over two (2) years (subject to certain prepayment requirements), and was fully reserved as of the Company's June 30, 2005 balance sheet. The settlement was entered on or about October 10, 2005. In or about January, 2001, TeamStaff purchased from Transportation Insurance Company ("TPIC"), Transcontinental Insurance Company ("TCIC"), Continental Casualty Company ("CCC"), CNA Claimplus, Inc. ("ClaimPlus") and North Rock Insurance Company Limited ("North Rock") (together, the "CNA Entities") a workers' compensation insurance program to provide workers' compensation insurance and claims services for TeamStaff's professional employee operations nationwide (the "Program"). The Program provided TeamStaff with workers' compensation insurance coverage and claims services for all covered claims incurred during the period from January 22, 2001 to January 22, 2002 (the "Initial Policy Term"). TeamStaff secured its obligations under the Program through its February 5, 2001 purchase of an Exposure Buyback Policy numbered EBP 006/001 from North Rock (the "Exposure Buyback Policy"), also covering the period from January 22, 2001 to January 22, 2002. On or around January 22, 2002, TeamStaff purchased from TCIC and RSKCo an extension of the Program (the "Program Extension"). The Program Extension provided TeamStaff with workers' compensation insurance coverage and claims services for all covered claims incurred during the period from January 22, 2002 to March 22, 2002 (the "Extended Policy Term").

TeamStaff contested the CNA Entities' accounting of the amount due and owing under the Program, the Program Extension and the Exposure Buyback Policy, and of the ultimate losses projected to be due from TeamStaff. TeamStaff additionally asserted that the CNA Entities committed certain errors in claims management which unjustifiably increased the losses incurred under the Program and the Program Extension, and inappropriately included certain non-recoverable items in the premium calculations for both the Program and the Program Extension, thereby entitling TeamStaff to a credit against the amounts ultimately due and owing under the Program, the Program Extension and the Exposure Buyback Policy. The CNA Entities maintained that there was due and owing from TeamStaff the sum of \$1,824,975 in premiums, deductibles, claims services fees, losses and allocated loss adjustment expenses under the Program and the Program Extension, and \$835,596 in premiums and losses under the Exposure Buyback Policy. The CNA Entities projected that TeamStaff would be liable for an additional \$1,181,301 of losses under the Program and the Program Extension, and an additional \$556,176 of losses under the Exposure Buyback Policy. The aggregate amounts totaled \$4,398,048.

The settlement fully and completely resolved, without litigation, all of the issues addressed above on the material terms described below and in the Agreement, without admitting and, in fact, expressly denying, the allegations and claims each party could have made against the other. Under the

settlement, TeamStaff agreed to pay the CNA Entities the sum of \$2,050,000, plus interest at a rate of 6.0%, as follows: (1) \$300,000 upon execution of the Agreement; (2) \$250,000 every 90 days thereafter, plus interest on the unpaid sum at a rate of 6.0% from the date of the preceding payment, for a total of eight (8) payments. TeamStaff made the first \$250,000 payment on or about January 20, 2006. The \$300,000 payment made at execution was in settlement of the outstanding premiums, deductibles, claims services fees, losses and allocated loss adjustment expenses due and owing under the Program, the Program Extension and the Exposure Buyback Policy. The second through eighth payments are in settlement of liabilities that become due and/or may become due under the Program, the Program Extension and the Exposure Buyback Policy, including but not limited to, premiums, deductibles, claims services fees, losses and allocated loss adjustment expenses. It was also agreed that the payment schedule would be accelerated by and in the amount of any and all payments TeamStaff receives from Zurich North American in settlement of the receivable TeamStaff is carrying from its prior years' workers' compensation insurance programs, up and to the then outstanding balance due the CNA Entities.

As a result of the release of \$2.25 million by Zurich on March 3, 2006, TeamStaff satisfied its remaining obligation to CNA under the settlement agreement by paying the remaining settlement amount of \$1.5 million plus accrued interest in full.

### **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.

### **Results of Continuing Operations**

TeamStaff's revenues for the three months ended March 31, 2006 and 2005 were \$19.7 million and \$10.9 million, respectively, which represents an increase of \$8.8 million, or 80.5%, from second fiscal quarter 2005 to second fiscal quarter 2006. Revenues from staffing services for the three months ended March 31, 2006 and 2005 were \$18.5 million and \$9.9 million, respectively, which represents an increase of \$8.6 million, or 87.3%, from second fiscal quarter 2005 to second fiscal quarter 2006. Revenues for the second fiscal quarter 2006 include \$10.9 million related to the acquisition of RS Staffing Services, a Monroe, Georgia-based provider of medical and office administration/technical professionals effective as of June 4, 2005 (See Note 3 of Notes to Consolidated Financial Statements.) This acquisition helped offset a decrease in the revenues of the allied healthcare and nursing portion of our Staffing Services division from second fiscal quarter 2005 to second fiscal quarter 2006 of \$2.2 million. The Payroll Services division revenues for the three months ended March 31, 2006 and 2005 were \$1.2 million and \$1.0 million, respectively, which represents an increase of \$0.2 million, or 17.2%, from second fiscal quarter 2005 to second fiscal quarter 2006.

TeamStaff's revenues for the six months ended March 31, 2006 and 2005 were \$40.6 million and \$21.1 million, respectively, which represents an increase of \$19.5 million, or 92.2%, from fiscal year 2005 to fiscal year 2006. Revenues from staffing services for the six months ended March 31, 2006 and 2005 were \$37.9 million and \$18.8 million, respectively, which represents an increase of \$19.1 million, or 102.0%, from fiscal year 2005 to fiscal year 2006. Revenues for the six months ended March 31, 2006 include \$5.8 million related to the acquisition of Nursing Innovations, a Memphis, Tennessee-based provider of travel and per diem nurses on November 14, 2004 (See Note 3 of Notes to Consolidated Financial Statements) and \$21.9 million related to the acquisition of RS Staffing Services. Revenues for the six months ended March 31, 2005 include \$5.2 million related to Nursing Innovations from date of acquisition on November 14, 2004 through March 31, 2005. The Payroll Services division revenues for the six months ended March 31, 2006 and 2005 were \$2.7 million and \$2.3 million, respectively, which represents an increase of \$0.3 million, or 14.1%, from fiscal year 2005 to fiscal year 2006.

In the second half of calendar 2005, before the normal seasonal holiday downturn, we saw an increase in demand for our travel nurses as well as an increase in applicants entering the travel segment. This increase, however, was not experienced in our travel allied division as we continued to see hospitals focus on containing cost in this higher priced business segment by placing greater reliance on permanent staff. The second fiscal quarter is traditionally the weakest quarter for both travel allied and nursing, as travelers slowly return to work after the holiday season. The industry also continued to experience sluggish hospital admissions. These conditions were key factors in the 11% sequential quarter revenue decrease in our travel sectors. Despite the decreased revenues in the travel division, we are encouraged by order activity as we continue to expand into more active modalities such as physical and respiratory therapy. Demand is strong in the travel nurse division as we face the challenge of attracting nurses in a supply constrained environment.

Longer term, we believe the demand for temporary medical personnel will increase. Key drivers in our major business segments include an aging population, a strong employment environment and growth in hospital admissions. We believe demand will also increase as more states introduce legislation for mandatory minimum nurse to patient ratios and overtime limitations. The acquisition of Nursing Innovations in the first quarter of last

fiscal year provided TeamStaff with the opportunity to benefit from these industry changes that, we believe, impact our temporary nurse staffing business most significantly. Our acquisition of RS Staffing completed in early June 2005 gives us a strong presence in the government sector and provides us with an opportunity to bid on large contracts. We continue to focus on our sales and marketing efforts throughout the divisions in order to increase our contact with current and prospective clients.

Direct expenses for the three months ended March 31, 2006 and 2005 were \$15.8 million and \$8.3 million, respectively, which represents an increase of \$7.5 million, or 91.2%, from second fiscal quarter 2005 to second fiscal quarter 2006. This increase is a direct result of increased revenues. As a percentage of revenue, direct expenses for the three months ended March 31, 2006 and 2005 were 80.4% and 75.9%, respectively. This increase is primarily a result of a higher volume of teaming partner (subcontractor) costs due to the inclusion of RS Staffing. Teaming is a business practice expected by government entities who prefer their suppliers to provide more of a master vendor service where the supplier looks to outside sources when needed to fill open staffing positions. Direct expenses for the six months ended March 31, 2006 and 2005 were \$32.4 million and \$15.9 million, respectively, which represents an increase of \$16.5 million, or 103.9%, from fiscal year 2005 to fiscal year 2006. As a percentage of revenue, direct expenses for the six months ended March 31, 2006 and 2005 were 79.8% and 75.3%, respectively.

Gross profits for the three months ended March 31, 2006 and 2005 were \$3.9 million and \$2.6 million, respectively, which represents an increase of \$1.2 million, or 46.9%, from second fiscal quarter 2005 to second fiscal quarter 2006. This increase is attributable to the growth by acquisition of our staffing business as well as more prudent expense management and selected price increases in the Payroll Services division. Gross profits, as a percentage of revenue, decreased to 19.6% from 24.1%, for the second fiscal quarter ended March 31, 2006 and 2005, respectively. This decrease is primarily due to the inclusion of RS Staffing in the 2006 revenues and costs related to staffing teaming partners. Gross profits for the six months ended March 31, 2006 and 2005 were \$8.2 million and \$5.2 million, respectively, which represents an increase of \$3.0 million, or 56.6%, from fiscal year 2005 to fiscal year 2006. Gross profits, as a percentage of revenue, decreased to 20.1% in fiscal year 2006 from 24.7% in fiscal year 2005.

Operating expenses for the three months ended March 31, 2006 and 2005 were \$3.9 million and \$3.4 million, respectively, which represents an increase of \$0.5 million, or 13.2%. Included in second quarter 2006 is \$0.8 million in operating expenses related to RS Staffing. Included in second quarter 2005 is \$0.2 million of non-recurring write-off related to TeamStaff's acquisition of BrightLane in 2001. After adjusting for operating expenses due to the acquisition of RS Staffing in second quarter 2006 and the non-recurring write-off in second quarter 2005, expenses decreased 4% from second fiscal quarter 2005 to second fiscal quarter 2006. Operating expenses, as a percentage of revenue, were 19.7% and 31.5%, for the fiscal quarters ended March 31, 2006 and 2005, respectively. Operating expenses for the six months ended March 31, 2006 and 2005 were \$7.9 million and \$6.6 million,

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respectively, which represents an increase of \$1.4 million, or 20.9%. Operating expenses, as a percentage of revenue, were 19.6% and 31.1%, for the six months ended March 31, 2006 and 2005, respectively.

Depreciation and amortization for the three months ended March 31, 2006 and 2005 was approximately \$123,000 and \$184,000, respectively. Depreciation and amortization for the six months ended March 31, 2006 and 2005 was approximately \$245,000 and \$332,000, respectively. Although there was an increase from fiscal year 2005 to fiscal year 2006 due to additional fixed assets acquired as part of the acquisitions of Nursing Innovations and RS Staffing, this increase was offset by a reduction in depreciation expense caused by several asset groups becoming fully depreciated during the prior fiscal year.

Other income, which is primarily comprised of interest income and late fee income, for the three months ended March 31, 2006 and 2005 was approximately \$46,000 and \$52,000, respectively, representing a decrease of \$6,000. Other income for the six months ended March 31, 2006 and 2005 was approximately \$88,000 and \$132,000, respectively, representing a decrease of \$44,000. Late fee income is earned only in the allied healthcare division and the decrease is a result of lower revenues.

Interest expense for the three months ended March 31, 2006 and 2005 was approximately \$194,000 and \$12,000, respectively, representing an increase of \$182,000. Interest expense for the six months ended March 31, 2006 and 2005 was approximately \$371,000 and \$32,000, respectively, representing an increase of \$339,000. These increases are primarily a result of interest expense related to the revolving credit facility effective as of June 8, 2005, as well as interest expense from the \$3.0 million notes payable related to the acquisition of RS Staffing due one half on June 8, 2006 and the remainder on June 8, 2007.

Income tax benefit from continuing operations for the three months ended March 31, 2006 and 2005 was \$0.1 million and \$0.4 million, respectively. Income tax benefit from continuing operations for the six months ended March 31, 2006 and 2005 was \$0.1 million and \$0.6 million, respectively. These tax benefits are a result of losses from operations. Management believes that historical profitability and the acquisitions of RS Staffing and Nursing Innovations, two historically profitable companies, coupled with an improving business climate for temporary staffing, the Company will be able to utilize the recorded deferred tax asset.

