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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2011

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

For the transition period from to

Commission File No. 0-18492

TEAMSTAFF, INC.

(Exact name of registrant as specified in its charter)

New Jersey	**22-1899798**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1776 Peachtree Street, NW **Atlanta, Georgia**	**30309**
(Address of principal executive offices)	(Zip Code)

(866) 952-1647
(Registrant's telephone number, including area code)

1 Executive Drive, Suite 130, Somerset, NJ 08873
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 5,691,183 shares of Common Stock, par value $.001 per share, were outstanding as of August 9, 2011.

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TEAMSTAFF, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(AMOUNTS IN THOUSANDS)

	(unaudited) June 30, 2011	September 30, 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 711	$ 1,187
Accounts receivable, net of allowance for doubtful accounts of $0 as of June 30, 2011 and September 30, 2010	12,500	11,324
Prepaid workers' compensation	451	512
Assets from discontinued operation	270	—
Other current assets	215	344
Total current assets	**14,147**	**13,367**
EQUIPMENT AND IMPROVEMENTS:		
Furniture and equipment	177	2,259
Computer equipment	102	215
Computer software	632	960
Leasehold improvements	15	12
	926	3,446
Less accumulated depreciation and amortization	(671)	(3,112)
Equipment and improvements, net	**255**	**334**
TRADENAMES	**2,583**	**2,583**
GOODWILL	**8,595**	**8,595**
OTHER ASSETS		
Debt agreement costs	73	—
Other assets	448	360
Total other assets	**521**	**360**
TOTAL ASSETS	**$ 26,101**	**$ 25,239**

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 PAR VALUE OF SHARES)

	(unaudited) June 30, 2011	September 30, 2010

LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Loan payable	$ 2,169	$ 362
Notes payable	200	1,500
Current portion of capital lease obligations	10	18
Accrued payroll	10,348	10,910
Accounts payable	1,841	1,887
Accrued expenses and other current liabilities	1,749	1,872
Liabilities from discontinued operation	232	289
Total current liabilities	**16,549**	**16,838**
LONG TERM LIABILITIES		
Capital lease obligations, net of current portion	2	8
Long term note payable	1,500	—
Other long term Liability	1	5
Total long term liabilities	1,503	13
Total liabilities	**18,052**	**16,851**
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Preferred stock, $.10 par value; authorized 5,000 shares; none issued and outstanding	—	—
Common stock, $.001 par value; authorized 40,000 shares; issued 5,693 at June 30, 2011 and 5,105 at September 30, 2010, outstanding 5,691 at June 30, 2011 and 5,103 at September 30, 2010	6	5
Additional paid-in capital	69,823	69,503
Accumulated deficit	(61,756)	(61,096)
Treasury stock, 2 shares at cost at June 30, 2011 and September 30, 2010	(24)	(24)
Total shareholders' equity	8,049	8,388
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 26,101**	**$ 25,239**

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

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

	(Unaudited) For the Three Months Ended	
	June 30, 2011	June 30, 2010
REVENUES	$ 10,579	$ 10,079
DIRECT EXPENSES	9,066	8,740
GROSS PROFIT	**1,513**	**1,339**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,760	1,783
DEPRECIATION AND AMORTIZATION	28	34
Loss from operations	**(275)**	**(478)**
OTHER INCOME (EXPENSE)		
Interest income	—	7
Interest expense	(111)	(47)
Other expense	(7)	—
Other income, net	2	10
Legal expense related to pre-acquisition activity of acquired company	(19)	(35)
	(135)	(65)
Loss from continuing operations before income taxes	**(410)**	**(543)**
INCOME TAX EXPENSE	—	(33)
Loss from continuing operations	**(410)**	**(576)**
GAIN FROM DISCONTINUED OPERATION		
Other income	270	—
Gain from discontinued operation	270	—
NET LOSS	**$ (140)**	**$ (576)**
LOSS PER SHARE - BASIC AND DILUTED		
Loss from continuing operations	$ (0.07)	$ (0.11)
Gain from discontinued operation	0.05	—
Net loss per share	$ (0.02)	$ (0.11)
WEIGHTED AVERAGE BASIC AND DILUTED SHARES OUTSTANDING	5,663	5,080

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

	(Unaudited) For the Nine Months Ended	
	June 30, 2011	June 30, 2010
REVENUES	$ 31,598	$ 30,667
DIRECT EXPENSES	27,259	26,997
GROSS PROFIT	**4,339**	**3,670**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	4,883	5,272
OFFICER SEVERANCE	—	310
DEPRECIATION AND AMORTIZATION	87	87
Loss from operations	**(631)**	**(1,999)**
OTHER INCOME (EXPENSE)		
Interest income	7	12
Interest expense	(218)	(100)
Other expense	(14)	—
Other income, net	4	12
Legal expense related to pre-acquisition activity of acquired company	(78)	(92)
	(299)	(168)
Loss from continuing operations before income taxes	**(930)**	**(2,167)**
INCOME TAX EXPENSE	—	(43)
Loss from continuing operations	**(930)**	**(2,210)**
GAIN (LOSS) FROM DISCONTINUED OPERATION		
Other income	270	
Loss from disposal	—	(349)
Loss from operations	—	(810)
Gain (loss) from discontinued operation	270	(1,159)
NET LOSS	**$ (660)**	**$ (3,369)**
LOSS PER SHARE - BASIC AND DILUTED		
Loss from continuing operations	$ (0.17)	$ (0.44)
Gain (loss) from discontinued operation	0.05	(0.23)
Net loss per share	$ (0.12)	$ (0.67)
WEIGHTED AVERAGE BASIC AND DILUTED SHARES OUTSTANDING	5,308	5,009

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

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

	(Unaudited) For the Nine Months Ended	
	June 30, 2011	June 30, 2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (660)	$ (3,369)
Adjustments to reconcile net loss to net cash used in operating activities, net of divested business:		
Depreciation and amortization	89	87
Compensation expense related to employee stock option grants	64	88
Compensation expense related to employee restricted stock grants	14	161
Compensation expense related to director restricted stock grants	20	57
Other non-cash compensation	6	—
Loss on retirement of equipment	17	1
Changes in operating assets and liabilities, net of divested business:		
Accounts receivable	(1,176)	(72)
Other current assets	190	49
Other assets	(90)	(82)
Accounts payable, accrued payroll, accrued expenses and other current liabilities	(538)	219
Other long term liabilities	(4)	(8)
Cash flows from discontinued operation	(270)	1,386
Net cash used in operating activities	(2,338)	(1,483)

CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment, leasehold improvements and software	(24)	(191)
Net cash provided by (used in) investing activities	(24)	(191)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net advances on revolving line of credit	1,807	—
Repayments on capital lease obligations	(14)	(15)
Proceeds from sale of Common Stock	150	
Cash flows from discontinued operation	(57)	(83)
Net cash provided by (used in) financing activities	1,886	(98)
Net decrease in cash and cash equivalents	(476)	(1,772)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,187	2,992
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 711	$ 1,220
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	$ 210	$ 26
Cash paid during the period for income taxes	$ 31	$ 94

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
JUNE 30, 2011 (UNAUDITED)

(1) ORGANIZATION AND BUSINESS:

TeamStaff, Inc. and its subsidiaries ("TeamStaff" or the "Company", also referred to as "we," "us" and "our"), provide a range of logistics, healthcare support and technical services to the United States Department of Veterans Affairs ("DVA"), the United States Department of Defense ("DoD") and other US governmental entities. TeamStaff's primary operations are conducted through its subsidiary TeamStaff Government Solutions, Inc. ("TeamStaff GS"), located in Loganville, Georgia and its principal executive office is located at 1776 Peachtree Street, NW, Atlanta, Georgia 30309, where its telephone number is (866) 952-1647.

Company History

TeamStaff is a New Jersey corporation that was founded in 1969. Today, TeamStaff is a national provider and prime contractor of logistics, healthcare delivery and other technical services to Federal Agencies, including the DVA and the DoD with over 800 employees performing in over 20 states throughout the country. In early 2010, the Company took important steps toward enhancing the value of TeamStaff by completing the divestiture of its commercial staffing business (TeamStaff Rx) and fully focusing its efforts on the government services market. The closing of this transaction occurred on January 4, 2010. As discussed in Note 3 to these consolidated financial statements, where additional information about this transaction is provided, the results of operations, cash flows and related assets and liabilities of TeamStaff Rx have been reclassified in the accompanying consolidated financial statements as a discontinued operation. In connection with the refocusing of its operations, the Company completed a national search and appointed Zachary Parker as its President and Chief Executive Officer. Mr. Parker has subsequently transitioned the Company's executive and senior management team as well as its corporate infrastructure to better position the Company as a government services provider.

At present, TeamStaff GS, is the Company's only operating subsidiary. TeamStaff's other wholly-owned subsidiaries include DSI Staff ConnXions Northeast, Inc., DSI Staff ConnXions Southwest, Inc., TeamStaff Solutions, Inc., TeamStaff I, Inc., TeamStaff II, Inc., TeamStaff III, Inc., TeamStaff IV, Inc., TeamStaff VIII, Inc., TeamStaff IX, Inc., TeamStaff Rx, Inc., Digital Insurance Services, Inc., HR2, Inc. and BrightLane.com, Inc. As a result of the sale of our Professional Employer Organization ("PEO") business in fiscal year 2004 and other Company business changes, these "other" subsidiaries are inactive.

(2) LIQUIDITY AND SIGNIFICANT ACCOUNTING POLICIES:

Liquidity

At June 30, 2011, the Company had a net working capital deficit of approximately $2.4 million and an accumulated deficit of approximately $61.8 million. For the year ended September 30, 2010, the Company incurred an operating loss and net loss of approximately $4.3 million and $5.8 million, respectively, and incurred an operating loss and net loss of approximately $0.6 million and $0.7 million respectively, for the nine months ended June 30, 2011. The Company has a limited amount of cash and cash equivalents at June 30, 2011 and will be required to rely on operating cash flow and periodic funding, to the extent available, from its line of credit to sustain the operations of the Company unless it elects to pursue and is successful in obtaining additional debt or equity funding, as discussed below, or otherwise.

In an effort to improve the Company's cash flows and financial position, the Company, in fiscal 2011, has taken measures which are expected to enhance its liquidity by approximately $1,000,000 as a result of increasing the maximum availability of its credit facility and receiving funding of and/or commitments for additional equity and/or debt financing. In that regard, the Company's largest shareholder, Wynnefield Capital, Inc., and certain of its directors and executive officers provided assurances for future financings whereby they collectively agreed to provide up to $500,000 of additional capital to the Company if it determines, prior to February 28, 2012, that such funds are required (the "Commitments"). As described in Note 7, $150,000 of such capital was provided on March 31, 2011 and $350,000 of such capital was provided subsequent to June 30, 2011. In addition, as described in Note 6, on February 9, 2011, the Company entered into an amendment of its Loan and Security Agreement with Presidential Financial Corporation, pursuant to which they agreed to increase the maximum availability under the Loan and Security Agreement by an additional $500,000 and provide an unbilled receivable facility within the limits of the Loan and Security Agreement. Following this increase, the maximum availability under this loan facility is $3,000,000; subject to eligible accounts receivable. At June 30, 2011 the

amount available was $188,000. In addition, as described in greater detail below, the parties agreed to amend certain other provisions of the Loan Agreement, including an extension of the term of the Loan Agreement for an additional year and the Lender agreed not to seek to terminate the Loan Agreement without cause until after February 29, 2012. In addition, pursuant to its current credit facility, the financial institution also has the ability to terminate the Company's line of credit immediately upon the occurrence of a defined event of default, including among others, a material adverse change in the Company's circumstances or if the financial institution deems itself to be insecure in the ability of the Company to repay its obligations or, as to the sufficiency of the collateral. At present, the financial institution has not declared an event of default.

Management believes, at present, that: (a) cash and cash equivalents of approximately $0.7 million as of June 30, 2011; (b) the $350,000 of capital available pursuant to the Commitments (which was provided subsequent to June 30, 2011); (c) the amounts available under its line of credit (which, in turn, is limited by a portion of the amount of eligible assets); (d) forecasted operating cash flow; (e) the ultimate non-payment of certain liabilities currently contested by the Company (classified as current at June 30, 2011) in fiscal 2011, or the applicable portion of 2012 and (f) effects of cost reduction programs and initiatives should be sufficient to support the Company's operations for twelve months from the date of these financial statements. However, should any of these factors not occur substantially as currently expected, there could be a material adverse effect on the Company's ability to access the level of liquidity necessary for it to sustain operations at current levels for the next twelve months. In such an event, management may be forced to make further reductions in spending or to further extend payment terms with suppliers, liquidate assets where possible, and/or to suspend or curtail planned programs. Any of these actions could materially harm the Company's business, financial position, results of operations and future prospects. Due to the foregoing there could be a future need for additional capital and the Company may pursue equity, equity-based and/or debt financing alternatives or other financing in order to raise any needed funds. If the Company raises additional funds by selling shares of common stock or convertible securities, the ownership of its existing shareholders would be diluted.

The Company derives a substantial amount of revenue from agencies of the Federal government and on May 5, 2011 was awarded a single source Blanket Purchase Agreement with the DVA for the procurement of integrated medical support for the Department of Veterans Affairs' Consolidated Mail Outpatient Pharmacy ("CMOP") program. This award represents both retention of existing work and expansion of new business at additional DVA locations. The tasks to be performed include project management and a range of pharmaceutical services in support of performance-based pharmaceutical production management at several DVA locations. The maximum total value under this award is expected to be approximately $140,000,000 pursuant to site-specific task orders to be rendered by the DVA during a five-year term expiring April 30, 2016. Work under this contract is expected to begin by October 1, 2011. The agreement is subject to the Federal Acquisition Regulations and there can be no assurance as to the actual amount of services that the Company will ultimately provide under the agreement. This agreement effectively provides for renewal and expansion of contracts that generated, in aggregate, approximately 45% of its revenue in the year ended September 30, 2010, in respect of which the Company currently holds order cover through December 31, 2011 under existing contracts. In addition, the Company also holds contractual order cover through December 31, 2011 in respect of DVA contracts that generated close to a further 50% of its revenue in the year ended September 30, 2010, which are not currently the subject of requests for proposals and may in due course be further extended by the DVA on a sole source basis, although no assurances can be given that this will occur.

Basis of Presentation

The consolidated interim financial statements included herein have been prepared by TeamStaff, without audit, pursuant to the applicable rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. TeamStaff believes that the disclosures are adequate to make the information presented not misleading. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in TeamStaff's fiscal 2010 Annual Report on Form 10-K which was filed on February 14, 2011. This interim financial information reflects, in the opinion of management, all adjustments necessary (consisting only of normal recurring adjustments and changes in estimates, where appropriate) to present fairly the results for the interim periods. The results of operations and cash flows for such interim periods are not necessarily indicative of the results for the full year.

The accompanying consolidated financial statements include the accounts of TeamStaff and its subsidiaries, all of which are wholly owned. All intercompany balances and transactions have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform to the current period presentation. The results of operations, cash flows, and related assets and liabilities of TeamStaff Rx have been reclassified to a discontinued operation in the accompanying consolidated financial statements from those of continuing businesses for all periods presented.

Revenue Recognition

TeamStaff accounts for its revenues in accordance with ACS 605-45, *Reporting Revenues Gross as a Principal Versus Net as an Agent*, and SAB 104, *Revenue Recognition*. TeamStaff recognizes all amounts billed to its customers as gross revenue because, among other things, TeamStaff is the primary obligor in the contract. TeamStaff has pricing latitude and is at risk for the payment of its direct costs TeamStaff also recognizes as gross revenue its unbilled receivables, on an accrual basis. These amounts relate to services performed by employees which have not yet been billed to the customer as of the end of the accounting period.

TeamStaff GS is seeking approval from the Federal government for gross profit on retroactive billing rate increases associated with certain government contracts at which it had employees performing in accordance with contract requirements. These adjustments are due to changes in the contracted wage determination rates. A wage determination is the listing of wage rates and fringe benefit rates for each classification of laborers whom the Administrator of the Wage and Hour Division of the U.S. Department of Labor ("DOL") has determined to be prevailing in a given locality. Contractors performing services for the Federal government under certain contracts are required to pay their employees no less than the wage rates and fringe benefits found prevailing in these localities. An audit by the DOL in 2008 at one of the facilities revealed that notification, as required by contract, was not provided to TeamStaff GS in order to effectuate the wage increases in a timely manner. Wages for contract employees on assignment at the time have been adjusted prospectively to the prevailing rate and hourly billing rates to the DVA have been increased accordingly. During the fiscal year ended September 30, 2008, TeamStaff recognized nonrecurring revenues of $10.8 million and direct costs of $10.1 million, based on amounts that are contractually due under its arrangements with the Federal agencies. At June 30, 2011, the amount of the remaining accounts receivable with the DVA approximates $9.3 million and the related accrued salary and

benefits for direct costs approximates $8.7 million. The Company has been and continues to be in discussions with representatives of the Government regarding the matter and anticipates resolution during fiscal 2011. In addition, TeamStaff is in the process of addressing a final amount related to gross profit on these adjustments. As such, there may be additional revenues recognized in future periods once the approval for such additional amounts is obtained. The ranges of additional revenue and gross profit are estimated to be between $0.4 million and $0.6 million. At present, the Company expects to collect such amounts during fiscal 2011, based on current discussions and collection efforts. Because these amounts are subject to government review, no assurances can be given that we will receive any additional amounts from our government contracts or that if additional amounts are received, that the amount will be within the range specified above.

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

Goodwill

In accordance with applicable accounting standards, TeamStaff does not amortize the goodwill associated with TeamStaff GS. TeamStaff continues to review its goodwill for possible impairment or loss of value at least annually or more frequently upon the occurrence of an event or when circumstances indicate that a reporting unit's carrying amount is greater than its fair value. At September 30, 2010, we performed a goodwill impairment analysis. For the purposes of this analysis, our estimates of fair value are based on the income approach, which estimates the fair value of the TeamStaff GS unit based on the future discounted cash flows. Based on the results of the work performed, the Company has concluded that no impairment loss on goodwill was warranted at September 30, 2010. Major assumptions in the valuation study were the estimates of probability weighted future cash flows, the estimated terminal value of TeamStaff GS and the discount factor applied to the estimated future cash flows and terminal value. Estimates of future cash flows were developed by management having regard to current expectations and potential future opportunities. A terminal value for the forecast period was estimated based upon data of public companies that management believes to be similar with respect to the Company's economics, products and markets. The discount factor used was a cost of capital estimate obtained from a leading third party data provider. The resulting estimated fair value of goodwill exceeded the carrying value at September 30, 2010 by more than 40%, resulting in no impairment charge being taken against goodwill. However, a non-renewal of a major contract or other substantial changes in the assumptions used in the valuation study could have a material adverse effect on the valuation of goodwill in future periods and the resulting charge could be material to future periods' results of operations.

If an impairment of all the goodwill became necessary, a charge of up to $8.6 million would be expensed in the Consolidated Statement of Operations. All remaining goodwill is attributable to the TeamStaff GS reporting unit. TeamStaff has concluded, at present, that an interim impairment test is not required and there is not any required impairment of goodwill.

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Intangible Assets

As required by applicable accounting standards, TeamStaff does not amortize its tradenames, an indefinite life intangible asset. TeamStaff continues to review its indefinite life intangible assets for possible impairment or loss of value at least annually or more frequently upon the occurrence of an event or when circumstances indicate that an asset's carrying amount is greater than its fair value. At September 30, 2010, we performed an intangible asset impairment analysis. For the purposes of this analysis, our estimates of fair value are based on the income approach, which estimates the fair value of the intangible assets based on the future discounted cash flows. Based on the results of the work performed, the Company concluded that an impairment loss on intangible assets in the amount of $1.3 million was warranted at September 30, 2010. Major assumptions in the valuation study were the estimates of probability weighted future cash flows, the estimated terminal value of the Company and the discount factor applied to the estimated future cash flows and terminal value. Estimates of future cash flows were developed by management having regard to current expectations and potential future opportunities. A terminal value for the forecast period was estimated based upon data of public companies that management believes to be similar with respect to the Company's economics, products and markets. The discount factor used was a cost of capital estimate obtained from a leading third party data provider. The resulting estimated fair value of tradenames were less than the carrying value at September 30, 2010 by approximately $1.3 million, resulting in an impairment charge of that amount being taken against the tradenames. In addition, a non-renewal of a major contract or other substantial changes in the assumptions used in the valuation study could have a material adverse effect on the valuation of tradenames in future periods and a resulting charge would be material to future periods' results of operations. If an additional impairment write-off of all the tradenames and intangible assets became necessary, a charge of up to $2.6 million would be expensed in the Consolidated Statement of Operations. TeamStaff has concluded, at present, that an interim impairment test is not required and there is not any required impairment of its tradenames.

Income Taxes

TeamStaff accounts for income taxes in accordance with the "liability" method, whereby deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are reflected on the consolidated balance sheet when it is determined that it is more likely than not that the asset will be realized. This guidance also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some or all of the deferred tax asset will not be realized. At June 30, 2011, the Company provided a 100% deferred tax valuation allowance of approximately $14.5 million.

Stock-Based Compensation

Compensation costs for the portion of awards (for which the requisite service has not been rendered) that are outstanding are recognized as the requisite service is rendered. The compensation cost for that portion of awards shall be based on the grant-date fair value of those awards as calculated for recognition purposes under applicable guidance. As of June 30, 2011, there is $137,000 remaining in unrecognized compensation expense related to non-vested option awards and $150,000 remaining for unvested restricted stock expense for a total unrecognized stock expense of $287,000 to be recognized in future periods.

Stock Options and Restricted Stock

There was share-based compensation expense for options for the three months ended June 30, 2011 and June 30, 2010 of $17,000 and $18,000, respectively. There was share-based compensation expense for options for the nine months ended June 30, 2011 and June 30, 2010 of $64,000 and $88,000, respectively.

During the three months ended June 30, 2011, TeamStaff did not grant any options. During the nine months ended June 30, 2011, TeamStaff granted 250,000 options per the terms of an employment agreement with the Company's Executive Vice President and recorded share-based compensation expense of $25,000 in connection with this grant and $39,000 for all other awards. There were 972,500 options outstanding as of June 30, 2011.

During the three months ended June 30, 2010, TeamStaff did not grant any options. During the nine months ended June 30, 2010, TeamStaff granted 75,000 options per the terms of an employment agreement with the Company's former Chief Financial Officer and recorded share-based compensation expense of $30,000. An additional $7,000 of share-based compensation expense was recognized over the remainder of fiscal 2010 related to this grant. Also during the nine months ended June 30, 2010, the Company granted 500,000 options per the terms of an employment agreement with the Company's new Chief Executive Officer and President and recorded share-based compensation expense of $45,000. For the remaining unvested options, the Company will recognize a non-

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cash compensation charge over the Chief Executive Officer's remaining service period, for the calculated fair value of these options based on market values, historical stock performance and exercisability assumptions specific to this grant. Such charges will be material in future periods. During the nine months ended June 30, 2010, 5,750 options expired or were cancelled unexercised and no options were exercised.

During the three months ended June 30, 2011, TeamStaff did not grant any shares of restricted stock. During the nine months ended June 30, 2011, TeamStaff granted 35,000 shares of restricted stock to non-employee directors under its 2006 Long Term Incentive Plan, at the closing price on the award date of $.56. All of these shares vested immediately. Stock compensation expense associated with these grants was $20,000 and $14,000 for all other grants for the nine months ended June 30, 2011. During the three months ended June 30, 2011, no shares of restricted stock vested. During the nine months ended June 30, 2011, 77,500 shares of restricted stock vested.

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

The stock option activity for the nine months ended June 30, 2011 is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding, September 30, 2010	722,500	$ 1.13	8.6	
Granted	250,000	$ 0.56	9.6	
Exercised	—	—	—	
Options outstanding, June 30, 2011	972,500	$ 1.03	8.9	$ 41,000

At June 30, 2011, there were 222,500 options outstanding that were vested and exercisable and an additional 750,000 options outstanding that vest to the recipients when the market value of the Company's stock achieves and maintains defined levels. The Company used a binomial valuation model and various probability factors in establishing the fair value of these options.

In addition, during the three months ended June 30, 2011, the Management Resources and Compensation Committee (the "Committee") of the Board of Directors of the Company approved proposed grants of an aggregate of 425,000 employee stock options to certain executive officers, subject to the approval by the Company's stockholders, of an amendment to the Company's 2006 Long-Term Incentive Plan to increase the number of shares of common stock authorized for issuance pursuant to awards granted under such plan. If such options are awarded, they will be subject to time-based and performance based vesting criteria as established by the Committee.

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

The restricted stock activity for the nine months ended June 30, 2011 is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Restricted stock outstanding, September 30, 2010	95,000	$ 2.42
Granted	35,000	0.56
Issued	(77,500)	1.29
Cancelled	—	—
Restricted stock outstanding, June 30, 2011	52,500	$ 1.42

At June 30, 2011, there were 52,500 shares of unvested restricted stock outstanding. As of June 30, 2011, there is $150,000 remaining costs related to non-vested restricted stock awards.

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The values ascribed to warrants issued under a June 1, 2011 convertible debt agreement (see Note 7) were determined using the Black-Scholes valuation method.

Changes in Shareholders' Equity

During the three months ended June 30, 2011, additional paid in capital increased by $87,000 as a result of warrants issued and stock compensation expense. In addition, $5,625 of credits of one of the March 31, 2011 purchasers of equity via rights of offset were applied by the Company during the three months ended June 30, 2011 in respect of 11,481 shares. During the nine months ended June 30, 2011, additional paid-in capital increased by $320,000 as a result of recognized stock compensation expense, the equity raise from certain of the Company's officers and directors and the Company's agreement with Wynnefield Capital and related warrants. Also, $7,500 of credits of one of the March 31, 2011 purchasers of equity via rights of offset were applied by the Company during the nine months ended June 30, 2011 in respect to 15,308 shares (see Note 7). For the nine months ended June 30, 2011, there were a total of 587,781 shares issued and 53,846 warrants issued. As the warrants were issued in connection with a debt agreement, debt agreement costs and additional paid in capital increased by $42,000. In addition, at June 30, 2011 the Company has accrued debt agreement costs of $32,000.

Financial Instrument Note

The Company has financial instruments, principally accounts receivable, accounts payable, loan payable, notes payable, and accrued expense. TeamStaff estimates that the fair value of all financial instruments at June 30, 2011 and September 30, 2010 does not differ materially from the aggregate carrying values of these financial instruments recorded in the accompanying consolidated balance sheets.

Loss Per Share

Loss per share is calculated by dividing loss available to common shareholders by the weighted average number of common shares outstanding and restricted stock grants that vested or are likely to vest during the period. As such effects are anti-dilutive, there were no differences in the number of weighted average shares outstanding in determining basic and diluted loss per share in each of the three and nine months ended June 30, 2011 and 2010.

(3) DISCONTINUED OPERATION:

Other Income of PEO Operation

During the three months ended June 30, 2011 the State of Florida determined that approximately $270,000 of escheated funds it was holding was the property of the Company and ordered that such funds be paid to the Company. The Company's right to the funds arose in connection with the Company's former PEO operations that were accounted for as a discontinued operation in fiscal 2003. Accordingly, the Company has accounted for the amounts receivable as income from discontinued operations in the current period after concluding that the amount involved was not material to the results of operations in the year of discontinuance and the funds were received subsequent to June 30, 2011.

Sale of TeamStaff Rx

Based on an analysis of historical and forecasted results and the Company's new strategic initiative to focus on core government services business, in the fourth quarter of fiscal 2009, the Company approved and committed to a formal plan to divest the operations of TeamStaff Rx, Inc. a former wholly owned subsidiary of the Company which was focused on commercial temporary staffing. In evaluating the facets of TeamStaff Rx's operations, management concluded that this business component met the definition of a discontinued operation. Accordingly, the results of operations, cash flows and related assets and liabilities of TeamStaff Rx for all periods presented have been reclassified in the accompanying consolidated financial statements from those of continuing businesses.

Effective December 28, 2009, TeamStaff and TeamStaff Rx entered into a definitive Asset Purchase Agreement with Advantage RN, providing for the sale of substantially all of the operating assets of TeamStaff Rx related to TeamStaff Rx's business of providing travel nurse and allied healthcare professionals for temporary assignments to Advantage RN. The closing of this transaction occurred on January 4, 2010. The Asset Purchase Agreement provides that the purchased assets were acquired by Advantage RN for a purchase price of up to $425,000, of which: (i) $350,000 in cash was paid at the closing, and (ii) $75,000 was subject to an escrowed holdback as described in the Asset Purchase Agreement. On March 25, 2010, the Company and Advantage RN completed the analysis related to

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escrow release conditions and reached an agreement as to the final purchase price. Of the $75,000 held in escrow, $25,000 was returned to the Company and $50,000 was released to Advantage RN, resulting in a final purchase price of $375,000. Additionally, Advantage RN was obligated to make rent subsidy payments to TeamStaff Rx totaling $125,000, consisting of: (i) $25,000 paid at closing, and (ii) an additional $100,000 payable in 10 equal monthly installments beginning on March 1, 2010. The last rent payment received from Advantage RN was in July 2010. They have since vacated the premises and ceased making installment payments. The Company intends to pursue a claim against Advantage RN for all amounts owed. The Company has provided an allowance for their estimate of uncollectible sub-lease funding. Under the terms of the Asset Purchase Agreement, Advantage RN did not assume any debts, obligations or liabilities of TeamStaff Rx nor did it purchase any accounts receivable outstanding as of the closing date.

Condensed results of discontinued operations are as follows:

	For the Three Months Ended		For the Nine Months Ended	
(amounts in thousands)	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Revenues	$ —	$ —	$ —	$ 1,418
Direct expenses	—	—	—	(1,255)
Selling, general and administrative expenses	—	—	—	(971)
Other expense, net	—	—	—	(2)
Loss from Operations	—	—	—	(810)
Loss from disposal	—	—	—	(349)

Other income (expense), net	270	—	270	—
Net income (Loss)	$ 270	$ —	$ 270	$ (1,159)

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

The following chart details the balance sheet components from the discontinued operations (amounts in thousands):

	June 30, 2011	September 30, 2010
ASSETS		
Accounts receivable	$ 270	$ —
Total assets	$ 270	$ —
LIABILITIES		
Accrued expenses and other current liabilities	$ 232	$ 289
Total liabilities	$ 232	$ 289

4) COMMITMENTS AND CONTINGENCIES:

Payroll Taxes

TeamStaff has received notices from the Internal Revenue Service ("IRS") claiming taxes, interest and penalties due related to payroll taxes predominantly from its former PEO operations which were sold in fiscal 2003. TeamStaff has also received notices from the IRS reporting overpayments of taxes. Management believes that these notices are predominantly the result of misapplication of payroll tax payments between its legal entities. If not resolved favorably, the Company may incur interest and penalties. Until the sale of certain assets related to the former PEO operations, TeamStaff operated through 17 subsidiaries, and management believes that the IRS has not correctly identified payments made through certain of the different entities, therefore leading to the notices. To date, TeamStaff

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has been working with the IRS to resolve these discrepancies and has had certain interest and penalty claims abated. TeamStaff has also received notices from the Social Security Administration claiming variances in wage reporting compared to IRS transcripts. TeamStaff believes the notices from the Social Security Administration are directly related to the IRS notices received. TeamStaff had retained the services of Ernst & Young LLP as a consultant to assist in resolving certain of these matters with the IRS and Social Security Administration. TeamStaff believes that after the IRS applies all the funds correctly, any significant interest and penalties will be abated; however, there can be no assurance that each of these matters will be resolved favorably. In settling various years for specific subsidiaries with the IRS, the Company has received refunds for those specific periods; however, as the process of settling and concluding on other periods and subsidiaries is not yet completed, the potential exists for related penalties and interest and the remaining liability ($1.3 million at June 30, 2011) has been recorded in accounts payable and includes estimated penalties and interest currently sought by the IRS totaling approximately $500,000.

The Company believes it has accrued for the entire estimated remaining liability, inclusive of interest and penalties through the date of the financial statements. The Company will incur additional interest and may incur possible additional penalties through the future date that this obligation is settled, however, it is not currently possible to estimate what, if any, additional amount(s) may be claimed in future, given the uncertain timing and nature of any future settlement negotiations. In fiscal 2009, the Company paid $1.1 million, related to this matter. No payments were made in fiscal 2010 or fiscal 2011. Management believes that the ultimate resolution of these remaining payroll tax matters will not have a significant adverse effect on its financial position or future results of operations. The Company's intention is that it will in due course seek to negotiate a mutually satisfactory payment plan with the IRS, but there is no assurance that it would be successful in doing so and the Company's future cash flows and liquidity could therefore be materially affected by this matter.

Rent Subsidy from Advantage RN

In connection with our disposition of TeamStaff Rx, Advantage RN was obligated to make rent subsidy payments to TeamStaff Rx totaling $125,000, consisting of: (i) $25,000 paid at closing, and (ii) an additional $100,000 payable in 10 equal monthly installments beginning on March 1, 2010. The last rent payment received from Advantage RN was in July 2010. They have since vacated the premises and ceased making installment payments. While the landlord of these premises is seeking damages from the Company for unpaid amounts, the Company intends to pursue a claim against Advantage RN for amounts owed, which the Company presently estimates is $50,000. The Company has provided an allowance for the estimated uncollectible sub-lease funding. The Company has nevertheless accrued for the remaining rent payments.

Legal Proceedings

RS Staffing Services, Inc. Note

The Company originally acquired RS Staffing Services in June 2005. As part of the purchase price of the acquisition, the Company issued to the former owners of RS Staffing Services: (i) $3.0 million of promissory notes ("the Notes"), of which $1.5 million in principal and interest of $150,000 was paid in June 2006; and (ii) certain stock in the Company. On May 31, 2007, the Company sent a notice of indemnification claim to the former owners for costs that have been incurred in connection with an investigation of the former owners for matters prior to the sale. The Company was not a target of the investigation. The Company recognized expenses related to legal representation and costs incurred in connection with the investigation and dispute in the amount of $19,000 and $35,000 during the three months ended June 30, 2011 and 2010, respectively, as a component of other income (expense). The Company recognized expenses related to legal representation and costs incurred in connection with the investigation and dispute in the amount of $78,000 and $92,000 during the nine months ended June 30, 2011 and 2010, respectively, as a component of other income (expense). Cumulative costs related to this matter, which

have all been expensed, approximate $1.8 million. Pursuant to the acquisition agreement with RS Staffing Services, the Company notified the former owners of RS Staffing Services of the Company's intention to exercise its right to set off the payment of such expenses against the remaining principal and accrued interest due to the former owners of RS Staffing Services. The former owners of RS Staffing Services notified the Company of their disagreement with the Company's course of action and of the existence of partial counter-claims in regard to allegations that the Company without due cause failed to permit them to sell certain of their stock in the Company. Subsequent to June 30, 2011, the parties have successfully negotiated a settlement following mediation, as provided for in the stock purchase agreement.

Pursuant to the final agreement relating to this matter (the "Agreement"), the Company has paid $200,000 in cash to the former owners of RS Staffing (the "Former Owners"), issued them an aggregate of 300,000 shares of Company common stock , and agreed to permit the Former Owners to resell an aggregate of 201,724 other shares of common stock of TeamStaff, Inc. presently held by them, against which the Company had previously placed a stop order preventing their resale. The Former Owners agreed to orderly

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sale limitations with respect to their ability to resell all their shares of common stock. In accordance with these limits, during the 90-day period commencing on the effective date of the Agreement, neither Former Owner will resell in excess of 33,000 shares of TeamStaff common stock previously held by them during any 30-day period without the consent of TeamStaff. With respect to the new shares of TeamStaff common stock to be issued pursuant to the Agreement, commencing on the six-month anniversary of the effective date of the Agreement, neither Former Owner will resell in excess of 25,000 shares during any 30-day period without the consent of TeamStaff.

In addition, TeamStaff provided guarantees to the Former Owners that the net proceeds to be received by them from the resale of all of the shares of common stock of TeamStaff, Inc. sold by them pursuant to the Agreement would not be less than certain minimum guarantees. With respect to the shares of common stock owned by them prior to the effective date of the Agreement (the "Old TeamStaff Shares"), TeamStaff guaranteed to the Former Owners, aggregate net proceeds totaling $200,000 and with respect to the shares of common stock of TeamStaff issued under the Agreement (the "New TeamStaff Shares"), TeamStaff guaranteed net proceeds totaling $750,000.

The payments of all amounts under the Agreement are secured by the Notes. Upon receipt by the Former Owners of (i) the payment of $200,000 made on July 29, 2011 by TeamStaff following the execution of the Agreement and (ii) the proceeds realized from the sale of the Old TeamStaff Shares and New TeamStaff Shares, or the guarantees, the Notes shall be deemed satisfied in full. In addition, the parties agreed to release each other from any further claims that either may have against the other, except to enforce the Agreement.

In accounting for the Agreement, the fair value ascribed to the New TeamStaff Shares was based on the closing price of the common stock on July 29, 2011, the date of the Agreement. The effects of this settlement, which will consider the impact and extent of the Company's guarantee, will be assessed and accounted for in the Company's quarter ending September 30, 2011. The June 30, 2011 consolidated balance sheet reflects the payment and likely settlement of the Agreement; as a result, the recorded amounts of the $1.5 million promissory note and the related accrued interest payable have been reclassified to reflect the timing of cash payments.

Other Matters

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

In connection with its medical staffing business, TeamStaff is exposed to potential liability for the acts, errors or omissions of its contract 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 is expected to have a material adverse impact on TeamStaff's results of operations, financial position or cash flows.

Leases

On June 29, 2011, TeamStaff, Inc. entered into a lease agreement (the "New Lease") for property located at 1776 Peachtree Street, NW, Atlanta, Georgia (the "New Premises") with an affiliate of the Landlord of its existing offices at 1 Executive Drive, Somerset, New Jersey (the "Somerset Offices"). Payment of rent under the New Lease will commence 90 days after certain remodeling is completed and the New Premises are ready to be occupied. The New Premises consist of approximately 4,000 square feet and the annual base rent under the New Lease is initially approximately $75,500 and will periodically increase to a maximum of approximately $88,700. Pending the Company's occupancy of the New Premises, the Company is being provided with interim premises at the same location by its landlord at no additional charge to its lease payment in respect of the Somerset Offices. The lease for the Somerset Offices will remain in effect until the New Premises are ready to be occupied, at which time the Landlord and the Company have agreed in a lease surrender agreement executed in conjunction with the New Lease that the Somerset Offices may be immediately surrendered at no charge. The term of the New Lease is for a period of 68 months commencing upon the New Premises being ready for occupancy.

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(5) PREPAID WORKERS' COMPENSATION:

As part of the Company's discontinued PEO operations, TeamStaff had a workers' compensation program with Zurich, which covered the period from March 22, 2002 through November 16, 2003, inclusive. Payments for the policy were made to a trust monthly based on projected claims for the policy period.

Interest on all assets held in the trust is credited to TeamStaff. Payments for claims and claims expenses are made from the trust. From time-to-time, trust assets have been refunded to the Company based on Zurich's and managers' overall assessment of claims experience and historical and projected settlements. In June 2009 and March 2008, Zurich reduced the collateral requirements on outstanding workers' compensation claims and released $114,000 and $350,000, respectively, in trust account funds back to the Company. However, during the three and nine months ended June 30, 2011, approximately $0.1 million of expense was recognized following increases in reserves considered necessary by Zurich. The final amount of trust funds that could be refunded to the Company is subject to a number of uncertainties (e.g. claim settlements and experience, health care costs, the extended statutory filing periods for such claims); however, based on a third party's study of claims experience, TeamStaff estimates that at June 30, 2011, the remaining prepaid asset of $0.2 million will be received within the next twelve months. The amount is reflected on TeamStaff's balance sheet as of June 30, 2011 as a current asset, in addition to approximately $0.2 million related to current policy deposits.

(6) DEBT:

Current Facility

On July 29, 2010, TeamStaff GS entered into a Loan and Security Agreement (the "Loan Agreement") with Presidential Financial Corporation (the "Lender"). Under the Loan Agreement, the Lender agreed to provide a two (2) year loan and security facility to TeamStaff GS in an aggregate amount of up to $1.5 million, subject to the terms and conditions of the Loan Agreement. In November 2010, the Lender agreed, by means of an amendment to the Loan Agreement, to increase the maximum amount available under the facility from $1.5 million to $2.5 million. In February 2011 the Company and Lender further increased the maximum availability under the Loan Agreement by an additional $500,000 to $3.0 million and provided an unbilled receivable facility within the limits of the Loan Agreement. An interest rate premium of 2% is payable in respect of any advances secured by unbilled accounts receivable, which are subject to a sub-facility limit of $500,000 and an advance rate of 75%. The loan is secured by a security interest and lien on all of TeamStaff GS's accounts, account deposits, letters of credit and investment property, chattel paper, furniture, fixtures and equipment, instruments, investment property, general intangibles, deposit accounts, inventory, other property, all proceeds and products of the foregoing (including proceeds of any insurance policies and claims against third parties for loss of any of the foregoing) and all books and records related thereto. TeamStaff GS's ability to request loan advances under the Loan Agreement is subject to: (i) computation of TeamStaff GS's advance availability limit based on "eligible accounts receivables" (as defined in the Loan Agreement) multiplied by the "Accounts Advance Rate" established by the Lender which initially shall be 85% and may be increased or decreased by the Lender in exercise of its discretion; and (ii) compliance with the covenants and conditions of the loan. The loan was initially for a term of 24 months and after giving effect to the February 2011 amendment, which also extended the term of the Loan Agreement by 12 months, will mature on July 29, 2013.

Interest on the loan accrues on the daily-unpaid balance of the loan advances secured by billed receivables. Following the February 2011 amendment to the Loan Agreement, the interest rate under the Loan and Security Agreement is the greater of (a) 3.25% or (b)(i) 1.95% above the Wall Street Journal Prime rate on the accounts receivable portion of the credit line and (ii) 3.95% above the Wall Street Journal Prime rate on the unbilled accounts portion. The interest rate at June 30, 2011 was 5.2%. In addition, TeamStaff GS will pay certain other related fees and expense reimbursements including a monthly service charge of 0.65% based on the average daily loan balance which shall accrue daily and be due and payable on the last day of each month so long as the Loan Agreement is outstanding. At June 30, 2011, the amount of the unused availability under the line was $188,000. The amount outstanding as of June 30, 2011 was $2,169,000.

The Loan Agreement requires compliance with customary covenants and contains restrictions on the Company's ability to engage in certain transactions. Among other matters, under the loan agreement we may not, without consent of the Lender, (i) merge or consolidate with another entity, form any new subsidiary or acquire any interest in a third party; (ii) acquire any assets except in the ordinary course of business; (iii) enter into any transaction outside the ordinary course of business; (iv) sell or transfer collateral; (v) make any loans to, or investments in, any affiliate or enter into any transaction with an affiliate other than on an arms-length basis; (vi) incur any debt outside the ordinary course of business; (vii) pay or declare any dividends or other distributions; or (viii) redeem, retire or purchase any of our equity interests exceeding $50,000. In addition, the Loan Agreement requires TeamStaff GS to maintain a minimum tangible net worth of at least $1,000,000 on a trailing 12-month basis. Further, without the consent of the Lender, the Company is also restricted from making any payments in respect of other outstanding indebtedness. The Lender may terminate the

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Loan Agreement at any time upon 60 days written notice after February 29, 2012 and the Loan Agreement provides for customary events of default following which the Lender may, at its option, terminate the loan agreement and accelerate the repayment of any amount outstanding. The defined events of default include, among other things, a material adverse change in the Company's circumstances, or if the Lender deems itself insecure in the ability of the Company to repay its obligations, or as to the sufficiency of the collateral.

As part of the February 2011 amendment, the Lender also agreed to waive the Company's non-compliance with the covenant under the Loan Agreement to furnish them with a copy of TeamStaff GS' financial statements within 90 days after the end of its fiscal year. In addition to granting this waiver, the Lender also agreed to modify this covenant to require that the Company provide them, within 90 days after the end of each fiscal year, audited consolidated financial statements of the Company and its subsidiaries as of the end of such fiscal year and, in addition, at the same time, furnish consolidating income statement and balance sheet schedules, including a reconciliation with TeamStaff GS's financial information.

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

(7) EQUITY AND CONVERTIBLE DEBENTURES FINANCING

On March 31, 2011, the Company entered into a Securities Purchase Agreement (the "Purchase Agreement") with a limited number of accredited investors pursuant to which the Company sold an aggregate of $225,000 for 459,181 shares of its Common Stock to such persons in a private transaction (the "Equity Investment"). The purchasers participating in the transaction are members of the Company's Board of Directors and management team (the "Purchasers"). The transaction closed on March 31, 2011. Of this amount, the Company received $150,000 in total cash proceeds for the purchase of the shares of Common Stock and three of the purchasers agreed with the Company to pay the purchase price for the shares of Common Stock by granting an offsetting credit to the Company for an amount equal to the purchase price and authorizing the Company to apply such credit against any obligation of the Company to such person within twelve months of the closing date, except for base salary. The shares to which the credit relates are to be held by the Company until the credit is applied and will be cancelled upon the one-year anniversary to the extent the credit is not applied. The aggregate amount of such credits totaled $75,000. As of the nine months ended June 30, 2011, $7,500 of such rights of offset were exercised by the Company in respect of 15,308 shares. The Company has used

these cash proceeds for general working capital. The value ascribed to the Equity Investment was based on the fair value of the Company's stock on March 31, 2011. On May 18, 2011, the Company issued 51,020 shares of Common Stock to its counsel in connection with an arrangement to cancel $25,000 of outstanding fees.

On June 1, 2011, the Company entered into a debenture purchase agreement (the "Debenture Purchase Agreement") with entities affiliated with Wynnefield Capital, Inc. (the "Debenture Purchasers"), providing for a standby commitment pursuant to which the Debenture Purchasers agreed to purchase convertible debentures (the "Convertible Debentures") in an aggregate principal amount of up to $350,000 (the "Total Commitment Amount"). During the 24-month commitment term, upon at least five (5) days' written notice by the Company, the Debenture Purchasers will purchase Convertible Debentures in the aggregate principal amount specified in such notice up to the Total Commitment Amount. In addition, the Company issued the Debenture Purchasers warrants to purchase an aggregate of 53,846 shares of common stock (the "Warrants") in consideration of their agreement to provide the Total Commitment Amount. Subsequent to June 30, 2011, all of the Convertible Debentures have been sold by Company. The Company has drawn down the entire amount of available funds under the Debenture Purchase Agreement, of which $200,000 will be used for the initial payments under the Agreement relating to the settlement with the former owners of RS Staffing. The closing of the drawdown occurred on July 28, 2011, and on such date the Company issued the Convertible Debentures in the aggregate principal amount of $350,000 to the Debenture Purchasers, against its receipt of such funds.

The Convertible Debentures will mature on the 27-month anniversary of issuance and bear interest at the rate of the greater of the prime rate plus 5%, or 10% per annum, payable at maturity or upon redemption of such Convertible Debentures. The Convertible Debentures are convertible into shares of the Company's common stock at an initial conversion price of $1.30 per share, which was in excess of the fair market value of the Company's common stock at that date. The initial conversion rate is subject to adjustment to account for certain customary events and also will include weighted-average anti-dilution protection for future issuances by the Company, subject to certain exclusions. The Company can also redeem the outstanding Convertible Debentures at any time at 120% of the remaining principal amount, plus accrued but unpaid interest. The Warrants will be exercisable for five years at an initial exercise price equal to $1.00. The initial exercise price of the Warrants is subject to adjustment for certain customary events and includes weighted average anti-dilution protection for future issuances by the Company, subject to certain exclusions.

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In connection with the parties' entry into the Purchase Agreement, the Company, TeamStaff GS, the Debenture Purchasers and Presidential Financial Corporation entered into subordination agreements concerning the terms of the subordination of the Convertible Debentures to the secured loan facility provided by Presidential Financial Corporation. Under the subordination agreements, the Company may not make payments to the Debenture Purchasers under the Convertible Debentures unless before and following such payments, no "Event of Default" exists under the secured loan facility.

The Debenture Purchasers are entities affiliated with Wynnefield Capital, Inc., the Company's largest shareholder. Mr. Peter Black, a member of the Company's Board of Directors, is an employee of Wynnefield Capital. The Convertible Debentures and Warrants will be restricted securities issued in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act").

At June 30, 2011, direct costs associated with the Debenture Purchase Agreement totaled $32,000. These costs (and those incurred in prospective periods) and the values ascribed to the warrants of $42,000 have been and will be capitalized as deferred financing costs and amortized over the period that such debentures are outstanding or the Debenture Agreement is effective.`

(8) SUBSEQUENT EVENTS:

Management evaluated subsequent events through the date these financial statements were issued. Based on this evaluation, the Company has determined, except for the matters described in Note 4 and Note 7, that no subsequent events have occurred which require disclosure through the date that these financial statements are issued.

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

Forward Looking and Cautionary Statements

This report contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "1995 Reform Act"), Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). TeamStaff desires to avail itself of certain "safe harbor" provisions of the 1995 Reform Act and is therefore including this special note to enable TeamStaff to do so. Forward-looking statements are identified by words such as "believe," "anticipate," "expect," "intend," "plan," "will," "may" and other similar expressions. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. Forward-looking statements included in this 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 report: our ability to continue to recruit qualified healthcare and other professionals and administrative staff at reasonable costs; our ability to obtain any needed financing; our ability to attract and retain sales and operational personnel; our ability to secure contract awards, including the ability to secure renewals of contracts under which we currently provide services; our ability to enter into contracts with United States Government facilities and agencies on terms attractive to us and to secure orders related to those contracts; changes in the timing of orders for and our placement of professionals and administrative staff; the overall level of demand for the services we provide; the variation in pricing of the contracts under which we place professionals; our ability to manage growth effectively; the performance of our management information and communication systems; the effect of existing or future government legislation and regulation; changes in government and customer priorities and requirements (including changes to respond to the priorities of Congress and the Administration, budgetary constraints, and cost-cutting initiatives); economic, business and political conditions domestically; 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; the competitive environment for our services; the effect of recognition by us of an impairment to goodwill and intangible assets; other tax and regulatory issues and developments; and the effect of adjustments by us to accruals for self-insured retentions.

Other factors that could cause actual results to differ from those implied by the forward-looking statements in this Quarterly Report on Form 10-Q are set forth in our Annual Report on Form 10-K for the year ended September 30, 2010 and our other reports filed with the SEC, including this Quarterly Report on Form 10-Q. We undertake no obligation to update any forward-looking statement or statements in this

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filing to reflect events or circumstances that occur after the date on which the statement is made or to reflect the occurrence of unanticipated events.

Critical Accounting Policies and Estimates

See Note 2 of TeamStaff's 2010 Annual Report on Form 10-K as well as "Critical Accounting Policies and Estimates" contained therein for a discussion on critical accounting policies and estimates.

Goodwill

In accordance with applicable accounting standards, TeamStaff does not amortize the goodwill associated with TeamStaff GS. TeamStaff continues to review its goodwill for possible impairment or loss of value at least annually or more frequently upon the occurrence of an event or when circumstances indicate that a reporting unit's carrying amount is greater than its fair value. At September 30, 2010, we performed a goodwill impairment analysis. For the purposes of this analysis, our estimates of fair value are based on the income approach, which estimates the fair value of the TeamStaff GS unit based on the future discounted cash flows. Based on the results of the work performed, the Company has concluded that no impairment loss on goodwill was warranted at September 30, 2010. Major assumptions in the valuation study were the estimates of probability weighted future cash flows, the estimated terminal value of the Company and the discount factor applied to the estimated future cash flows and terminal value. Estimates of future cash flows were developed by management having regard to current expectations and potential future opportunities. A terminal value for the forecast period was estimated based upon data of public companies that management believes to be similar with respect to the Company's economics, products and markets. The discount factor used was a cost of capital estimate obtained from a leading third party data provider. The resulting estimated fair value of goodwill exceeded the carrying value at September 30, 2010 by more than 40%, resulting in no impairment charge being taken against goodwill. However, a non-renewal of a major contract or other substantial changes in the assumptions used in the valuation study could have a material adverse effect on the valuation of goodwill in future periods and the resulting charge could be material to future periods' results of operations.

If an impairment of all the goodwill became necessary, a charge of up to $8.6 million would be expensed in the Consolidated Statement of Operations. All remaining goodwill is attributable to the TeamStaff GS reporting unit.

Intangible Assets

As required by applicable accounting standards, TeamStaff does not amortize its tradenames, since such asset is an indefinite life intangible asset. TeamStaff continues to review its indefinite life intangible assets for possible impairment or loss of value at least annually or more frequently upon the occurrence of an event or when circumstances indicate that an asset's carrying amount is greater than its fair value. At September 30, 2010, we performed an intangible asset impairment analysis. For the purposes of this analysis, our estimates of fair value are based on the income approach, which estimates the fair value of the intangible assets based on the future discounted cash flows. Based on the results of the work performed, the Company has concluded that an impairment loss on intangible assets in the amount of $1.3 million was warranted at September 30, 2010. Major assumptions in the valuation study were the estimates of probability weighted future cash flows, the estimated terminal value of the company and the discount factor applied to the estimated future cash flows and terminal value. Estimates of future cash flows were developed by management having regard to current expectations and potential future opportunities. A terminal value for the forecast period was estimated based upon data of public companies that management believes to be similar with respect to the Company's economics, products and markets. The discount factor used was a cost of capital estimate obtained from a leading third party data provider. The resulting estimated fair value of tradenames were less than the carrying value at September 30, 2010 by approximately $1.3 million, resulting in an impairment charge of that amount being taken against the tradenames. In addition, a non-renewal of a major contract or other substantial changes in the assumptions used in the valuation study could have a material adverse effect on the valuation of tradenames in future periods and a resulting charge would be material to future periods' results of operations. If an additional impairment write off of all the tradenames and intangible assets became necessary, a charge of up to $2.6 million would be expensed in the Consolidated Statement of Operations. TeamStaff has concluded, at present, that there is not any required impairment of its tradenames.

Income Taxes

TeamStaff accounts for income taxes in accordance with the "liability" method, whereby deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Deferred tax assets are reflected on the consolidated balance sheet when it is determined that it is more likely than not that the asset will be realized. This guidance also requires that deferred tax assets

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be reduced by a valuation allowance if it is more likely than not that some or all of the deferred tax asset will not be realized. At June 30, 2011, the Company provided a 100% deferred tax valuation allowance of approximately $14.5 million.

Overview

Business Description

We are a national provider and prime contractor of logistics, healthcare delivery and other technical services to Federal Agencies including the Department of Defense and the Department of Veterans Affairs; with over 800 employees performing in over 20 states throughout the country. During the second quarter of fiscal 2010 we began taking important steps toward enhancing the value of TeamStaff and have fully focused our efforts on the government services market,

where we believe we have a proven track record of performance. In connection with the refocusing of our operations, we replaced our Chief Executive Officer who subsequently transitioned our executive and senior management team and corporate infrastructure to better position the company as a government services provider.

We derive our revenues primarily through contracts with the US government agencies that are focused on high priority national programs, and as a result, funding for our programs are generally linked to trends in US government spending in areas of veteran and military healthcare, defense logistics, and other agencies.

Having completed an extensive review and analysis of its core competencies, prospective growth markets within the Federal and DoD space, and its competitiveness within the addressable markets, TeamStaff has determined its three principal lines of services are as follows:

Logistics & Technical Services — This line of service draws heavily upon TeamStaff GS' proven logistics expertise and processes in areas involving supply chain management, performance-based logistics, third party logistics (3PL), inventory management, statistical process control, packaging/handling/storage & transportation, material and manpower readiness, supply support operations, and sustainment services. TeamStaff-developed tools and methodologies such as SPOT-m (Supply chain management Productivity Optimization Tool) along with Lean Six Sigma processes have lead to significant government savings, enhanced productivity and reduced error rates. In addition, this line of service embodies program and project management, engineering and prototype fabrication services, equipment and non-tactical vehicle operations and maintenance, hazardous material management, facilities and shipyard support services and more. In fiscal 2010, approximately 45% of our revenue was derived from this line of service.

Healthcare Delivery Solutions — Leveraging our strong heritage in medical & pharmaceutical services, and associated facilities management TeamStaff is well positioned to expand and diversify its customer base in this area. TeamStaff-developed tools such as the web-based Practitioner Resource Allocation Tool (e-PRAT) coupled with expert recruiting talent and tools provide for a degree of differentiation needed to compete favorably in this space. Professional services have included critical care, medical assessment, pharmaceutical, medical/surgical, emergency room/trauma center, behavioral health and trauma brain injury. Allied support includes a wide range including MRI technology, diagnostic sonography, phlebotomy, dosimetry, physical therapy, pharmaceuticals and others. In fiscal 2010 approximately 45% of our revenue was derived from this line of service.

Contingency/Staff Augmentation — This line of service combines the ability to provide disaster and emergency response services with our legacy staffing and workforce augmentation tools and services. TeamStaff's outstanding track record of response, mobilization and deployment of quality resources during hurricanes Rita and Katrina demonstrated its ability to support major federal and DoD opportunities in this area. General staffing and selective recruitment process outsourcing are key components of this business area. Less than 5% of fiscal 2010 revenue was derived from this line of service.

Management has streamlined the Company's strategic focus around these three lines of services and has established a cohesive set of business objectives. Equally important in this evolution is the decision to exit previous market focus areas with high barriers to entry and traditionally low margins for the Company (including commercial & federal IT and general administrative temporary staffing services). TeamStaff's principal operations are conducted through its subsidiary, TeamStaff Government Solutions, Inc. ("TeamStaff GS"), a wholly owned subsidiary of TeamStaff, Inc.

TeamStaff is completely focused on successfully performing, effectively partnering, and profitably growing its direct and in-direct (as a sub-contractor to others) business with federal government agencies, namely the Department of Veteran Affairs (the "DVA") and the Department of Defense (DoD). In recent years the Company has provided services for a range of DoD clients including but not

limited to, the US Army Installation Management Commands at Fort Benning and Fort Gordon, GA, the Army Transportation Center at Fort Eustis, VA, Patrick Air Force Base, FL, Seymore Johnson Air Force Base, NC, Madigan and Tripler Army Medical Centers, WA and HI respectively, National Naval Medical Centers, and the Army Corps of Engineers. In addition to its largest customer, the DVA, other federal non-DoD customers have included the Department of Energy, the Department of Homeland Security, the Department of Treasury, the Forestry Service, FEMA and the Center for Disease Control.

TeamStaff currently remains particularly dependent on the continuation of its relationship with the DVA. As previously reported, in January 2008 TeamStaff GS was issued purchase orders to provide logistics and/or pharmaceutical support services at six of the DVA's seven consolidated pharmacy distribution centers from the DVA. Due to delays in government procurement acquisition, time extensions for locations serviced by TeamStaff GS have been granted by the DVA to us through December 31, 2011. The DVA released a new request for proposal related to pharmaceutical services in 2010 and the Company submitted a proposal in a timely manner in September 2010. On May 5, 2011, TeamStaff GS was awarded a new single source Blanket Purchase Agreement with the DVA for the procurement of pharmaceutical services at all of the DVA sites covered by the solicitation. This is expected to result in an increase in the annual run-rate of pharmaceutical services provided by the Company over that being performed under the expiring contracts and the maximum total value under this award is expected to be approximately $140,000,000 pursuant to site-specific task orders to be rendered by the DVA. The terms of these arrangements are currently expected to begin by October 1, 2011 and may continue for a five-year term expiring April 30, 2016. The agreement is subject to the Federal Acquisition Regulations and there can be no assurance as to the actual amount of services that the Company will ultimately provide under the agreement. Until such time as new task orders are rendered under the Blanket Purchase Agreement, TeamStaff GS is providing services to most of these locations under extensions to its existing agreement with the DVA.

TeamStaff has recently achieved a number of key milestones in support of its targeted addition of revenues beyond the DVA:

- In late June the Company was awarded an Indefinite Delivery/Indefinite Quantity ("ID/IQ") prime contract by the Naval Surface Warfare Center, Dahlgren Division. This means that TeamStaff is now able to compete for prime Task Orders issued under the Navy's SeaPort-e's Multiple Award Contract vehicle which involves approximately $5.3 billion dollars of services being procured per year and is a top priority ID/IQ for Navy work in the Company's Logistics and Technical Services line of business. The award includes a three-year base period and a five-year award term that will be contingent on periodic performance reviews. Under the program, task orders are assigned to one of seven regional zones of performance, and the subset of companies with valid contracts for that particular zone can compete for individual task orders within the relevant zones and no assurance can be given as to the amount of revenue that the Company will receive as a result of this contract.

- During the three months ended June 30, 2011, the Company successfully implemented additional software modules in support of successfully competing for a broader range of contracts than previously held by the Company, including cost plus and other forms of contract pricing where a pre-requisite to contract award may include confirmation by the Defense Contract Audit Agency ("DCAA") that the Company's accounting system

meets applicable criteria. Following the implementation of the additional software modules, the Company believes it should satisfy such requirements.

Recent Business and Industry Trends

Management remains committed to retaining and expanding its business with the DVA, while leveraging its strengths to profitably grow new business in adjacent defense logistics and healthcare accounts. Having developed a more robust pipeline of new business opportunities for both near-term and long-term objectives, we continue to see delays in government agency awards, due in part, to the Continuing Resolution under which the federal government is currently appropriating funds for government agencies and shortage in the government acquisition workforce. During the second and third quarters of fiscal 2011, the government services industry overall was severely impacted by the Federal Government's dependence upon the Continuing Resolution for fiscal year funding. Many government contract awards were delayed, while others were operating with substantially reduced funding. We believe that TeamStaff has been able to weather this period in large part because DVA's healthcare services for Veterans is considered a national priority and was exempt from "shut down" considerations. While this allowed for continuation of existing business, the Company did not obtain new business revenue from the DVA and other agencies for which TeamStaff has pending bids and prospective awards.

Though our nation's economic issues continue to create headwinds for all federal markets, management has found that many government services industry analysts project a favorable market outlook. Based on its research and market analysis, management believes that the Federal Government's healthcare budget remains a top priority and that U.S. Defense Logistics Agency will continue to be the largest contractor base agency.

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President Obama's proposed FY2012 Veterans Affairs budget provides $58.8 billion for operational costs at the DVA and $65.5 billion for veterans' benefits representing an approximately 10 percent increase over the budget enacted in fiscal 2010. It includes significant appropriations (approximately $208 million) to implement an expansion of benefits for those caring for service members severely wounded in the wars in Iraq and Afghanistan. It also provides advanced appropriations for DVA's medical care program for 2013 which uniquely implements a multi-year budgeting approach. In addition, as military drawdown occurs in Central Command's area of responsibility (especially Iraq and Afghanistan) the U.S. veteran population is expected to rise as well as the associated medical and pharmaceutical services.