Loss from continuing operations for the three months ended March 31, 2006 was \$0.2 million, or \$(0.01) per fully diluted share, as compared to loss from continuing operations for the three months ended March 31, 2005 of \$0.6 million, or \$(0.03) per fully diluted share. Loss from continuing operations for the six months ended March

31, 2006 was \$0.2 million, or \$(0.01) per fully diluted share, as compared to loss from continuing operations for the six months ended March 31, 2005 of \$1.0 million, or \$(0.06) per fully diluted share.

Loss from discontinued operations, net of tax, for the three months ended March 31, 2006 was \$0.02 million, with no impact on earnings per fully diluted share, as compared to loss from discontinued operations, net of tax, for the three months ended March 31, 2005 of \$0.04 million, also with no impact on earnings per fully diluted share. Loss from discontinued operations, net of tax, for the six months ended March 31, 2006 was \$0.04 million, with no impact on earnings per fully diluted share, as compared to loss from discontinued operations, net of tax, for the six months ended March 31, 2005 of \$0.2 million, or \$(0.01) per fully diluted share. In fiscal 2006, the loss was due to previously unbilled legal fees related to the discontinued business unit. In fiscal 2005, the loss was due to previously unbilled legal fees and non-cancelable software licenses related to the discontinued business unit.

Net loss for the three months ended March 31, 2006 was \$0.2 million, or \$(0.01) per fully diluted share, as compared to a net loss of \$0.6 million, or \$(0.03) per fully diluted share, for the three months ended March 31, 2005. Net loss for the six months ended March 31, 2006 was \$0.2 million, or \$(0.01) per fully diluted share, as compared to a net loss of \$1.2 million, or \$(0.07) per fully diluted share, for the six months ended March 31, 2005.

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### **Liquidity and Capital Resources**

Net cash used in operating activities for the six months ended March 31, 2006 was \$0.1 million compared to \$1.2 million for the six months ended March 31, 2005. On March 3, 2006, Zurich reduced the collateral requirements on outstanding workers' compensation claims and released \$2.25 million in trust account funds back to TeamStaff. As a result of this, TeamStaff satisfied its remaining obligation to CNA under the settlement agreement by paying the remaining settlement amount of \$1.5 million plus accrued interest in full. Other uses of cash during the first six months of fiscal 2006 include increased accounts receivable of \$0.5 million due to the increased sales in the RS Staffing division, and decreases in accounts payable, accrued payroll and other accrued expenses. Use of cash during the six months ended March 31, 2005 includes increased accounts receivable of \$1.8 million primarily due to the operations of Nursing Innovations subsequent to its acquisition on November 14, 2004, increased accrued payroll of \$0.7 million, and losses in continuing and discontinued operations, offset by a decrease of \$1.8 million in restricted cash related to the release of the letter of credit requirement from Zurich for TeamStaff's workers' compensation policy.

Cash used in investing activities for the six months ended March 31, 2006 was \$0.1 million compared to \$1.9 million for the six months ended March 31, 2005. Use of cash in the first six months of fiscal 2006 was for the purchase of equipment and leasehold improvements. Use of cash in the first six months of fiscal 2005 was primarily for the purchase of certain of the assets of Nursing Innovations for \$1.9 million.

Cash used in financing activities for the six months ended March 31, 2006 was \$0.3 million compared to cash provided by financing activities of \$3.9 million for the six months ended March 31, 2005. For the first six months of fiscal 2006, this use of cash was primarily for principal payments made on notes payable. Effective June 8, 2005, TeamStaff, Inc. entered into a \$7.0 million revolving credit facility provided by PNC Bank to (i) provide for the acquisition of RS Staffing; (ii) refinance an outstanding senior loan facility; and (iii) provide ongoing working capital. Effective February 13, 2006, TeamStaff entered into an amendment to the revolving credit note, increasing the revolving credit facility to \$8.0 million. Revolving Credit advances bear interest at either the Prime Rate plus 25 basis points or LIBOR plus 275 basis points, whichever is higher. The facility has a three-year life and contains term and line of credit borrowing options. The facility is subject to certain restrictive covenants, including minimum EBITDA and a minimum consolidated debt service coverage ratio. For the period ended March 31, 2006, TeamStaff was in compliance with these covenants. The facility is subject to acceleration upon non-payment or various other standard default clauses. In addition, we granted PNC a lien and security interest on all of our assets. As of March 31, 2006, there was \$4.0 million debt outstanding under the Credit Facility and \$2.3 million of unused availability under the line, based on billed accounts receivable. At March 31, 2006, \$3.5 million of the outstanding balance bore interest at LIBOR plus 275 basis points totaling 7.47%. The interest rate effective on the remaining outstanding balance as of March 31, 2006 was 8.0%.

Availability under the PNC line of credit is directly related to the successful assignment of certain accounts receivable. Certain government accounts of RS Staffing Services are required to execute "Acknowledgements of Assignment." There can be no assurance that every RS Staffing government account will execute the documentation to effectuate the assignment and secure availability. The failure of government third parties to sign the required documentation could result in a decrease in availability under the line of credit.

During the first fiscal quarter of 2005, TeamStaff entered into Securities Purchase Agreements with several accredited investors for the private sale under Section 4(2) of the Securities Act of 1933 and/or Regulation D of securities for an aggregate purchase price of \$4.3 million. TeamStaff received net proceeds of approximately \$4.0 million, after payment of commissions and related offering expenses.

As of March 31, 2006, TeamStaff had unrestricted cash and cash equivalents of \$0.8 million and net accounts receivable of \$9.9 million. TeamStaff also had \$2.3 million of unused availability under the revolving credit facility provided by PNC Bank. As of March 31, 2006, TeamStaff had working capital of \$0.4 million. Management believes its existing cash, liquidity provided by the Company's revolving line of credit and funds generated by operations will be sufficient to support cash needs for at least the next twelve months.

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Obligations  
(Amounts in thousands)

	<b>Payments Due By Period</b>			
	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>4-5 years</b>
Long-term debt (1)	\$ 7,467	\$ 5,806	\$ 1,661	\$ —
Operating leases (2)	2,587	789	1,405	393
Pension liability (3)	659	210	263	186
<b>Total Obligations</b>	<b>\$ 10,713</b>	<b>\$ 6,805</b>	<b>\$ 3,329</b>	<b>\$ 579</b>

- (1) Represents bank line of credit, notes payable related to acquisition of RS Staffing, and capital lease obligations. Bank line of credit has a 3-year life but is classified as short term because it is subject to acceleration upon non-payment or various other standard default clauses.
- (2) Represents lease payments net of sublease income.
- (3) Represents pension liability for the former CEO and former CFO.

**Effects of Inflation**

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

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

TeamStaff does not undertake trading practices in securities or other financial instruments and therefore does not have any material exposure to interest rate risk, foreign currency exchange rate risk, commodity price risk or other similar risks, which might otherwise result from such practices. TeamStaff is not materially subject to fluctuations in foreign exchange rates, commodity prices or other market rates or prices from market sensitive instruments. TeamStaff has a material interest rate risk with respect to our prior workers' compensation programs. In connection with TeamStaff's prior workers' compensation programs, prepayments of future claims were deposited into trust funds for possible future payments of these claims in accordance with the policies. The interest income resulting from these prepayments is for the benefit of TeamStaff, and is used to offset workers' compensation expense. If interest rates in these periods' decrease, TeamStaff's workers' compensation expense would increase because TeamStaff would be entitled to less interest income on the deposited funds. Further, and as discussed elsewhere in this filing, TeamStaff, Inc. has a \$8.0 million revolving credit facility by PNC Bank. Revolving Credit advances bear interest at either the Prime Rate plus 25 basis points or LIBOR plus 275 basis points, whichever is higher. The facility has a three-year life and contains term and line of credit borrowing options. The facility is subject to certain restrictive covenants, including minimum EBITDA and a minimum consolidated debt service coverage ratio. The facility is subject to acceleration upon non-payment or various other standard default clauses. Material increases in the Prime or LIBOR rate could have a material adverse effect on our results of operations, the status of the Revolving Credit Facility as well as interest costs.

**ITEM 4. 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 (who serves as our principal accounting officer), conducted an evaluation of our "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 Rules 13a-14(c)) as of the end of the period (March 31, 2006) ("Evaluation Date") covered by this Quarterly Report on Form 10-Q. Based on their evaluation, our Chief Executive Officer and Chief Financial Officer (who serves as our principal accounting officer) 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 Quarterly Report on Form 10-Q has been made known to them.

[Table of Contents](#)**Changes in Internal Controls:**

There have been no significant changes, including corrective actions with regard to significant deficiencies or material weaknesses, in our internal control over financial reporting during the current quarter ended March 31, 2006, that have materially impacted, or are likely to materially affect the Company's control over financial reporting.

**ITEM 1. 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. TeamStaff also 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 sought 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. In connection with TeamStaff's acquisition of BrightLane, the former shareholders of BrightLane were required to place approximately 150,000 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 per share. 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. In August, 2004, a trial was held on Atomic Fusion's breach of contract claim before a jury. The jury returned a verdict in Atomic Fusion's favor, awarding \$534,246 in damages and \$116,849 in attorney's fees, for a total verdict of \$651,095, including interest and costs. The judgment continues to accrue interest. BrightLane filed a motion for judgment notwithstanding the verdict, which was denied by the court. Atomic Fusion appealed the summary judgment granted in favor of BrightLane on several issues, including Atomic Fusion's fraud cause of action. BrightLane is opposing that appeal, and also filed a motion to dismiss that appeal. Although the Company believes that it has good faith defenses relative to successor liability on this judgment, the Company may seek a negotiated alternative to continuing litigation in the future, if the same is determined to be in the best interests of the Company's shareholders. BrightLane is no longer an operating entity and has minimal assets.

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

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

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

**ITEM 1A. RISK FACTORS**

Refer to the September 30, 2005 Form 10-K.

**ITEM 2. UNREGISTERED SALES OF SECURITIES AND USE OF PROCEEDS**

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 we have repurchased 581,470 shares at an average cost of \$4.18 per share for a total cost of \$2.4 million. No shares were repurchased during the quarter and six months ended March 31, 2006. As of March 31, 2006, TeamStaff retired 574,470 of the 581,470 shares of treasury stock. We do not currently have any plans to repurchase our securities.

The Registrant previously reported the sale of equity securities on Form 8-K dated November 12, 2004. See the description contained in the Form 8-K or also in the notes to financial statements above which are incorporated

by reference to this Item 2.

In connection with the acquisition of RS Staffing Services described above, TeamStaff issued to the shareholders of RS Staffing Services an aggregate of 1,206,896 shares of its Common Stock. The shares are restricted securities and may be sold only pursuant to Rule 144. Teamstaff relied upon the exemption from registration under the Securities Act of 1993 provided by Section 4(2) of the Securities Act in issuing the shares.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On April 27, 2006, subsequent to the balance sheet date, TeamStaff held its Annual Meeting of Shareholders. The record date for shareholders eligible to vote was March 13, 2006. As of the record date there were 19,298,200 shares of common stock issued and outstanding. Voting of the shares of common stock was on a non-cumulative basis. 13,748,673 shares were voted at the Annual Meeting.

The first matter before the shareholders was the election of three persons as Class I directors for a term of three years. The persons nominated for election were Peter Black, Ben Dyer and T. Stephen Johnson. All three 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
Peter Black	13,554,640	194,033	0
Ben Dyer	13,526,296	222,377	0
T. Stephen Johnson	13,487,062	261,611	0

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The second matter voted upon was the TeamStaff, Inc. 2006 Long Term Incentive Plan (the "Plan"). The Plan was approved by the shareholders. The results of the vote were:

Votes Cast For	Votes Cast Against	Abstentions	Non-Votes
4,750,172	824,472	18,927	8,155,102

### ITEM 5. OTHER INFORMATION

On April 27, 2006, subsequent to the balance sheet date, and following the approval of the Company's 2006 Long Term Incentive Plan by the Company's shareholders, the Compensation Committee of the Board of Directors made the following recommendations with respect to awards of restricted stock, which were ratified and approved by the Board. As of and at April 27, 2006, the closing price of TeamStaff Common Stock was \$1.70.

	Shares	Vesting Period	Fair Market Value
T. Kent Smith	60,000	3 years	\$ 102,000
Rick Filippelli	50,000	3 years	\$ 85,000
James D. Houston	30,000	3 years	\$ 51,000
Peter Rosen	20,000	3 years	\$ 34,000
Tim Nieman	20,000	3 years	\$ 34,000
Greg Haygood	20,000	3 years	\$ 34,000
Cheryl Presuto	20,000	3 years	\$ 34,000

Restricted Stock issuances are made through Notice of Restricted Stock Bonus Award under the Company's 2006 Long Term Incentive Plan, and all Grantees must execute a Restricted Stock Agreement. Actual grants are subject to formal and final documentation and execution by the Grantee.