The federal commitment to healthcare transcends the DVA and includes a budgetary commitment to continually improve the Military Health System (including TRICARE) and its support to our servicemen. The FY2012 Budget in this figure recognizes the DoD increase in the Defense Health Program.

(Dollars in Billions)

Program	FY 2011 Request	FY 2012 Request
Defense Health (DHP)	**30.9**	**32.2**
Military Personnel (2)	**7.9**	**8.3**
Military Construction (2)	**1.0**	**1.3**
Health Care Accrual (3)	**10.9**	**10.7**
Unified Medical Budget	**50.7**	**52.5**
Treasury Receipts for Current Medicare-Eligible Retirees (4)	**9.4**	**9.9**

Source: FY 2011 & FY 2012 President's Budget.

(1) Excludes OCO funds and other transfers.

(2) Funded in Military Personnel & Construction accounts.

(3) Includes health care accrual contributions into Medicare-Eligible Retiree Health Care Fund to provide for the future health care costs of our personnel currently serving on active duty - and their family members - when they retire.

(4) Transfer receipts in the year of execution to support 2.1 millions Medicare -eligible retirees and their family members.

Between fiscal year 2001 and fiscal year 2010, the overall DoD budget authorization and spending outlays, including wartime funding for U.S. Overseas Contingency Operations (OCO) in Iraq and Afghanistan has had a compound annual growth rate of 9%. While we believe the U.S. Government will continue to place a high priority on national security, we anticipate that future DoD base budgets will grow at a slower rate compared to the recent past and flatten or modestly decline in selected areas, particularly as it relates to the procurement of new complex weapon systems and platforms (such as ships and aircraft). Further, pressure for deficit reduction and reduced national spending, including the recently enacted legislation signed by President Obama on August 2, 2011, has created an environment where national security spending will also be closely examined and possibly reduced. On April 15, 2011, President Obama signed the fiscal year 2011 appropriations bill legislated by Congress that funds the federal government for the remainder of fiscal year 2011. The appropriation provided for a DoD base budget of $531 billion and a $158 billion budget for OCO. The fiscal year 2011 appropriations represents a $3 billion, or 1%, increase over the fiscal year 2010 DoD base budget, but is $18 billion, or 3%, below the base budget requested by the Obama Administration of $549 billion.

The fiscal year 2012 DoD base budget request of $553 million was submitted by the Obama Administration to Congress on February 14, 2011 and included then Secretary Gates' January 6, 2011 defense budget outlook in which he identified $78 billion in DoD reductions for the five year fiscal period of 2012 to 2016 compared to the same period in the fiscal year 2011 request. The fiscal year 2012 budget request also includes $118 billion of supplemental appropriations for Overseas Contingency Operations (OCO), which is $41 billion lower from the OCO request for fiscal year 2011 of $159 billion, due primarily to the planned draw down of U.S. military forces from Iraq by December 31, 2011.

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Results of Operations

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

Condensed Consolidated Statement of Operations:	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Nine Months Ended June 30, 2011	Nine Months Ended June 30, 2010
Revenues	100.0%	100.0%	100.0%	100.0%
Direct Expenses	85.7%	86.7%	86.3%	88.0%
Gross Profit	14.3%	13.3%	13.7%	12.0%
Selling, general and administrative	16.6%	17.7%	15.5%	17.2%
Officer Severance	0.0%	0.0%	0.0%	1.0%
Depreciation and amortization expense	0.3%	0.3%	0.3%	0.3%
Loss from operations	-2.6%	-4.7%	-2.1%	-6.5%
Other income (expense)	-1.3%	-0.6%	-0.9%	-0.5%
Loss from continuing operations before tax	-3.9%	-5.3%	-3.0%	-7.0%
Income tax expense	0.0%	-0.3%	0.0%	-0.1%
Loss from continuing operations	-3.9%	-5.6%	-3.0%	-7.1%
Gain (loss) from discontinued operation	2.6%	0.0%	0.9%	-3.8%
Net loss	-1.3%	-5.6%	-2.1%	-10.9%

Revenues

Revenues from TeamStaff's operations for the three months ended June 30, 2011 and 2010 were $10.6 million and $10.1 million, respectively, which represent an increase of $0.5 million or 5% over the prior fiscal year period. Revenues from TeamStaff's operations for the nine months ended June 30, 2011 and 2010 were $31.6 million and $30.7 million respectively, which represents an increase of $0.9 million or 3% over the prior fiscal period. These increases in revenues are due in part to the approximately $1.5 million in new business awarded during the second quarter in addition to expansion of work on existing contracts.

Direct Expenses

Direct expenses for the three months ended June 30, 2011 and 2010 were $9.1 million and $8.7 million, respectively. As a percentage of revenue, direct expenses were 85.7% and 86.7%, respectively, for the three months ended June 30, 2011 and 2010. See the discussion on gross profit directly below for an explanation of the decrease in direct expenses as a percentage of revenue. Direct expenses for the nine months ended June 30, 2011 and 2010 were $27.3 million and $27.0 million. As a percentage of revenue, direct expenses were 86.3% and 88.0%, respectively, for the nine months ended June 30, 2011 and 2010. See the discussion on gross profit directly below for an explanation of the reduction in direct expenses as a percentage of revenue. The increases in direct expenses for the three and nine months ended June 30, 2011 over the prior year comparable periods were due to increases in labor-intensive revenues.

Gross Profit

Gross profit for the three months ended June 30, 2011 and 2010 were $1.5 million and $1.3 million, respectively which represents an increase of $0.2 million or 15% over the prior fiscal year period. Gross profit, as a percentage of revenue, was 14.3% and 13.3%, for the three months ended June 30, 2011 and 2010, respectively. Gross profit for the nine months ended June 30, 2011 and 2010 were $4.3 million and $3.7 million, respectively, which represents an increase $0.6 million or 16% over the prior fiscal year period. Gross profit, as a percentage of revenue, was 13.7% and 12.0%, for the nine months ended June 30, 2011 and 2010, respectively. Gross margins increased over the comparable quarter in the prior year due to a combination of additional revenue as mentioned above and an increase in the mix of business with a higher than average gross margin percentage. As shown in the chart below, gross profit has continued to grow with a fourth consecutive quarter of increase.

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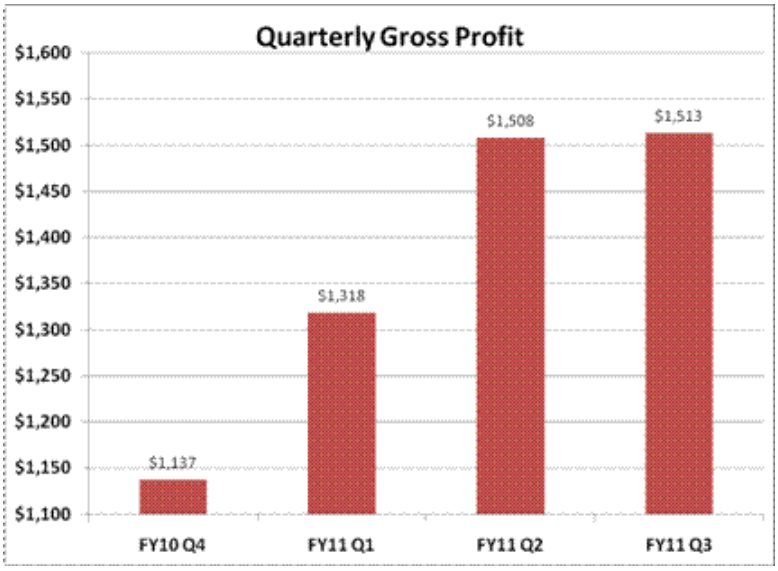

Selling, General, and Administrative Expenses

Selling, general and administrative ("SG&A") expenses for the three months ended June 30, 2011 and 2010 were $1.8 representing no change from prior year. SG&A expenses for the nine months ended June 30, 2011 and 2010 were $4.9 million and $5.3 million, respectively, which represent a decrease of $0.4 million, or 7.5%. The decrease reflects management's cost reduction initiatives, which have included: elimination of duplicate or non-essential positions; indirect travel restrictions; salary freeze; a temporary furlough program for corporate workforce; negotiating significant cost reductions with vendors, and other measures.

Depreciation and Amortization

Depreciation and amortization expense was approximately $28,000 and $34,000 for the three months ended June 30, 2011 and 2010, respectively. Depreciation and amortization expense was approximately $87,000 for each of the nine months ended June 30, 2011 and 2010.

Loss from Operations

Loss from operations for the three months ended June 30, 2011 was $0.3 million as compared to loss from operations for the three months ended June 30, 2010 of $0.5 million. This represents an improvement of $0.2 million in results from operations from the prior fiscal period. Loss from operations for the nine months ended June 30, 2011 was $0.6 million as compared to loss from operations for the nine months ended June 30, 2010 of $2.0 million. This represents an improvement of $1.4 million in results from operations from the prior fiscal period. The improvements are attributed in part to the aforementioned increase in gross profits, reduction in SG&A expenses and the non-recurrence of officer severance incurred during the nine months ended June 30, 2011.

Interest and Other Expenses

Interest expense for the three months ended June 30, 2011 and 2010 was approximately $111,000 and $47,000 respectively. This represents an increase of $64,000. Interest expense for the nine months ended June 30, 2011 and 2010 was approximately $218,000 and $100,000, respectively, for an increase of $118,000. These increases were due to increased borrowings under our existing credit facility.

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The Company recorded other expense of $19,000 and $35,000, for the three months ended June 30, 2011 and 2010, respectively, and $78,000 and $92,000 for the nine months ended June 30, 2011 and 2010, respectively, related to legal representation and investigation and dispute related costs incurred in connection with the resolution of our dispute with the former principals of RS Staffing Services. These expenses are classified as non-operating expenses because the primary issue of our dispute relates to activity prior to the acquisition.

Income Tax

The Company has provided a 100% deferred tax valuation allowance because it believes that it cannot be considered more likely than not that it will be able to realize the full benefit of the deferred tax asset. The Company determined that negative evidence, including historic and current taxable losses, as well as uncertainties related to the ability to utilize certain Federal and state net loss carry forwards, outweighed any objectively verifiable positive factors, and as such, concluded that a valuation allowance was necessary. In assessing the need for a valuation allowance, the Company historically has considered all positive and negative evidence, including scheduled reversals of deferred tax liabilities, prudent and feasible tax planning strategies and recent financial performance. The Company did not record a Federal or State tax benefit or expense for the three months ended June 30, 2011 and recorded expense of $33,000 for the three months ended June 30, 2010.

The Company did not record a Federal or State tax benefit or expense for the nine months ended June 30, 2011 and recorded expense of $43,000 for the nine months ended June 30, 2010

Loss from Continuing Operations

Loss from continuing operations for the three months ended June 30, 2011 was $0.4 million, or $0.07 per basic and diluted share, as compared to loss from continuing operations of $0.6 million, or $0.11 per basic and diluted share, for the three months ended June 30, 2010.

Loss from continuing operations for the nine months ended June 30, 2011 was $0.9 million, or $0.17 per basic and diluted share, as compared to loss from continuing operations of $2.2 million, or $0.44 per basic and diluted share, for the nine months ended June 30, 2010.

Discontinued Operations

A non-recurring gain from discontinued operations for the three and nine months ended June 30, 2011 was $270,000 or $0.05 per basic and diluted share. During the three months ended June 30, 2011 the State of Florida determined that approximately $270,000 of escheated funds it was holding was the property of the Company and ordered that such funds be paid to the Company. The Company's right to the funds arose in connection with the Company's former PEO operations that were accounted for as a discontinued operation in fiscal 2003 and, accordingly, the Company has recognized the amounts receivable as income from discontinued operations in the current period after concluding that the amount involved was not material to the results of operations in the year of discontinuance and the funds were received subsequent to June 30, 2011.

There was no gain or loss from discontinued operations for the three months ended June 30, 2010. Loss from discontinued operations for the nine months ended June 30, 2010 was $1.2 million or $0.23 per basic and diluted share, with loss from operations of the TeamStaff Rx discontinued business of $0.8 million. This includes the operating loss as well as a charge of $0.1 million for severance to certain TeamStaff Rx employees and $0.3 million in various accrued expenses related to the sale and shut down of the business. The loss from disposal of the TeamStaff Rx discontinued business was $0.3 million, comprised of expenses approximating $0.3 million principally from recognition of the remaining unfunded operating lease payments, net of estimated rent subsidy, as well as legal expenses related to the sale.

Net Loss

Net loss for the three months ended June 30, 2011 was $0.1 million, or $0.02 per basic and diluted share, as compared to net loss of $0.6 million, or $0.11 per basic and diluted share, for the three months ended June 30, 2010. This represents a reduction in net loss of $0.5 million, which reflects an increase in gross

margin of $0.2 and a gain from discontinued operations of $0.3 million in 2011.

Net loss for the nine months ended June 30, 2011 was $0.7 million, or $0.12 per basic and diluted share, as compared to net loss of $3.4 million, or $0.67 per basic and diluted share, for the nine months ended June 30, 2010. This represents a reduction in net loss of $2.7 million primarily due to improved focus on cost management (gross profit of $0.7 million and reductions of $0.4 million in

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SG&A expenses), as well as both officer severance in the amount of $0.3 million and a loss from discontinued operation of $1.2 million recorded in the nine months ended June 30, 2010, together with a gain from discontinued operations of $0.3 million in the nine months ended June 30, 2011.

Potential Contractual Billing Adjustments

TeamStaff GS is seeking approval from the Federal government for gross profit on retroactive billing rate increases associated with certain government contracts at which it had employees performing in accordance with contract requirements. These adjustments are due to changes in the contracted wage determination rates. A wage determination is the listing of wage rates and fringe benefit rates for each classification of laborers whom the Administrator of the Wage and Hour Division of the U.S. Department of Labor ("DOL") has determined to be prevailing in a given locality. Contractors performing services for the Federal government under certain contracts are required to pay their employees in various classes no less than the wage rates and fringe benefits found prevailing in these localities. An audit by the DOL in 2008 at one of the facilities revealed that notification, as required by contract, was not provided to TeamStaff GS in order to effectuate the wage increases in a timely manner. Wages for contract employees on assignment at the time have been adjusted prospectively to the prevailing rate and hourly billing rates to the DVA have been increased accordingly. During the fiscal year ended September 30, 2008, TeamStaff recognized nonrecurring revenues of $10.8 million and direct costs of $10.1 million, based on amounts that are contractually due under its arrangements with the Federal agencies. At June 30, 2011, the amount of the remaining accounts receivable with the DVA approximates $9.3 million and the related accrued salary and benefits for direct costs approximates $8.7 million. The Company has been and continues to be in discussions with representatives of the DVA regarding the matter and anticipates resolution during fiscal 2011. In addition, TeamStaff is in the process of negotiating a final amount related to gross profit on these adjustments. As such, there may be additional revenues recognized in future periods once the approval for such additional amounts is obtained. The ranges of additional revenue and gross profit are estimated to be between $0.4 million and $0.6 million. At present, the Company expects to collect such amounts during fiscal 2011 based on current discussions and collection efforts. Because these amounts are subject to government review, no assurances can be given that we will receive any additional amounts from our government contracts or that if additional amounts are received, that the amount will be within the range specified above.

Liquidity and Capital Resources; Commitments

At June 30, 2011 the Company had a net working capital deficit of approximately $2.4 million and an accumulated deficit of approximately $61.8 million. For the year ended September 30, 2010, the Company incurred an operating loss and net loss of approximately $4.3 million and $5.8 million, respectively, and incurred an operating loss and net loss of approximately $0.6 million and $0.7 million respectively, for the nine months ended June 30, 2011. The Company has a limited amount of cash and cash equivalents at June 30, 2011 and will be required to rely on operating cash flow and periodic funding, to the extent available, from its line of credit to sustain the operations of the Company unless it elects to pursue and is successful in obtaining additional debt or equity funding, as discussed below, or otherwise.

In an effort to improve our cash flows and financial position, in fiscal 2011, we have taken measures which have enhanced our liquidity by approximately $1,000,000 as a result of increasing the maximum availability of our credit facility and receiving funding of and/or commitments for additional equity and/or debt financing at June 30, 2011. Our largest shareholder, Wynnefield Capital, Inc., and certain of our directors and executive officers provided assurances for future financings whereby they collectively agreed to provide up to $500,000 of additional capital to us if we determine, prior to February 28, 2012, that such funds are required (collectively, the "Commitments"). As described in Note 7 to the accompanying financial statements, $150,000 of such capital was provided in cash on March 31, 2011 through the equity investments provided by members of our Board and management team and, as discussed in Note 7, $350,000 of such capital was provided subsequent to June 30, 2011. In addition, a further $75,000 of credits were granted by certain individuals against Company obligations due such persons at March 31, 2011. In addition, as described in greater detail below, on February 9, 2011, we entered into an amendment of our Loan Agreement with Presidential Financial Corporation, pursuant to which they agreed to increase our maximum availability under the Loan Agreement by an additional $500,000 and provide an unbilled receivable facility within the limits of the Loan Agreement. Following this increase, the maximum availability under this loan facility is $3,000,000; limited to eligible accounts receivable.

Management believes that: (a) cash and cash equivalents of approximately $700,000 as of June 30, 2011; (b) the $350,000 of available capital pursuant to the Commitments (which was provided subsequent to June 30, 2011); (c) the amounts available under its line of credit (which, in turn, is limited by the amount of eligible assets); (d) forecasted operating cash flow; (e) the ultimate non-payment of certain liabilities we are currently contesting (classified as current at June 30, 2011) in fiscal 2011, or the applicable portion of 2012 and (f) the effects of cost reduction programs and initiatives, will be sufficient to support our operations for twelve months from the

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date of these financial statements. However, should any of these factors not occur substantially as currently expected, there could be a material adverse effect on our ability to access the level of liquidity necessary for us to sustain operations at current levels for the next twelve months. In such an event, management may be forced to make further reductions in spending or to further extend payment terms with suppliers, liquidate assets where possible, and/or to suspend or curtail planned programs. Any of these actions could materially harm our business, results of operations and future prospects. Due to the foregoing there could be a future need for additional capital and we may pursue equity, equity-based and/or debt financing alternatives or other financing in order to raise needed funds. If we raise additional funds by selling shares of common stock or convertible securities, the ownership of our existing shareholders would be diluted.

Cash from operating activities

Net cash used in operating activities for the nine months ended June 30, 2011 was $2.3 million. This decrease in cash was primarily driven by net loss, an increase in accounts receivable due to a temporary slowdown in cash collections that occurred during this period and a decrease in the accrued expenses. At June 30, 2011 Days Sales Outstanding ("DSO") was approximately 15 days as compared to approximately 11 DSO at September 30, 2010.

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

Cash from investing activities

Net cash used in investing activities for the nine months ended June 30, 2011 was $24,000 for costs related to the purchase of fixed assets.

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

Cash from financing activities

Net cash provided by financing activities was $1.9 million for the nine months ended June 30, 2011. The increase is primarily the result of borrowing $1.8 million on the credit facility to fund operations during the nine months ended June 30, 2011 and the receipt of $150,000 cash proceeds from the Commitments.

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

Cash Flows

As of June 30, 2011, TeamStaff had cash and cash equivalents of $0.7 million and net accounts receivable of $12.5 million. At June 30, 2011, the amount of the accounts receivable associated with the DVA retroactive billings approximates $9.3 million and was unbilled at June 30, 2011. At June 30, 2011 there was $2.2 million of debt outstanding under the Loan Agreement. As of September 30, 2010, there was $0.4 million of debt outstanding. Unused availability (as defined) totaled $0.2 million and $0.6 million, at June 30, 2011 and September 30, 2010, respectively, net of required collateral reserves per the Loan Agreement for certain payroll and tax liabilities. The average daily outstanding balance on the facility for the nine months ended June 30, 2011 was $1.2 million. As of June 30, 2011, we had a working capital deficit of $2.4 million. As discussed in Note 7 to the Consolidated Financial Statements, on July 28, 2011, the Company received $350,000 in funding pursuant to sale of convertible debentures pursuant to the then-remaining Commitments.

Loan Facility

On July 29, 2010, TeamStaff GS entered into a Loan and Security Agreement (the "Loan Agreement") with Presidential Financial Corporation (the "Lender"). Under the Loan Agreement, the Lender agreed to provide a two (2) year loan and security facility to TeamStaff GS in an aggregate amount of up to $1.5 million, subject to the terms and conditions of the Loan Agreement. In November 2010, the Lender agreed, by means of an amendment to the Loan Agreement to increase the maximum amount available under the facility from $1.5 million to $2.5 million (See Note 6). In February 2011, the Company and Lender further increased the maximum

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availability under the Loan Agreement by an additional $500,000 to $3.0 million and to provide an unbilled receivable facility within the limits of the Loan Agreement. An interest rate premium of 2% is payable in respect of any advances secured by unbilled accounts receivable, which are subject to a sub-facility limit of $500,000 and an advance rate of 75%. The loan is secured by a security interest and lien on all of TeamStaff GS's accounts, account deposits, letters of credit and investment property, chattel paper, furniture, fixtures and equipment, instruments, investment property, general intangibles, deposit accounts, inventory, other property, all proceeds and products of the foregoing (including proceeds of any insurance policies and claims against third parties for loss of any of the foregoing) and all books and records related thereto. TeamStaff GS's ability to request loan advances under the Loan Agreement is subject to: (i) computation of TeamStaff GS's advance availability limit based on "eligible accounts receivables" (as defined in the Loan Agreement) and subject to certain requirements discussed in Note 6 multiplied by the "Accounts Advance Rate" established by the Lender which initially shall be 85% and may be increased or decreased by the Lender in exercise of its discretion; and (ii) compliance with the covenants and conditions of the loan. The loan was initially for a term of 24 months and after giving effect to the February 2011 amendment, which also extended the term of the Loan Agreement by 12 months, will mature on July 29, 2013.

Interest on the loan accrues on the daily unpaid balance of the loan advances secured by billed receivables. Following the February 2011 amendment to the Loan Agreement, the interest rate under the Loan and Security Agreement is the greater of: (a) 3.25% or (b)(i) 1.95% above the Wall Street Journal Prime rate on the accounts receivable portion of the credit line and (ii) 3.95% above the Wall Street Journal Prime rate on the unbilled accounts portion. The interest rate at June 30, 2011 was 5.2%. In addition, TeamStaff GS will pay certain other related fees and expense reimbursements including a monthly service charge of 0.65% based on the average daily loan balance which shall accrue daily and be due and payable on the last day of each month so long as the Loan Agreement is outstanding. At June 30, 2011, the amount of the unused availability under the line was $188,000. The amount outstanding as of June 30, 2011 was $2,169,000. The Loan Agreement requires compliance with customary covenants and contains restrictions on the Company's ability to engage in certain transactions. Among other matters, under the Loan Agreement, we may not, without consent of the Lender, (i) merge or consolidate with another entity, form any new subsidiary or acquire any interest in a third party; (ii) acquire any assets except in the ordinary course of business; (iii) enter into any transaction outside the ordinary course of business; (iv) sell or transfer collateral; (v) make any loans to, or investments in, any affiliate or enter into any transaction with an affiliate other than on an arms-length basis; (vi) incur any debt outside the ordinary course of business; (vii) pay or declare any dividends or other distributions; or (viii) redeem, retire or purchase any of our equity interests exceeding $50,000. In addition, the Loan Agreement requires TeamStaff GS to maintain a minimum tangible net worth of at least $1,000,000 on a trailing 12-month basis. Further, without the consent of the Lender, the Company is also restricted from making any payments in respect of other outstanding indebtedness. The Lender may terminate the Loan Agreement at any time upon 60 days written notice after February 29, 2012 and the Loan Agreement provides for customary events of default following which the Lender may, at its option, terminate the loan agreement and accelerate the repayment of any amount outstanding. The defined events of default include, among other things, a material

adverse change in the Company's circumstances, or if the Lender deems itself insecure in the ability of the Company to repay its obligations, or as to the sufficiency of the collateral.

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

Under the Loan Agreement our customers make payments directly to a bank account controlled by our Lender over which we have no control and which is used to pay down our loans. As a result, our access to cash resources is substantially at the discretion of the Lender and could cease in the event of a default on our Loan Agreement.

Payroll Taxes

As described in greater detail in the notes to the consolidated financial statements, TeamStaff had received notices from IRS claiming taxes, interest and penalties due related to payroll taxes predominantly from its former PEO operations which were sold in fiscal 2003. TeamStaff has also received notices from the IRS reporting overpayments of taxes. Management believes that these notices are predominantly the result of misapplication of payroll tax payments between its legal entities. To date, TeamStaff has been working with the IRS to resolve these discrepancies and has had certain interest and penalty claims abated. TeamStaff has also received notices from the Social Security Administration claiming variances in wage reporting compared to IRS transcripts. TeamStaff believes the notices from the Social Security Administration are directly related to the IRS notices received. TeamStaff believes that after the IRS applies all the funds correctly, any significant interest and penalties may be abated; however, there can be no assurance that each of these matters will be resolved favorably. In settling various years for specific subsidiaries with the IRS, the Company has received refunds for those specific periods; however, as the process of settling and concluding on other periods and subsidiaries is not yet completed and the potential exists for related penalties and interest, the remaining liability ($1.3 million at June 30, 2011) has been

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recorded in accounts payable and includes estimated penalties and interest currently sought by the IRS totaling approximately $500,000.

The Company believes it has accrued for the entire estimated remaining liability, inclusive of interest and penalties through the date of the financial statements. The Company will incur additional interest and may incur possible additional penalties through the future date that this obligation is settled, however, it is not currently possible to estimate what, if any, additional amount(s) may be claimed in future, given the uncertain timing and nature of any future settlement negotiations. In fiscal 2009, the Company paid $1.1 million, related to this matter. No payments were made in fiscal 2010 and through the date of this report. Management believes that the ultimate resolution of these remaining payroll tax matters will not have a significant adverse effect on its financial position or future results of operations. The Company's intention is that it will in due course seek to negotiate a mutually satisfactory payment plan with the IRS, but there is no assurance that it would be successful in doing so and the Company's future cash flows and liquidity could therefore be materially affected by this matter.

Contractual Obligations (Amounts in thousands)	Total	Payments Due By Period: Less than 1 Year	1-3 Years	4-5 Years
Debt (1)	$ 3,881	$ 2,379	$ 1,502	$ —
Operating Leases (2)	398	135	181	83
Total Obligations	$ 4,279	$ 2,514	$ 1,683	$ 83

(1) Represents the maximum amount of notes payable related to the acquisition of TeamStaff GS (reflecting the RS Note agreement), the loan payable and capital lease obligations.

(2) Represents lease payments net of sublease income, including those of discontinued operations, in effect at June 30, 2011

Off-Balance Sheet Arrangements

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

Effects of Inflation

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

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

TeamStaff does not undertake trading practices in securities or other financial instruments and therefore does not have any material exposure to interest rate risk, foreign currency exchange rate risk, commodity price risk or other similar risks, which might otherwise result from such practices. TeamStaff is not

materially subject to fluctuations in foreign exchange rates, commodity prices or other

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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., effective in July 29, 2010, interest on our revolving credit facility accrues on the daily unpaid balance of the loan advances secured by billed receivables. Following the February 2011 amendment to this arrangement, the applicable interest rate is the greater of (a) 3.25% or (b)(i) 1.95% above the Wall Street Journal Prime rate on the accounts receivable portion of the credit line and (ii) 3.95% above the Wall Street Journal Prime rate on the unbilled accounts portion. The interest rate at June 30, 2011 was 5.2%. An interest rate premium of 2% is payable in respect of any advances secured by unbilled accounts receivable, which are subject to a sub-facility limit of $500,000 and an advance rate of 75%. In addition, TeamStaff GS will pay certain other related fees and expense reimbursements including a monthly service charge of 0.65% based on the average daily loan balance which shall accrue daily and be due and payable on the last day of each month so long as the Loan Agreement is outstanding. Material increases in the Prime rate could have an 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 CEO and President and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) under the Exchange Act) as of the end of the period covered by this report, has concluded that, based on the evaluation of these controls and procedures, our disclosure controls and procedures were effective at the reasonable assurance level to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our CEO and President and Chief Financial Officer, to allow timely decisions regarding required disclosure.

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

Changes in Internal Controls

There have been no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the Company's fiscal quarter ended June 30, 2011, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II — OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

RS Staffing Services, Inc. Note

The Company originally acquired RS Staffing Services in June 2005. As part of the purchase price of the acquisition, the Company issued to the former owners of RS Staffing Services: (i) $3.0 million of promissory notes ("the Notes"), of which $1.5 million in principal and interest of $150,000 was paid in June 2006; and (ii) certain stock in the Company. On May 31, 2007, the Company sent a notice of indemnification claim to the former owners for costs that have been incurred in connection with an investigation of the former owners for matters prior to the sale. The Company was not a target of the investigation. The Company recognized expenses related to legal representation and costs incurred in connection with the investigation and dispute in the amount of $19,000 and $35,000 during the three months ended June 30, 2011 and 2010, respectively, as a component of other income (expense). The Company recognized expenses related to legal representation and costs incurred in connection with the investigation and dispute in the

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amount of $78,000 and $92,000 during the nine months ended June 30, 2011 and 2010, respectively, as a component of other income (expense). Cumulative costs related to this matter, which have all been expensed, approximate $1.8 million. Pursuant to the acquisition agreement with RS Staffing Services, the Company notified the former owners of RS Staffing Services of the Company's intention to exercise its right to set off the payment of such expenses against the remaining principal and accrued interest due to the former owners of RS Staffing Services. The former owners of RS Staffing Services notified the Company of their disagreement with the Company's course of action and of the existence of partial counter-claims in regard to allegations that the Company without due cause failed to permit them to sell certain of their stock in the Company. Subsequent to June 30, 2011, the parties have successfully negotiated a settlement following mediation, as provided for in the stock purchase agreement.

Pursuant to the Agreement, the Company paid $200,000 in cash to the former owners of RS Staffing Services (the "Former Owners"), issued them an aggregate of 300,000 shares of common stock of TeamStaff, Inc., and agreed to permit the Former Owners to resell an aggregate of 201,724 other shares of common stock of TeamStaff, Inc. presently held by them, against which the Company had previously placed a stop order prevent their resale. The Former Owners agreed to orderly sale limitations with respect to their ability to resell all their shares of common stock of TeamStaff, Inc. In accordance with these

limits, during the 90 day period commencing on the effective date of the Agreement, neither Former Owner will resell in excess of 33,000 shares of TeamStaff common stock previously held by them during any 30 day period without the consent of TeamStaff. With respect to the new shares of TeamStaff common stock to be issued pursuant to the Agreement, commencing on the six month anniversary of the effective date of the Agreement, neither will resell in excess of 25,000 shares during any 30 day period without the consent of TeamStaff. In addition, TeamStaff provided guarantees to the Former Owners that the net proceeds to be received by them from the resale of all of the shares of common stock of TeamStaff, Inc. sold by them pursuant to the Agreement would not be less than certain minimum guarantees. With respect to the shares of common stock of TeamStaff, Inc. owned by them prior to the effective date of the Agreement (the "Old TeamStaff Shares"), TeamStaff guaranteed to each Former Owner net proceeds of $100,000 and with respect to the shares of common stock of TeamStaff, Inc. to be issued under the Agreement (the "New TeamStaff Shares"), TeamStaff guaranteed net proceeds of $375,000 to each.

The payments of all amounts under the Agreement are secured by the Notes. Upon receipt by the Former Owners of (i) the payment of $200,000 to be made by TeamStaff following the execution of the Agreement and (ii) the proceeds realized from the sale of the Old TeamStaff Shares and New TeamStaff Shares, or the guarantees, the Notes shall be deemed satisfied in full. In addition, the parties agreed to release each other from any further claims that either may have against the other, except to enforce the Agreement.

Other Matters

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

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

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

ITEM 1A: RISK FACTORS

Our operating results and financial condition have varied in the past and may in the future vary significantly depending on a number of factors. In addition to the other information set forth in this report, you should carefully consider the factors discussed in the "Risk Factors" section in our Annual Report on Form 10-K for the year ended September 30, 2010 for a discussion of the risks associated with our business, financial condition and results of operations. These factors, among others, could have a material adverse effect upon our business, results of operations, financial condition or liquidity and cause our actual results to differ materially from those contained in statements made in this report and presented elsewhere by management from time to time. The risks identified by TeamStaff in its reports are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently believe are immaterial also may materially adversely affect our business, results of operations, financial condition or

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liquidity. We believe there have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2010.

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

On May 18, 2011, the Company issued 51,020 shares of common stock to its outside counsel in connection with an arrangement to cancel $25,000 of outstanding fees. The shares of Common Stock were offered and sold in a private transaction without registration under the Securities Act and the securities laws of certain states, in reliance on the exemption provided by Section 4(2) of the Securities Act, as amended (the "Securities Act") and similar exemptions under applicable state laws.

On June 1, 2011, the Company entered into a debenture purchase agreement (the "Debenture Purchase Agreement") with entities affiliated with Wynnefield Capital, Inc. (the "Debenture Purchasers"), providing for a standby commitment pursuant to which the Debenture Purchasers agreed to purchase convertible debentures (the "Convertible Debentures") in an aggregate principal amount of up to $350,000 (the "Total Commitment Amount"). During the 24-month commitment term, upon at least five (5) days' written notice by the Company, the Debenture Purchasers will purchase Convertible Debentures in the aggregate principal amount specified in such notice up to the Total Commitment Amount. In addition, the Company issued the Debenture Purchasers warrants to purchase an aggregate of 53,846 shares of common stock (the "Warrants") in consideration of their agreement to provide the Total Commitment Amount. As discussed in Note 7, subsequent to June 30, 2011, all of the Convertible Debentures have been sold by the Company. The Company intends to use the proceeds resulting from the sale of the Convertible Debentures for funding the RS Staffing Services, Inc. Note agreement and general corporate purposes. The Debenture Purchasers are entities affiliated with Wynnefield Capital, Inc., the Company's largest shareholder. Mr. Peter Black, a member of the Company's Board of Directors, is an employee of Wynnefield Capital. The Convertible Debentures and Warrants are restricted securities issued in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act.

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4: REMOVED AND RESERVED

ITEM 5: OTHER INFORMATION

None.

ITEM 6: EXHIBITS

Exhibits to this report which have previously been filed with the Commission incorporated by reference to the document referenced the following table. The exhibits designated with a number sign (#) indicate a management contract or compensation plan or arrangement.

Exhibit Number	Exhibit Description	Incorporated by Reference			Filed Herewith
		Form	Dated	Exhibit	
4.1	Convertible Debenture issued to Wynnefield Small Cap Value, LP I				X
4.2	Convertible Debenture issued to Wynnefield Small Cap Value, LP				X
4.3	Common Stock Purchase Warrant issued to Wynnefield Small Cap Value, LP I				**X**
4.4	Common Stock Purchase Warrant issued to Wynnefield Small Cap Value, LP				**X**

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10.1	Debenture Purchase Agreement dated as of June 1, 2011				X
10.2#	Amendment to Employment Agreement between TeamStaff, Inc. and Zachary C. Parker				X
10.3#	Amendment to Employment Agreement between TeamStaff, Inc. and John E. Kahn				X
10.4#	Amendment to Employment Agreement between TeamStaff, Inc. and John F. Armstrong				X
10.5	Creditor Subordination Agreement by TeamStaff Government Solutions, Inc., TeamStaff, Inc., Presidential Financial Corporation and Wynnefield Partners SmallCap Value LP				X
10.6	Creditor Subordination Agreement by TeamStaff Government Solutions, Inc., TeamStaff, Inc., Presidential Financial Corporation and Wynnefield Partners SmallCap Value LP I				X
10.7	Form of Settlement Agreement dated as of July 22, 2011	8-K	7/22/11	10.1	
31.1	Certification of Chief Executive Officer pursuant to Section 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a)				X
31.2	Certification of Chief Financial Officer pursuant to Section 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a)				X
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 17 CFR 240.13a-14(b) or 17 CFR 240.15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code				X
101*	The following financial information from the TeamStaff, Inc. Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2011, formatted in XBRL (eXtensible Business Reporting Language) and furnished electronically herewith: (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Operations; (iii) the Consolidated Statements of Cash Flows; and, (iv) the Notes to the Consolidated Financial Statements, tagged as blocks of text.				X

* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

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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.

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

By: /s/ John E. Kahn
John E. Kahn
Chief Financial Officer
(Principal Accounting Officer)

Dated: August 15, 2011

NEITHER THIS SECURITY NOR THE SECURITIES INTO WHICH THIS SECURITY IS CONVERTIBLE HAS BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED, ASSIGNED, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT, OR APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO AN AVAILABLE EXEMPTION THEREFROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS AS EVIDENCED BY A LEGAL OPINION OF COUNSEL TO THE TRANSFEROR TO SUCH EFFECT, THE SUBSTANCE OF WHICH SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY.

TEAMSTAFF, INC.

CONVERTIBLE DEBENTURE

No. 2011-01 July 28, 2011

U.S.$210,000.00

1. Convertible Debenture.

This Convertible Debenture is one of a duly authorized series of Convertible Debentures (individually, the "Convertible Debenture" and collectively, the "Convertible Debentures") of TeamStaff, Inc., a New Jersey corporation (the "Company"). This Convertible Debenture is being issued in connection with a standby commitment given by certain purchasers to purchase from the Company up to $350,000 ("Total Commitment Amount") in aggregate principal amount of Convertible Debentures pursuant to the Purchase Agreement. The Convertible Debentures are unsecured obligations of the Company and are (i) subordinated to (A) the Senior Credit Facility and (B) such other Indebtedness of the Company and its Subsidiaries as set forth on Schedule 2.2 to the Purchase Agreement (the "Senior Indebtedness"); and (ii) *pari passu* in right of payment to all other Indebtedness of the Company and its Subsidiaries which is unsecured and does not otherwise have priority over general unsecured creditors of the Company.

Capitalized terms used and not otherwise defined herein, shall have the respective meanings given to those terms in Section 9 hereof.

2. Principal and Interest.

(a) The Company for value received, hereby promises to pay to WYNNEFIELD PARTNERS SMALL CAP VALUE, LP I, or its registered assigns (the "Holder"), (i) the principal sum of TWO HUNDRED TEN THOUSAND DOLLARS (U.S. $210,000.00) on October 28, 2013 (the "Maturity Date"), subject to early redemption (if any), as provided in Section 5 below, and (ii) all accrued and unpaid interest thereon. Interest is payable in cash on the Maturity Date and on the date of redemption (if any) at the then-current Conversion Rate.

(b) This Convertible Debenture shall bear interest at the rate equal to the greater of (i) the prime rate, as reported in the Wall Street Journal and as in effect for such interest period, plus 5%;

or (ii) 10% per annum (the "Interest Rate"). Interest on this Convertible Debenture shall accrue quarterly and shall be computed for any full monthly period on the basis of a 360-day year of twelve (12) 30-day months, and for any period for less than a full quarterly period for which a particular Interest Rate is applicable, on the basis of the actual number of days elapsed over a 90-day fiscal quarter. The Interest Rate for each quarterly period during the term of the Convertible Debentures shall be determined independently in accordance with the first sentence of this Section 2(b). Interest shall cease to accrue with respect to any principal amount of Convertible Debentures that are converted.

(c) Payment of the principal of (and premium, if any, on), and Interest on this Convertible Debenture shall be made upon the surrender of this Convertible Debenture to the Company, at its chief executive office (or such other office within the United States as shall be designated by the Company to the Holder hereof) (the "Designated Office"), in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts. Payment of principal (and premium, if any), Interest and all other amounts payable with respect to the Convertible Debentures shall be made by wire transfer in immediately available funds to the Holder; provided that if the Holder entitled thereto shall not have furnished wire instructions in writing to the Company on or prior to the third Business Day immediately prior to the date on which the Company makes such payment, such payment may be made by U.S. dollar check mailed to the address of the Holder entitled thereto as such address shall appear on the signature page herewith.

3. Conversion.

(a) General. The full principal amount of this Convertible Debenture may be converted into shares of Common Stock ("Conversion Shares") at any time and from time to time prior to the Maturity Date and prior to the redemption (if any), upon no less than 15 days' written notice by the Holder to the Company, all or a portion of the principal amount of outstanding Convertible Debentures at a conversion rate equal to $1.30 (the "Conversion Rate"). In calculating the number of Conversion Shares to be issued to the Holder, such number shall be rounded up or down to the nearest whole number. The Company shall not issue any fractional Conversion Shares under any circumstances, but shall pay to the Holder any cash amounts in respect of the value of any fractional Conversion Shares that may have been issuable in the absence of the aforementioned prohibition.

(b) Number of Conversion Shares. The number of Conversion Shares issuable upon conversion of this Convertible Debenture shall be determined by dividing the principal amount of this Convertible Debenture, or the part of the principal amount to be converted, plus the accrued but unpaid interest, by the Conversion Rate in effect on the Conversion Date (as defined in subparagraph (c)(2) below). To convert this Convertible Debenture, at any time and from time to time prior to the Maturity date and prior to redemption (if any), upon no less than 15 days' written notice by the Holder to the Company, the Holder shall send by facsimile (or otherwise deliver) a copy of the fully executed conversion notice in the form attached as Exhibit A hereto (the "Conversion Notice") to the Company and shall contain a completed schedule in the form of Schedule 1 to the Conversion Notice (as amended on each

Conversion Date, the "Conversion Schedule") reflecting the remaining principal amount of this Convertible Debenture and all accrued and unpaid interest thereon subsequent to the conversion at issue. The Holder shall surrender or cause to be surrendered this Convertible Debenture, duly endorsed or assigned to the Company or in blank, as soon as practicable thereafter to the Company, and pay any transfer taxes or other applicable taxes or duties, if required. The Company shall not be obligated to issue shares of Common Stock upon a conversion unless either this Convertible Debenture is delivered to the Company as provided above, or the Holder notifies the Company or the transfer agent for the Common Stock that this Convertible Debenture has been lost, stolen or destroyed and delivers the documentation to the Company required by Section 11(c)(3) hereof.

(c) Issuance of Conversion Shares. As promptly as practicable on or after the Conversion Date, the Company shall issue and deliver to the Holder or its nominee that number of shares of Common Stock issuable upon conversion of the portion of this Convertible Debenture being converted. If the Company's transfer agent is participating in the Depository Trust Company's ("DTC") Fast Automated Securities Transfer program, and so long as the certificates for the Common Stock to be issued upon conversion of the Convertible Debenture or Convertible Debentures are not required to bear a legend and the Holder is not then required to return such certificate for the placement of a legend thereon and the Holder has provided the Company with information required by DTC relating to the DTC account of the Holder or such Holder's nominee, the Company shall cause its transfer agent to electronically transmit the Common Stock issuable upon conversion to the Holder by crediting the account of the Holder or its nominee with DTC through its Deposit Withdrawal Agent Commission system (such transfer, a "DTC Transfer"). If the aforementioned conditions for a DTC Transfer are not satisfied, the Company shall deliver to the Holder physical certificates representing the Common Stock issuable upon conversion. Further, even if the aforementioned conditions to a DTC Transfer are satisfied, the Holder may instruct the Company in writing to deliver to the Holder physical certificates representing the Common Stock issuable upon conversion in lieu of delivering such shares by way of DTC Transfer.

(1) The Holder is not entitled to any rights of a holder of Common Stock until this Convertible Debenture has been converted into Common Stock.

(2) This Convertible Debenture shall be deemed to have been converted immediately prior to the close of business on the day that the Holders delivers notice to the Company in accordance with the foregoing provisions (such day, the "Conversion Date"), and at such time the rights of the Holder of this Convertible Debenture as the Holder hereof shall cease, and the Person or Persons entitled to receive the shares of Common Stock issuable upon conversion shall be deemed to be a stockholder of record on the Conversion Date; provided, however, that no surrender of this Convertible Debenture on any date that is not a Business Day shall be effective to constitute the person or persons entitled to receive the shares of Common Stock upon such conversion as the record holder or holders of such shares of Common Stock on such date, but such surrender shall be effective to constitute the person or persons entitled to receive such shares of Common Stock as the record holder or holders thereof for all purposes at the close of business on the next succeeding Business Day.

(3) If the Holder converts more than one Convertible Debenture at the same time, the number of shares of Common Stock issuable upon the conversion shall be based on the aggregate principal amount of Convertible Debentures converted.

(4) If the Holder elects to convert less than the entire aggregate principal amount outstanding of this Convertible Debenture, the Company shall issue to the Holder a new Convertible Debenture, duly executed by the Company, in form and substance identical to this Convertible Debenture surrendered by the Holder, for the balance of the aggregate principal amount of this Convertible Debenture that has not been so converted.

(d) Adjustment of Conversion Rate. The Conversion Rate will be subject to adjustments from time to time as follows:

(1) In case the Company shall hereafter pay a dividend or make a distribution to all holders of the outstanding Common Stock in shares of Common Stock, the Conversion Rate in effect at the opening of business on the day following the Conversion Record Date shall be reduced by multiplying such Conversion Rate by a fraction: (A) the numerator of which shall be the number of shares of Common Stock outstanding at the close of business on the Conversion Record Date fixed for the determination of the holders entitled to such dividend or distribution; and (B) the denominator of which

shall be the sum of such number of shares referred to in (A) above and the total number of shares constituting such dividend or other distribution. Such reduction in the Conversion Rate shall become effective immediately after the opening of business on the day following the Conversion Record Date. If any dividend or distribution of the type described in this Section 3(d)(1) is declared but not so paid or made, the Conversion Rate shall again be adjusted to the Conversion Rate that otherwise would then be in effect if such dividend or distribution had not been declared.

(2) In case the outstanding shares of Common Stock shall be subdivided into a greater number of shares of Common Stock, the Conversion Rate in effect at the opening of business on the day following the day upon which such subdivision becomes effective shall be proportionately reduced, and conversely, in case the outstanding shares of Common Stock shall be combined into a smaller number of shares of Common Stock, the Conversion Rate in effect at the opening of business on the day following the day upon which such combination becomes effective shall be proportionately increased, such reduction or increase, as applicable, to become effective immediately after the opening of business on the day following the day upon which such subdivision or combination becomes effective.

(3) (A) In case the Company shall, by dividend or otherwise, distribute to all or substantially all holders of its Common Stock shares of any class of Capital Stock of the Company (other than any dividends or distributions to which Section 3(d)(1) applies) or evidences of its indebtedness, cash or other assets, including securities, but excluding dividends or distributions of stock, securities or other property or assets (including cash) in connection with a reclassification, change, merger, consolidation, statutory share exchange, combination, sale or conveyance to which Section 3(e) applies (such Capital Stock, evidences of its indebtedness, cash, other assets or securities being distributed hereinafter in this Section 3(d)(3) called the "Distributed Assets"), then, in each such case, the Conversion Rate shall be reduced so that the same shall be equal to the price determined by multiplying the Conversion Rate in effect immediately prior to the close of business on the Conversion Record Date with respect to such distribution by a fraction: (i) the numerator of which shall be the Fair Market Value of the Common Stock of the Company on such date less the fair market value (as determined by the Board of Directors, whose determination shall be conclusive and set forth in a Board resolution) on such date of the portion of the Distributed Assets so distributed applicable to one share of Common Stock (determined on the basis of the number of shares of Common Stock outstanding on the Conversion Record Date); and (ii) the denominator of which shall be such Fair Market Value of the Common Stock of the Company on such date.

(B) Such reduction in the Conversion Rate shall become effective immediately prior to the opening of business on the day following the Conversion Record Date. However, in the event that the then fair market value (as so determined) of the portion of the Distributed Assets so distributed applicable to one share of Common Stock is equal to or greater than the Fair Market Value on the Conversion Record Date, in lieu of the foregoing adjustment, adequate provision shall be made so that the Holder of this Convertible Debenture shall have the right to receive upon conversion hereof (or any portion hereof) the amount of Distributed Assets the Holder would have received had the Holder converted this Convertible Debenture (or portion hereof) immediately prior to such Conversion Record Date. In the event that such dividend or distribution is not so paid or made, the Conversion Rate shall again be adjusted to be the Conversion Rate that otherwise would then be in effect if such dividend or distribution had not been declared.

(4) Adjustment of Exercise Price upon Issuance of Common Stock, Options, Convertible Securities, Etc.

(A) If prior to the Maturity Date (or any Conversion Date or Redemption Date, if applicable), the Company (i) issues or sells any Common Stock, Convertible

Securities, warrants, or Options or (ii) directly or indirectly effectively reduces the conversion, exercise or exchange price for any Convertible Securities or Options which are currently outstanding, at or to an effective Per Share Selling Price (as defined below) which is less than the then-current Conversion Rate, then in each such case the Conversion Rate in effect immediately prior to such issue or sale date, as applicable, shall be automatically reduced effective concurrently with such issue or sale to an amount determined by multiplying the Conversion Rate then in effect by a fraction, (x) the numerator of which shall be the sum of (1) the number of shares of Common Stock outstanding immediately prior to such issue or sale, plus (2) the number of shares of Common Stock which the aggregate consideration received by the Company for such additional shares would purchase at such Conversion Rate and (y) the denominator of which shall be the number of shares of Common Stock of the Company outstanding immediately after such issue or sale. Notwithstanding the foregoing, however, no adjustment hereunder shall be made with respect to an Exempt Issuance, as defined below.

(B) For the purposes of the foregoing adjustment, in the case of the issuance of any Convertible Securities or Options, the maximum number of shares of Common Stock issuable upon exercise, exchange or conversion of such Convertible Securities or Options shall be deemed to be outstanding at the initial conversion or exercise price applicable to such securities, provided that no further adjustment shall be made upon the actual issuance of Common Stock upon exercise, exchange or conversion of such Convertible Securities or Options, and provided further that to the extent such Convertible Securities or Options expire or terminate unconverted or unexercised, then at such time the Conversion Rate shall be readjusted as if such portion of such Convertible Securities or Options had not been issued. For purposes of this Section 3(d)(4), if an event occurs that triggers more than one of the above adjustment provisions, then only one adjustment shall be made and the calculation method which yields the greatest downward adjustment in the Conversion Rate shall be used. If shares are issued for a consideration other than cash, the Per Share Selling Price shall be the fair value of such consideration as determined in good faith by independent certified public accountants mutually acceptable to the Company and the Holder. In the event the Company directly or indirectly effectively reduces the conversion, exercise or exchange price for any Convertible Securities or Options which are currently outstanding, then the Per Share Selling Price shall equal such effectively reduced conversion, exercise or exchange price.

(C) As used herein, "Exempt Issuance" means the issuance of (i) shares of Common Stock or Options or Convertible Securities to employees, officers, consultants or directors of the Company pursuant to any stock or option plan duly adopted for such purpose, by a majority of the non-employee members of the Board of Directors or a majority of the members of a committee of non-employee directors established for such purpose, (ii) Common Stock, Convertible Securities, warrants, or Options upon the exercise or exchange of or conversion of any securities issued hereunder and/or other securities exercisable or exchangeable for or convertible into shares of Common Stock issued and outstanding as of the date of the Agreement, provided that such securities have not been amended since the date of the Agreement to increase the number of such securities or to decrease the exercise price, exchange price or conversion price of such securities; (iii) shares of Common Stock issued by reason of a dividend, stock split, split-up or other distribution on shares of Common Stock; (iv) shares of Common Stock, Convertible Securities, warrants or Options in connection with transactions with lenders or other commercial partners, the terms of which are approved by the Board of Directors, in each case, the primary purpose of which is not to raise equity capital; (v) shares of Common Stock, Convertible Securities, warrants or Options issued pursuant to mergers, acquisitions, or asset sales approved by a majority of the disinterested directors of the Company, provided that any such issuance shall provide to the Company additional benefits in addition to the investment of funds, but shall not include a transaction in which the Company is issuing securities primarily for the purpose of raising equity capital; and (vi) shares of Common Stock, Convertible Securities, warrants or Options issued

pursuant to the Agreement or upon the exercise of the Commitment Warrants issued pursuant to the Agreement or upon the conversion of the Convertible Debentures issued pursuant to the Agreement.

(D) For purposes hereof: (i) "Convertible Securities" means any stock or securities (other than Options) directly or indirectly convertible into or exercisable or exchangeable for Common Stock; (ii) "Options" means any rights, warrants or options to subscribe for or purchase Common Stock or Convertible Securities; and (iii) "Per Share Selling Price" shall include the amount actually paid by third parties for each share of Common Stock in a sale or issuance by the Company. A sale of shares of Common Stock shall include the sale or issuance of Convertible Securities or Options, and in such circumstances the Per Share Selling Price of the Common Stock covered thereby shall also include the exercise, exchange or conversion price thereof (in addition to the consideration received by the Company upon such sale or issuance less the fee amount as provided above).

(5) No adjustment in the Conversion Rate shall be required unless such adjustment would require an increase or decrease of at least 1% in such price; provided, however, that any adjustments which by reason of this Section 3(d)(5) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Section 3 shall be made by the Company in good faith and shall be made to the nearest cent or to the nearest one hundredth of a share, as applicable. No adjustment need be made for a change in the par value or no par value of the Common Stock.

(6) Whenever the Conversion Rate is adjusted as provided in Section 3(d), the Company shall compute the adjusted Conversion Rate in accordance with Section 3(d) and shall prepare a certificate signed by an officer of the Company setting forth the adjusted Conversion Rate and showing in reasonable detail the facts upon which such adjustment is based, and shall promptly deliver such certificate to the Holder of this

Convertible Debenture. For purposes of this Section 3(d), the number of shares of Common Stock at any time outstanding shall not include shares held in the treasury of the Company but shall include shares issuable in respect of scrip certificates issued in lieu of fractions of shares of Common Stock. The Company will not pay any dividend or make any distribution on shares of Common Stock held in the treasury of the Company.

(7) For purposes hereof:

(A) "Conversion Record Date" shall mean, with respect to any dividend, distribution or other transaction or event in which the holders of Common Stock have the right to receive any cash, securities or other property or in which the Common Stock (or other applicable security) is exchanged for or converted into any combination of cash, securities or other property, the date fixed for determination of stockholders entitled to receive such cash, securities or other property (whether such date is fixed by the Board of Directors or by statute, contract or otherwise).

(B) "Fair Market Value" shall mean the average of the daily Trading Prices per share of Common Stock (or such other security as specified herein) for the 10 consecutive Trading Days immediately prior to the date in question.

Notwithstanding the foregoing, whenever successive adjustments to the Conversion Rate are called for pursuant to this Section 3(d), such adjustments shall be made to the Fair Market Value as may be necessary or appropriate to effectuate the intent of this Section 3(d) and to avoid unjust or inequitable results as determined in good faith by the Board of Directors.

(e) Adjustments for Reclassifications, Mergers, Sales of Assets and Other Business Combinations or Transactions. If any of following events occur: (1) any reclassification or change of the

outstanding shares of Common Stock (other than a change in par value, or from par value to no par value, or from no par value to par value, or as a result of a subdivision or combination), as a result of which holders of Common Stock shall be entitled to receive Capital Stock, securities or other property or assets (including cash) with respect to or in exchange for such Common Stock; (2) any merger, consolidation, statutory share exchange or combination of the Company with another Person as a result of which holders of Common Stock shall be entitled to receive stock, securities or other property or assets (including cash) with respect to or in exchange for such Common Stock; or (3) any sale or conveyance of the properties and assets of the Company as, or substantially as, an entirety to any other Person as a result of which holders of Common Stock shall be entitled to receive stock, securities or other property or assets (including cash) with respect to or in exchange for such Common Stock, then the Company or the successor or purchasing corporation, as applicable, shall provide that this Convertible Debenture shall be convertible into the kind and amount of shares of capital stock and other securities or property or assets (including cash) that such Holder would have been entitled to receive upon such reclassification, change, merger, consolidation, statutory share exchange, combination, sale or conveyance had this Convertible Debenture been converted into Common Stock immediately prior to such reclassification, change, merger, consolidation, statutory share exchange, combination, sale or conveyance assuming the Holder, as a holder of Common Stock, did not exercise its rights of election, if any, as to the kind or amount of securities, cash or other property receivable upon such reclassification, change, merger, consolidation, statutory share exchange, combination, sale or conveyance and that the rights of the Holder to convert this Convertible Debenture for adjustments thereafter shall be as nearly equivalent as may be practicable to the adjustments provided for in this Section 3. The above provisions of this Section shall apply to successive or series of related reclassifications, changes, mergers, consolidations, statutory share exchanges, combinations, sales and conveyances.

(f) Notices of Proposed Adjustments. In case at any time after the date hereof:

(1) the Company shall declare a dividend (or any other distribution) on its Common Stock that would result in an adjustment to the Conversion Rate pursuant to this Section 3;

(2) there shall occur any reclassification of the Common Stock of the Company (other than a subdivision or combination of its outstanding Common Stock, a change in par value, a change from par value to no par value or a change from no par value to par value), or any merger, consolidation, statutory share exchange or combination to which the Company is a party and for which approval of any stockholders of the Company is required, or the sale, transfer or conveyance of all or substantially all of the assets of the Company; or

(3) there shall occur the voluntary or involuntary dissolution, liquidation or winding up of the Company;

the Company shall cause to be provided to the Holder of this Convertible Debenture, at least 10 days prior to the applicable record or effective date hereinafter specified, a notice stating: (A) the date on which a record is to be taken for the purpose of such dividend or distribution, or, if a record is not to be taken, the date as of which the holders of shares of Common Stock of record to be entitled to such dividend or distribution are to be determined; or (B) the date on which such reclassification, merger, consolidation, statutory share exchange, combination, sale, transfer, conveyance, dissolution, liquidation or winding up is expected to become effective, and the date as of which it is expected that holders of shares of Common Stock of record shall be entitled to exchange their shares of Common Stock for securities, cash or other property deliverable upon such reclassification, merger, consolidation, statutory share exchange, sale, transfer, dissolution, liquidation or winding up. Neither the failure to give such notice nor any defect therein shall affect the legality or validity of the proceedings or actions described in Sections 3(f)(1) through 3(f)(3).

(g) Availability of Conversion Shares. The Company shall at all times reserve and keep available, free from preemptive rights, out of its authorized but unissued Common Stock, for the purpose of effecting the conversion of this Convertible Debenture, the full number of shares of Common Stock then issuable upon the conversion of this Convertible Debenture. The Company covenants that all shares of Common Stock that may be issued upon conversion of this Convertible Debenture will upon issue be fully paid and nonassessable.

(h) Taxes. Except as provided in the next sentence, the Company will pay any and all taxes (other than taxes on income) and duties that may be payable in respect of the issue or delivery of Common Stock upon conversion of this Convertible Debenture. The Company shall not, however, be required to pay any tax or duty that may be payable in respect of any transfer involved in the issue and delivery of Common Stock in a name other than that of the Holder of this Convertible Debenture, and no such issue or delivery shall be made unless and until the Person requesting such issue has paid to the Company the amount of any such tax or duty, or has established to the satisfaction of the Company that such tax or duty has been paid.

(i) Registration Rights. The Holder shall be entitled to all of the rights and subject to all of the obligations regarding registration of the shares of Common Stock issuable upon the conversion of this Convertible Debenture as described in the Purchase Agreement.

4. Conversion Limitation. Without the approval of the Company's stockholders, the Holder (together with such Holder's Affiliates, and any Persons acting as a group together with such Holder or any of such Holder's Affiliates) shall not have the right to convert this Convertible Debenture to the extent that such conversion would cause the Company to exceed the aggregate number of shares of Common Stock which the Company may issue or be deemed to have issued without breaching the Company's obligations under the applicable rules and regulations of the Nasdaq Stock Market (including, without limitation, Nasdaq Listing Rule 5635(d)) and such other Trading Market on which the Company's shares of Common Stock are then quoted or listed for trading.

5. Redemption. At any time and from time to time prior to the Maturity Date, upon no less than 30 days' written notice by the Company to the Holder (the "Redemption Notice"), all or a portion of the then outstanding Convertible Debentures may be redeemed by payment of 120% of the principal amount thereof, plus the unpaid interest which has accrued on the principal of the outstanding Convertible Debentures at the end of such 30-day notice period (the "Redemption Amount"). The last day of such 30 day notice period shall be the "Redemption Date". Within 15 days from the date of the Redemption Notice, the Holder may exercise the conversion feature of the Convertible Debentures that are the subject of the Redemption Notice, by providing written notice to the Company of such Holder's intention to exercise such conversion feature. The Conversion Shares underlying such Convertible Debentures shall be issued by the Company on or prior to the 15th day following the date of the Holder's notice of intention to exercise such conversion feature. The Company covenants and agrees that it will honor all Notices of Conversion tendered from the time of delivery of the Redemption Notice through the date all amounts owing thereon are due and paid in full.

6. Covenants of the Company.

(a) Payment of Principal and Interest. The Company covenants and agrees that it will duly and punctually pay or cause to be paid the principal of, and interest on this Convertible Debenture, at the time and in the manner provided for herein.

(b) Preservation of Business. Unless otherwise permitted herein, the Company will do or cause to be done all things necessary to preserve and keep in full force and effect its existence and the rights (charter and statutory) of the Company; provided, however, that the Company shall not be required to preserve any such right if (a) the Company shall determine in good faith that the preservation thereof is no longer desirable in the conduct of the business of the Company and that the loss thereof is not disadvantageous in any material respect to the Holder or (b) the Company shall no longer continue to have such right as a result of a good faith, arms-length transaction with a Person that is not an Affiliate of the Company.

(c) Financial Information. From time to time while this Convertible Debenture remains outstanding, the Company shall furnish to the Holder, pursuant to the confidentiality provisions of the Purchase Agreement, twelve-month cash flow projections as and at the same time that such information is furnished to the Company's Board of Directors or audit committee of the Board of Directors.