On April 27, 2006, subsequent to the balance sheet date, the Board of Directors of the Company made certain changes to its Committee structures, which resulted in the following Committee compositions:

Audit Committee: Ben Dyer (Chairman and Financial Expert)  
Peter Black  
Karl Dieckmann  
Ron Aldrich

Compensation Committee: Karl Dieckmann (Chairman)  
T. Steven Johnson  
Ron Aldrich

Governance Committee: Ron Aldrich (Chairman)



TeamStaff made the following management hires and changes as of May 1, 2006:

TeamStaff hired Mr. James L. Donahue as its Vice President of Sales and President of the Company's TeamStaff Rx, Inc. subsidiary, effective May 1, 2006. Mr. Donahue will be taking over the duties of Mr. Timothy Nieman, who is joining the Company's RS Staffing Services, Inc. subsidiary, and those of Mr. Barry McDonald, who is no longer employed as President of TeamStaff Rx, Inc. Mr. Donahue is a senior executive responsible for past sales success and growth of business profit units ranging from \$40 million to \$110 million in sales revenue. He was Senior Vice President for Weststaff from 2002 to 2004, where he was promoted from Region Vice President of California to Senior Vice President of the Western Division. Mr. Donahue was also Vice President for Barrett Business Services, Inc. from 2000 to 2002, and President and CEO of NSN/MedFirst HealthCare from 1998 to 1999. From 1994 to 1998, he was Division Vice President and General Manager for Norrell Services, Inc. He previously was a Vice President for Remedy Intelligent Staffing from 1991 to 1994 and President of Temporaries, Inc. from 1982 to 1991. Mr. Donahue was Marketing Program Manager for IBM Corporation where

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he was employed from 1972 to 1982. Mr. Donahue has a BBA in Business from Washburn University. The material terms of Mr. Donahue's employment with the Company are: \$155,000 annualized salary with a target Fiscal Year bonus of up to 40% of annualized salary (based on the attainment of certain operational objectives) at the discretion of the Board of Directors. Mr. Donahue will be considered for participation in the Company's long-term compensation program after his first year of service. Mr. Donahue will also receive standard Company benefits.

TeamStaff hired Mr. Robert P. Traficanti as General Manager of its Nursing Innovations division of TeamStaff Rx, Inc. Mr. Traficanti was previously an owner of, and consultant for, JMS Products, Inc., providing consulting services to the staffing and human resources industries. He was the Eastern Regional Manager for Kelly Healthcare Resources from 2004 to 2005. From 1996 to 2003, Mr. Traficanti was Area Vice President, northeastern division, for Nursefinders, Inc. He also was Manager of the Contract Support Center/HHA Department for Visiting Nurse Service of Rochester, Inc. from 1994 to 1996. Mr. Traficanti was a Branch Manager of General Transportation Services, Inc. from 1992 to 1993. Mr. Traficanti has a MS in Healthcare Systems Administration from Rochester Institute of Technology and a BS in Business Administration from Nazareth College of Rochester. The material terms of Mr. Traficanti's employment with the Company are: \$125,000 annualized salary with a target Fiscal Year bonus of up to 40% of annualized salary (based on the attainment of certain operational objectives) at the discretion of the Board of Directors. Mr. Traficanti will be considered for participation in the Company's long-term compensation program after his first year of service. Mr. Traficanti will also receive standard Company benefits.

Roger Staggs will leave RS Staffing Services Inc. effective June 4, 2006 under the terms of his employment agreement. Tim Nieman will replace Roger Staggs at RS Staffing Services, Inc. Tim Nieman was TeamStaff's Senior Vice President, Sales since April 2005, after performing as President of TeamStaff Rx, Inc. Prior to joining TeamStaff Rx, 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 service 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.

**ITEM 6. EXHIBITS**

(a) Exhibits

- 10.1 TeamStaff, Inc. 2006 Long Term Incentive Plan
- 10.2 Form of Notice of Restricted Stock Bonus Award and Restricted Stock Agreement
- 31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

**SIGNATURES**

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

TEAMSTAFF, INC.

/s/ T. Kent Smith

T. Kent Smith  
President and Chief Executive Officer

/s/ Rick Filippelli

Rick Filippelli  
Vice President, Finance and Chief Financial Officer

Dated: May 11, 2006

**TEAMSTAFF, INC. 2006 LONG-TERM INCENTIVE PLAN**

**Section 1 — Purposes**

The purposes of the TeamStaff, Inc. 2006 Long-Term Incentive Plan (the "Plan") are to encourage selected Employees and Non-Employee Directors of TeamStaff, Inc., a New Jersey corporation (the "Company"), and its Affiliates to acquire a proprietary and vested interest in the growth and performance of the Company, to generate an increased incentive to contribute to the Company's future success and prosperity, thus enhancing the value of the Company for the benefit of shareholders and to enhance the ability of the Company and its Affiliates to attract and retain individuals of exceptional managerial talent upon whom, in large measure, the sustained progress, growth and profitability of the Company depends.

**Section 2 — Definitions**

As used in the Plan, the following terms will have the meanings set forth below:

(a) "Affiliate" means (i) any Person that directly, or through one or more intermediaries, controls, or is controlled by, or is under common control with, the Company or (ii) any entity in which the Company has a significant equity interest, as determined by the Committee.

(b) "Award" means any Option, Stock Appreciation Right, Restricted Stock Award, Performance Share, Performance Unit, dividend equivalent, Other Stock Unit Award or any other right, interest or option relating to Shares or other property granted pursuant to the provisions of this Plan.

(c) "Award Agreement" means any written agreement, contract or other instrument or document evidencing any Award, which may, but need not, be executed or acknowledged by both the Company and the Participant.

(d) "Board" means the Board of Directors of the Company.

(e) "Cause" means, (i) "Cause" as that term is defined in any Individual Agreement to which the Participant is a party, or (ii) if there is no such Individual Agreement or if the Individual Agreement does not define Cause: (A) conviction of the Participant for committing a felony under federal law or the law of the state in which such action occurred, (B) dishonesty in the course of fulfilling the Participant's employment duties, (C) deliberate failure on the part of the Participant to perform his or her employment duties in any material respect as determined by the Board, or (D) prior to a Change in Control, such other events as may be determined by the Committee. Prior to a Change in Control, the Committee will, unless otherwise provided in an Individual Agreement with the Participant, have the sole discretion to determine whether "Cause" exists, and its determination will be final.

(f) "Change in Control" means: (i) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 35% or more of either (A) the then outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (B) the combined voting power of the election of directors (the "Outstanding Company Voting Securities"); provided, however, that the following acquisitions will not constitute a Change of Control: (W) any acquisition directly from the Company (excluding an acquisition by virtue of the exercise of a conversion privilege unless the security being so converted was itself acquired directly from the Company), (X) any acquisition by the Company, (Y) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company or (Z) any acquisition by any corporation pursuant to a reorganization, merger or consolidation, if, following such reorganization, merger or consolidation, the conditions described in clauses (A), (B) and (C) of subsection (iii) of this Section 2(f) are satisfied; or (ii) Individuals who, as of September 30, 2005, constituted the Board (the "Incumbent Board") cease for any reason to constitute at least a majority

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of the Board; provided, however, that any individual becoming a director subsequent to September 30, 2005 whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board will be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or (iii) Approval by the shareholders of the Company of a reorganization, merger, binding share exchange or consolidation, in each case, unless, following such reorganization, merger, binding share exchange or consolidation, (A) more than 60% of, respectively, the then outstanding shares of common stock of the corporation resulting from such reorganization, merger, binding share exchange or consolidation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such reorganization, merger, binding share exchange or consolidation in substantially the same proportions as their ownership, immediately prior to such reorganization, merger, binding share exchange or consolidation, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (B) no

person (excluding the Company, any employee benefit plan (or related trust) of the Company or such corporation resulting from such reorganization, merger, binding share exchange or consolidation and any Person beneficially owning, immediately prior to such reorganization, merger, binding share exchange or consolidation, directly or indirectly, 20% or more of the Outstanding Company Common Stock or Outstanding Company Voting Securities, as the case may be) beneficially owns, directly or indirectly, 20% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such reorganization, merger, binding share exchange or consolidation or the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors and (C) at least a majority of the members of the board of directors of the corporation resulting from such reorganization, merger, binding share exchange or consolidation were members of the Incumbent Board at the time of the execution of the initial agreement providing for such reorganization, merger, binding share exchange or consolidation; or (iv) Approval by the shareholders of the Company of (A) a complete liquidation or dissolution of the Company or (B) the sale or other disposition of all or substantially all of the assets of the Company, other than to a corporation, with respect to which following such sale or other disposition, (1) more than 60% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such sale or other disposition in substantially the same proportion as their ownership, immediately prior to such sale or other disposition, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (2) no Person (excluding the Company and any employee benefit plan (or related trust) of the Company or such corporation and any Person beneficially owning, immediately prior to such sale or other disposition, directly or indirectly, 20% or more of the Outstanding Company Common Stock or Outstanding Company Voting Securities, as the case may be) beneficially owns, directly or indirectly, 20% or more of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors and (3) at least a majority of the members of the board of directors of such corporation were members of the Incumbent Board at the time of the execution of the initial agreement or action of the Board providing for such sale or other disposition of assets of the Company.

(g) "Change in Control Price" means, with respect to a Share, the highest price per such Share paid in such tender or exchange offer or corporate transaction. To the extent the consideration paid in

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any such transaction described above consists all or in part of securities or other non-cash consideration, the value of such securities or other non-cash consideration will be determined by the Committee.

(h) "Code" means the Internal Revenue Code of 1986, as amended from time to time, and any successor thereto.

(i) "Committee" means the Management Resources and Compensation Committee of the Board, or any successor to such committee, composed of no fewer than three directors, each of whom is an Outside Director.

(j) "Company" means TeamStaff, Inc., a New Jersey corporation.

(k) "Covered Employee" means a "covered employee" within the meaning of Section 162(m) (3) of the Code, or any successor provision thereto.

(l) "Disability" means, unless otherwise provided by the Committee, (i) "Disability" as defined in any Individual Agreement to which the Participant is a party, or (ii) if there is no such Individual Agreement or it does not define "Disability," total disability as determined under the Company's Long-Term Disability Plan applicable to the Participant, or (iii) if no such plan exists, as is determined by the Committee.

(m) "Effective Date" has the meaning set forth in Section 15.

(n) "Employee" means any employee or prospective employee of the Company or any Affiliate, other than a Non-Employee Director. Unless otherwise determined by the Committee in its sole discretion, for purposes of the Plan, an Employee will be considered to have incurred a Termination of Service and to have ceased to be an Employee if his or her employer ceases to be an Affiliate, even if he or she continues to provide services to such employer.

(o) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(p) "Fair Market Value" means, with respect to any property, the market value of such property determined by procedures the Committee will establish from time to time. Unless otherwise determined by the Committee, the Fair Market Value of Shares as of any date will be the average of the high and low trading prices during normal business hours for the Shares as reported on the NASDAQ Stock Exchange (or on any national securities exchange or over the counter market trading system on which the Shares are then listed for trading) for that date or, if no such prices are reported for that date, the average of the high and low trading prices on the preceding date for which such prices were reported, all as reported by such source as the Committee may select.

(q) "Good Cause" has the meaning ascribed to such term in a Participant's Individual Agreement, if any, or the determination of the Committee in the absence thereof.

(r) "Incentive Stock Option" means an Option granted under Section 6 that is intended to meet the requirements of Section 422 of the Code or any successor provision thereto.

(s) "Individual Agreement" means an employment, severance consulting or similar agreement between a Participant and the Company or one of its Subsidiaries or Affiliates, including without limitation any Change of Control Employment Agreement with a Participant.

(t) "Non-Employee Director" means a member of the Board who is not an employee of the Company, or any of its Affiliates or Subsidiaries.

(u) "Nonstatutory Stock Option" means an Option granted under Section 6 that is not intended to be an Incentive Stock Option.

(v) "Option" means any right granted to a Participant under the Plan allowing such Participant to purchase Shares at such price or prices and during such period or periods as the Committee will determine.

(w) "Other Stock Unit Award" means any right granted to a Participant by the Committee pursuant to Section 10.