7. Events of Default.

(a) "Event of Default", wherever used herein, means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(1) the Company defaults in the payment of the principal or premium, if any (a "Defaulted Payment") on any of the Convertible Debentures when the same becomes due and payable at the Maturity Date, and such default continues for 15 days or longer;

(2) the Company fails to perform or observe any other term, covenant or agreement contained in this Convertible Debenture or the Purchase Agreement, and the default continues for a period of 30 days after written notice of such failure, requiring the Company to remedy the same, shall have been given to the Company by the holders of at least a Majority in Interest of the outstanding Convertible Debentures;

(3) any representation or warranty made or deemed made by or on behalf of the Company in or in connection with the Purchase Agreement or in the other agreements entered into in connection herewith, shall prove to have been incorrect in any material respect when made or deemed made;

(4) the Company shall fail to make any payment (whether of principal, interest or otherwise and regardless of amount) in respect of any Material Indebtedness, when and as the same shall become due and payable, after giving effect to any grace or cure periods with respect thereto. As used herein, the term "Material Indebtedness" means Indebtedness (other than (i) the indebtedness incurred hereunder, (ii) pursuant to the Company's Senior Credit Facility (defined below) and (iii) as described on Schedule 2.2 to the Purchase Agreement) in an aggregate principal amount exceeding $200,000;

(5) an event of default has been declared by the lender with respect to the Company's Senior Credit Facility and after giving effect to any grace or cure periods with respect thereto such event of default has not be cured or waived by such lender;

(6) other than with respect to the items scheduled on Schedule 7(a)(6) hereof, a final judgment or judgments for the payment of money in excess of $100,000 in the aggregate

(exclusive of judgment amounts fully covered by insurance where the insurer has admitted liability in respect of such judgment), shall be rendered by one or more courts, administrative tribunals or other bodies having jurisdiction against the Company and the same shall not be discharged (or provision shall not be made for such discharge), bonded, or a stay of execution thereof shall not be procured, within 60 days from the date of entry thereof and the Company shall

not, within said period of 60 days, or such longer period during which execution of the same shall have been stayed, appeal therefrom and cause the execution thereof to be stayed during such appeal;

(7) there shall occur, without the consent of the Majority-in-Interest, any Change of Control;

(8) the Company shall fail to timely file the periodic reports required to be filed by it under the Exchange Act, as amended, after giving effect to any extensions of such relevant time periods as provided for under the rules and regulations adopted by the U.S. Securities and Exchange Commission;

(9) any proceeding under any applicable U.S. federal or state bankruptcy, insolvency, reorganization or other similar law relating to the Company or to all or any material part of its properties is instituted against the Company without its consent and continues undismissed or unsteady for sixty (60) calendar days, or any order for relief is entered in any such proceeding or there is an entry by a court having competent jurisdiction of (A) a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable U.S. federal or state bankruptcy, insolvency, reorganization or other similar law or (B) a decree or order adjudging the Company bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Company, under any applicable U.S. federal or state law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Company or of any substantial part of its property, or ordering the winding up or liquidation of its affairs; or

(10) the commencement by the Company of a voluntary case or proceeding under any applicable U.S. federal or state bankruptcy, insolvency, reorganization or other similar law or of any other case or proceeding to be adjudicated a bankrupt or insolvent, or the consent by the Company to the entry of a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable U.S. federal or state bankruptcy, insolvency, reorganization or other similar law or to the commencement of any bankruptcy or insolvency case or proceeding against the Company, or the consent by the Company to the appointment of or the taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Company or of any substantial part of its property, or the making by the Company of an assignment for the benefit of creditors.

(b) Acceleration of Payment. If an Event of Default (other than an Event of Default specified in Section 7(a)(9) or 7(a)(10) hereof with respect to the Company) occurs and is continuing, the holders of at least a Majority in Interest of the Convertible Debentures, by written notice to the Company, may declare due and payable the principal and premium, if any, of this Convertible Debenture and all other outstanding Convertible Debentures, plus any accrued and unpaid interest to the date of payment. Upon a declaration of acceleration, such principal and premium, if any, and accrued and unpaid interest, to the date of payment shall be immediately due and payable. If an Event of Default specified in Section 7(a)(9) or 7(a)(10) occurs with respect to the Company, the principal and premium, if any, and accrued and unpaid interest, on this Convertible Debenture shall become and be immediately due and payable, without any declaration or other act on the part of the Holder. The exercise of the rights of the Holders set forth in Sections 7(b) — (d), however, is subject to the Company's obligations with respect to the Senior Indebtedness.

The holders of not less than a Majority in Interest of the principal of the outstanding Convertible Debentures may, on behalf of the holders of all of the Convertible Debentures, rescind and annul an acceleration and its consequences (including waiver of any defaults) if: (1) all existing Events of Default, other than the nonpayment of a Defaulted Payment on this Convertible Debenture and any of the other Convertible Debentures that have become due solely because of the acceleration, have been remedied, cured or waived, and (2) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

(c) Collections. If an Event of Default with respect to this Convertible Debenture occurs and is continuing, the Holder may pursue any available remedy by proceeding at law or in equity to collect the Defaulted Payment or interest due and payable on this Convertible Debenture or to enforce the performance of any provision of this Convertible Debenture.

(d) Right to Receive Payment Upon Default. Notwithstanding any other provision in this Convertible Debenture, unless the Holder elects to convert this Convertible Debenture following any Event of Default, the Holder of this Convertible Debenture shall have the right, which is absolute and unconditional, to receive payment of the principal and interest in respect of the Convertible Debentures held by the Holder, on or after the final Maturity Date, or to bring suit for the enforcement of any such payment on or after such date or the right to convert, and such rights shall not be impaired or affected adversely without the consent of the Holder.

(e) No Exclusive Right or Remedy. Except as otherwise provided herein, no right or remedy conferred in this Convertible Debenture upon the Holder is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

(f) No Waiver of Right or Remedy. No delay or omission of the Holder of this Convertible Debenture to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or any acquiescence therein. Every right and remedy given by this Section 7 or by law to the Holder may be exercised from time to time, and as often as may be deemed expedient, by the Holder.

8. Restrictions on Transfer.

(a) This Convertible Debenture and the Common Stock issuable upon conversion of this Convertible Debenture have not been registered under the Securities Act, or the securities laws of any state or other jurisdiction. Neither this Convertible Debenture nor the Common Stock issuable upon conversion of this Convertible Debenture nor any interest or participation herein may be reoffered, sold, assigned, transferred, pledged, encumbered or otherwise disposed of (a "Transfer") in the absence of such registration or unless (i) such transaction is exempt from, or not subject to, registration under the Securities Act or the securities laws of any state or other jurisdiction and (ii) is made in compliance with applicable federal and state statutory resale restrictions, if any. The Holder by its acceptance of this Convertible Debenture or the Common Stock issuable upon conversion of this Convertible Debenture agrees that it shall not offer, sell, assign, transfer, pledge, encumber or otherwise dispose of this Convertible Debenture or any portion thereof or interest therein other than in a minimum denomination of $10,000 principal amount (or any integral multiple of $1,000 in excess thereof) and then (other than with respect to a Transfer pursuant to a registration statement that is effective at the time of such Transfer) only (a) to the Company, (b) to an

Affiliate of the Holder, (c) to a person it reasonably believes to be an "accredited investor" within the meaning of Rule 501(a) under the Securities Act, or (d) pursuant to a

transaction in compliance with Rule 144 or Rule 144A under the Securities Act, and in the case of (b), (c) and (d) above in which the transferor furnishes the Company with such certifications, legal opinions or other information as the Company may reasonably request to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act as applicable.

(b) The Holder acknowledges that the shares of Common Stock issuable upon conversion of this Convertible Debenture shall bear the following legend:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT, OR (B) AN OPINION OF COUNSEL, IN A GENERALLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT (II) UNLESS SOLD OR TRANSFERRED TO A "QUALIFIED INSTITUTIONAL BUYER" WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT OR (III) UNLESS SOLD PURSUANT TO RULE 144 OR RULE 144A UNDER SAID ACT.

(c) The Holder represents that it is an "accredited investor" within the meaning of Rule 501 of the Securities Act. The Holder has been advised that this Convertible Debenture has not been registered under the Securities Act, or any state securities laws and, therefore, cannot be resold unless it is registered under the Securities Act and applicable state securities laws or unless an exemption from such registration requirements is available. The Holder is aware that the Company is under no obligation to effect any such registration or to file for or comply with any exemption from registration. The Holder has not been formed solely for the purpose of making this investment and is acquiring the Convertible Debenture for its own account for investment, and not with a view to, or for resale in connection with, the distribution thereof.

(d) The Company shall cooperate with the Holder and take all actions reasonably necessary to effectuate any Transfer of this Convertible Debenture by the Holder that is permitted under Section 8(a) above.

9. Definitions.

Unless otherwise defined in this Convertible Debenture, the following capitalized terms shall have the following respective meanings when used herein. Other capitalized terms used in this Convertible Debenture that are not defined herein shall have the respective meanings ascribed to such terms as set forth in the Purchase Agreement:

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control", when used with respect to any specified Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Board of Directors" means the board of directors of the Company or any authorized committee of the board of directors.

"Business Day" means each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which the banking institutions in the City of New York, New York are authorized or obligated by law or executive order to close or be closed.

"Capital Stock" of any Person means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interest in (however designated) equity of such Person, but excluding any debt securities convertible into such equity.

"Change of Control" means if any Person or group of Persons acting in concert, other than the owners of more than 10% of outstanding securities of the Company as of Closing Date, having voting rights in the election of directors, shall acquire beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of more than 40% of the outstanding voting securities of the Company having voting rights in the election of directors.

"Commitment Warrants" means the aggregate of 53,846 warrants to purchase shares of Common Stock issued to Purchasers of Convertible Debentures upon execution of the Purchase Agreement, *pro rata* based on each such Purchaser's maximum amount of the Total Commitment amount.

"Common Stock" means any stock of any class of the Company which has no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company and which is not subject to redemption by the Company. However, subject to the provisions of Section 3(e) hereof, shares assumable on conversion of the Convertible Debentures shall include only shares of the class designated as Common Stock, par value $0.001 per share, of the Company at the date of execution of this Convertible Debenture or shares of any class or classes resulting from any reclassification or reclassifications thereof and which have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company and which are not subject to redemption by the Company, provided that if at any time there shall be more than one such resulting class, the shares of each such class then so assumable shall be substantially in the proportion which the total number of shares of such class resulting from all such reclassifications bears to the total number of shares of all such classes resulting from all such reclassifications.

"Convertible Debenture Register" means the register or other ledger maintained by the Company that records the record owners of the Convertible Debentures.

"Defaulted Payment" has the meaning set forth in Section 8 hereof.

"Exchange Act" means the Securities Exchange Act of 1934, as amended and the rules and regulations promulgated thereunder.

"Holder" means the person in whose name this Convertible Debenture is registered on the Convertible Debenture Register.

"Indebtedness" means, without duplication, with respect to any Person (the "subject Person"), all liabilities, obligations and indebtedness of the subject Person to any other Person, of any kind or nature, now or hereafter owing, arising, due or payable, howsoever evidenced, created, incurred, acquired or owing, whether primary, secondary, direct, contingent, fixed or otherwise, consisting of indebtedness for borrowed money or the deferred purchase price of property, excluding purchases of property, product, merchandise and services in the ordinary course of business, but including (a) all obligations and liabilities of any Person secured by any lien on the subject Person's property, even though

the subject Person shall not have assumed or become liable for the payment thereof; (except unperfected liens incurred in the ordinary course of business and not in connection with the borrowing of money); *provided, however*, that all such obligations and liabilities which are limited in recourse to such property shall be included in Indebtedness only to the extent of the book value of such property as would be shown on a balance sheet of the subject Person prepared in accordance with GAAP; (b) all capital lease obligations and other obligations or liabilities created or arising under any conditional sale or other title retention agreement with respect to property used or acquired by the subject Person, even if the rights and remedies of the lessor, seller or lender thereunder are limited to repossession of such property; *provided, however*, that all such obligations and liabilities which are limited in recourse to such property shall be included in Indebtedness only to the extent of the book value of such property as would be shown on a balance sheet of the subject Person prepared in accordance with GAAP; (c) all obligations and liabilities under guarantees; (d) the present value of lease payments due under synthetic leases; (e) all obligations and liabilities under any asset securitization or sale/leaseback transaction; and (f) obligations of such Person in respect of letters of credit or similar instruments issued or accepted by banks and other financial institutions for the account of such Person; *provided, further*, however, that in no event shall the term Indebtedness include the capital stock surplus, retained earnings, minority interests in the common stock of Subsidiaries, lease obligations (other than pursuant to (b) or (d) above), reserves for deferred income taxes and investment credits, other deferred credits or reserves.

"Majority in Interest" has the meaning set forth in Section 11(d).

"Maturity Date" has the meaning set forth in Section 2 hereof.

"Person" shall mean and include an individual, a partnership, a corporation (including a business trust), a joint stock company, a limited liability company, an unincorporated association, a joint venture or other entity or a governmental authority.

"Purchase Agreement" means the Debenture Purchase Agreement, dated as of June 1, 2011 among the Company and the initial holders of the Convertible Debentures.

"Securities Act" means the Securities Act of 1933, as amended and the rules and regulations promulgated thereunder.

"Senior Credit Facility" means the secured credit facility entered into between TeamStaff Government Solutions, Inc. and Presidential Financial Corporation, as of July 29, 2010, as guaranteed by the Company in accordance with the terms of the Corporate Guaranty executed by the Company and as such facility may be amended or replaced from time to time.

"Subsidiary" means, in respect of any Person, any corporation, association, partnership or other business entity of which more than 50% of the total voting power of shares of Capital Stock or other interests (including partnership interests) entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers, general partners or trustees thereof is at the time owned or controlled, directly or indirectly, by (i) such Person; (ii) such Person and one or more Subsidiaries of such Person; or (iii) one or more Subsidiaries of such Person.

"Trading Day" means: (1) if the applicable security is quoted on the Nasdaq Stock Market, a day on which the Nasdaq Stock Market is open for business; (2) if that security is listed on the New York Stock Exchange, a day on which trades may be made on the New York State Exchange; (3) if that security is not so listed on the New York Stock Exchange and not quoted on the Nasdaq Stock Market, a day on which the principal U.S. securities exchange on which the securities are listed or the OTC Bulletin Board, if the Company's securities are quoted thereon, is open for business; or (4) if the

applicable security is not so listed, admitted for trading or quoted, any day other than a Saturday or a Sunday or a day on which banking institutions in the State of New York are authorized or obligated by law or executive order to close.

"Trading Market" means any of the following markets or exchanges on which the Common Stock is listed or quoted for trading on the date in question: the NYSE AMEX, the Nasdaq Capital Market, the Nasdaq Global Market, the Nasdaq Global Select Market, the New York Stock Exchange or the OTC Bulletin Board.

"Trading Price" of a security on any date of determination means: (1) the closing sales price as reported by the Nasdaq Stock Market on such date; (2) if such security is not so reported, the closing sale price (or, if no closing sale price is reported, the last reported sale price) of such security (regular way) on the New York Stock Exchange on such date; (3) if such security is not listed for trading on the New York Stock Exchange on any such date, the closing sale price as reported on the OTC Bulletin Board or in the composite transactions for the principal U.S. securities exchange on which such security is so listed; or (4) if such security is not so quoted, the average of that last bid and ask prices for such security on such date from a dealer engaged in the trading of convertible securities selected by the Company for this purpose, or as determined by the Board of Directors in good faith.

10. Subordination. Holder agrees that this Convertible Debenture is subject to the terms and conditions of that certain subordination agreement dated as of June 1, 2011, among the Company, the original Holder, TeamStaff Government Solutions, Inc. and Presidential Financial Corporation.

Any transferee of this Convertible Debenture, by acceptance of such transfer, agrees to assume, agree to and accept the terms of such Subordination Agreement.

11. Miscellaneous.

(a) Payment. No provision of this Convertible Debenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of (and premium, if any) and interest, if any, on this Convertible Debenture at the times, places and rate, and in the coin or currency, herein prescribed or to convert this Convertible Debenture as herein provided. This Convertible Debenture is issued upon the express condition, to which each successive holder expressly assents and by receiving the same agrees, that no recourse under or upon any obligation, covenant or agreement of the Convertible Debenture, or for the payment of the Principal of, or premium, if any, or the Interest on, the Convertible Debenture, or for any claim based on the Convertible Debenture, or otherwise in respect hereof, shall be had against any incorporator or any past, present or future stockholder, officer or director, as such, of the Company or of any successor corporation, whether by virtue of the constitution, statute or rule of law or by any assessment or penalty or otherwise howsoever, all such individual liability being hereby expressly waived and released as a condition of and as a part of the consideration for the execution and issue of the Convertible Debenture.

(b) Notice. The Company will give prompt written notice to the Holder of this Convertible Debenture of any change in the location of the Designated Office. Any notice to the Company or to the holder of this Convertible Debenture shall be given in the manner set forth in the Purchase Agreement; provided that the Holder of this Convertible Debenture, if not a party to such Purchase Agreement, may specify alternative notice instructions to the Company.

(c) Transfer. (1) The transfer of this Convertible Debenture is registrable on the Convertible Debenture Register upon surrender of this Convertible Debenture for registration of transfer at the Designated Office, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company duly executed by, the Holder hereof or such Holder's attorney duly

authorized in writing, and thereupon one or more new Convertible Debentures, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees. Such Convertible Debentures are issuable only in registered form without coupons in denominations of $1,000 and any integral multiple thereof. No service charge shall be made for any such registration of transfer, but the Company may require payment of a sum sufficient to recover any tax or other governmental charge payable in connection therewith. Prior to due presentation of this Convertible Debenture for registration of transfer, the Company and any agent of the Company may treat the Person in whose name this Convertible Debenture is registered as the owner thereof for all purposes, whether or not this Convertible Debenture be overdue, and neither the Company nor any such agent shall be affected by notice to the contrary.

(2) Upon presentation of this Convertible Debenture for registration of transfer at the Designated Office accompanied by (i) certification by the transferor that such transfer is in compliance with the terms hereof and (ii) by a written instrument of transfer in a form approved by the Company executed by the Holder, in person or by the Holder's attorney thereunto duly authorized in writing, and including the name, address and telephone and fax numbers of the transferee and name of the contact person of the transferee, such Convertible Debenture shall be transferred on the Convertible Debenture Register, and a new Convertible Debenture of like tenor and bearing the same legends shall be issued in the name of the transferee and sent to the transferee at the address and c/o the contact person so indicated. Transfers and exchanges of Convertible Debentures shall be subject to such additional restrictions as are set forth in the legends on the Convertible Debentures and to such additional reasonable regulations as may be prescribed by the Company as specified in Section 8 hereof. Successive registrations of transfers as aforesaid may be made from time to time as desired, and each such registration shall be Convertible Debentured on the Convertible Debenture register.

(3) Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Convertible Debenture, and in the case of loss, theft or destruction, receipt of indemnity reasonably satisfactory to the Company and upon surrender and cancellation of this Convertible Debenture, if mutilated, the Company will deliver a new Convertible Debenture of like tenor and dated as of such cancellation, in lieu of such Convertible Debenture.

(d) Amendments; Waivers. Neither this Convertible Debenture nor any term hereof may be amended or waived orally or in writing, except that any term of this Convertible Debenture and the other Convertible Debentures may be amended and the observance of any term of this Convertible Debenture and the other Convertible Debentures may be waived (either generally or in a particular instance and either retroactively or prospectively), and such amendment or waiver shall be applicable to all of the Convertible Debentures, upon the approval of the Company and the holders of fifty-one percent (51%) or more of the outstanding principal amount of all then outstanding Convertible Debentures (a "Majority in Interest"); provided, however, that any amendment that would (i) change the maturity of the principal of or any installment of interest on any of the Convertible Debentures, (ii) reduce the principal amount of, or any premium or interest on any Convertible Debenture, (iii) reduce the percentage in aggregate principal amount of Convertible Debentures outstanding necessary to modify or amend the Convertible Debentures or to waive any past default; or (iv) modify this Section 11(d) shall, in each case, require the approval of the holder of each Convertible Debenture to which such amendment shall apply. The Company may, without the consent of any holder of the Convertible Debentures, amend the Convertible Debentures for the purpose curing any ambiguity or correcting or supplementing any defective provision contained in the Convertible Debentures; provided that such modification or amendment does not, in the good faith opinion of the Board of Directors, adversely affect the interests of the holders of the Convertible Debentures in any material respect, or adding or modifying any other provisions with respect to matters or questions arising under the Convertible Debentures which the Company may deem necessary or desirable and which will not adversely affect the interests of the holders

of the Convertible Debentures. The Company will not amend any provision of any other Convertible Debenture in a manner favorable to any holder thereof unless a similar amendment is made or offered with respect to all of the Convertible Debentures.

(e) Governing Law. **THIS SECURITY SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.**

(f) Headings. Article and Section headings used herein are for convenience of reference only, are not part of this Convertible Debenture and shall not affect the construction of, or be taken into consideration in interpreting, this Convertible Debenture.

(g) Severability. If any provision of this Convertible Debenture is invalid, illegal or unenforceable, the balance of this Convertible Debenture shall remain in effect, and if any provision is inapplicable to any Person or circumstance, it shall nevertheless remain applicable to all other Persons and circumstances. This Convertible Debenture is subject to the express condition that at no time shall the Company be obligated or required to pay interest hereunder at a rate which could subject the Holder or any other Person to either civil or criminal liability as a result of being in excess of the maximum interest rate which the Company is permitted by applicable law to contract or agree to pay. If by the terms of this Convertible Debenture, the Company is at any time required or obligated to pay interest hereunder at a rate in excess of such maximum rate, the rate of interest under this Convertible Debenture shall be deemed to be immediately reduced to such maximum rate and the interest payable shall be computed at such maximum rate and all prior interest payments in excess of such maximum rate shall be applied and shall be deemed to have been payments in reduction of the principal balance of this Convertible Debenture.

(h) Execution; Entirety. This Convertible Debenture may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. Delivery of an executed counterpart of a signature page of this Convertible Debenture by telecopy shall be effective as delivery of a manually executed counterpart of this Convertible Debenture. This Convertible Debenture constitutes the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the Company has caused this Convertible Debenture to be duly executed on the date first written above.

TEAMSTAFF, INC.

By: /s/ Zachary C. Parker
Name: Zachary C. Parker
Title: Chief Executive Officer

EXHIBIT A

CONVERSION NOTICE

NOTICE OF CONVERSION

The undersigned hereby elects to convert principal and, if specified, interest under the Convertible Debenture (the "Convertible Debenture") of TeamStaff, Inc. (the "Company") due on October 28, 2013, into shares of common stock, $0.001 par value per share (the "Common Stock"), of the Company according to the conditions hereof, as of the date written below. If shares are to be issued in the name of a person other than the undersigned, the undersigned will pay all transfer taxes payable with respect thereto and is delivering herewith such certificates and opinions as reasonably requested by the Company in accordance therewith. No fee will be charged to the holder for any conversion, except for such transfer taxes, if any.

The undersigned agrees to comply with the prospectus delivery requirements under the applicable securities laws in connection with any transfer of the aforesaid shares of Common Stock.

Conversion calculations:

Date to Effect Conversion:

Principal Amount of Convertible Debentures to be Converted:

$

Number of shares of Common Stock to be Issued:

Applicable Conversion Rate:

Signature: _____

Name: _____

Address:

Schedule 1

CONVERSION SCHEDULE

Convertible Debentures due on October 28, 2013 in the aggregate principal amount of $210,000 issued by TeamStaff, Inc. This Conversion Schedule reflects conversions made under Section 3 of the above referenced Debenture.

Dated:

Date of Conversion (or for first entry, Original Issue Date)	Amount of Conversion	Aggregate Principal Amount Remaining Subsequent to Conversion (or original Principal Amount)	Company Attest

Schedule 7(a)(6)

An Event of Default of this Convertible Debenture shall not include judgments which may be rendered against the Company with respect to:

(a) the holders of promissory notes in the aggregate principal amount of $1,500,000 issued by the Company to the former of owners of RS Staffing Services, Inc.; and

(b) the Company's obligations to its former landlord in Clearwater, Florida.

NEITHER THIS SECURITY NOR THE SECURITIES INTO WHICH THIS SECURITY IS CONVERTIBLE HAS BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED, ASSIGNED, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT, OR APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO AN AVAILABLE EXEMPTION THEREFROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS AS EVIDENCED BY A LEGAL OPINION OF COUNSEL TO THE TRANSFEROR TO SUCH EFFECT, THE SUBSTANCE OF WHICH SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY.

TEAMSTAFF, INC.

CONVERTIBLE DEBENTURE

No. 2011-02 July 28, 2011

U.S.$140,000.00

1. Convertible Debenture.

This Convertible Debenture is one of a duly authorized series of Convertible Debentures (individually, the "Convertible Debenture" and collectively, the "Convertible Debentures") of TeamStaff, Inc., a New Jersey corporation (the "Company"). This Convertible Debenture is being issued in connection with a standby commitment given by certain purchasers to purchase from the Company up to $350,000 ("Total Commitment Amount") in aggregate principal amount of Convertible Debentures pursuant to the Purchase Agreement. The Convertible Debentures are unsecured obligations of the Company and are (i) subordinated to (A) the Senior Credit Facility and (B) such other Indebtedness of the Company and its Subsidiaries as set forth on Schedule 2.2 to the Purchase Agreement (the "Senior Indebtedness"); and (ii) *pari passu* in right of payment to all other Indebtedness of the Company and its Subsidiaries which is unsecured and does not otherwise have priority over general unsecured creditors of the Company.

Capitalized terms used and not otherwise defined herein, shall have the respective meanings given to those terms in Section 9 hereof.

2. Principal and Interest.

(a) The Company for value received, hereby promises to pay to WYNNEFIELD PARTNERS SMALL CAP VALUE, LP, or its registered assigns (the "Holder"), (i) the principal sum of ONE HUNDRED FORTY THOUSAND (U.S $140,000.00) on October 28, 2013 (the "Maturity Date"), subject to early redemption (if any), as provided in Section 5 below, and (ii) all accrued and unpaid interest thereon. Interest is payable in cash on the Maturity Date and on the date of redemption (if any) at the then-current Conversion Rate.

(b) This Convertible Debenture shall bear interest at the rate equal to the greater of (i) the prime rate, as reported in the Wall Street Journal and as in effect for such interest period, plus 5%;

or (ii) 10% per annum (the "Interest Rate"). Interest on this Convertible Debenture shall accrue quarterly and shall be computed for any full monthly period on the basis of a 360-day year of twelve (12) 30-day months, and for any period for less than a full quarterly period for which a particular Interest Rate is applicable, on the basis of the actual number of days elapsed over a 90-day fiscal quarter. The Interest Rate for each quarterly period during the term of the Convertible Debentures shall be determined independently in accordance with the first sentence of this Section 2(b). Interest shall cease to accrue with respect to any principal amount of Convertible Debentures that are converted.

(c) Payment of the principal of (and premium, if any, on), and Interest on this Convertible Debenture shall be made upon the surrender of this Convertible Debenture to the Company, at its chief executive office (or such other office within the United States as shall be designated by the Company to the Holder hereof) (the "Designated Office"), in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts. Payment of principal (and premium, if any), Interest and all other amounts payable with respect to the Convertible Debentures shall be made by wire transfer in immediately available funds to the Holder; provided that if the Holder entitled thereto shall not have furnished wire instructions in writing to the Company on or prior to the third Business Day immediately prior to the date on which the Company makes such payment, such payment may be made by U.S. dollar check mailed to the address of the Holder entitled thereto as such address shall appear on the signature page herewith.

3. Conversion.

(a) General. The full principal amount of this Convertible Debenture may be converted into shares of Common Stock ("Conversion Shares") at any time and from time to time prior to the Maturity Date and prior to the redemption (if any), upon no less than 15 days' written notice by the Holder to the Company, all or a portion of the principal amount of outstanding Convertible Debentures at a conversion rate equal to $1.30 (the "Conversion Rate"). In calculating the number of Conversion Shares to be issued to the Holder, such number shall be rounded up or down to the nearest whole number. The Company shall not issue any fractional Conversion Shares under any circumstances, but shall pay to the Holder any cash amounts in respect of the value of any fractional Conversion Shares that may have been issuable in the absence of the aforementioned prohibition.

(b) Number of Conversion Shares. The number of Conversion Shares issuable upon conversion of this Convertible Debenture shall be determined by dividing the principal amount of this Convertible Debenture, or the part of the principal amount to be converted, plus the accrued but unpaid interest, by the Conversion Rate in effect on the Conversion Date (as defined in subparagraph (c)(2) below). To convert this Convertible Debenture, at any time and from time to time prior to the Maturity date and prior to redemption (if any), upon no less than 15 days' written notice by the Holder to the Company, the Holder shall send by facsimile (or otherwise deliver) a copy of the fully executed conversion notice in the form attached as Exhibit A hereto (the "Conversion Notice") to the Company and shall contain a completed schedule in the form of Schedule 1 to the Conversion Notice (as amended on each

Conversion Date, the "Conversion Schedule") reflecting the remaining principal amount of this Convertible Debenture and all accrued and unpaid interest thereon subsequent to the conversion at issue. The Holder shall surrender or cause to be surrendered this Convertible Debenture, duly endorsed or assigned to the Company or in blank, as soon as practicable thereafter to the Company, and pay any transfer taxes or other applicable taxes or duties, if required. The Company shall not be obligated to issue shares of Common Stock upon a conversion unless either this Convertible Debenture is delivered to the Company as provided above, or the Holder notifies the Company or the transfer agent for the Common Stock that this Convertible Debenture has been lost, stolen or destroyed and delivers the documentation to the Company required by Section 11(c)(3) hereof.

(c) Issuance of Conversion Shares. As promptly as practicable on or after the Conversion Date, the Company shall issue and deliver to the Holder or its nominee that number of shares of Common Stock issuable upon conversion of the portion of this Convertible Debenture being converted. If the Company's transfer agent is participating in the Depository Trust Company's ("DTC") Fast Automated Securities Transfer program, and so long as the certificates for the Common Stock to be issued upon conversion of the Convertible Debenture or Convertible Debentures are not required to bear a legend and the Holder is not then required to return such certificate for the placement of a legend thereon and the Holder has provided the Company with information required by DTC relating to the DTC account of the Holder or such Holder's nominee, the Company shall cause its transfer agent to electronically transmit the Common Stock issuable upon conversion to the Holder by crediting the account of the Holder or its nominee with DTC through its Deposit Withdrawal Agent Commission system (such transfer, a "DTC Transfer"). If the aforementioned conditions for a DTC Transfer are not satisfied, the Company shall deliver to the Holder physical certificates representing the Common Stock issuable upon conversion. Further, even if the aforementioned conditions to a DTC Transfer are satisfied, the Holder may instruct the Company in writing to deliver to the Holder physical certificates representing the Common Stock issuable upon conversion in lieu of delivering such shares by way of DTC Transfer.

(1) The Holder is not entitled to any rights of a holder of Common Stock until this Convertible Debenture has been converted into Common Stock.

(2) This Convertible Debenture shall be deemed to have been converted immediately prior to the close of business on the day that the Holders delivers notice to the Company in accordance with the foregoing provisions (such day, the "Conversion Date"), and at such time the rights of the Holder of this Convertible Debenture as the Holder hereof shall cease, and the Person or Persons entitled to receive the shares of Common Stock issuable upon conversion shall be deemed to be a stockholder of record on the Conversion Date; provided, however, that no surrender of this Convertible Debenture on any date that is not a Business Day shall be effective to constitute the person or persons entitled to receive the shares of Common Stock upon such conversion as the record holder or holders of such shares of Common Stock on such date, but such surrender shall be effective to constitute the person or persons entitled to receive such shares of Common Stock as the record holder or holders thereof for all purposes at the close of business on the next succeeding Business Day.

(3) If the Holder converts more than one Convertible Debenture at the same time, the number of shares of Common Stock issuable upon the conversion shall be based on the aggregate principal amount of Convertible Debentures converted.

(4) If the Holder elects to convert less than the entire aggregate principal amount outstanding of this Convertible Debenture, the Company shall issue to the Holder a new Convertible Debenture, duly executed by the Company, in form and substance identical to this Convertible Debenture surrendered by the Holder, for the balance of the aggregate principal amount of this Convertible Debenture that has not been so converted.