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(x) "Outside Director" means a director who qualifies as an "independent director" within the meaning of Section 4200(a)(15) of the NASDAQ Marketplace Rules, and as an "outside director" within the meaning of Section 162(m) of the Code and as a "non-employee director" within the meaning of Rule 16b-3 promulgated under the Exchange Act.

(y) "Participant" means an Employee or Non-Employee Director who is selected by the Committee to receive an Award under the Plan.

(z) "Performance Award" means any Award of Performance Shares or Performance Units pursuant to Section 9.

(aa) "Performance Period" means that period established by the Committee at the time any Performance Award is granted or at any time thereafter during which any performance goals specified by the Committee with respect to such Award are to be measured.

(bb) "Performance Share" means any grant pursuant to Section 9 of a unit valued by reference to a designated number of Shares, which value may be paid to the Participant by delivery of such property as the Committee will determine, including, without limitation, cash, Shares, other property, or any combination thereof, upon achievement of such performance goals during the Performance Period as the Committee will establish at the time of such grant or thereafter.

(cc) "Performance Unit" means any grant pursuant to Section 9 of a unit valued by reference to a designated amount of property other than Shares, which value may be paid to the Participant by delivery of such property as the Committee will determine, including, without limitation, cash, Shares, other property, or any combination thereof, upon achievement of such performance goals during the Performance Period as the Committee will establish at the time of such grant or thereafter.

(dd) "Person" means any individual, corporation, partnership, association, limited liability company, joint-stock company, trust, unincorporated organization or government or political subdivision thereof.

(ee) "Qualified Performance-Based Award" means an Award of Restricted Stock, Performance Units, Performance Shares or Other Stock Unit Awards designated as such by the Committee at the time of grant, based upon a determination that (i) the recipient is or may be a "covered employee" within the meaning of Section 162(m)(3) of the Code in the year in which the Company would expect to be able to claim a tax deduction with respect to such Restricted Stock, Performance Units or Performance Shares and (ii) the Committee wishes such Award to qualify for the Section 162(m) Exemption.

(ff) "Restricted Stock" means any Share issued with the restriction that the holder may not sell, transfer, pledge or assign such Share and with such other restrictions as the Committee, in its sole discretion, may impose (including, without limitation, any restriction on the right to vote such Share, and the right to receive any cash dividends), which restrictions may lapse separately or in combination at such time or times, in installments or otherwise, as the Committee may deem appropriate.

(gg) "Restricted Stock Award" means an award of Restricted Stock under Section 8.

(hh) "Retirement" means retirement from active employment with the Company, a Subsidiary or Affiliate as defined in the Company's retirement program, as determined by the Committee.

(ii) "Section 162(m) Exemption" means the exemption from the limitation on deductibility imposed by Section 162(m) of the Code that is set forth in Section 162(m)(4)(C) of the Code.

(jj) "Shares" means the shares of common stock of the Company.

(kk) "Stock Appreciation Right" means any right granted to a Participant pursuant to Section 7 to receive, upon exercise by the Participant, the excess of (i) the Fair Market Value of one Share on the date of exercise or, if the Committee will so determine in the case of any such right other than one related to any Incentive Stock Option, at any time during a specified period before the date of exercise over (ii) the grant price of the right on the date of grant, or if granted in connection with an outstanding Option on the date of grant of the related Option, as specified by the Committee in its

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sole discretion. The grant price will not be less than the Fair Market Value of one Share on such date of grant of the right or the related Option, as the case may be, except in the case of Substitute Awards or in connection with an adjustment provided in Section 4(c). Any payment by the Company in respect of such right may be made in cash, Shares, other property, or any combination thereof, as the Committee, in its sole discretion, will determine.

(ll) "Subsidiary" means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company if, at the time of the granting of the Award, each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in the chain.

(mm) "Substitute Awards" means Awards granted or Shares issued by the Company in assumption of, or in substitution or exchange for, awards previously granted, or the right or obligation to make future awards, by a company acquired by the Company or with which the Company combines.

(nn) "Termination of Service" means the termination of the Participant's employment with, or performance of services for, the Company and any of its Subsidiaries or Affiliates. A Participant employed by, or performing services for, a Subsidiary or an Affiliate will also be deemed to incur a Termination of Service if the Subsidiary or Affiliate ceases to be such a Subsidiary or an Affiliate, as the case may be, and the Participant does not immediately thereafter become an employee of, or service provider for, the Company or another Subsidiary or Affiliate. Temporary absences from employment because of illness, vacation or leave of absence and transfers among the Company and its Subsidiaries and Affiliates will not be considered Terminations of Service.

### **Section 3 — Administration**

The Committee will administer the Plan, subject to the approval and ratification of the Board of the Committee's actions. The Committee will have full power and authority, subject to such orders or resolutions not inconsistent with the provisions of the Plan as may from time to time be adopted by the Board, to (a) select the Employees to whom Awards may from time to time be granted hereunder; (b) determine the type or types of Award to be granted to each Participant; (c) determine the number of Shares to be covered by each Award granted hereunder; (d) determine the terms and conditions, not inconsistent with the provisions of the Plan, of any Award granted hereunder; (e) determine whether, to what extent and under what circumstances Awards may be settled in cash, Shares or other property or canceled or suspended; (f) determine whether, to what extent, and under what circumstances cash, Shares, other property and other amounts payable with respect to an Award made under the Plan will be deferred either automatically or at the election of the Participant; (g) modify, amend or adjust the terms and conditions of any Award, at any time or from time to time, including but not limited to performance goals; provided, however, that the Committee may not adjust upwards the amount payable with respect to a Qualified Performance-Based Award or waive or alter the performance goals associated therewith; (h) interpret and administer the Plan and any instrument or agreement entered into under the Plan; (i) establish such rules and regulations and appoint such agents as it will deem appropriate for the proper administration of the Plan; and (j) make any other determination and take any other action that the Committee deems necessary or desirable for administration of the Plan. No amendment to the terms of an Award will have the effect of reducing the purchase price of any Option or grant price of any Stock Appreciation Right, including the cancellation of an Option or Stock Appreciation Right and replacement with another Award with a lower purchase or grant price. Notwithstanding the foregoing or anything else to the contrary in the Plan, any action or determination by the Committee specifically affecting or relating to an Award to a Non-Employee Director will be approved and ratified by the Board. The Committee may act only by a majority of its members then in office. Except to the extent prohibited by applicable law or the applicable rules of a stock exchange, the Committee may (i) allocate all or any portion of its responsibilities and powers to any one or more of its members and (ii) delegate (subject to the approval and ratification of the Board) all or any part of its responsibilities and powers to any officer of the Company selected by it, provided that no such delegation may be made that would cause

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Awards or other transactions under the Plan to cease to be exempt from Section 16(b) of the Exchange Act or cause an Award designated as a Qualified Performance-Based Award not to qualify for, or to cease to qualify for, the Section 162(m) Exemption. The Committee may revoke any such allocation or delegation at any time. Any determination made by the Committee with respect to any Award will be made in the sole discretion of the Committee at the time of the grant of the Award or, unless in contravention of any express term of the Plan, at any time thereafter. All decisions made by the Committee or any appropriately delegated officer pursuant to the provisions of the Plan will be final and binding on all persons, including the Company, any Participant, any shareholder and any Employee. Any authority granted to the Committee may also be exercised by the full Board, except to the extent that the grant or exercise of such authority would cause any Award or transaction to become subject to (or lose an exemption under) the short-swing profit recovery provisions of Section 16(b) of the Exchange Act or cause an Award designated as a Qualified Performance-Based Award not to qualify for, or to cease to qualify for, the Section 162(m) Exemption. To the extent that any permitted action taken by the Board conflicts with action taken by the Committee, the Board action will control.

### **Section 4 — Shares Subject to the Plan**

(a) Subject to adjustment as provided in Section 4(c), a total of 5,000,000 Shares will be authorized for issuance under the Plan. If any Shares subject to an Award or to an award under the Company's 2000 Employee

Stock Option Plan and the 2000 Non-Executive Director Stock Option Plan (the "Pre-Existing Plans") which are forfeited, expired, canceled or if any Award or award under the Pre-Existing Plans based on Shares is settled for cash or otherwise is terminated without issuance of such Shares, the Shares subject to such award will, to the extent of such cash settlement, forfeiture or termination, again be available for Awards under the Plan. Shares reserved for any award under the Pre-Existing Plans that are not reserved for a specific award are available for Awards under the Plan. In the event that any Option or other Award granted hereunder is exercised through the tendering of Shares (either actually or by attestation) or in the event that withholding tax liabilities arising from such Option or other Award are satisfied by the tendering of Shares or by the withholding of Shares by the Company, only the number of Shares issued net of the Shares tendered or withheld will be counted for purposes of determining the maximum number of Shares available for issuance under the Plan. In the event that any option or award granted under the Pre-Existing Plans is exercised through the tendering of Shares or in the event that withholding tax liabilities arising from such options or awards are satisfied by the tendering of Shares or the withholding of Shares by the Company, the Shares so tendered or withheld will again be available for Awards under the Plan. Shares reacquired by the Company on the open market using the cash proceeds received by the Company from the exercise of Options granted under the Plan or options granted under the Pre-Existing Plans that are exercised after the effective date of the Plan will be available for Awards under the Plan; provided, that the number of Shares available will not exceed the amount of (A) such cash proceeds divided by (B) the Fair Market Value of the Shares on the date of exercise of the applicable Options. In addition, Substitute Awards will not reduce the Shares authorized for issuance under the Plan or authorized for grant to a Participant in any calendar year.

(b) Any Shares issued hereunder may consist, in whole or in part, of authorized and unissued shares, treasury shares or shares purchased in the open market or otherwise.

(c) In the event of any merger, reorganization, consolidation, recapitalization, stock dividend, stock split, reverse stock split, spin-off or similar transaction or other change in corporate structure affecting the Shares or in the event of any extraordinary dividend or other similar event, such adjustments and other substitutions will be made to the Plan and to Awards as the Committee, in its sole discretion, deems equitable or appropriate, including, without limitation, such adjustments in the aggregate number, class and kind of securities that may be delivered under the Plan, in the aggregate or to any one Participant, in the number, class, kind and option or exercise price of securities subject to outstanding Options, Stock Appreciation Rights or other Awards granted under the Plan, and in the number, class and kind of securities subject to Awards granted under the Plan (including, if the Committee deems appropriate, the substitution of similar options to purchase the shares of, or other

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awards denominated in the shares of, another company or the payment of cash) as the Committee may determine to be appropriate in its sole discretion; provided, however, that the number of Shares subject to any Award will always be a whole number.

## **Section 5 — Eligibility**

Any Employee or Non-Employee Director will be eligible to be selected as a Participant; provided, however, that Incentive Stock Options will not be awarded to Non-Employee Directors.

## **Section 6 — Stock Options**

Options may be granted hereunder to Participants either alone or in addition to other Awards granted under the Plan. An Award Agreement in such form will evidence any Option granted under the Plan as the Committee may from time to time approve. Any such Option will be subject to the following terms and conditions and to such additional terms and conditions, not inconsistent with the provisions of the Plan, as the Committee will deem desirable:

(a) Option Price. The purchase price per Share purchasable under an Option will be determined by the Committee in its sole discretion; provided, however, that, except in the case of Substitute Awards or in connection with an adjustment provided for in Section 4(c), such purchase price of an Option will not be less than the Fair Market Value of the Share on the date of the grant, provided, further that the Committee will have the authority to provide for a post-grant reduction in exercise price to reflect any floating index as specified in an Award Agreement, provided, that, unless the Committee determines otherwise, no such provision will be included in any Award Agreement of a Participant who the Committee determines is or may be a Covered Employee in the year in which the Option is expected to be taxable to such Participant to the extent that such provision would result in such Option failing to meet the requirements of the Section 162(m) Exemption.

(b) Option Period. The Committee in its sole discretion will fix the term of each Option; provided that (except as specifically provided in Section 6) no Option will be exercisable after the expiration of ten years from the date the Option is granted.

(c) Exercisability. Options will be exercisable at such time or times as determined by the Committee at or subsequent to grant. Except under certain circumstances in connection with a Participant's Termination of Service or in the event of a Change in Control, Options will not be exercisable before the expiration of one year from the date the Option is granted.

(d) Method of Exercise. Subject to the other provisions of the Plan, any Option may be exercised by the Participant in whole or in part at such time or times, (i) by delivering written notice of exercise to the Company specifying the number of shares of Common Stock subject to the Option to be purchased and (ii) by making

payment of the option price in such form or forms, including, without limitation, payment by delivery of cash, delivery of Shares (either actually or by attestation) already owned by the Participant for at least six months (or any shorter period sufficient to avoid a charge to the Company's earnings for financial reporting purposes) or delivery of other consideration (including, where permitted by law and the Committee), Awards having a Fair Market Value on the exercise date equal to the total option price, or by any combination of cash, such Shares and other consideration as the Committee may specify in the applicable Award Agreement. If approved by the Committee, except to the extent prohibited by applicable law, payment in full or in part may also be made by delivering a properly executed exercise notice to the Company, together with a copy of irrevocable instructions to a broker to deliver promptly to the Company the amount of sale or loan proceeds necessary to pay the option price, and, if requested, the amount of any federal, state, local or foreign withholding taxes. To facilitate the foregoing, the Company may enter into agreements for coordinated procedures with one or more brokerage firms. No shares of Common Stock will be delivered until full payment therefor has been made. Except as otherwise provided herein or in an applicable Award Agreement, a Participant will have all of the rights of a shareholder of the Company holding the class or series of Common Stock that is subject to such Option (including, if applicable, the right to vote the shares and the right to receive dividends), when the Participant has delivered written notice of exercise and has paid in full for such shares.

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(e) Incentive Stock Options. In accordance with rules and procedures established by the Committee, and except as otherwise provided in Section 11, the aggregate Fair Market Value (determined as of the time of grant) of the Shares with respect to which Incentive Stock Options held by any Participant which are exercisable for the first time by such Participant during any calendar year under the Plan (and under any other employee benefit plans of the Company or any Subsidiary) will not exceed \$100,000 or, if different, the maximum limitation in effect at the time of grant under Section 422 of the Code, or any successor provision, and any regulations promulgated thereunder. Incentive Stock Options will not be granted to Participants who are Non-Employee Directors or prospective employees. The terms of any Incentive Stock Option granted hereunder will comply in all respects with the provisions of Section 422 of the Code or any successor provision, and any regulations promulgated thereunder.

(f) Form of Settlement. In its sole discretion, the Committee may provide, at the time of grant, that the Shares to be issued upon an Option's exercise will be in the form of Restricted Stock or other similar securities, or may reserve the right so to provide after the time of grant.

(g) Termination by Reason of Death. Unless otherwise determined by the Committee, if a Participant incurs a Termination of Service by reason of death, any Option held by such Participant will vest in full and will remain exercisable (i) in the case of a Nonstatutory Stock Option, until the first anniversary of such Termination of Service (notwithstanding any earlier expiration of the stated term of such Nonstatutory Stock Option) and (ii) in the case of an Incentive Stock Option, until the earlier of (A) the first anniversary of the date of death or (B) the expiration of the stated term of such Incentive Stock Option.

(h) Termination by Reason of Disability. Unless otherwise determined by the Committee, if a Participant incurs a Termination of Service by reason of Disability, any Option held by such Participant will vest in full and remain exercisable until (i) in the case of a Nonstatutory Stock Option, the first anniversary of such Termination of Service (notwithstanding any earlier expiration of the stated term of such Nonstatutory Stock Option) and (ii) in the case of an Incentive Stock Option, the earlier of (A) the first anniversary of such Termination of Service or (B) the expiration of the stated term of such Option; provided, however, that if the Participant dies within such period, notwithstanding the expiration of such period, any unexercised Option, may thereafter be exercised (x) in the case of a Nonstatutory Stock Option, for a period of one year from the date of such death (notwithstanding any earlier expiration of the stated term of such Nonstatutory Stock Option) and (y) in the case of an Incentive Stock Option, until the earlier of (1) the first anniversary of the date of death or (2) the expiration of the stated term of such Incentive Stock Option. In the event of Termination of Service by reason of Disability, if an Incentive Stock Option is exercised after the expiration of the exercise periods that apply for purposes of Section 422 of the Code, such Option will thereafter be treated as a Nonstatutory Stock Option.

(i) Termination by Reason of Retirement. Unless otherwise determined by the Committee, if a Participant incurs a Termination of Service by reason of Retirement, any Option held by such Participant may thereafter be exercised by the Participant, to the extent it was exercisable at the time of such Termination of Service, or on such accelerated basis as the Committee may determine, until the earlier of (i) the third anniversary of such Termination of Service or (ii) the expiration of the stated term of such Option; provided, however, that if the Participant dies within such period, any unexercised Option may to the extent exercisable on the date of death thereafter be exercised (A) in the case of a Nonstatutory Stock Option, until the later of (x) the first anniversary of the date of death (notwithstanding any earlier expiration of the stated term of such Nonstatutory Stock Option) or (y) the third anniversary of the Termination of Service by reason of Retirement and (B) in the case of an Incentive Stock Option, until the earlier of (xx) the later of (1) the first anniversary of the date of death or (2) the third anniversary of the Termination of Service by reason of Retirement or (yy) the expiration of the stated term of such Incentive Stock Option. In the event of Termination of Service by reason of Retirement, if an Incentive Stock Option is exercised after the expiration of the exercise periods that apply for purposes of Section 422 of the Code, such Option will thereafter be treated as a Nonstatutory Stock Option.

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(j) Other Terminations. Unless otherwise determined by the Committee: (i) if a Participant incurs a Termination of Service for Cause, all Options held by such Participant will thereupon immediately terminate; (ii) if a Participant incurs a Termination of Service due to a termination by the Company for any reason other than death, Disability, Retirement or for Cause, any Option held by such Participant, may, to the extent it was exercisable at the time of Termination of Service, be exercised until the earlier of (A) 90 days from the date of such Termination of Service or (B) the expiration of the stated term of the Option; and (iii) if a Participant incurs a Termination of Service due to a voluntary termination by the Participant (other than for Retirement), any Option held by such Participant, may, to the extent it was exercisable at the time of Termination of Service, be exercised until the earlier of (A) 30 days from the date of such Termination of Service or (B) the expiration of the stated term of the Option; provided, however, that if the Participant dies within either of the exercise periods established by Sections 5(j)(ii) and 5(j)(iii), any unexercised Option held by such Participant will, continue to be exercisable to the extent to which it was exercisable at the time of death until (x) in the case of Nonstatutory Stock Options, the first anniversary of the date of death (notwithstanding any earlier expiration of the stated term of such Nonstatutory Stock Option) or (y) in the case of Incentive Stock Options, the earlier of (A) the first anniversary of the date of death or (B) the expiration of the stated term of such Option.

(k) Change in Control Termination. Unless otherwise determined by the Committee, notwithstanding any other provision of this Plan to the contrary, in the event a Participant incurs a Termination of Service other than for Cause during the 24-month period following a Change in Control, any Option held by such Participant may thereafter be exercised by the Participant, to the extent it was exercisable at the time of such Termination of Service until the earlier of (i) the latest of (A) the second anniversary of such date of Termination of Service or (B) such other date as may be provided in the Plan for such Termination of Service or as the Committee may provide in the Award Agreement or (C) such other date as may be provided in any Individual Agreement, or (ii) the expiration of the stated term of such Option; provided, however, that if the Participant dies within such period, notwithstanding the expiration of such period, any unexercised Option may to the extent exercisable on the date of death thereafter be exercised (x) in the case of a Nonstatutory Stock Option, until the later of (i) the end of such exercise period or (ii) the first anniversary of the date of death (notwithstanding any earlier expiration of the stated term of such Nonstatutory Stock Option) or (y) in the case of an Incentive Stock Option, until the earlier of (i) the later of (A) the end of such exercise period or (B) the first anniversary of the date of death or (ii) the expiration of the stated term of such Incentive Stock Option. If an Incentive Stock Option is exercised after the expiration of the post-termination exercise periods that apply for purposes of Section 422 of the Code, such Option will thereafter be treated as a Nonstatutory Stock Option.

## **Section 7 — Stock Appreciation Rights**

Stock Appreciation Rights may be granted hereunder to Participants either alone or in addition to other Awards granted under the Plan and may, but need not, relate to a specific Option granted under Section 6. The provisions of Stock Appreciation Rights need not be the same with respect to each recipient. Any Stock Appreciation Right related to a Nonstatutory Stock Option may be granted at the same time such Option is granted or at any time thereafter before exercise or expiration of such Option. Any Stock Appreciation Right related to an Incentive Stock Option must be granted at the same time such Option is granted. In the case of any Stock Appreciation Right related to any Option, the Stock Appreciation Right or applicable portion thereof will terminate and no longer be exercisable upon the termination or exercise of the related Option, except that a Stock Appreciation Right granted with respect to less than the full number of Shares covered by a related Option will not be reduced until the exercise or termination of the related Option exceeds the number of Shares not covered by the Stock Appreciation Right. Any Option related to any Stock Appreciation Right will no longer be exercisable to the extent the related Stock Appreciation Right has been exercised. The Committee may impose such conditions or restrictions on the exercise of any Stock Appreciation Right, as it will deem appropriate; provided that a Stock Appreciation Right will not have a term of greater than ten years.

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## **Section 8 — Restricted Stock**

(a) Administration. Shares of Restricted Stock may be awarded either alone or in addition to other Awards granted under the Plan. The Committee will determine the Employees and Non-Employee Directors to whom and the time or times at which grants of Restricted Stock will be awarded, the number of shares to be awarded to any Employee or Non-Employee Director, the conditions for vesting, the time or times within which such Awards may be subject to forfeiture and any other terms and conditions of the Awards, in addition to those contained in Section 14(f).

(b) Issuance. A Restricted Stock Award will be subject to restrictions imposed by the Committee during a period of time specified by the Committee (the "Restriction Period"). Restricted Stock Awards may be issued hereunder to Participants, for no cash consideration or for such minimum consideration as may be required by applicable law, either alone or in addition to other Awards granted under the Plan. The provisions of Restricted Stock Awards need not be the same with respect to each recipient. Except for certain situations specified by the Committee (and as provided in Section 11(a)(ii)), Restricted Stock Awards will be subject to restrictions for a minimum of two years from date of grant.

(c) Registration. Any Restricted Stock issued hereunder may be evidenced in such manner, as the Committee, in its sole discretion, will deem appropriate, including, without limitation, book entry registration or issuance of a stock certificate or certificates. In the event any stock certificates are issued in respect of shares of

Restricted Stock awarded under the Plan, such certificates will be registered in the name of the Participant and will bear an appropriate legend referring to the terms, conditions and restrictions applicable to such Award.

(d) Forfeiture. Except as otherwise determined by the Committee at the time of grant or thereafter, upon Termination of Service for any reason during the Restriction Period, all Shares of Restricted Stock still subject to restriction will be forfeited by the Participant and reacquired by the Company and the Company will cancel any book entry registrations. Unrestricted Shares, evidenced in such manner as the Committee will deem appropriate, will be issued to the Participant promptly after expiration of the period of forfeiture, as determined or modified by the Committee.

## **Section 9 — Performance Awards**

Performance Awards may be issued hereunder to Participants, for no cash consideration or for such minimum consideration as may be required by applicable law, either alone or in addition to other Awards granted under the Plan. The performance criteria to be achieved during any Performance Period and the length of the Performance Period will be determined by the Committee upon the grant of each Performance Award; provided, however, that a Performance Period may not be shorter than 12 months or longer than five years. Except as provided in Section 11 or as otherwise specified by the Committee, Performance Awards will be distributed only after the end of the relevant Performance Period. Performance Awards may be paid in cash, Shares, other property, or any combination thereof, in the sole discretion of the Committee at the time of payment. The performance levels to be achieved for each Performance Period and the amount of the Award to be distributed will be conclusively determined by the Committee. Performance Awards may be paid in a lump sum or in installments following the close of the Performance Period or, in accordance with procedures established by the Committee, on a deferred basis.

## **Section 10 — Other Stock Unit Awards**

(a) Administration. Other Awards of Shares and other Awards that are valued in whole or in part by reference to, or are otherwise based on, Shares or other property ("Other Stock Unit Awards") may be granted hereunder to Participants, either alone or in addition to other Awards granted under the Plan, and such Other Stock Unit Awards will also be available as a form of payment in the settlement of other Awards granted under the Plan. Other Stock Unit Awards may be paid in Shares, cash or any other form of property, as the Committee will determine. Subject to the provisions of the Plan, the Committee will have sole and complete authority to determine the

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Employees and Non-Employee Directors to whom and the time or times at which such Awards will be made, the number of Shares to be granted pursuant to such Awards, and all other conditions of the Awards. The provisions of Other Stock Unit Awards need not be the same with respect to each recipient. Unless Other Stock Unit Awards are made in lieu of cash compensation, they will be subject to performance and/or vesting restrictions similar to those identified in Section 8 or 9.