(d) Adjustment of Conversion Rate. The Conversion Rate will be subject to adjustments from time to time as follows:

(1) In case the Company shall hereafter pay a dividend or make a distribution to all holders of the outstanding Common Stock in shares of Common Stock, the Conversion Rate in effect at the opening of business on the day following the Conversion Record Date shall be reduced by multiplying such Conversion Rate by a fraction: (A) the numerator of which shall be the number of shares of Common Stock outstanding at the close of business on the Conversion Record Date fixed for the determination of the holders entitled to such dividend or distribution; and (B) the denominator of which

shall be the sum of such number of shares referred to in (A) above and the total number of shares constituting such dividend or other distribution. Such reduction in the Conversion Rate shall become effective immediately after the opening of business on the day following the Conversion Record Date. If any dividend or distribution of the type described in this Section 3(d)(1) is declared but not so paid or made, the Conversion Rate shall again be adjusted to the Conversion Rate that otherwise would then be in effect if such dividend or distribution had not been declared.

(2) In case the outstanding shares of Common Stock shall be subdivided into a greater number of shares of Common Stock, the Conversion Rate in effect at the opening of business on the day following the day upon which such subdivision becomes effective shall be proportionately reduced, and conversely, in case the outstanding shares of Common Stock shall be combined into a smaller number of shares of Common Stock, the Conversion Rate in effect at the opening of business on the day following the day upon which such combination becomes effective shall be proportionately increased, such reduction or increase, as applicable, to become effective immediately after the opening of business on the day following the day upon which such subdivision or combination becomes effective.

(3) (A) In case the Company shall, by dividend or otherwise, distribute to all or substantially all holders of its Common Stock shares of any class of Capital Stock of the Company (other than any dividends or distributions to which Section 3(d)(1) applies) or evidences of its indebtedness, cash or other assets, including securities, but excluding dividends or distributions of stock, securities or other property or assets (including cash) in connection with a reclassification, change, merger, consolidation, statutory share exchange, combination, sale or conveyance to which Section 3(e) applies (such Capital Stock, evidences of its indebtedness, cash, other assets or securities being distributed hereinafter in this Section 3(d)(3) called the "Distributed Assets"), then, in each such case, the Conversion Rate shall be reduced so that the same shall be equal to the price determined by multiplying the Conversion Rate in effect immediately prior to the close of business on the Conversion Record Date with respect to such distribution by a fraction: (i) the numerator of which shall be the Fair Market Value of the Common Stock of the Company on such date less the fair market value (as determined by the Board of Directors, whose determination shall be conclusive and set forth in a Board resolution) on such date of the portion of the Distributed Assets so distributed applicable to one share of Common Stock (determined on the basis of the number of shares of Common Stock outstanding on the Conversion Record Date); and (ii) the denominator of which shall be such Fair Market Value of the Common Stock of the Company on such date.

(B) Such reduction in the Conversion Rate shall become effective immediately prior to the opening of business on the day following the Conversion Record Date. However, in the event that the then fair market value (as so determined) of the portion of the Distributed Assets so distributed applicable to one share of Common Stock is equal to or greater than the Fair Market Value on the Conversion Record Date, in lieu of the foregoing adjustment, adequate provision shall be made so that the Holder of this Convertible Debenture shall have the right to receive upon conversion hereof (or any portion hereof) the amount of Distributed Assets the Holder would have received had the Holder converted this Convertible Debenture (or portion hereof) immediately prior to such Conversion Record Date. In the event that such dividend or distribution is not so paid or made, the Conversion Rate shall again be adjusted to be the Conversion Rate that otherwise would then be in effect if such dividend or distribution had not been declared.

(4) Adjustment of Exercise Price upon Issuance of Common Stock, Options, Convertible Securities, Etc.

(A) If prior to the Maturity Date (or any Conversion Date or Redemption Date, if applicable), the Company (i) issues or sells any Common Stock, Convertible

Securities, warrants, or Options or (ii) directly or indirectly effectively reduces the conversion, exercise or exchange price for any Convertible Securities or Options which are currently outstanding, at or to an effective Per Share Selling Price (as defined below) which is less than the then-current Conversion Rate, then in each such case the Conversion Rate in effect immediately prior to such issue or sale date, as applicable, shall be automatically reduced effective concurrently with such issue or sale to an amount determined by multiplying the Conversion Rate then in effect by a fraction, (x) the numerator of which shall be the sum of (1) the number of shares of Common Stock outstanding immediately prior to such issue or sale, plus (2) the number of shares of Common Stock which the aggregate consideration received by the Company for such additional shares would purchase at such Conversion Rate and (y) the denominator of which shall be the number of shares of Common Stock of the Company outstanding immediately after such issue or sale. Notwithstanding the foregoing, however, no adjustment hereunder shall be made with respect to an Exempt Issuance, as defined below.

(B) For the purposes of the foregoing adjustment, in the case of the issuance of any Convertible Securities or Options, the maximum number of shares of Common Stock issuable upon exercise, exchange or conversion of such Convertible Securities or Options shall be deemed to be outstanding at the initial conversion or exercise price applicable to such securities, provided that no further adjustment shall be made upon the actual issuance of Common Stock upon exercise, exchange or conversion of such Convertible Securities or Options, and provided further that to the extent such Convertible Securities or Options expire or terminate unconverted or unexercised, then at such time the Conversion Rate shall be readjusted as if such portion of such Convertible Securities or Options had not been issued. For purposes of this Section 3(d)(4), if an event occurs that triggers more than one of the above adjustment provisions, then only one adjustment shall be made and the calculation method which yields the greatest downward adjustment in the Conversion Rate shall be used. If shares are issued for a consideration other than cash, the Per Share Selling Price shall be the fair value of such consideration as determined in good faith by independent certified public accountants mutually acceptable to the Company and the Holder. In the event the Company directly or indirectly effectively reduces the conversion, exercise or exchange price for any Convertible Securities or Options which are currently outstanding, then the Per Share Selling Price shall equal such effectively reduced conversion, exercise or exchange price.

(C) As used herein, "Exempt Issuance" means the issuance of (i) shares of Common Stock or Options or Convertible Securities to employees, officers, consultants or directors of the Company pursuant to any stock or option plan duly adopted for such purpose, by a majority of the non-employee members of the Board of Directors or a majority of the members of a committee of non-employee directors established for such purpose, (ii) Common Stock, Convertible Securities, warrants, or Options upon the exercise or exchange of or conversion of any securities issued hereunder and/or other securities exercisable or exchangeable for or convertible into shares of Common Stock issued and outstanding as of the date of the Agreement, provided that such securities have not been amended since the date of the Agreement to increase the number of such securities or to decrease the exercise price, exchange price or conversion price of such securities; (iii) shares of Common Stock issued by reason of a dividend, stock split, split-up or other distribution on shares of Common Stock; (iv) shares of Common Stock, Convertible Securities, warrants or Options in connection with transactions with lenders or other commercial partners, the terms of which are approved by the Board of Directors, in each case, the primary purpose of which is not to raise equity capital; (v) shares of Common Stock, Convertible Securities, warrants or Options issued pursuant to mergers, acquisitions, or asset sales approved by a majority of the disinterested directors of the Company, provided that any such issuance shall provide to the Company additional benefits in addition to the investment of funds, but shall not include a transaction in which the Company is issuing securities primarily for the purpose of raising equity capital; and (vi) shares of Common Stock, Convertible Securities, warrants or Options issued

pursuant to the Agreement or upon the exercise of the Commitment Warrants issued pursuant to the Agreement or upon the conversion of the Convertible Debentures issued pursuant to the Agreement.

(D) For purposes hereof: (i) "Convertible Securities" means any stock or securities (other than Options) directly or indirectly convertible into or exercisable or exchangeable for Common Stock; (ii) "Options" means any rights, warrants or options to subscribe for or purchase Common Stock or Convertible Securities; and (iii) "Per Share Selling Price" shall include the amount actually paid by third parties for each share of Common Stock in a sale or issuance by the Company. A sale of shares of Common Stock shall include the sale or issuance of Convertible Securities or Options, and in such circumstances the Per Share Selling Price of the Common Stock covered thereby shall also include the exercise, exchange or conversion price thereof (in addition to the consideration received by the Company upon such sale or issuance less the fee amount as provided above).

(5) No adjustment in the Conversion Rate shall be required unless such adjustment would require an increase or decrease of at least 1% in such price; provided, however, that any adjustments which by reason of this Section 3(d)(5) are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Section 3 shall be made by the Company in good faith and shall be made to the nearest cent or to the nearest one hundredth of a share, as applicable. No adjustment need be made for a change in the par value or no par value of the Common Stock.

(6) Whenever the Conversion Rate is adjusted as provided in Section 3(d), the Company shall compute the adjusted Conversion Rate in accordance with Section 3(d) and shall prepare a certificate signed by an officer of the Company setting forth the adjusted Conversion Rate and showing in reasonable detail the facts upon which such adjustment is based, and shall promptly deliver such certificate to the Holder of this

Convertible Debenture. For purposes of this Section 3(d), the number of shares of Common Stock at any time outstanding shall not include shares held in the treasury of the Company but shall include shares issuable in respect of scrip certificates issued in lieu of fractions of shares of Common Stock. The Company will not pay any dividend or make any distribution on shares of Common Stock held in the treasury of the Company.

(7) For purposes hereof:

(A) "Conversion Record Date" shall mean, with respect to any dividend, distribution or other transaction or event in which the holders of Common Stock have the right to receive any cash, securities or other property or in which the Common Stock (or other applicable security) is exchanged for or converted into any combination of cash, securities or other property, the date fixed for determination of stockholders entitled to receive such cash, securities or other property (whether such date is fixed by the Board of Directors or by statute, contract or otherwise).

(B) "Fair Market Value" shall mean the average of the daily Trading Prices per share of Common Stock (or such other security as specified herein) for the 10 consecutive Trading Days immediately prior to the date in question.

Notwithstanding the foregoing, whenever successive adjustments to the Conversion Rate are called for pursuant to this Section 3(d), such adjustments shall be made to the Fair Market Value as may be necessary or appropriate to effectuate the intent of this Section 3(d) and to avoid unjust or inequitable results as determined in good faith by the Board of Directors.

(e) Adjustments for Reclassifications, Mergers, Sales of Assets and Other Business Combinations or Transactions. If any of following events occur: (1) any reclassification or change of the

outstanding shares of Common Stock (other than a change in par value, or from par value to no par value, or from no par value to par value, or as a result of a subdivision or combination), as a result of which holders of Common Stock shall be entitled to receive Capital Stock, securities or other property or assets (including cash) with respect to or in exchange for such Common Stock; (2) any merger, consolidation, statutory share exchange or combination of the Company with another Person as a result of which holders of Common Stock shall be entitled to receive stock, securities or other property or assets (including cash) with respect to or in exchange for such Common Stock; or (3) any sale or conveyance of the properties and assets of the Company as, or substantially as, an entirety to any other Person as a result of which holders of Common Stock shall be entitled to receive stock, securities or other property or assets (including cash) with respect to or in exchange for such Common Stock, then the Company or the successor or purchasing corporation, as applicable, shall provide that this Convertible Debenture shall be convertible into the kind and amount of shares of capital stock and other securities or property or assets (including cash) that such Holder would have been entitled to receive upon such reclassification, change, merger, consolidation, statutory share exchange, combination, sale or conveyance had this Convertible Debenture been converted into Common Stock immediately prior to such reclassification, change, merger, consolidation, statutory share exchange, combination, sale or conveyance assuming the Holder, as a holder of Common Stock, did not exercise its rights of election, if any, as to the kind or amount of securities, cash or other property receivable upon such reclassification, change, merger, consolidation, statutory share exchange, combination, sale or conveyance and that the rights of the Holder to convert this Convertible Debenture for adjustments thereafter shall be as nearly equivalent as may be practicable to the adjustments provided for in this Section 3. The above provisions of this Section shall apply to successive or series of related reclassifications, changes, mergers, consolidations, statutory share exchanges, combinations, sales and conveyances.

(f) Notices of Proposed Adjustments. In case at any time after the date hereof:

(1) the Company shall declare a dividend (or any other distribution) on its Common Stock that would result in an adjustment to the Conversion Rate pursuant to this Section 3;

(2) there shall occur any reclassification of the Common Stock of the Company (other than a subdivision or combination of its outstanding Common Stock, a change in par value, a change from par value to no par value or a change from no par value to par value), or any merger, consolidation, statutory share exchange or combination to which the Company is a party and for which approval of any stockholders of the Company is required, or the sale, transfer or conveyance of all or substantially all of the assets of the Company; or

(3) there shall occur the voluntary or involuntary dissolution, liquidation or winding up of the Company;

the Company shall cause to be provided to the Holder of this Convertible Debenture, at least 10 days prior to the applicable record or effective date hereinafter specified, a notice stating: (A) the date on which a record is to be taken for the purpose of such dividend or distribution, or, if a record is not to be taken, the date as of which the holders of shares of Common Stock of record to be entitled to such dividend or distribution are to be determined; or (B) the date on which such reclassification, merger, consolidation, statutory share exchange, combination, sale, transfer, conveyance, dissolution, liquidation or winding up is expected to become effective, and the date as of which it is expected that holders of shares of Common Stock of record shall be entitled to exchange their shares of Common Stock for securities, cash or other property deliverable upon such reclassification, merger, consolidation, statutory share exchange, sale, transfer, dissolution, liquidation or winding up. Neither the failure to give such notice nor any defect therein shall affect the legality or validity of the proceedings or actions described in Sections 3(f)(1) through 3(f)(3).

(g) Availability of Conversion Shares. The Company shall at all times reserve and keep available, free from preemptive rights, out of its authorized but unissued Common Stock, for the purpose of effecting the conversion of this Convertible Debenture, the full number of shares of Common Stock then issuable upon the conversion of this Convertible Debenture. The Company covenants that all shares of Common Stock that may be issued upon conversion of this Convertible Debenture will upon issue be fully paid and nonassessable.

(h) Taxes. Except as provided in the next sentence, the Company will pay any and all taxes (other than taxes on income) and duties that may be payable in respect of the issue or delivery of Common Stock upon conversion of this Convertible Debenture. The Company shall not, however, be required to pay any tax or duty that may be payable in respect of any transfer involved in the issue and delivery of Common Stock in a name other than that of the Holder of this Convertible Debenture, and no such issue or delivery shall be made unless and until the Person requesting such issue has paid to the Company the amount of any such tax or duty, or has established to the satisfaction of the Company that such tax or duty has been paid.

(i) Registration Rights. The Holder shall be entitled to all of the rights and subject to all of the obligations regarding registration of the shares of Common Stock issuable upon the conversion of this Convertible Debenture as described in the Purchase Agreement.

4. Conversion Limitation. Without the approval of the Company's stockholders, the Holder (together with such Holder's Affiliates, and any Persons acting as a group together with such Holder or any of such Holder's Affiliates) shall not have the right to convert this Convertible Debenture to the extent that such conversion would cause the Company to exceed the aggregate number of shares of Common Stock which the Company may issue or be deemed to have issued without breaching the Company's obligations under the applicable rules and regulations of the Nasdaq Stock Market (including, without limitation, Nasdaq Listing Rule 5635(d)) and such other Trading Market on which the Company's shares of Common Stock are then quoted or listed for trading.

5. Redemption. At any time and from time to time prior to the Maturity Date, upon no less than 30 days' written notice by the Company to the Holder (the "Redemption Notice"), all or a portion of the then outstanding Convertible Debentures may be redeemed by payment of 120% of the principal amount thereof, plus the unpaid interest which has accrued on the principal of the outstanding Convertible Debentures at the end of such 30-day notice period (the "Redemption Amount"). The last day of such 30 day notice period shall be the "Redemption Date". Within 15 days from the date of the Redemption Notice, the Holder may exercise the conversion feature of the Convertible Debentures that are the subject of the Redemption Notice, by providing written notice to the Company of such Holder's intention to exercise such conversion feature. The Conversion Shares underlying such Convertible Debentures shall be issued by the Company on or prior to the 15th day following the date of the Holder's notice of intention to exercise such conversion feature. The Company covenants and agrees that it will honor all Notices of Conversion tendered from the time of delivery of the Redemption Notice through the date all amounts owing thereon are due and paid in full.

6. Covenants of the Company.

(a) Payment of Principal and Interest. The Company covenants and agrees that it will duly and punctually pay or cause to be paid the principal of, and interest on this Convertible Debenture, at the time and in the manner provided for herein.

(b) Preservation of Business. Unless otherwise permitted herein, the Company will do or cause to be done all things necessary to preserve and keep in full force and effect its existence and the rights (charter and statutory) of the Company; provided, however, that the Company shall not be required to preserve any such right if (a) the Company shall determine in good faith that the preservation thereof is no longer desirable in the conduct of the business of the Company and that the loss thereof is not disadvantageous in any material respect to the Holder or (b) the Company shall no longer continue to have such right as a result of a good faith, arms-length transaction with a Person that is not an Affiliate of the Company.

(c) Financial Information. From time to time while this Convertible Debenture remains outstanding, the Company shall furnish to the Holder, pursuant to the confidentiality provisions of the Purchase Agreement, twelve-month cash flow projections as and at the same time that such information is furnished to the Company's Board of Directors or audit committee of the Board of Directors.

7. Events of Default.

(a) "Event of Default", wherever used herein, means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(1) the Company defaults in the payment of the principal or premium, if any (a "Defaulted Payment") on any of the Convertible Debentures when the same becomes due and payable at the Maturity Date, and such default continues for 15 days or longer;

(2) the Company fails to perform or observe any other term, covenant or agreement contained in this Convertible Debenture or the Purchase Agreement, and the default continues for a period of 30 days after written notice of such failure, requiring the Company to remedy the same, shall have been given to the Company by the holders of at least a Majority in Interest of the outstanding Convertible Debentures;

(3) any representation or warranty made or deemed made by or on behalf of the Company in or in connection with the Purchase Agreement or in the other agreements entered into in connection herewith, shall prove to have been incorrect in any material respect when made or deemed made;

(4) the Company shall fail to make any payment (whether of principal, interest or otherwise and regardless of amount) in respect of any Material Indebtedness, when and as the same shall become due and payable, after giving effect to any grace or cure periods with respect thereto. As used herein, the term "Material Indebtedness" means Indebtedness (other than (i) the indebtedness incurred hereunder, (ii) pursuant to the Company's Senior Credit Facility (defined below) and (iii) as described on Schedule 2.2 to the Purchase Agreement) in an aggregate principal amount exceeding $200,000;

(5) an event of default has been declared by the lender with respect to the Company's Senior Credit Facility and after giving effect to any grace or cure periods with respect thereto such event of default has not be cured or waived by such lender;

(6) other than with respect to the items scheduled on Schedule 7(a)(6) hereof, a final judgment or judgments for the payment of money in excess of $100,000 in the aggregate

(exclusive of judgment amounts fully covered by insurance where the insurer has admitted liability in respect of such judgment), shall be rendered by one or more courts, administrative tribunals or other bodies having jurisdiction against the Company and the same shall not be discharged (or provision shall not be made for such discharge), bonded, or a stay of execution thereof shall not be procured, within 60 days from the date of entry thereof and the Company shall

not, within said period of 60 days, or such longer period during which execution of the same shall have been stayed, appeal therefrom and cause the execution thereof to be stayed during such appeal;

(7) there shall occur, without the consent of the Majority-in-Interest, any Change of Control;

(8) the Company shall fail to timely file the periodic reports required to be filed by it under the Exchange Act, as amended, after giving effect to any extensions of such relevant time periods as provided for under the rules and regulations adopted by the U.S. Securities and Exchange Commission;

(9) any proceeding under any applicable U.S. federal or state bankruptcy, insolvency, reorganization or other similar law relating to the Company or to all or any material part of its properties is instituted against the Company without its consent and continues undismissed or unsteady for sixty (60) calendar days, or any order for relief is entered in any such proceeding or there is an entry by a court having competent jurisdiction of (A) a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable U.S. federal or state bankruptcy, insolvency, reorganization or other similar law or (B) a decree or order adjudging the Company bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Company, under any applicable U.S. federal or state law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Company or of any substantial part of its property, or ordering the winding up or liquidation of its affairs; or

(10) the commencement by the Company of a voluntary case or proceeding under any applicable U.S. federal or state bankruptcy, insolvency, reorganization or other similar law or of any other case or proceeding to be adjudicated a bankrupt or insolvent, or the consent by the Company to the entry of a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable U.S. federal or state bankruptcy, insolvency, reorganization or other similar law or to the commencement of any bankruptcy or insolvency case or proceeding against the Company, or the consent by the Company to the appointment of or the taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Company or of any substantial part of its property, or the making by the Company of an assignment for the benefit of creditors.

(b) Acceleration of Payment. If an Event of Default (other than an Event of Default specified in Section 7(a)(9) or 7(a)(10) hereof with respect to the Company) occurs and is continuing, the holders of at least a Majority in Interest of the Convertible Debentures, by written notice to the Company, may declare due and payable the principal and premium, if any, of this Convertible Debenture and all other outstanding Convertible Debentures, plus any accrued and unpaid interest to the date of payment. Upon a declaration of acceleration, such principal and premium, if any, and accrued and unpaid interest, to the date of payment shall be immediately due and payable. If an Event of Default specified in Section 7(a)(9) or 7(a)(10) occurs with respect to the Company, the principal and premium, if any, and accrued and unpaid interest, on this Convertible Debenture shall become and be immediately due and payable, without any declaration or other act on the part of the Holder. The exercise of the rights of the Holders set forth in Sections 7(b) — (d), however, is subject to the Company's obligations with respect to the Senior Indebtedness.

The holders of not less than a Majority in Interest of the principal of the outstanding Convertible Debentures may, on behalf of the holders of all of the Convertible Debentures, rescind and annul an acceleration and its consequences (including waiver of any defaults) if: (1) all existing Events of Default, other than the nonpayment of a Defaulted Payment on this Convertible Debenture and any of the other Convertible Debentures that have become due solely because of the acceleration, have been remedied, cured or waived, and (2) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction.

(c) Collections. If an Event of Default with respect to this Convertible Debenture occurs and is continuing, the Holder may pursue any available remedy by proceeding at law or in equity to collect the Defaulted Payment or interest due and payable on this Convertible Debenture or to enforce the performance of any provision of this Convertible Debenture.

(d) Right to Receive Payment Upon Default. Notwithstanding any other provision in this Convertible Debenture, unless the Holder elects to convert this Convertible Debenture following any Event of Default, the Holder of this Convertible Debenture shall have the right, which is absolute and unconditional, to receive payment of the principal and interest in respect of the Convertible Debentures held by the Holder, on or after the final Maturity Date, or to bring suit for the enforcement of any such payment on or after such date or the right to convert, and such rights shall not be impaired or affected adversely without the consent of the Holder.

(e) No Exclusive Right or Remedy. Except as otherwise provided herein, no right or remedy conferred in this Convertible Debenture upon the Holder is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

(f) No Waiver of Right or Remedy. No delay or omission of the Holder of this Convertible Debenture to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or any acquiescence therein. Every right and remedy given by this Section 7 or by law to the Holder may be exercised from time to time, and as often as may be deemed expedient, by the Holder.

8. Restrictions on Transfer.

(a) This Convertible Debenture and the Common Stock issuable upon conversion of this Convertible Debenture have not been registered under the Securities Act, or the securities laws of any state or other jurisdiction. Neither this Convertible Debenture nor the Common Stock issuable upon conversion of this Convertible Debenture nor any interest or participation herein may be reoffered, sold, assigned, transferred, pledged, encumbered or otherwise disposed of (a "Transfer") in the absence of such registration or unless (i) such transaction is exempt from, or not subject to, registration under the Securities Act or the securities laws of any state or other jurisdiction and (ii) is made in compliance with applicable federal and state statutory resale restrictions, if any. The Holder by its acceptance of this Convertible Debenture or the Common Stock issuable upon conversion of this Convertible Debenture agrees that it shall not offer, sell, assign, transfer, pledge, encumber or otherwise dispose of this Convertible Debenture or any portion thereof or interest therein other than in a minimum denomination of $10,000 principal amount (or any integral multiple of $1,000 in excess thereof) and then (other than with respect to a Transfer pursuant to a registration statement that is effective at the time of such Transfer) only (a) to the Company, (b) to an

Affiliate of the Holder, (c) to a person it reasonably believes to be an "accredited investor" within the meaning of Rule 501(a) under the Securities Act, or (d) pursuant to a

transaction in compliance with Rule 144 or Rule 144A under the Securities Act, and in the case of (b), (c) and (d) above in which the transferor furnishes the Company with such certifications, legal opinions or other information as the Company may reasonably request to confirm that such transfer is being made pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act as applicable.

(b) The Holder acknowledges that the shares of Common Stock issuable upon conversion of this Convertible Debenture shall bear the following legend:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT, OR (B) AN OPINION OF COUNSEL, IN A GENERALLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT (II) UNLESS SOLD OR TRANSFERRED TO A "QUALIFIED INSTITUTIONAL BUYER" WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT OR (III) UNLESS SOLD PURSUANT TO RULE 144 OR RULE 144A UNDER SAID ACT.

(c) The Holder represents that it is an "accredited investor" within the meaning of Rule 501 of the Securities Act. The Holder has been advised that this Convertible Debenture has not been registered under the Securities Act, or any state securities laws and, therefore, cannot be resold unless it is registered under the Securities Act and applicable state securities laws or unless an exemption from such registration requirements is available. The Holder is aware that the Company is under no obligation to effect any such registration or to file for or comply with any exemption from registration. The Holder has not been formed solely for the purpose of making this investment and is acquiring the Convertible Debenture for its own account for investment, and not with a view to, or for resale in connection with, the distribution thereof.

(d) The Company shall cooperate with the Holder and take all actions reasonably necessary to effectuate any Transfer of this Convertible Debenture by the Holder that is permitted under Section 8(a) above.

9. Definitions.

Unless otherwise defined in this Convertible Debenture, the following capitalized terms shall have the following respective meanings when used herein. Other capitalized terms used in this Convertible Debenture that are not defined herein shall have the respective meanings ascribed to such terms as set forth in the Purchase Agreement:

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control", when used with respect to any specified Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Board of Directors" means the board of directors of the Company or any authorized committee of the board of directors.

"Business Day" means each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which the banking institutions in the City of New York, New York are authorized or obligated by law or executive order to close or be closed.

"Capital Stock" of any Person means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interest in (however designated) equity of such Person, but excluding any debt securities convertible into such equity.

"Change of Control" means if any Person or group of Persons acting in concert, other than the owners of more than 10% of outstanding securities of the Company as of Closing Date, having voting rights in the election of directors, shall acquire beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act), directly or indirectly, of more than 40% of the outstanding voting securities of the Company having voting rights in the election of directors.

"Commitment Warrants" means the aggregate of 53,846 warrants to purchase shares of Common Stock issued to Purchasers of Convertible Debentures upon execution of the Purchase Agreement, *pro rata* based on each such Purchaser's maximum amount of the Total Commitment amount.

"Common Stock" means any stock of any class of the Company which has no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company and which is not subject to redemption by the Company. However, subject to the provisions of Section 3(e) hereof, shares assumable on conversion of the Convertible Debentures shall include only shares of the class designated as Common Stock, par value $0.001 per share, of the Company at the date of execution of this Convertible Debenture or shares of any class or classes resulting from any reclassification or reclassifications thereof and which have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company and which are not subject to redemption by the Company, provided that if at any time there shall be more than one such resulting class, the shares of each such class then so assumable shall be substantially in the proportion which the total number of shares of such class resulting from all such reclassifications bears to the total number of shares of all such classes resulting from all such reclassifications.

"Convertible Debenture Register" means the register or other ledger maintained by the Company that records the record owners of the Convertible Debentures.

"Defaulted Payment" has the meaning set forth in Section 8 hereof.

"Exchange Act" means the Securities Exchange Act of 1934, as amended and the rules and regulations promulgated thereunder.

"Holder" means the person in whose name this Convertible Debenture is registered on the Convertible Debenture Register.

"Indebtedness" means, without duplication, with respect to any Person (the "subject Person"), all liabilities, obligations and indebtedness of the subject Person to any other Person, of any kind or nature, now or hereafter owing, arising, due or payable, howsoever evidenced, created, incurred, acquired or owing, whether primary, secondary, direct, contingent, fixed or otherwise, consisting of indebtedness for borrowed money or the deferred purchase price of property, excluding purchases of property, product, merchandise and services in the ordinary course of business, but including (a) all obligations and liabilities of any Person secured by any lien on the subject Person's property, even though

the subject Person shall not have assumed or become liable for the payment thereof; (except unperfected liens incurred in the ordinary course of business and not in connection with the borrowing of money); *provided, however*, that all such obligations and liabilities which are limited in recourse to such property shall be included in Indebtedness only to the extent of the book value of such property as would be shown on a balance sheet of the subject Person prepared in accordance with GAAP; (b) all capital lease obligations and other obligations or liabilities created or arising under any conditional sale or other title retention agreement with respect to property used or acquired by the subject Person, even if the rights and remedies of the lessor, seller or lender thereunder are limited to repossession of such property; *provided, however*, that all such obligations and liabilities which are limited in recourse to such property shall be included in Indebtedness only to the extent of the book value of such property as would be shown on a balance sheet of the subject Person prepared in accordance with GAAP; (c) all obligations and liabilities under guarantees; (d) the present value of lease payments due under synthetic leases; (e) all obligations and liabilities under any asset securitization or sale/leaseback transaction; and (f) obligations of such Person in respect of letters of credit or similar instruments issued or accepted by banks and other financial institutions for the account of such Person; *provided, further*, however, that in no event shall the term Indebtedness include the capital stock surplus, retained earnings, minority interests in the common stock of Subsidiaries, lease obligations (other than pursuant to (b) or (d) above), reserves for deferred income taxes and investment credits, other deferred credits or reserves.

"Majority in Interest" has the meaning set forth in Section 11(d).

"Maturity Date" has the meaning set forth in Section 2 hereof.

"Person" shall mean and include an individual, a partnership, a corporation (including a business trust), a joint stock company, a limited liability company, an unincorporated association, a joint venture or other entity or a governmental authority.

"Purchase Agreement" means the Debenture Purchase Agreement, dated as of June 1, 2011 among the Company and the initial holders of the Convertible Debentures.

"Securities Act" means the Securities Act of 1933, as amended and the rules and regulations promulgated thereunder.

"Senior Credit Facility" means the secured credit facility entered into between TeamStaff Government Solutions, Inc. and Presidential Financial Corporation, as of July 29, 2010, as guaranteed by the Company in accordance with the terms of the Corporate Guaranty executed by the Company and as such facility may be amended or replaced from time to time.

"Subsidiary" means, in respect of any Person, any corporation, association, partnership or other business entity of which more than 50% of the total voting power of shares of Capital Stock or other interests (including partnership interests) entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers, general partners or trustees thereof is at the time owned or controlled, directly or indirectly, by (i) such Person; (ii) such Person and one or more Subsidiaries of such Person; or (iii) one or more Subsidiaries of such Person.

"Trading Day" means: (1) if the applicable security is quoted on the Nasdaq Stock Market, a day on which the Nasdaq Stock Market is open for business; (2) if that security is listed on the New York Stock Exchange, a day on which trades may be made on the New York State Exchange; (3) if that security is not so listed on the New York Stock Exchange and not quoted on the Nasdaq Stock Market, a day on which the principal U.S. securities exchange on which the securities are listed or the OTC Bulletin Board, if the Company's securities are quoted thereon, is open for business; or (4) if the

applicable security is not so listed, admitted for trading or quoted, any day other than a Saturday or a Sunday or a day on which banking institutions in the State of New York are authorized or obligated by law or executive order to close.