(b) Terms and Conditions. Shares (including securities convertible into Shares) subject to Awards granted under this Section 10 may be issued for no cash consideration or for such minimum consideration as may be required by applicable law. Shares (including securities convertible into Shares) purchased pursuant to a purchase right awarded under this Section 10 will be purchased for such consideration as the Committee will determine in its sole discretion, which, except in the case of Substitute Awards, will not be less than the Fair Market Value of such Shares or other securities as of the date such purchase right is awarded.

## **Section 11 — Termination and Change in Control Provisions**

(a) Impact of Event. Notwithstanding any other provision of the Plan to the contrary, unless the Committee will determine otherwise at the time of grant with respect to a particular Award, in the event of a Termination of Service for any reason other than for Cause or a Termination of Service because of a Change in Control under Section 2 (f)(ii) or 2 (f)(iii):

(i) any Options and Stock Appreciation Rights outstanding as of the date such Change in Control occurs, and which are not then exercisable and vested, will become fully exercisable and vested;

(ii) the restrictions and deferral limitations applicable to any Restricted Stock outstanding as of the date such Change in Control occurs will lapse, and such Restricted Stock will become free of all restrictions and limitations and become fully vested and transferable;

(iii) all Performance Awards outstanding as of the date such Change in Control occurs will be considered to be earned and payable in full, or at such other level as may be specified in the applicable Award agreement between the Participant and the Company, and any deferral or other restriction will lapse and such Performance Awards will be immediately settled or distributed; and

(iv) the restrictions and deferral limitations and other conditions applicable to any Other Stock Unit Awards or any other Awards outstanding as of the date such Change in Control occurs will lapse, and such Other Stock Unit Awards or such other Awards will become free of all restrictions, limitations or conditions and become fully vested and transferable.

(b) Termination of Service Cash-Out. Notwithstanding any other provision of the Plan, during the 60-day period from and after a qualifying Termination of Service (the "Exercise Period"), if the Committee will determine at, or at any time after, the time of grant, a Participant holding an Option or Stock Appreciation Right

will have the right, whether or not the Option or Stock Appreciation Right is fully exercisable and in lieu of the payment of the purchase price for the Shares being purchased under the Option or Stock Appreciation Right and by giving notices to the Company, to elect (within the Exercise Period) to surrender all or part of the Option or Stock Appreciation Right to the Company and to receive cash, within 90 days of such notice, in an amount equal to the amount by which the Change in Control Price per Share on the date of such election will exceed the purchase price per Share under the Option or Stock Appreciation Right (the "spread") multiplied by the number of Shares granted under the Option or Stock Appreciation Right as to which the right granted under this Section 11(b) will have been exercised.

## **Section 12 — Code Section 162(m) Provisions**

(a) Notwithstanding any other provision of the Plan, if the Committee determines at the time Restricted Stock, a Performance Award or an Other Stock Unit Award is granted to a Participant who is, or is likely to be as of the end of the tax year in which the Company would claim a tax deduction in connection with such Award, a Covered Employee, then the Committee may provide that this Section 12 is applicable to such Award.

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(b) If Restricted Stock, a Performance Award or an Other Stock Unit Award is subject to this Section 12, then, in addition to any other restrictions imposed on such Awards, the grant, the lapsing of restrictions thereon and/or the distribution of cash, Shares or other property pursuant thereto, as applicable, will be subject to the achievement of one or more objective performance goals established by the Committee, which will be based on the attainment of specified levels of one or any combination of the following: net cash provided by operating activities, earnings per share from continuing operations, operating income, revenues, operating margins, return on operating assets, return on equity, economic value added, stock price appreciation, total shareholder return, cost control, strategic initiatives, market share, net income, or return on invested capital of the Company or the Affiliate or division of the Company for or within which the Participant is primarily employed. Such performance goals also may be based on the achievement of specified levels of Company performance (or performance of an applicable Affiliate or division of the Company) under one or more of the measures described above relative to the performance of other corporations. Such performance goals will be set by the Committee within the time period prescribed by, and will otherwise comply with the requirements of, Section 162(m) of the Code, or any successor provision thereto, and the regulations thereunder.

(c) Notwithstanding any provision of the Plan other than Section 11, with respect to any Restricted Stock, Performance Award or Other Stock Unit Award that is subject to this Section 12, the Committee may adjust downwards, but not upwards, the number of such Awards to be granted to such Participant and/or the amount payable pursuant to such Award, and the Committee may not waive the achievement of the applicable performance goals except in the case of a Termination of Service due to the death or disability of the Participant or due to a Termination of Service by the Company (or the Participant's employer) without Cause or a Termination of Service by the Participant for Good Cause.

(d) The Committee will have the power to impose such other restrictions on Awards subject to this Section 12 as it may deem necessary or appropriate to ensure that such Awards satisfy all requirements of the Section 162(m) Exemption.

(e) Notwithstanding any provision of the Plan other than Section 4(c), no Participant may be granted Options or Stock Appreciation Rights during any three-year period with respect to more than 1,000,000 (one million) shares, or Restricted Stock or Performance Awards subject to this Section 12 that are denominated in Shares, in any three-year period with respect to more than 1,000,000 (one million) Shares, and the maximum dollar value payable with respect to Performance Units and/or Other Stock Unit Awards that are valued with reference to property other than Shares and granted to any Participant in any three-year period is \$3,000,000.

## **Section 13 — Amendments and Termination**

The Board may amend, alter, suspend, discontinue or terminate the Plan or any portion thereof at any time; provided, however, that no such amendment, alteration, suspension, discontinuation or termination (collectively, a "change") (a) will be made without shareholder approval if such approval is necessary to qualify for or comply with any tax or regulatory requirement for which or with which the Board deems it necessary or desirable to qualify or comply or (b) except as required by applicable law or stock exchange or accounting rules, will be made without the consent of the affected Participant, if such action would impair the rights of such Participant under any outstanding Award or (c) will cause a Qualified Performance-Based Award to cease to qualify for the Section 162(m) Exemption. Notwithstanding anything to the contrary herein, the Committee or Board may amend or alter the Plan in such manner as may be necessary so as to have the Plan conform to local rules and regulations in any jurisdiction outside the United States. Notwithstanding the foregoing, any adjustments made pursuant to Section 4(c) will not be subject to these restrictions. Shareholder approval of changes to this Plan will be required to the extent such approval is required by law or agreement, or if such change would: (i) expand the classes of persons to whom Awards may be made under this Plan; (ii) increase the number of shares of Common Stock authorized for grant under this Plan; (iii) increase the number of Shares which may be granted under Awards to any one Participant under this Plan; (iv) increase the number of Shares available for Awards other than Options and

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Stock Appreciation Rights; (v) allow the creation of additional types of Awards; (vi) decrease performance award criteria except to the extent permitted under Section 12(e); or (vii) change any of the provisions of this sentence of Section 13.

#### Section 14 — General Provisions

(a) No Award, and no Shares subject to Awards described in Section 10 that have not been issued or as to which any applicable restriction, performance or deferral period has not lapsed, may be sold, assigned, transferred, pledged or otherwise encumbered, except by will or by the laws of descent and distribution; provided, however, that, if so determined by the Committee, a Participant may, in the manner established by the Committee, designate a beneficiary to exercise the rights of the Participant with respect to any Award upon the death of the Participant. Each Award will be exercisable, during the Participant's lifetime, only by the Participant or, if permissible under applicable law, by the Participant's guardian or legal representative. Notwithstanding the foregoing, and subject to Section 422 of the Code, the Committee, in its sole discretion, may permit a Participant to assign or transfer an Award (i) by will or by the laws of descent and distribution; or (ii) in the case of a Nonstatutory Stock Option, unless otherwise determined by the Committee, to such Employee's or Non-Employee Director's children or family members, whether directly or indirectly or by means of a trust or partnership or otherwise. For purposes of this Plan, unless otherwise determined by the Committee, "family member" will have the meaning given to such term in General Instructions A.1 (a)(5) to Form S-8 under the Securities Act of 1933 as amended, or any successor thereto; provided, however, that an Award so assigned or transferred will be subject to all the terms and conditions of the Plan and the instrument evidencing the Award; provided, further, that Termination of Service will continue to refer to the Termination of Service of the original Participant.

(b) No Employee or Participant will have any claim to be granted any Award under the Plan, and there is no obligation for uniformity of treatment of Employees or Participants under the Plan.

(c) The prospective recipient of any Award under the Plan will not, with respect to such Award, be deemed to have become a Participant, or to have any rights with respect to such Award, until and unless such recipient will have executed an agreement or other instrument evidencing the Award and delivered a copy thereof to the Company, or taken such other similar action as is determined and communicated in writing by the Committee, and otherwise complied with the then applicable terms and conditions.

(d) Nothing in the Plan or any Award granted under the Plan will be deemed to constitute an employment or service contract or confer or be deemed to confer on any Participant any right to continue in the employ or service of, or to continue any other relationship with, the Company or any Affiliate or limit in any way the right of the Company or any Affiliate to terminate a Participant's employment or service or other relationship at any time, with or without Cause.

(e) Except as provided in Section 12, the Committee will be authorized to make adjustments in performance award criteria or in the terms and conditions of other Awards in recognition of unusual or nonrecurring events affecting the Company or its financial statements or changes in applicable laws, regulations or accounting principles. The Committee may correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award in the manner and to the extent it will deem desirable to carry it into effect. In the event that the Company will assume outstanding employee benefit awards or the right or obligation to make future such awards in connection with the acquisition of or combination with another corporation or business entity, the Committee may, in its discretion, make such adjustments in the terms of Awards under the Plan as it will deem appropriate.

(f) The Committee will have full power and authority to determine whether, to what extent and under what circumstances any Award will be canceled or suspended. In addition, all outstanding Awards to any Participant may, as determined by the Committee in its sole discretion in any applicable Award Agreement be canceled if the Participant, without the consent of the Company, while employed by the Company or after a Termination of Service, establishes a relationship with a competitor of the Company or engages in activity that is in conflict with or adverse to the interest of the Company or any of its Affiliates, as determined by the Committee. Furthermore, the Committee

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may determine that an Award agreement require that, under the circumstances described above calling for cancellation of an Award, the Participant will also be required to remit to the Company, with respect to any Option exercised by the Participant on or after the date which is six months prior to the date that the Participant establishes a competitive relationship or engages in competing activity as foresaid an amount in cash or a certified or bank check equal to 100% of the excess of (A) the fair market value per share of the Company's Common Stock on the date of exercise, multiplied by the number of shares with respect to which the Option is exercised; over (B) the aggregate option price for such number of shares. Any provisions implemented pursuant to this Section 14(f) will be inapplicable following a Change in Control.

(g) All certificates for Shares delivered under the Plan pursuant to any Award will be subject to such stock-transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Shares are then listed, and any applicable federal or state securities law, and the Committee may cause a legend or legends to be put on any such certificates to make appropriate reference to such restrictions.

(h) No Award granted hereunder will be construed as an offer to sell securities of the Company, and no such offer will be outstanding, unless and until the Committee in its sole discretion has determined that any such offer, if made, would comply with all applicable requirements of the U.S. federal securities laws and any other laws to which such offer, if made, would be subject. The Committee may require each person purchasing or receiving shares pursuant to an Award to represent to and agree with the Company in writing that such person is acquiring the shares without a view to the distribution thereof. The certificates for such shares may include any legend that the Committee deems appropriate to reflect any restrictions on transfer. Notwithstanding any other provision of the Plan or agreements made pursuant thereto, the Company will not be required to issue or deliver any certificate or certificates for shares of Common Stock under the Plan prior to fulfillment of all of the following conditions: (i) listing or approval for listing upon notice of issuance, of such shares on the NASDAQ Exchange or such other securities exchange as may at the time be the principal market for the Common Stock; (ii) any registration or other qualification of such shares of the Company under any state or federal law or regulation, or the maintaining in effect of any such registration or other qualification which the Committee will, in its absolute discretion upon the advice of counsel, deem necessary or advisable; and (iii) obtaining any other consent, approval, or permit from any state or federal governmental agency which the Committee will, in its absolute discretion after receiving the advice of counsel, determine to be necessary or advisable.

(i) The Committee will be authorized to establish procedures pursuant to which the payment of any Award may be deferred. Subject to the provisions of the Plan and any Award Agreement, the recipient of an Award (including, without limitation, any deferred Award) may, if so determined by the Committee, be entitled to receive, currently or on a deferred or restricted (based on vesting) basis, cash dividends, or cash payments in amounts equivalent to cash dividends on Shares ("dividend equivalents") with respect to the number of Shares covered by the Award, as determined by the Committee, in its sole discretion, and the Committee may provide that such amounts (if any) will be deemed to have been reinvested in additional Shares or otherwise reinvested.

(j) Except as otherwise required in any applicable Award Agreement or by the terms of the Plan, recipients of Awards under the Plan will not be required to make any payment or provide consideration other than the rendering of services.

(k) The Company will be authorized to withhold from any Award granted or payment due under the Plan the amount of withholding taxes due in respect of an Award or payment hereunder and to take such other action as may be necessary in the opinion of the Company to satisfy all obligations for the payment of such taxes. The Committee will be authorized to establish procedures for election by Participants to satisfy such obligation for the payment of such taxes by delivery of or transfer of Shares to the Company (up to the employer's minimum required tax withholding rate to the extent the Participant has owned the surrendered shares for less than six months if such a limitation is necessary to avoid a charge to the Company for financial reporting purposes), or by directing the

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Company to retain Shares (up to the employer's minimum required tax withholding rate) otherwise deliverable in connection with the Award.

(l) Nothing contained in the Plan will prevent the Board from adopting other or additional compensation arrangements, subject to shareholder approval if such approval is required; and such arrangements may be either generally applicable or applicable only in specific cases.

(m) The validity, construction and effect of the Plan and any rules and regulations relating to the Plan will be determined in accordance with the laws of the State of New York and applicable federal law.

(n) If any provision of the Plan is or becomes or is deemed invalid, illegal or unenforceable in any jurisdiction, or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision will be construed or deemed amended to conform to applicable laws or if it cannot be construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan, it will be stricken and the remainder of the Plan will remain in full force and effect.

(o) Awards may be granted to Participants who are foreign nationals or employed outside the United States, or both, on such terms and conditions different from those applicable to Awards to Employees employed in the United States as may, in the judgment of the Committee, be necessary or desirable in order to recognize differences in currency, local law or tax policy. The Committee also may impose conditions on the exercise or vesting of Awards in order to minimize the Company's obligation with respect to tax equalization for Employees on assignments outside their home country.

#### **Section 15 — Effective Date of Plan**

The Plan will be effective as of the date that the Plan is approved by the shareholders of the Company (the "Effective Date").

#### **Section 16 — Term of Plan**

The Plan will terminate on the tenth anniversary of the Effective Date unless sooner terminated by the Board pursuant to Section 13; provided, however, that (a) no Incentive Stock Options may be granted more than ten years after the later of (i) the adoption of the Plan by the Board and (ii) the adoption by the Board of any amendment to the Plan that constitutes the adoption of a new plan for purposes of Section 422 of the Code. Notwithstanding the foregoing, the Plan provisions applicable to outstanding Awards will continue after the Plan termination date until the last of such Awards have been paid out or have expired by their own terms.



**TEAMSTAFF, INC.**  
**NOTICE OF RESTRICTED STOCK BONUS AWARD**

Grantee's Name and Address:

You (the "Grantee") have been granted certain shares of Common Stock of TeamStaff, Inc. (the "Company") subject to the terms and conditions of this Notice of Restricted Stock Bonus Award (the "Notice"), the Restricted Stock Bonus Award Agreement attached hereto (the "Agreement") attached hereto and the 2006 TeamStaff, Inc. Long Term Incentive Plan (the "Plan") (the "Award").

Unless otherwise defined herein, the terms defined in the Agreement have the same meanings of terms defined in this Notice. If the Grantee has an individual employment or severance agreement (an "Individual Agreement"), the terms and conditions of the Individual Agreement will control issues relative to the Award. In the event of any conflict, the order of priority is (a) an Individual Agreement; (b) the Plan; (c) the Agreement; and then (d) the Notice.

Award Number:

Date of Award:

Vesting Commencement Date:

Total Number of Shares of Common Stock Awarded (the "Shares"):

Aggregate Fair Market Value of the Shares: \$

Vesting Schedule: Subject to the Grantee's Continuous Service and other limitations set forth in this Notice and the Agreement, the Shares will "vest" in accordance with the following schedule:

- (a) Shares on \_\_\_\_\_, 2007;
- (b) Shares on \_\_\_\_\_, 2008; and
- (c) Shares on \_\_\_\_\_, 2009

Miscellaneous:

For purposes of this Notice and the Agreement, the term "Vest" means that such Shares are no longer subject to forfeiture to the Company. Shares that have not Vested are deemed "Restricted Shares." If the Grantee would become Vested in a fraction of a Restricted Share, such Restricted Share will not Vest until the Grantee becomes Vested in the entire Share. The Award is subject to the provisions of the Agreement and the Plan relating to the vesting of the Shares.

In the event the Grantee's Continuous Service terminates as a result of his or her death or Disability, the Shares (as defined in the Agreement) will become fully Vested immediately as of the date of such termination of Continuous Service.

During any authorized leave of absence, the Vesting of the Shares as provided in the Vesting Schedule will be suspended after the leave of absence exceeds a period of three (3) months. Vesting of the Shares will resume upon the Grantee's termination of the leave of absence and return to service to the Company. The Vesting Schedule of the Shares will be extended by the length of the suspension.

In the event of the Grantee's change in status from Employee, Director or Consultant to any other status of Employee, Director or Consultant, the Shares will continue to vest in accordance with the Vesting Schedule set forth above.

Vesting will cease upon the date of termination of the Grantee's Continuous Service for any reason, other than death or Disability in accordance with the Agreement and the Plan. In the event the Grantee's Continuous Service is terminated for any reason, other than death or Disability that does not result in immediate Vesting as set forth in an Individual Agreement, the Agreement or the Plan, any Restricted Shares held by the Grantee immediately following such termination of Continuous Service will be deemed re-conveyed to the Company and the Company will thereafter be

the legal and beneficial owner of the Restricted Shares and will have all rights and interest in or related thereto without further action by the Grantee. The foregoing forfeiture provisions set forth in this Notice as to Restricted Shares will apply to the new capital stock or other property (including cash paid other than as a regular cash dividend) received in exchange for the Shares in consummation of any transaction described in an Individual Agreement, the Agreement or the Plan and such stock or property will be deemed Additional Securities (as defined in the Agreement) for purposes of the Agreement, but only to the extent the Shares are at the time covered by such forfeiture provisions.

IN WITNESS WHEREOF, the Company and the Grantee have executed this Notice and agree that the Award is to be governed by the terms and conditions of this Notice and the Agreement.

TeamStaff, Inc.,  
a New Jersey corporation

By: \_\_\_\_\_  
T. Stephen Johnson  
Chairman

THE GRANTEE ACKNOWLEDGES AND AGREES THAT THE SHARES WILL VEST, IF AT ALL, ONLY DURING THE PERIOD OF THE GRANTEE'S CONTINUOUS SERVICE (NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED THIS AWARD OR ACQUIRING SHARES HEREUNDER). THE GRANTEE FURTHER ACKNOWLEDGES AND AGREES THAT NOTHING IN THIS NOTICE NOR THE AGREEMENT WILL CONFER UPON THE GRANTEE ANY RIGHT WITH RESPECT TO CONTINUATION OF THE GRANTEE'S CONTINUOUS SERVICE, NOR WILL IT INTERFERE IN ANY WAY WITH THE GRANTEE'S RIGHT OR THE COMPANY'S RIGHT TO TERMINATE THE GRANTEE'S CONTINUOUS SERVICE AT ANY TIME, WITH OR WITHOUT CAUSE, AND WITH OR WITHOUT NOTICE. THE GRANTEE ACKNOWLEDGES THAT UNLESS THE GRANTEE HAS A WRITTEN EMPLOYMENT AGREEMENT WITH THE COMPANY TO THE CONTRARY, THE GRANTEE'S STATUS IS AT WILL.

As a condition to receiving the Shares, the Grantee will not make an election pursuant to Section 83(b) of the Code with respect to the Shares, unless the Company grants a written request therefore, in the sole discretion of the Company.

The Grantee acknowledges receipt of the Agreement and the Plan, and represents that he or she is familiar with the terms and provisions thereof, and hereby accepts the Award subject to all of the terms and provisions hereof and thereof. The Grantee has reviewed this Notice, the Agreement and the Plan in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Notice and the Agreement and fully understands all of the provisions of this Notice, the Agreement and the Plan. The Grantee agrees that all questions of interpretation and administration relating to this Notice, the Agreement and the Plan will be resolved by the Board in accordance with Section 11 of the Agreement and the Plan. The Grantee further agrees to the venue selection and waiver of a jury trial in accordance with Section 12 of the Agreement. The Grantee further agrees to notify the Company upon any change in the residence address indicated in this Notice.

Dated:

Signed:  
Grantee

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## RESTRICTED STOCK BONUS AWARD AGREEMENT

1. Issuance of Shares. TeamStaff, Inc., a New Jersey corporation (the "Company") hereby issues to the Grantee named in the Notice of Restricted Stock Bonus Award (the "Notice") the Total Number of Shares of Common Stock awarded as set forth in the Notice (the "Shares") subject to the Notice, this Restricted Stock Bonus Award Agreement (the "Agreement") and the Plan. All Shares issued hereunder will be deemed issued to the Grantee as fully paid and nonassessable shares, and the Grantee will have the right to vote the Shares at meetings of the Company's stockholders. The Company will pay any applicable stock transfer taxes imposed upon the issuance of the Shares to the Grantee hereunder.

2. Transfer Restrictions. The Shares issued to the Grantee hereunder (the "Restricted Shares") may not be sold, transferred by gift, pledged, hypothecated or otherwise transferred or disposed of by the Grantee prior to the date when the Shares become Vested pursuant to the Vesting Schedule set forth in the Notice (the "Vesting Schedule"). Any attempt to transfer Restricted Shares in violation of this Section 2 will be null and void and will be disregarded.

3. Escrow of Stock. For purposes of facilitating the enforcement of the provisions of this Agreement, the Grantee agrees, immediately upon receipt of the certificate(s) for the Restricted Shares, to deliver such certificate(s), together with an Assignment Separate from Certificate in the form attached hereto as Exhibit A, executed in blank by the Grantee with respect to each such stock certificate, to the Secretary of the Company, to hold in escrow for so long as such Restricted Shares have not Vested pursuant to the Vesting Schedule, with the authority to take all such actions and to effectuate all such transfers and/or releases as may be necessary or appropriate to accomplish the objectives of this Agreement in accordance with the terms hereof. The Grantee hereby acknowledges that the appointment of the Secretary of the Company as the escrow holder hereunder with the stated authorities is a material inducement to the Company to make this Agreement and that such appointment is coupled with an interest and is accordingly irrevocable. The Grantee agrees that such escrow holder will not be liable to any party hereto (or to any other party) for any actions or omissions unless such escrow holder is grossly negligent relative thereto. The escrow holder may rely upon any letter, notice or other document executed by any signature purported to be genuine and may resign at any time. Upon the Vesting of Restricted Shares, the escrow holder will, without further order or instruction, transmit to the Grantee the certificate evidencing such Shares.

4. Additional Securities and Distributions.

(a) Any securities or cash received (other than a regular cash dividend) as the result of ownership of the Restricted Shares (the "Additional Securities"), including, but not by way of limitation, warrants, options and securities received as a stock dividend or stock split, or as a result of a recapitalization or reorganization or other



similar change in the Company's capital structure, will be retained in escrow in the same manner and subject to the same conditions and restrictions as the Restricted Shares with respect to which they were issued, including, without limitation, the Vesting Schedule. The Grantee will be entitled to direct the Company to exercise any warrant or option received as Additional Securities upon supplying the funds necessary to do so, in which event the securities so purchased will constitute Additional Securities, but the Grantee may not direct the Company to sell any such warrant or option. If Additional Securities consist of a convertible security, the Grantee may exercise any conversion right, and any securities so acquired will constitute Additional Securities. In the event of any change in certificates evidencing the Restricted Shares or the Additional Securities by reason of any recapitalization, reorganization or other transaction that results in the creation of Additional Securities, the escrow holder is authorized to deliver to the issuer the certificates evidencing the Shares or the Additional Securities in exchange for the certificates of the replacement securities.

(b) The Company will disburse to the Grantee all regular cash dividends with respect to the Restricted Shares and Additional Securities (whether vested or not), less any applicable withholding obligations.

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## 5. Taxes.

(a) No Section 83(b) Election. As a condition to receiving the Shares, the Grantee agrees not to make an election pursuant to Section 83(b) of the Code with respect to the Restricted Shares, unless the Company consents, in writing, such consent to be in the sole discretion of the Company.