"Trading Market" means any of the following markets or exchanges on which the Common Stock is listed or quoted for trading on the date in question: the NYSE AMEX, the Nasdaq Capital Market, the Nasdaq Global Market, the Nasdaq Global Select Market, the New York Stock Exchange or the OTC Bulletin Board.

"Trading Price" of a security on any date of determination means: (1) the closing sales price as reported by the Nasdaq Stock Market on such date; (2) if such security is not so reported, the closing sale price (or, if no closing sale price is reported, the last reported sale price) of such security (regular way) on the New York Stock Exchange on such date; (3) if such security is not listed for trading on the New York Stock Exchange on any such date, the closing sale price as reported on the OTC Bulletin Board or in the composite transactions for the principal U.S. securities exchange on which such security is so listed; or (4) if such security is not so quoted, the average of that last bid and ask prices for such security on such date from a dealer engaged in the trading of convertible securities selected by the Company for this purpose, or as determined by the Board of Directors in good faith.

10. Subordination. Holder agrees that this Convertible Debenture is subject to the terms and conditions of that certain subordination agreement dated as of June 1, 2011, among the Company, the original Holder, TeamStaff Government Solutions, Inc. and Presidential Financial Corporation.

Any transferee of this Convertible Debenture, by acceptance of such transfer, agrees to assume, agree to and accept the terms of such Subordination Agreement.

11. Miscellaneous.

(a) Payment. No provision of this Convertible Debenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of (and premium, if any) and interest, if any, on this Convertible Debenture at the times, places and rate, and in the coin or currency, herein prescribed or to convert this Convertible Debenture as herein provided. This Convertible Debenture is issued upon the express condition, to which each successive holder expressly assents and by receiving the same agrees, that no recourse under or upon any obligation, covenant or agreement of the Convertible Debenture, or for the payment of the Principal of, or premium, if any, or the Interest on, the Convertible Debenture, or for any claim based on the Convertible Debenture, or otherwise in respect hereof, shall be had against any incorporator or any past, present or future stockholder, officer or director, as such, of the Company or of any successor corporation, whether by virtue of the constitution, statute or rule of law or by any assessment or penalty or otherwise howsoever, all such individual liability being hereby expressly waived and released as a condition of and as a part of the consideration for the execution and issue of the Convertible Debenture.

(b) Notice. The Company will give prompt written notice to the Holder of this Convertible Debenture of any change in the location of the Designated Office. Any notice to the Company or to the holder of this Convertible Debenture shall be given in the manner set forth in the Purchase Agreement; provided that the Holder of this Convertible Debenture, if not a party to such Purchase Agreement, may specify alternative notice instructions to the Company.

(c) Transfer. (1) The transfer of this Convertible Debenture is registrable on the Convertible Debenture Register upon surrender of this Convertible Debenture for registration of transfer at the Designated Office, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company duly executed by, the Holder hereof or such Holder's attorney duly

authorized in writing, and thereupon one or more new Convertible Debentures, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees. Such Convertible Debentures are issuable only in registered form without coupons in denominations of $1,000 and any integral multiple thereof. No service charge shall be made for any such registration of transfer, but the Company may require payment of a sum sufficient to recover any tax or other governmental charge payable in connection therewith. Prior to due presentation of this Convertible Debenture for registration of transfer, the Company and any agent of the Company may treat the Person in whose name this Convertible Debenture is registered as the owner thereof for all purposes, whether or not this Convertible Debenture be overdue, and neither the Company nor any such agent shall be affected by notice to the contrary.

(2) Upon presentation of this Convertible Debenture for registration of transfer at the Designated Office accompanied by (i) certification by the transferor that such transfer is in compliance with the terms hereof and (ii) by a written instrument of transfer in a form approved by the Company executed by the Holder, in person or by the Holder's attorney thereunto duly authorized in writing, and including the name, address and telephone and fax numbers of the transferee and name of the contact person of the transferee, such Convertible Debenture shall be transferred on the Convertible Debenture Register, and a new Convertible Debenture of like tenor and bearing the same legends shall be issued in the name of the transferee and sent to the transferee at the address and c/o the contact person so indicated. Transfers and exchanges of Convertible Debentures shall be subject to such additional restrictions as are set forth in the legends on the Convertible Debentures and to such additional reasonable regulations as may be prescribed by the Company as specified in Section 8 hereof. Successive registrations of transfers as aforesaid may be made from time to time as desired, and each such registration shall be Convertible Debentured on the Convertible Debenture register.

(3) Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Convertible Debenture, and in the case of loss, theft or destruction, receipt of indemnity reasonably satisfactory to the Company and upon surrender and cancellation of this Convertible Debenture, if mutilated, the Company will deliver a new Convertible Debenture of like tenor and dated as of such cancellation, in lieu of such Convertible Debenture.

(d) Amendments; Waivers. Neither this Convertible Debenture nor any term hereof may be amended or waived orally or in writing, except that any term of this Convertible Debenture and the other Convertible Debentures may be amended and the observance of any term of this Convertible Debenture and the other Convertible Debentures may be waived (either generally or in a particular instance and either retroactively or prospectively), and such amendment or waiver shall be applicable to all of the Convertible Debentures, upon the approval of the Company and the holders of fifty-one percent (51%) or more of the outstanding principal amount of all then outstanding Convertible Debentures (a "Majority in Interest"); provided, however, that any amendment that would (i) change the maturity of the principal of or any installment of interest on any of the Convertible Debentures, (ii) reduce the principal amount of, or any premium or interest on any Convertible Debenture, (iii) reduce the percentage in aggregate principal amount of Convertible Debentures outstanding necessary to modify or amend the Convertible Debentures or to waive any past default; or (iv) modify this Section 11(d) shall, in each case, require the approval of the holder of each Convertible Debenture to which such amendment shall apply. The Company may, without the consent of any holder of the Convertible Debentures, amend the Convertible Debentures for the purpose curing any ambiguity or correcting or supplementing any defective provision contained in the Convertible Debentures; provided that such modification or amendment does not, in the good faith opinion of the Board of Directors, adversely affect the interests of the holders of the Convertible Debentures in any material respect, or adding or modifying any other provisions with respect to matters or questions arising under the Convertible Debentures which the Company may deem necessary or desirable and which will not adversely affect the interests of the holders

of the Convertible Debentures. The Company will not amend any provision of any other Convertible Debenture in a manner favorable to any holder thereof unless a similar amendment is made or offered with respect to all of the Convertible Debentures.

(e) Governing Law. **THIS SECURITY SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.**

(f) Headings. Article and Section headings used herein are for convenience of reference only, are not part of this Convertible Debenture and shall not affect the construction of, or be taken into consideration in interpreting, this Convertible Debenture.

(g) Severability. If any provision of this Convertible Debenture is invalid, illegal or unenforceable, the balance of this Convertible Debenture shall remain in effect, and if any provision is inapplicable to any Person or circumstance, it shall nevertheless remain applicable to all other Persons and circumstances. This Convertible Debenture is subject to the express condition that at no time shall the Company be obligated or required to pay interest hereunder at a rate which could subject the Holder or any other Person to either civil or criminal liability as a result of being in excess of the maximum interest rate which the Company is permitted by applicable law to contract or agree to pay. If by the terms of this Convertible Debenture, the Company is at any time required or obligated to pay interest hereunder at a rate in excess of such maximum rate, the rate of interest under this Convertible Debenture shall be deemed to be immediately reduced to such maximum rate and the interest payable shall be computed at such maximum rate and all prior interest payments in excess of such maximum rate shall be applied and shall be deemed to have been payments in reduction of the principal balance of this Convertible Debenture.

(h) Execution; Entirety. This Convertible Debenture may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. Delivery of an executed counterpart of a signature page of this Convertible Debenture by telecopy shall be effective as delivery of a manually executed counterpart of this Convertible Debenture. This Convertible Debenture constitutes the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the Company has caused this Convertible Debenture to be duly executed on the date first written above.

TEAMSTAFF, INC.

By: /s/ Zachary C. Parker
Name: Zachary C. Parker
Title: Chief Executive Officer

EXHIBIT A

CONVERSION NOTICE

NOTICE OF CONVERSION

The undersigned hereby elects to convert principal and, if specified, interest under the Convertible Debenture (the "Convertible Debenture") of TeamStaff, Inc. (the "Company") due on October 28, 2013, into shares of common stock, $0.001 par value per share (the "Common Stock"), of the Company according to the conditions hereof, as of the date written below. If shares are to be issued in the name of a person other than the undersigned, the undersigned will pay all transfer taxes payable with respect thereto and is delivering herewith such certificates and opinions as reasonably requested by the Company in accordance therewith. No fee will be charged to the holder for any conversion, except for such transfer taxes, if any.

The undersigned agrees to comply with the prospectus delivery requirements under the applicable securities laws in connection with any transfer of the aforesaid shares of Common Stock.

Conversion calculations:

Date to Effect Conversion:

Principal Amount of Convertible Debentures to be Converted:

$

Number of shares of Common Stock to be Issued:

Applicable Conversion Rate:

Signature: _____

Name: _____

Address:

Schedule 1

CONVERSION SCHEDULE

Convertible Debentures due on October 28, 2013, in the aggregate principal amount of $140,000 issued by TeamStaff, Inc. This Conversion Schedule reflects conversions made under Section 3 of the above referenced Debenture.

Dated:

Date of Conversion (or for first entry, Original Issue Date)	Amount of Conversion	Aggregate Principal Amount Remaining Subsequent to Conversion (or original Principal Amount)	Company Attest

Schedule 7(a)(6)

An Event of Default of this Convertible Debenture shall not include judgments which may be rendered against the Company with respect to:

(a) the holders of promissory notes in the aggregate principal amount of $1,500,000 issued by the Company to the former of owners of RS Staffing Services, Inc.; and

(b) the Company's obligations to its former landlord in Clearwater, Florida.

NEITHER THIS SECURITY NOR THE SECURITIES INTO WHICH THIS SECURITY IS EXERCISABLE HAS BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED, ASSIGNED, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT, OR APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO AN AVAILABLE EXEMPTION THEREFROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS AS EVIDENCED BY A LEGAL OPINION OF COUNSEL TO THE TRANSFEROR TO SUCH EFFECT, THE SUBSTANCE OF WHICH SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY.

THE TRANSFERABILITY OF THIS WARRANT IS RESTRICTED AS PROVIDED IN SECTION 3

TEAMSTAFF, INC.
COMMON STOCK PURCHASE WARRANT

Dated as of: June 1, 2011 No. of Warrant Shares: 32,308

For good and valuable consideration, the receipt of which is hereby acknowledged by TEAMSTAFF, INC., a New Jersey corporation (the "Company"), Wynnefield Partners Small Cap Value, LP I (the "Holder"), is hereby granted the right to purchase, at any time from and after the 1st day of June, 2011 until 5:00 P.M., New York City time, on June 1, 2016 (the "Warrant Exercise Term"), up to Thirty Two Thousand, Three Hundred and Eight (32,308) fully-paid and non-assessable shares of the Company's Common Stock, $.001 par value per share ("Common Stock"). This warrant (the "Warrant") is issued by the Company pursuant to that certain Debenture Purchase Agreement between the Company and the original Holder of this Warrant dated June 1, 2011(the "Agreement") pursuant to which the Company may sell to the purchasers named therein up to an aggregate principal amount of $350,000 of convertible debentures (the "Convertible Debentures") from time to time in accordance with the terms and conditions of such Agreement.

l. Exercise of Warrant

1.1 Exercise Price and Mechanics of Exercise.

(a) During the Warrant Exercise Term, this Warrant shall be exercisable at a per share price of $1.00 (the "Exercise Price"), subject to adjustment as provided in Section 2 hereof, payable in cash or by certified or official bank check in New York Clearing House funds. The rights represented by this Warrant may be exercised in whole or in part at any time during the Warrant Exercise Term, upon surrender of the original of this warrant certificate with the annexed Notice of Exercise duly executed, together with payment of the Exercise Price for the shares of Common Stock purchased, at the Company's principal executive offices. Upon the occurrence of

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all of such events, the registered Holder of the Warrant shall be entitled to receive a certificate or certificates for the shares of Common Stock so purchased (the "Warrant Shares").

(b) The purchase rights represented by this Warrant are exercisable at the option of the Holder hereof, in whole or in part (but not as to fractional shares of the Common Stock) during any period in which this Warrant may be exercised as set forth above. In the case of the purchase of less than all the shares of Common Stock purchasable under this Warrant, the Company shall cancel this Warrant upon the surrender thereof and, upon the written request of the Holder, the Company shall execute and deliver a new Warrant of like tenor for the balance of the shares of Common Stock purchasable hereunder.

(c) Certificates for Warrant Shares purchased hereunder shall be transmitted by the transfer agent of the Company to the Holder by crediting the account of the Holder's prime broker with the Depository Trust Company through its Deposit Withdrawal Agent Commission system if the Company is a participant in such system and such Warrant Shares are eligible for delivery in such a manner, and otherwise by physical delivery to the address specified by the Holder in the Notice of Exercise within three business days from the delivery to the Company of the Notice of Exercise, surrender of this Warrant and payment of the aggregate Exercise Price as set forth above. This Warrant shall be deemed to have been exercised on the date on which this Warrant is surrendered and payment of the Exercise Price is received by the Company. The Warrant Shares shall be deemed to have been issued, and Holder or any other person so designated to be named therein shall be deemed to have become a holder of record of such shares for all purposes, as of the date on which all of the criteria described in the immediately preceding sentence have occurred, irrespective of the date of delivery of such certificate or certificates, except that, if the date of such surrender and payment is a date when the stock transfer books of the Company are closed, such person shall be deemed to have become the holder of such shares at the close of business on the next succeeding date on which the stock transfer books are open.

1.2 Transfer Taxes. The issuance of certificates for shares of Common Stock upon the exercise of this Warrant shall be made without charge to the Holder hereof including, without limitation, any tax which may be payable in respect of the issuance thereof, and such certificates shall be issued in the name of, or in such names as may be directed by, the Holder hereof; provided, however, that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of such certificate in a name other than that of the Holder and the Company shall not be required to issue or deliver such certificates unless or until the person or persons requesting the issuance thereof shall have paid to the Company the amount of such tax or shall have established to the satisfaction of the Company that such tax has been paid.

1.3 Covenants by Company. The Company covenants that it will at all times reserve and keep available out of its authorized Common Stock, solely for the purpose of issuance upon exercise of this Warrant as herein provided, such number of shares of Common Stock as shall then be issuable upon the exercise of this Warrant. The Company covenants that all shares of Common Stock which shall be so issuable shall be duly and validly issued and fully-paid and non-assessable.

2. Adjustments and Extraordinary Events

2.1 Stock Dividends, Subdivisions, Reclassifications or Combinations.

If the Company, at any time while this Warrant is outstanding: (i) pays a stock dividend or

otherwise makes a distribution or distributions on shares of its Common Stock or any other equity or equity equivalent securities payable in shares of Common Stock (which, for avoidance of doubt, shall not include any shares of Common Stock issued by the Company upon exercise of this Warrant), (ii) subdivides outstanding shares of Common Stock into a larger number of shares, (iii) combines (including by way of reverse stock split) outstanding shares of Common Stock into a smaller number of shares, or (iv) issues by reclassification of shares of the Common Stock any shares of capital stock of the Company, then in each case the Exercise Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock (excluding treasury shares, if any) outstanding immediately before such event and of which the denominator shall be the number of shares of Common Stock outstanding immediately after such event, and the number of shares issuable upon exercise of this Warrant shall be proportionately adjusted such that the aggregate Exercise Price of this Warrant shall remain unchanged. Any adjustment made pursuant to this Section 2.1 shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or re-classification.

2.2 Other Distributions.

(a) If the Company, at any time while this Warrant is outstanding, shall distribute to all holders of Common Stock (and not to the Holders), shares of any class of Capital Stock of the Company (other than any dividends or distributions to which Section 2.1 applies) or evidences of its indebtedness, cash or other assets, including securities, but excluding dividends or distributions of stock, securities or other property or assets (including cash) in connection with a reclassification, change, merger, consolidation, statutory share exchange, combination, sale or conveyance to which Section 2.3 applies (such Capital Stock, evidences of its indebtedness, cash, other assets or securities being distributed hereinafter in this Section 2.2 called the "Distributed Assets"), then, in each such case, the Exercise Price shall be reduced so that the same shall be equal to the price determined by multiplying the Exercise Price in effect immediately prior to the close of business on the record date with respect to such distribution by a fraction: (i) the numerator of which shall be the Fair Market Value of the Common Stock of the Company on such date less the fair market value (as determined by the Board of Directors, whose determination shall be conclusive and set forth in a Board resolution) on such date of the portion of the Distributed Assets so distributed applicable to one share of Common Stock (determined on the basis of the number of shares of Common Stock outstanding on the record date); and (ii) the denominator of which shall be such Fair Market Value of the Common Stock of the Company on such date. Such reduction in the Exercise Price shall become effective immediately prior to the opening of business on the day following the record date. However, in the event that the then fair market value (as so determined) of the portion of the Distributed Assets so distributed applicable to one share of Common Stock is equal to or greater than the fair market value on the record date, in lieu of the foregoing adjustment, adequate provision shall be made so that the Holder of this Warrant shall have the right to receive upon conversion hereof (or any portion hereof) the amount of Distributed Assets the Holder would have received had the Holder converted this Warrant (or portion hereof) immediately prior to such Exercise Price. In the event that such dividend or distribution is not so paid or made, the Exercise Price shall again be adjusted to be the Exercise Price that otherwise would then be in effect if such dividend or distribution had not been declared.

(b) The following terms used in this Section 2.2 shall have meanings ascribed to them as set forth below:

(i) The phrase "Fair Market Value of the Common Stock" shall mean the average of the daily Trading Prices per share of Common Stock (or such other security as specified herein) for the 10 consecutive Trading Days immediately prior to the date in question .

(ii) "Trading Day" means: (1) if the applicable security is quoted on the Nasdaq Stock Market, a day on which the Nasdaq Stock Market is open for business; (2) if that security is listed on the New York Stock Exchange, a day on which trades may be made on the New York State Exchange; (3) if that security is not so listed on the New York Stock Exchange and not quoted on the Nasdaq Stock Market, a day on which the principal U.S. securities exchange on which the securities are listed or the OTC Bulletin Board is open for business; or (4) if the applicable security is not so listed, admitted for trading or quoted, any day other than a Saturday or a Sunday or a day on which banking institutions in the State of New York are authorized or obligated by law or executive order to close.

(iii) "Trading Price" of a security on any date of determination means: (1) the closing sales price as reported by the Nasdaq Stock Market on such date; (2) if such security is not so reported, the closing sale price (or, if no closing sale price is reported, the last reported sale price) of such security (regular way) on the New York Stock Exchange on such date; (3) if such security is not listed for trading on the New York Stock Exchange on any such date, the closing sale price as reported on the OTC Bulletin Board or in the composite transactions for the principal U.S. securities exchange on which such security is so listed; or (4) if such security is not so quoted, the average of that last bid and ask prices for such security on such date from a dealer engaged in the trading of convertible securities selected by the Company for this purpose, or (5) as determined by the Board of Directors in good faith.

2.3 Reorganization, Reclassification, Merger, Consolidation or Disposition of Assets. If during the Warrant Exercise Term (i) the Company shall reorganize its capital, reclassify its capital stock, consolidate or merge with or into another corporation (where the Company is not the surviving corporation or where there is a change in or distribution with respect to the Common Stock of the Company); (ii) any tender offer or exchange offer (whether by the Company or another individual or entity) is completed pursuant to which holders of Common Stock are permitted to tender or exchange their shares for other securities, cash or property; (iii) the Company shall sell, transfer or otherwise dispose all or substantially all of its property, assets or business to another corporation and, pursuant to the terms of such reorganization, reclassification, merger, consolidation, tender or exchange offer, or disposition of assets, shares of common stock of the successor or acquiring corporation, or any cash, shares of stock or other securities or property of any nature whatsoever (including warrants or other subscription or purchase rights) in addition to or in lieu of common stock of the successor or acquiring corporation ("Other Property"), are to be received by or distributed to the holders of Common Stock of the Company, then the Holder shall have the right thereafter to receive, upon exercise of this Warrant, the number of shares of common stock of the successor or acquiring corporation or of the Company, if it is the surviving corporation, and Other Property receivable upon or as a result of such reorganization, reclassification, merger, consolidation, tender or exchange offer, or disposition of assets by a Holder of the number of shares of Common Stock for which this Warrant is exercisable immediately prior to such event. In case of any such reorganization, reclassification, merger, tender or exchange offer, consolidation or disposition of assets ("Extraordinary Transaction"), the successor or acquiring corporation (if other than the Company) shall expressly assume the due and punctual observance and performance of each and every covenant

and condition of this Warrant to be performed and observed by the Company and all the obligations and liabilities hereunder, subject to such modifications as may be deemed

appropriate (as determined in good faith by resolution of the Board of Directors of the Company) in order to provide for adjustments of Warrant Shares for which this Warrant is exercisable which shall be as nearly equivalent as practicable to the adjustments provided for in this Section 2.3. As soon as commercially practicable following the Extraordinary Transaction, the successor or acquiring corporation (if other than the Company), shall deliver to Holder a new warrant in repacement of this Warrant consistent with the provisions referenced in the immediately preceding sentence against receipt by such successor or acquiring corporation of the original of this Warrant. For purposes of this Section 2.3, "common stock of the successor or acquiring corporation" shall include stock of such corporation of any class which is not preferred as to dividends or assets over any other class of stock of such corporation and which is not subject to redemption and shall also include any evidences of indebtedness, shares of stock or other securities which are convertible into or exchangeable for any such stock, either immediately or upon the arrival of a specified date or the happening of a specified event and any warrants or other rights to subscribe for or purchase any such stock. The foregoing provisions of this Section 2.3 shall similarly apply to successive reorganizations, reclassifications, mergers, tender or exchange offers, consolidations or disposition of assets.

2.4 Adjustment of Exercise Price upon Issuance of Common Stock, Options, Convertible Securities, Etc.

(a) If during any period while this Warrant is outstanding, the Company (A) issues or sells any Common Stock, Convertible Securities, warrants, or Options or (B) directly or indirectly effectively reduces the conversion, exercise or exchange price for any Convertible Securities or Options which are currently outstanding, at or to an effective Per Share Selling Price (as defined below) which is less than the then-current Exercise Price, then in each such case the Exercise Price in effect immediately prior to such issue or sale date, as applicable, shall be automatically reduced effective concurrently with such issue or sale to an amount determined by multiplying the Exercise Price then in effect by a fraction, (x) the numerator of which shall be the sum of (1) the number of shares of Common Stock outstanding immediately prior to such issue or sale, plus (2) the number of shares of Common Stock which the aggregate consideration received by the Company for such additional shares would purchase at such Exercise Price, and (y) the denominator of which shall be the number of shares of Common Stock of the Company outstanding immediately after such issue or sale. Notwithstanding the foregoing, however, no adjustment hereunder shall be made with respect to an Exempt Issuance, as defined below.

(b) For the purposes of the foregoing adjustment, in the case of the issuance of any Convertible Securities or Options, the maximum number of shares of Common Stock issuable upon exercise, exchange or conversion of such Convertible Securities or Options shall be deemed to be outstanding at the initial conversion or exercise price applicable to such securities, provided that no further adjustment shall be made upon the actual issuance of Common Stock upon exercise, exchange or conversion of such Convertible Securities or Options, and provided further that to the extent such Convertible Securities or Options expire or terminate unconverted or unexercised, then at such time the Exercise Price shall be readjusted as if such portion of such Convertible Securities or Options had not been issued. For purposes of this Section 2.4, if an event occurs that triggers more than one of the above adjustment provisions, then only one adjustment shall be made and the calculation method which yields the greatest downward adjustment in the Exercise Price shall be used. If shares are issued for a consideration other than cash, the Per Share Selling Price shall be the fair value of such consideration as determined in good faith by independent certified public accountants mutually acceptable to the Company and the Holder. In the event the Company directly or indirectly effectively reduces the conversion, exercise or exchange price for any Convertible Securities or Options which are

currently outstanding, then the Per Share Selling Price shall equal such effectively reduced conversion, exercise or exchange price.

(c) As used herein, "Exempt Issuance" means the issuance of (a) shares of Common Stock or Options or Convertible Securities to employees, officers, consultants or directors of the Company pursuant to any stock or option plan duly adopted for such purpose, by a majority of the non-employee members of the Board of Directors or a majority of the members of a committee of non-employee directors established for such purpose, (b) Common Stock, Convertible Securities, warrants, or Options upon the exercise or exchange of or conversion of any securities issued hereunder and/or other securities exercisable or exchangeable for or convertible into shares of Common Stock issued and outstanding as of the date of the Agreement, provided that such securities have not been amended since the date of the Agreement to increase the number of such securities or to decrease the exercise price, exchange price or conversion price of such securities; (c) shares of Common Stock issued by reason of a dividend, stock split, split-up or other distribution on shares of Common Stock; (d) shares of Common Stock, Convertible Securities, warrants or Options in connection with transactions with lenders or other commercial partners, the terms of which are approved by the Board of Directors, in each case, the primary purpose of which is not to raise equity capital; (e) shares of Common Stock, Convertible Securities, warrants or Options issued pursuant to mergers, acquisitions, or asset sales approved by a majority of the disinterested directors of the Company, provided that any such issuance shall provide to the Company additional benefits in addition to the investment of funds, but shall not include a transaction in which the Company is issuing securities primarily for the purpose of raising equity capital; and (f) shares of Common Stock, Convertible Securities, warrants or Options issued pursuant to the Agreement or upon the exercise of the Commitment Warrants issued pursuant to the Agreement or upon the conversion of the Convertible Debentures issued pursuant to the Agreement.

(d) For purposes hereof: (i) "Convertible Securities" means any stock or securities (other than Options) directly or indirectly convertible into or exercisable or exchangeable for Common Stock; (ii) "Options" means any rights, warrants or options to subscribe for or purchase Common Stock or Convertible Securities; and (iii) "Per Share Selling Price" shall include the amount actually paid by third parties for each share of Common Stock in a sale or issuance by the Company. A sale of shares of Common Stock shall include the sale or issuance of Convertible Securities or Options, and in such circumstances the Per Share Selling Price of the Common Stock covered thereby shall also include the exercise, exchange or conversion price thereof (in addition to the consideration received by the Company upon such sale or issuance less the fee amount as provided above).

2.5 Notice of Adjustment. Whenever the number of Warrant Shares or number or kind of securities or other property purchasable upon the exercise of this Warrant or the Exercise Price is adjusted in accordance with this Section 2, as herein provided, the Company shall give prior written notice thereof to the Holder of at least 15 days prior to the date on which the Company closes its books or takes a record for determining the particular event, which notice shall state the number of Warrant Shares (and other securities or property) purchasable upon the exercise of this Warrant and the Exercise Price of such Warrant Shares (and other securities or property) after such adjustment, setting forth a brief statement of the facts requiring such adjustment and setting forth the computation by which such adjustment was made.

3. Restrictions on Transfer

(a) The Holder acknowledges that he has been advised by the Company that

this Warrant and the Warrant Shares issuable upon exercise thereof (collectively the "Securities") have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), that the Warrant is being issued, and the shares issuable upon exercise of the Warrant will be issued, on the basis of the statutory exemption provided by section 4(2) of the Securities Act relating to transactions by an issuer not involving any public offering, and that the Company's reliance upon this statutory exemption is based in part upon the representations made by the Holder contained herein. The Holder acknowledges that he has been informed by the Company of, or is otherwise familiar with, the nature of the limitations imposed by the Securities Act and the rules and regulations thereunder on the transfer of securities. In particular, the Holder agrees that no sale, assignment or transfer of the Securities shall be valid or effective, and the Company shall not be required to give any effect to any such sale, assignment or transfer, unless (i) the sale, assignment or transfer of the Securities is registered under the Securities Act, and the Company has no obligations or intention to so register the Securities except as may otherwise be provided herein, or (ii) the Securities are sold, assigned or transferred in accordance with all the requirements and limitations of Rule 144 under the Securities Act or such sale, assignment, or transfer is otherwise exempt from registration under the Securities Act. The Holder represents and warrants that he has acquired this Warrant and will acquire the Securities for his own account for investment and not with a view to the sale or distribution thereof or the granting of any participation therein, and that he has no present intention of distributing or selling to others any of such interest or granting any participation therein. The Holder acknowledges that the Warrant and Warrant Shares must be held indefinitely unless a subsequent disposition thereof is registered under the Securities Act or registered or qualified under any applicable state securities or "blue-sky" laws or is exempt from registration and/or qualification. The Holder has no need for liquidity in its investment in the Company, and is able to bear the economic risk of such investment for an indefinite period and to afford a complete loss thereof. The Holder is an "accredited investor" as such term is defined in Rule 501 (the provisions of which are known to the Holder) promulgated under the Act.

The Holder acknowledges that the securities shall bear the following legend:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT, OR (B) AN OPINION OF COUNSEL, IN A GENERALLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT (II) UNLESS SOLD OR TRANSFERRED TO A "QUALIFIED INSTITUTIONAL BUYER" WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT OR (III) UNLESS SOLD PURSUANT TO RULE 144 OR RULE 144A UNDER SAID ACT.

(b) Registration Rights. The Holder shall be entitled to all of the rights and subject to all of the obligations regarding registration of the shares of Common Stock issuable upon the exercise of this Warrant as described in the Agreement.

(c) Disposition of Warrant or shares of Common Stock issuable on exercise of the Warrant. With respect to any offer, sale or other disposition of this Warrant or any shares of Common Stock acquired pursuant to the exercise of this Warrant prior to registration of such Warrant or shares of Common Stock, the Holder agrees to give written notice to the Company prior thereto, describing briefly the manner thereof, together with evidence, reasonably satisfactory to the Company (which shall include such representation of the transferee regarding investment intent as the Company may request, to the effect that such offer, sale or

other disposition may be effected without registration or qualification (under the Act as then in effect or any federal or state securities law then in effect) of this Warrant or such shares of Common Stock and indicating whether or not under the Act certificates for this Warrant or such shares of Common Stock to be sold or otherwise disposed of require any restrictive legend as to applicable restrictions on transferability in order to ensure compliance with such law. Upon receiving such written notice and reasonably satisfactory evidence, the Company, as promptly as practicable but no later than seven (7) days after receipt of the written notice, shall notify the Holder that the Holder may sell or otherwise dispose of this Warrant or such shares of Common Stock, all in accordance with the terms of the notice delivered to the Company. If the Company determines that the evidence is not reasonably satisfactory to the Company, the Company shall so notify the Holder promptly with details thereof after such determination has been made. Notwithstanding the foregoing, any shares of Common Stock issued upon exercise of this Warrant may be offered, sold or otherwise disposed of in accordance with Rule 144 under the Act and in compliance with the applicable statutory resale restrictions imposed by state securities laws, provided that the Company shall have been furnished with such information as the Company may reasonably request to provide a reasonable assurance that the provisions of Rule 144 and the applicable resale restrictions imposed by state securities laws have been satisfied. Each certificate representing this Warrant or the shares of Common Stock thus transferred shall bear a legend as to the applicable restrictions on transferability in order to ensure compliance with such laws, unless pursuant to an opinion of counsel for the Holder, such legend is not required in order to ensure compliance with such laws. The Company may issue stop transfer instructions to its transfer agent in connection with such restrictions.