(b) Tax Liability. The Grantee is ultimately liable and responsible for all taxes owed by the Grantee in connection with the Award, regardless of any action the Company takes with respect to any tax withholding obligations that arise in connection with the Award. The Company does not make any representation or undertaking regarding the treatment of any tax withholding in connection with the grant or Vesting of the Shares or the subsequent sale of Shares subject to the Award. The Company does not commit and is under no obligation to structure the Award to reduce or eliminate the Grantee's tax liability.

(c) Payment of Withholding Taxes. Prior to any event in connection with the Award (e.g., Vesting) that the Company determines may result in any tax withholding obligation, whether United States federal, state, local or non-U.S., including any employment tax obligation (the "Tax Withholding Obligation"), the Grantee must arrange for the satisfaction of the minimum amount of such Tax Withholding Obligation in a manner acceptable to the Company.

(i) By Share Withholding. The Grantee authorizes the Company, upon the exercise of the Company's sole discretion, to withhold from those Shares issuable to the Grantee the whole number of Shares sufficient to satisfy the minimum applicable Tax Withholding Obligation. The Grantee acknowledges that the withheld Shares may not be sufficient to satisfy the Grantee's minimum Tax Withholding Obligation. Accordingly, the Grantee agrees to pay to the Company or any Related Entity as soon as practicable, including through additional payroll withholding, any amount of the Tax Withholding Obligation that is not satisfied by the withholding of Shares described above.

(ii) By Sale of Shares. Unless the Grantee determines to satisfy the Tax Withholding Obligation by some other means in accordance with clause (iii) below, the Grantee's acceptance of this Award constitutes the Grantee's instruction and authorization to the Company and any brokerage firm determined acceptable to the Company for such purpose to sell on the Grantee's behalf a whole number of Shares from those Shares issuable to the Grantee as the Company determines to be appropriate to generate cash proceeds sufficient to satisfy the minimum applicable Tax Withholding Obligation. Such Shares will be sold on the day such Tax Withholding Obligation arises (e.g., a Vesting date) or as soon thereafter as practicable. The Grantee will be responsible for all broker's fees and other costs of sale, and the Grantee agrees to indemnify and hold the Company harmless from any losses, costs, damages, or expenses relating to any such sale. To the extent the proceeds of such sale exceed the Grantee's minimum Tax Withholding Obligation, the Company agrees to pay such excess in cash to the Grantee. The Grantee acknowledges that the Company or its designee is under no obligation to arrange for such sale at any particular price, and that the proceeds of any such sale may not be sufficient to satisfy the Grantee's minimum Tax Withholding Obligation. Accordingly, the Grantee agrees to pay to the Company or any Related Entity as soon as practicable, including through additional payroll withholding, any amount of the Tax Withholding Obligation that is not satisfied by the sale of Shares described above.

(iii) By Check, Wire Transfer or Other Means. At any time not less than five (5) business days (or such fewer number of business days as determined by the Board) before any Tax Withholding Obligation arises (e.g., a Vesting date), the Grantee may elect to satisfy the Grantee's Tax Withholding Obligation by delivering to the Company an amount that the Company determines is sufficient to satisfy the Tax Withholding Obligation by (x) wire transfer to such account as the Company may direct, (y) delivery of a certified check payable to the Company, or (z) such other means as specified from time to time by the Board.

6. Stop-Transfer Notices. In order to ensure compliance with the restrictions on transfer set forth in this Agreement or the Notice, the Company may issue appropriate "stop transfer" instructions to its transfer agent, if any, and, if the Company transfers its own securities, it may make appropriate notations to the same effect in its own records.

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7. Refusal to Transfer. The Company will not be required (i) to transfer on its books any Shares that have been sold or otherwise transferred in violation of any of the provisions of this Agreement or (ii) to treat as owner of such Shares or to accord the right to vote or pay dividends to any purchaser or other transferee to whom such Shares will have been so transferred.

8. Restrictive Legends. The Grantee understands and agrees that the Company will cause the legends set forth below or legends substantially equivalent thereto, to be placed upon any certificate(s) evidencing ownership of the Shares together with any other legends that may be required by the Company or by state or federal securities laws:

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE RESTRICTED BY THE TERMS OF THAT CERTAIN RESTRICTED STOCK BONUS AWARD AGREEMENT BETWEEN THE COMPANY AND THE NAMED STOCKHOLDERS. THE SHARES REPRESENTED BY THIS CERTIFICATE MAY BE TRANSFERRED ONLY IN ACCORDANCE WITH SUCH AGREEMENT, A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY.

9. Entire Agreement: Governing Law. The Notice and this Agreement constitute the entire agreement of the parties with respect to the subject matter hereof and supersede in their entirety all prior undertakings and agreements of the Company and the Grantee with respect to the subject matter hereof, and may not be modified adversely to the Grantee's interest except by means of a writing signed by the Company and the Grantee. These agreements are to be construed in accordance with and governed by the internal laws of the State of New Jersey without giving effect to any choice of law rule that would cause the application of the laws of any jurisdiction other than the internal laws of the State of New Jersey to the rights and duties of the parties. Should any provision of the Notice or this Agreement be determined to be illegal or unenforceable, the other provisions will nevertheless remain effective and will remain enforceable.

10. Headings. The captions used in this Agreement are inserted for convenience and will not be deemed a part of this Agreement for construction or interpretation.

11. Administration and Interpretation. Any question or dispute regarding the administration or interpretation of the Notice or this Agreement will be submitted by the Grantee or by the Company to the Board. The resolution of such question or dispute by the Board will be final and binding on all persons.

12. Venue and Waiver of Jury Trial. The parties agree that any suit, action or proceeding arising out of or relating to the Notice or this Agreement will be brought in the United States District Court for the Northern District of New Jersey (or should such court lack jurisdiction to hear such action, suit or proceeding, in a New Jersey state court in the County of Somerset) and that the parties will submit to the jurisdiction of such court. The parties irrevocably waive, to the fullest extent permitted by law, any objection the party may have to the laying of venue for any such suit, action or proceeding brought in such court. THE PARTIES ALSO EXPRESSLY WAIVE ANY RIGHT THEY HAVE OR MAY HAVE TO A JURY TRIAL OF ANY SUCH SUIT, ACTION OR PROCEEDING. If any one or more provisions of this Section 12 will for any reason be held invalid or unenforceable, it is the specific intent of the parties that such provisions will be modified to the minimum extent necessary to make it or its application valid and enforceable.

13. Notices. Any notice required or permitted hereunder will be given in writing and will be deemed effectively given upon personal delivery, upon deposit for delivery by an internationally recognized express mail courier service or upon deposit in the United States mail by certified mail (if the parties are within the United States), with postage and fees prepaid, addressed to the other party at its address as shown in these instruments, or to such other address as such party may designate in writing from time to time to the other party.

14. Definitions. All defined terms not specifically defined herein carry the same meaning as they do in the Plan. As used herein, the following definitions will apply:

(a) "Applicable Laws" means the legal requirements applicable to the issuance of Awards, if any, under applicable provisions of federal securities laws, state corporate and securities laws, the Code,

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the rules of any applicable stock exchange or national market system, and the rules of any non-U.S. jurisdiction applicable to Awards granted to residents therein.

(b) "Award" means the award of Restricted Shares pursuant to the Notice.

(c) "Code" means the Internal Revenue Code of 1986, as amended.

(d) "Common Stock" means the common stock of the Company.

(e) "Company" means TeamStaff, Inc., a New Jersey corporation.

(f) "Continuous Service" means that the provision of services to the Company in any capacity of Employee or Director is not interrupted or terminated. In jurisdictions requiring notice in advance of an effective termination as an Employee or Director, Continuous Service will be deemed terminated upon the actual cessation of providing services to the Company notwithstanding any required notice period that must be fulfilled before a termination as an Employee or Director can be effective under Applicable Laws. The Grantee's Continuous Service will be deemed to have terminated upon an actual termination of Continuous Service. Continuous Service will not be considered interrupted in the case of (i) any approved leave of absence, (ii) transfers among the Company, or any successor, in any capacity of Employee or Director, or (iii) any change in status as long as the individual remains in the service of the Company in any capacity of Employee or Director (except as otherwise

provided in the Agreement). An approved leave of absence will include sick leave, military leave or any other authorized personal leave.

(g) "Disability" means as such term is expressly defined in a then-effective written agreement between the Grantee and the Company, or in the absence of such then-effective written agreement and definition, as defined under the long-term disability policy of the Company regardless of whether the Grantee is covered by such policy. In the absence of a written agreement containing a definition of disability and if the Company does not have a long-term disability plan in place, "Disability" means that a Grantee is unable to carry out the responsibilities and functions of the position held by the Grantee by reason of any medically determinable physical or mental impairment for a period of not less than ninety (90) consecutive days. A Grantee will not be considered to have incurred a Disability unless he or she furnishes proof of such impairment sufficient to satisfy the Board in its discretion.

(h) "Employee" means any person, including an Officer or Director, who is in the employ of the Company, subject to the control and direction of the Company as to both the work to be performed and the manner and method of performance. The payment of a director's fee by the Company will not be sufficient to constitute "employment" by the Company.

(i) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(j) "Fair Market Value" means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on one or more established stock exchanges or national market systems, including without limitation The Nasdaq National Market or The Nasdaq SmallCap Market of The Nasdaq Stock Market, its Fair Market Value will be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on the principal exchange or system on which the Common Stock is listed (as determined by the Board) on the date of determination (or, if no closing sales price or closing bid was reported on that date, as applicable, on the last trading date such closing sales price or closing bid was reported), as reported in The Wall Street Journal or such other source as the Board deems reliable;

(ii) If the Common Stock is regularly quoted on an automated quotation system (including the OTC Bulletin Board) or by a recognized securities dealer, its Fair Market Value will be the closing sales price for such stock as quoted on such system or by such securities dealer on the date of determination, but if selling prices are not reported, the Fair Market Value of a share of Common Stock will be the mean between the high bid and low asked prices for the Common Stock on the date of determination (or, if no such prices were reported on that date, on the last date such prices were reported), as reported in The Wall Street Journal or such other source as the Board deems reliable; or

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(iii) In the absence of an established market for the Common Stock of the type described in (i) and (ii), above, the Fair Market Value thereof will be determined by the Board in good faith.

(k) "Officer" means a person who is an officer of the Company or a Related Entity within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(l) "Share" means a share of the Common Stock.

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## EXHIBIT A

### STOCK ASSIGNMENT SEPARATE FROM CERTIFICATE

FOR VALUE RECEIVED, \_\_\_\_\_ hereby sells, assigns and transfers unto \_\_\_\_\_, \_\_\_\_\_ shares of the Common Stock of TeamStaff, Inc., a New Jersey corporation (the "Company"), standing in his name on the books of, the Company represented by Certificate No. \_\_\_\_\_ herewith, and does hereby irrevocably constitute and appoint the Secretary of the Company attorney to transfer the said stock in the books of the Company with full power of substitution.

DATED: \_\_\_\_\_

SIGNED: \_\_\_\_\_

PRINT NAME: \_\_\_\_\_

[PLEASE SIGN THIS DOCUMENT BUT DO NOT DATE IT. THE DATE AND INFORMATION OF THE TRANSFEREE WILL BE COMPLETED IF AND WHEN THE SHARES ARE ASSIGNED.]

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**Exhibit 31.1**

**CERTIFICATIONS**

I, T. Kent Smith, certify that:

1. I have reviewed this quarterly report on Form 10-Q of TeamStaff, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under 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) [Reserved];
  - 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 the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 11, 2006

By: /s/ T. Kent Smith  
T. Kent Smith  
Chief Executive Officer

**Exhibit 31.2**

**CERTIFICATIONS**

I, Rick J. Filippelli, certify that:

1. I have reviewed this quarterly report on Form 10-Q of TeamStaff, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under 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) [Reserved];
  - 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 the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 11, 2006

By: /s/ Rick J. Filippelli  
Rick J. Filippelli  
Vice President, Finance and  
Chief Financial Officer

**Exhibit 32.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO**

**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, T. Kent Smith, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of TeamStaff, Inc. on Form 10-Q for the period ended March 31, 2006 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of TeamStaff, Inc.

**In Witness Whereof**, the undersigned has set his hand hereto as of the 11th day of May 2006.

/s/ T. Kent Smith  
Chief Executive Officer  
(Principal Executive Officer)

I, Rick J. Filippelli, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of TeamStaff, Inc. on Form 10-Q for the period ended March 31, 2006 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of TeamStaff, Inc.

**In Witness Whereof**, the undersigned has set his hand hereto as of the 11th day of May 2006.

/s/ Rick J. Filippelli  
Vice President, Finance and  
Chief Financial Officer  
(Principal Financial Officer)

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of TeamStaff, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.