4. Exercise Limitation. Without the approval of the Company's stockholders, the Holder (together with such Holder's Affiliates, and any Persons acting as a group together with such Holder or any of such Holder's Affiliates) shall not have the right to exercise the Warrants to the extent that such exercise would cause the Company to exceed the aggregate number of shares of Common Stock which the Company may issue or be deemed to have issued without breaching the Company's obligations under the applicable rules and regulations of the Nasdaq Stock Market (including, without limitation, Nasdaq Listing Rule 5635(d)) and such other Trading Market on which the Company's shares of Common Stock are then quoted or listed for trading. As used herein, "Trading Market" means any of the following markets or exchanges on which the Common Stock is listed or quoted for trading on the date in question: the NYSE AMEX, the Nasdaq Capital Market, the Nasdaq Global Market, the Nasdaq Global Select Market, the New York Stock Exchange or the OTC Bulletin Board.

5. Exchange and Replacement of Warrant Certificates.

5.1 Exchanges. This Warrant Certificate is exchangeable without expense, upon the surrender hereof by the registered Holder at the principal executive office of the Company, for a new Warrant Certificate of like tenor and date representing in the aggregate the right to purchase the same

number of Warrant Shares in such denominations as shall be designated by the Holder thereof at the time of such surrender.

5.2 Loss, Destruction, Etc. Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant Certificate, and, in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it, and reimbursement to the Company of all reasonable expenses incidental thereto, and upon surrender and cancellation of the Warrants, if mutilated, the Company will make and deliver a new Warrant of like tenor, in lieu thereof and any such lost, stolen, destroyed or mutilated warrant shall thereupon become void.

6. Elimination of Fractional Interests.

The Company shall not be required to issue certificates representing fractions of the shares of Common Stock and shall not be required to issue scrip or pay cash in lieu of fractional interests, it being the intent of the parties that all fractional interests shall be eliminated by rounding any fraction up or down to the nearest whole number of shares of Common Stock.

7. Rights of Warrant Holders.

Nothing contained in this Agreement shall be construed as conferring upon the Holder any rights whatsoever as a stockholder of the Company, either at law or in equity, including without limitation, or Holders the right to vote or to consent or to receive notice as a stockholder in respect of any meetings of stockholders for the election of directors the right to receive dividends or any other matter.

8. Miscellaneous.

8.1 Successors and Assigns. All the covenants and agreements made by the Company in this Warrant shall bind its successors and assigns. This Warrant shall be for the sole and exclusive benefit of the Holder and nothing in this Warrant shall be construed to confer upon any person other than the Holder any legal or equitable right, remedy or claim hereunder.

8.2 Acceptance. Receipt of this Warrant by the Holder shall constitute acceptance of and agreement to all of the terms and conditions contained herein.

8.3 No Recourse. No recourse shall be had for any claim based hereon or otherwise in any manner in respect hereof, against any incorporator, stockholder, officer or director, past, present or future, of the Company or of any predecessor corporation, whether by virtue of any constitutional provision or statute or rule of law, or by the enforcement of any assessment or penalty or in any other manner, all such liability being expressly waived and released by the acceptance hereof and as part of the consideration for the issue hereof.

8.4 Waivers and Amendments. No course of dealing between the Company and the Holder hereof shall operate as a waiver of any right of any Holder hereof, and no delay on the part of the Holder in exercising any right hereunder shall so operate. This Warrant may be amended or waived only by a written instrument executed by the Company and the Holder hereof. Any amendment shall be endorsed upon this Warrant, and all future Holders shall be bound thereby.

8.5 Notices. All notices required or permitted hereunder shall be in writing and shall be deemed effectively given: (a) upon personal delivery to the party to be notified, (b) when sent by confirmed telex or facsimile if sent during normal business hours of the recipient, if not, then on the next business day, (c) five days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (d) one day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt. All communications shall be sent to the Company at the address listed on the signature page hereto and to Holder at the applicable address set forth on the applicable signature page to the Purchase Agreement or at such other address as the Company or Holder may designate by ten (10) days advance written notice to the other parties hereto.

8.6 Governing Law. The provisions of this Warrant shall in all respects be constructed according to, and the rights and liabilities of the parties hereto shall in all respects be governed by, the laws of the State of New York. This Warrant shall be deemed a contract made under the laws of the State of New York and the validity of this Warrant and all rights and liabilities hereunder shall be determined under the laws of said State.

8.7 Headings. The headings of the Sections of this Warrant are inserted for convenience only and shall not be deemed to constitute a part of this Warrant.

Signature page to Common Stock Purchase Warrant follows.

IN WITNESS WHEREOF, TEAMSTAFF, INC. has, as of the date first set forth above, caused this Warrant to be executed in its corporate name by its officer, and its seal to be affixed hereto.

June 1, 2011

TEAMSTAFF, INC.

By: /s/ Zachary C. Parker
Name: Zachary C. Parker

Title: President and Chief Executive Officer

Address for Notice:

TeamStaff, Inc.
1 Executive Drive
Somerset, NJ 08873

NOTICE OF EXERCISE

TO: TEAMSTAFF, INC.

Attention: Chief Financial Officer

The undersigned Holder hereby irrevocably elects to exercise the right to purchase shares of Common Stock covered by this Warrant according to the conditions hereof and herewith makes full payment of the Exercise Price of such shares.

Kindly deliver to the undersigned a certificate representing the Shares.

INSTRUCTIONS FOR DELIVERY

Name:
(please typewrite or print in block letters)

Address:

Tax I.D. No. or Social Security No.:

If such number of shares shall not be all the shares purchasable upon the exercise of the Warrants evidenced by this Warrant, a new warrant certificate for the balance of such Warrants remaining unexercised shall be registered in the name of and delivered to:

Name:
(please typewrite or print in block letters)

Address:

Tax I.D. No. or Social Security No.:

Dated: _____

Signature _____

STATE OF)
COUNTY OF) ss:

On this day of , before me personally came , to me known, who being by me duly sworn, did depose and say that he resides at , that he is the holder of the foregoing instrument and that he executed such instrument and duly acknowledged to me that he executed the same.

_____
Notary Public

[FORM OF ASSIGNMENT]

(To be executed by the registered holder if such holder
desires to transfer the Warrant Certificate.)

FOR VALUE RECEIVED, the undersigned Holder of this Warrant hereby sells, assigns and transfers the foregoing Warrant and all rights evidenced thereby to

Name:
_____
(Please Print)

Address:
_____
(Please Print)

Tax ID No.:

and does hereby irrevocably constitute and appoint , Attorney, to transfer the within Warrant Certificate on the books of TeamStaff, Inc., with full power of substitution.

NOTE: The signature to this Assignment Form must correspond with the name as it appears on the face of the Warrant, without alteration or enlargement or any change whatever. Officers of corporations and those acting in a fiduciary or other representative capacity should file proper evidence of authority to assign the foregoing Warrant.

Dated: _____ Holder: _____

_____
(Print Name)

_____
(Signature)

STATE OF)
COUNTY OF) ss:

On this day of , before me personally came , to me known, who being by me duly sworn, did depose and say that he resides at , that he is the holder of the foregoing instrument and that he executed such instrument and duly acknowledged to me that he executed the same.

_____
Notary Public

NEITHER THIS SECURITY NOR THE SECURITIES INTO WHICH THIS SECURITY IS EXERCISABLE HAS BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED, ASSIGNED, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT, OR APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO AN AVAILABLE EXEMPTION THEREFROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS AS EVIDENCED BY A LEGAL OPINION OF COUNSEL TO THE TRANSFEROR TO SUCH EFFECT, THE SUBSTANCE OF WHICH SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY.

THE TRANSFERABILITY OF THIS WARRANT IS RESTRICTED AS PROVIDED IN SECTION 3

TEAMSTAFF, INC.
COMMON STOCK PURCHASE WARRANT

Dated as of: June 1, 2011 No. of Warrant Shares: 21,538

For good and valuable consideration, the receipt of which is hereby acknowledged by TEAMSTAFF, INC., a New Jersey corporation (the "Company"), Wynnefield Partners Small Cap Value, LP (the "Holder"), is hereby granted the right to purchase, at any time from and after the 1st day of June, 2011 until 5:00 P.M., New York City time, on June 1, 2016 (the "Warrant Exercise Term"), up to Twenty One Thousand, Five Hundred and Thirty Eight (21,538) fully-paid and non-assessable shares of the Company's Common Stock, $.001 par value per share ("Common Stock"). This warrant (the "Warrant") is issued by the Company pursuant to that certain Debenture Purchase Agreement between the Company and the original Holder of this Warrant dated June 1, 2011(the "Agreement") pursuant to which the Company may sell to the purchasers named therein up to an aggregate principal amount of $350,000 of convertible debentures (the "Convertible Debentures") from time to time in accordance with the terms and conditions of such Agreement.

l. Exercise of Warrant

1.1 Exercise Price and Mechanics of Exercise.

(a) During the Warrant Exercise Term, this Warrant shall be exercisable at a per share price of $1.00 (the "Exercise Price"), subject to adjustment as provided in Section 2 hereof, payable in cash or by certified or official bank check in New York Clearing House funds. The rights represented by this Warrant may be exercised in whole or in part at any time during the Warrant Exercise Term, upon surrender of the original of this warrant certificate with the annexed Notice of Exercise duly executed, together with payment of the Exercise Price for the shares of Common Stock purchased, at the Company's principal executive offices. Upon the occurrence of

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all of such events, the registered Holder of the Warrant shall be entitled to receive a certificate or certificates for the shares of Common Stock so purchased (the "Warrant Shares").

(b) The purchase rights represented by this Warrant are exercisable at the option of the Holder hereof, in whole or in part (but not as to fractional shares of the Common Stock) during any period in which this Warrant may be exercised as set forth above. In the case of the purchase of less than all the shares of Common Stock purchasable under this Warrant, the Company shall cancel this Warrant upon the surrender thereof and, upon the written request of the Holder, the Company shall execute and deliver a new Warrant of like tenor for the balance of the shares of Common Stock purchasable hereunder.

(c) Certificates for Warrant Shares purchased hereunder shall be transmitted by the transfer agent of the Company to the Holder by crediting the account of the Holder's prime broker with the Depository Trust Company through its Deposit Withdrawal Agent Commission system if the Company is a participant in such system and such Warrant Shares are eligible for delivery in such a manner, and otherwise by physical delivery to the address specified by the Holder in the Notice of Exercise within three business days from the delivery to the Company of the Notice of Exercise, surrender of this Warrant and payment of the aggregate Exercise Price as set forth above. This Warrant shall be deemed to have been exercised on the date on which this Warrant is surrendered and payment of the Exercise Price is received by the Company. The Warrant Shares shall be deemed to have been issued, and Holder or any other person so designated to be named therein shall be deemed to have become a holder of record of such shares for all purposes, as of the date on which all of the criteria described in the immediately preceding sentence have occurred, irrespective of the date of delivery of such certificate or certificates, except that, if the date of such surrender and payment is a date when the stock transfer books of the Company are closed, such person shall be deemed to have become the holder of such shares at the close of business on the next succeeding date on which the stock transfer books are open.

1.2 Transfer Taxes. The issuance of certificates for shares of Common Stock upon the exercise of this Warrant shall be made without charge to the Holder hereof including, without limitation, any tax which may be payable in respect of the issuance thereof, and such certificates shall be issued in the name of, or in such names as may be directed by, the Holder hereof; provided, however, that the Company shall not be required to pay any tax which may be payable in respect of any transfer involved in the issuance and delivery of such certificate in a name other than that of the Holder and the Company shall not be required to issue or deliver such certificates unless or until the person or persons requesting the issuance thereof shall have paid to the Company the amount of such tax or shall have established to the satisfaction of the Company that such tax has been paid.

1.3 Covenants by Company. The Company covenants that it will at all times reserve and keep available out of its authorized Common Stock, solely for the purpose of issuance upon exercise of this Warrant as herein provided, such number of shares of Common Stock as shall then be issuable upon the exercise of this Warrant. The Company covenants that all shares of Common Stock which shall be so issuable shall be duly and validly issued and fully-paid and non-assessable.

2. Adjustments and Extraordinary Events

2.1 Stock Dividends, Subdivisions, Reclassifications or Combinations.

If the Company, at any time while this Warrant is outstanding: (i) pays a stock dividend or

otherwise makes a distribution or distributions on shares of its Common Stock or any other equity or equity equivalent securities payable in shares of Common Stock (which, for avoidance of doubt, shall not include any shares of Common Stock issued by the Company upon exercise of this Warrant), (ii) subdivides outstanding shares of Common Stock into a larger number of shares, (iii) combines (including by way of reverse stock split) outstanding shares of Common Stock into a smaller number of shares, or (iv) issues by reclassification of shares of the Common Stock any shares of capital stock of the Company, then in each case the Exercise Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock (excluding treasury shares, if any) outstanding immediately before such event and of which the denominator shall be the number of shares of Common Stock outstanding immediately after such event, and the number of shares issuable upon exercise of this Warrant shall be proportionately adjusted such that the aggregate Exercise Price of this Warrant shall remain unchanged. Any adjustment made pursuant to this Section 2.1 shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or re-classification.

2.2 Other Distributions.

(a) If the Company, at any time while this Warrant is outstanding, shall distribute to all holders of Common Stock (and not to the Holders), shares of any class of Capital Stock of the Company (other than any dividends or distributions to which Section 2.1 applies) or evidences of its indebtedness, cash or other assets, including securities, but excluding dividends or distributions of stock, securities or other property or assets (including cash) in connection with a reclassification, change, merger, consolidation, statutory share exchange, combination, sale or conveyance to which Section 2.3 applies (such Capital Stock, evidences of its indebtedness, cash, other assets or securities being distributed hereinafter in this Section 2.2 called the "Distributed Assets"), then, in each such case, the Exercise Price shall be reduced so that the same shall be equal to the price determined by multiplying the Exercise Price in effect immediately prior to the close of business on the record date with respect to such distribution by a fraction: (i) the numerator of which shall be the Fair Market Value of the Common Stock of the Company on such date less the fair market value (as determined by the Board of Directors, whose determination shall be conclusive and set forth in a Board resolution) on such date of the portion of the Distributed Assets so distributed applicable to one share of Common Stock (determined on the basis of the number of shares of Common Stock outstanding on the record date); and (ii) the denominator of which shall be such Fair Market Value of the Common Stock of the Company on such date. Such reduction in the Exercise Price shall become effective immediately prior to the opening of business on the day following the record date. However, in the event that the then fair market value (as so determined) of the portion of the Distributed Assets so distributed applicable to one share of Common Stock is equal to or greater than the fair market value on the record date, in lieu of the foregoing adjustment, adequate provision shall be made so that the Holder of this Warrant shall have the right to receive upon conversion hereof (or any portion hereof) the amount of Distributed Assets the Holder would have received had the Holder converted this Warrant (or portion hereof) immediately prior to such Exercise Price. In the event that such dividend or distribution is not so paid or made, the Exercise Price shall again be adjusted to be the Exercise Price that otherwise would then be in effect if such dividend or distribution had not been declared.

(b) The following terms used in this Section 2.2 shall have meanings ascribed to them as set forth below:

(i) The phrase "Fair Market Value of the Common Stock" shall mean the average of the daily Trading Prices per share of Common Stock (or such other security as specified herein) for the 10 consecutive Trading Days immediately prior to the date in question .

(ii) "Trading Day" means: (1) if the applicable security is quoted on the Nasdaq Stock Market, a day on which the Nasdaq Stock Market is open for business; (2) if that security is listed on the New York Stock Exchange, a day on which trades may be made on the New York State Exchange; (3) if that security is not so listed on the New York Stock Exchange and not quoted on the Nasdaq Stock Market, a day on which the principal U.S. securities exchange on which the securities are listed or the OTC Bulletin Board is open for business; or (4) if the applicable security is not so listed, admitted for trading or quoted, any day other than a Saturday or a Sunday or a day on which banking institutions in the State of New York are authorized or obligated by law or executive order to close.

(iii) "Trading Price" of a security on any date of determination means: (1) the closing sales price as reported by the Nasdaq Stock Market on such date; (2) if such security is not so reported, the closing sale price (or, if no closing sale price is reported, the last reported sale price) of such security (regular way) on the New York Stock Exchange on such date; (3) if such security is not listed for trading on the New York Stock Exchange on any such date, the closing sale price as reported on the OTC Bulletin Board or in the composite transactions for the principal U.S. securities exchange on which such security is so listed; or (4) if such security is not so quoted, the average of that last bid and ask prices for such security on such date from a dealer engaged in the trading of convertible securities selected by the Company for this purpose, or (5) as determined by the Board of Directors in good faith.

2.3 Reorganization, Reclassification, Merger, Consolidation or Disposition of Assets. If during the Warrant Exercise Term (i) the Company shall reorganize its capital, reclassify its capital stock, consolidate or merge with or into another corporation (where the Company is not the surviving corporation or where there is a change in or distribution with respect to the Common Stock of the Company); (ii) any tender offer or exchange offer (whether by the Company or another individual or entity) is completed pursuant to which holders of Common Stock are permitted to tender or exchange their shares for other securities, cash or property; (iii) the Company shall sell, transfer or otherwise dispose all or substantially all of its property, assets or business to another corporation and, pursuant to the terms of such reorganization, reclassification, merger, consolidation, tender or exchange offer, or disposition of assets, shares of common stock of the successor or acquiring corporation, or any cash, shares of stock or other securities or property of any nature whatsoever (including warrants or other subscription or purchase rights) in addition to or in lieu of common stock of the successor or acquiring corporation ("Other Property"), are to be received by or distributed to the holders of Common Stock of the Company, then the Holder shall have the right thereafter to receive, upon exercise of this Warrant, the number of shares of common stock of the successor or acquiring corporation or of the Company, if it is the surviving corporation, and Other Property receivable upon or as a result of such reorganization, reclassification, merger, consolidation, tender or exchange offer, or disposition of assets by a Holder of the number of shares of Common Stock for which this Warrant is exercisable immediately prior to such event. In case of any such reorganization, reclassification, merger, tender or exchange offer, consolidation or disposition of assets ("Extraordinary Transaction"), the successor or acquiring corporation (if other than the Company) shall expressly assume the due and punctual observance and performance of each and every covenant

and condition of this Warrant to be performed and observed by the Company and all the obligations and liabilities hereunder, subject to such modifications as may be deemed

appropriate (as determined in good faith by resolution of the Board of Directors of the Company) in order to provide for adjustments of Warrant Shares for which this Warrant is exercisable which shall be as nearly equivalent as practicable to the adjustments provided for in this Section 2.3. As soon as commercially practicable following the Extraordinary Transaction, the successor or acquiring corporation (if other than the Company), shall deliver to Holder a new warrant in repacement of this Warrant consistent with the provisions referenced in the immediately preceding sentence against receipt by such successor or acquiring corporation of the original of this Warrant. For purposes of this Section 2.3, "common stock of the successor or acquiring corporation" shall include stock of such corporation of any class which is not preferred as to dividends or assets over any other class of stock of such corporation and which is not subject to redemption and shall also include any evidences of indebtedness, shares of stock or other securities which are convertible into or exchangeable for any such stock, either immediately or upon the arrival of a specified date or the happening of a specified event and any warrants or other rights to subscribe for or purchase any such stock. The foregoing provisions of this Section 2.3 shall similarly apply to successive reorganizations, reclassifications, mergers, tender or exchange offers, consolidations or disposition of assets.

2.4 Adjustment of Exercise Price upon Issuance of Common Stock, Options, Convertible Securities, Etc.

(a) If during any period while this Warrant is outstanding, the Company (A) issues or sells any Common Stock, Convertible Securities, warrants, or Options or (B) directly or indirectly effectively reduces the conversion, exercise or exchange price for any Convertible Securities or Options which are currently outstanding, at or to an effective Per Share Selling Price (as defined below) which is less than the then-current Exercise Price, then in each such case the Exercise Price in effect immediately prior to such issue or sale date, as applicable, shall be automatically reduced effective concurrently with such issue or sale to an amount determined by multiplying the Exercise Price then in effect by a fraction, (x) the numerator of which shall be the sum of (1) the number of shares of Common Stock outstanding immediately prior to such issue or sale, plus (2) the number of shares of Common Stock which the aggregate consideration received by the Company for such additional shares would purchase at such Exercise Price, and (y) the denominator of which shall be the number of shares of Common Stock of the Company outstanding immediately after such issue or sale. Notwithstanding the foregoing, however, no adjustment hereunder shall be made with respect to an Exempt Issuance, as defined below.

(b) For the purposes of the foregoing adjustment, in the case of the issuance of any Convertible Securities or Options, the maximum number of shares of Common Stock issuable upon exercise, exchange or conversion of such Convertible Securities or Options shall be deemed to be outstanding at the initial conversion or exercise price applicable to such securities, provided that no further adjustment shall be made upon the actual issuance of Common Stock upon exercise, exchange or conversion of such Convertible Securities or Options, and provided further that to the extent such Convertible Securities or Options expire or terminate unconverted or unexercised, then at such time the Exercise Price shall be readjusted as if such portion of such Convertible Securities or Options had not been issued. For purposes of this Section 2.4, if an event occurs that triggers more than one of the above adjustment provisions, then only one adjustment shall be made and the calculation method which yields the greatest downward adjustment in the Exercise Price shall be used. If shares are issued for a consideration other than cash, the Per Share Selling Price shall be the fair value of such consideration as determined in good faith by independent certified public accountants mutually acceptable to the Company and the Holder. In the event the Company directly or indirectly effectively reduces the conversion, exercise or exchange price for any Convertible Securities or Options which are

currently outstanding, then the Per Share Selling Price shall equal such effectively reduced conversion, exercise or exchange price.

(c) As used herein, "Exempt Issuance" means the issuance of (a) shares of Common Stock or Options or Convertible Securities to employees, officers, consultants or directors of the Company pursuant to any stock or option plan duly adopted for such purpose, by a majority of the non-employee members of the Board of Directors or a majority of the members of a committee of non-employee directors established for such purpose, (b) Common Stock, Convertible Securities, warrants, or Options upon the exercise or exchange of or conversion of any securities issued hereunder and/or other securities exercisable or exchangeable for or convertible into shares of Common Stock issued and outstanding as of the date of the Agreement, provided that such securities have not been amended since the date of the Agreement to increase the number of such securities or to decrease the exercise price, exchange price or conversion price of such securities; (c) shares of Common Stock issued by reason of a dividend, stock split, split-up or other distribution on shares of Common Stock; (d) shares of Common Stock, Convertible Securities, warrants or Options in connection with transactions with lenders or other commercial partners, the terms of which are approved by the Board of Directors, in each case, the primary purpose of which is not to raise equity capital; (e) shares of Common Stock, Convertible Securities, warrants or Options issued pursuant to mergers, acquisitions, or asset sales approved by a majority of the disinterested directors of the Company, provided that any such issuance shall provide to the Company additional benefits in addition to the investment of funds, but shall not include a transaction in which the Company is issuing securities primarily for the purpose of raising equity capital; and (f) shares of Common Stock, Convertible Securities, warrants or Options issued pursuant to the Agreement or upon the exercise of the Commitment Warrants issued pursuant to the Agreement or upon the conversion of the Convertible Debentures issued pursuant to the Agreement.

(d) For purposes hereof: (i) "Convertible Securities" means any stock or securities (other than Options) directly or indirectly convertible into or exercisable or exchangeable for Common Stock; (ii) "Options" means any rights, warrants or options to subscribe for or purchase Common Stock or Convertible Securities; and (iii) "Per Share Selling Price" shall include the amount actually paid by third parties for each share of Common Stock in a sale or issuance by the Company. A sale of shares of Common Stock shall include the sale or issuance of Convertible Securities or Options, and in such circumstances the Per Share Selling Price of the Common Stock covered thereby shall also include the exercise, exchange or conversion price thereof (in addition to the consideration received by the Company upon such sale or issuance less the fee amount as provided above).

2.5 Notice of Adjustment. Whenever the number of Warrant Shares or number or kind of securities or other property purchasable upon the exercise of this Warrant or the Exercise Price is adjusted in accordance with this Section 2, as herein provided, the Company shall give prior written notice thereof to the Holder of at least 15 days prior to the date on which the Company closes its books or takes a record for determining the particular event, which notice shall state the number of Warrant Shares (and other securities or property) purchasable upon the exercise of this Warrant and the Exercise Price of such Warrant Shares (and other securities or property) after such adjustment, setting forth a brief statement of the facts requiring such adjustment and setting forth the computation by which such adjustment was made.

3. Restrictions on Transfer

(a) The Holder acknowledges that he has been advised by the Company that

this Warrant and the Warrant Shares issuable upon exercise thereof (collectively the "Securities") have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), that the Warrant is being issued, and the shares issuable upon exercise of the Warrant will be issued, on the basis of the statutory exemption provided by section 4(2) of the Securities Act relating to transactions by an issuer not involving any public offering, and that the Company's reliance upon this statutory exemption is based in part upon the representations made by the Holder contained herein. The Holder acknowledges that he has been informed by the Company of, or is otherwise familiar with, the nature of the limitations imposed by the Securities Act and the rules and regulations thereunder on the transfer of securities. In particular, the Holder agrees that no sale, assignment or transfer of the Securities shall be valid or effective, and the Company shall not be required to give any effect to any such sale, assignment or transfer, unless (i) the sale, assignment or transfer of the Securities is registered under the Securities Act, and the Company has no obligations or intention to so register the Securities except as may otherwise be provided herein, or (ii) the Securities are sold, assigned or transferred in accordance with all the requirements and limitations of Rule 144 under the Securities Act or such sale, assignment, or transfer is otherwise exempt from registration under the Securities Act. The Holder represents and warrants that he has acquired this Warrant and will acquire the Securities for his own account for investment and not with a view to the sale or distribution thereof or the granting of any participation therein, and that he has no present intention of distributing or selling to others any of such interest or granting any participation therein. The Holder acknowledges that the Warrant and Warrant Shares must be held indefinitely unless a subsequent disposition thereof is registered under the Securities Act or registered or qualified under any applicable state securities or "blue-sky" laws or is exempt from registration and/or qualification. The Holder has no need for liquidity in its investment in the Company, and is able to bear the economic risk of such investment for an indefinite period and to afford a complete loss thereof. The Holder is an "accredited investor" as such term is defined in Rule 501 (the provisions of which are known to the Holder) promulgated under the Act.

The Holder acknowledges that the securities shall bear the following legend:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT, OR (B) AN OPINION OF COUNSEL, IN A GENERALLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT (II) UNLESS SOLD OR TRANSFERRED TO A "QUALIFIED INSTITUTIONAL BUYER" WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT OR (III) UNLESS SOLD PURSUANT TO RULE 144 OR RULE 144A UNDER SAID ACT.

(b) Registration Rights. The Holder shall be entitled to all of the rights and subject to all of the obligations regarding registration of the shares of Common Stock issuable upon the exercise of this Warrant as described in the Agreement.

(c) Disposition of Warrant or shares of Common Stock issuable on exercise of the Warrant. With respect to any offer, sale or other disposition of this Warrant or any shares of Common Stock acquired pursuant to the exercise of this Warrant prior to registration of such Warrant or shares of Common Stock, the Holder agrees to give written notice to the Company prior thereto, describing briefly the manner thereof, together with evidence, reasonably satisfactory to the Company (which shall include such representation of the transferee regarding investment intent as the Company may request, to the effect that such offer, sale or

other disposition may be effected without registration or qualification (under the Act as then in effect or any federal or state securities law then in effect) of this Warrant or such shares of Common Stock and indicating whether or not under the Act certificates for this Warrant or such shares of Common Stock to be sold or otherwise disposed of require any restrictive legend as to applicable restrictions on transferability in order to ensure compliance with such law. Upon receiving such written notice and reasonably satisfactory evidence, the Company, as promptly as practicable but no later than seven (7) days after receipt of the written notice, shall notify the Holder that the Holder may sell or otherwise dispose of this Warrant or such shares of Common Stock, all in accordance with the terms of the notice delivered to the Company. If the Company determines that the evidence is not reasonably satisfactory to the Company, the Company shall so notify the Holder promptly with details thereof after such determination has been made. Notwithstanding the foregoing, any shares of Common Stock issued upon exercise of this Warrant may be offered, sold or otherwise disposed of in accordance with Rule 144 under the Act and in compliance with the applicable statutory resale restrictions imposed by state securities laws, provided that the Company shall have been furnished with such information as the Company may reasonably request to provide a reasonable assurance that the provisions of Rule 144 and the applicable resale restrictions imposed by state securities laws have been satisfied. Each certificate representing this Warrant or the shares of Common Stock thus transferred shall bear a legend as to the applicable restrictions on transferability in order to ensure compliance with such laws, unless pursuant to an opinion of counsel for the Holder, such legend is not required in order to ensure compliance with such laws. The Company may issue stop transfer instructions to its transfer agent in connection with such restrictions.

4. Exercise Limitation. Without the approval of the Company's stockholders, the Holder (together with such Holder's Affiliates, and any Persons acting as a group together with such Holder or any of such Holder's Affiliates) shall not have the right to exercise the Warrants to the extent that such exercise would cause the Company to exceed the aggregate number of shares of Common Stock which the Company may issue or be deemed to have issued without breaching the Company's obligations under the applicable rules and regulations of the Nasdaq Stock Market (including, without limitation, Nasdaq Listing Rule 5635(d)) and such other Trading Market on which the Company's shares of Common Stock are then quoted or listed for trading. As used herein, "Trading Market" means any of the following markets or exchanges on which the Common Stock is listed or quoted for trading on the date in question: the NYSE AMEX, the Nasdaq Capital Market, the Nasdaq Global Market, the Nasdaq Global Select Market, the New York Stock Exchange or the OTC Bulletin Board.

5. Exchange and Replacement of Warrant Certificates.

5.1 Exchanges. This Warrant Certificate is exchangeable without expense, upon the surrender hereof by the registered Holder at the principal executive office of the Company, for a new Warrant Certificate of like tenor and date representing in the aggregate the right to purchase the same

number of Warrant Shares in such denominations as shall be designated by the Holder thereof at the time of such surrender.

5.2 Loss, Destruction, Etc. Upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant Certificate, and, in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it, and reimbursement to the Company of all reasonable expenses incidental thereto, and upon surrender and cancellation of the Warrants, if mutilated, the Company will make and deliver a new Warrant of like tenor, in lieu thereof and any such lost, stolen, destroyed or mutilated warrant shall thereupon become void.

6. Elimination of Fractional Interests.

The Company shall not be required to issue certificates representing fractions of the shares of Common Stock and shall not be required to issue scrip or pay cash in lieu of fractional interests, it being the intent of the parties that all fractional interests shall be eliminated by rounding any fraction up or down to the nearest whole number of shares of Common Stock.

7. Rights of Warrant Holders.

Nothing contained in this Agreement shall be construed as conferring upon the Holder any rights whatsoever as a stockholder of the Company, either at law or in equity, including without limitation, or Holders the right to vote or to consent or to receive notice as a stockholder in respect of any meetings of stockholders for the election of directors the right to receive dividends or any other matter.

8. Miscellaneous.

8.1 Successors and Assigns. All the covenants and agreements made by the Company in this Warrant shall bind its successors and assigns. This Warrant shall be for the sole and exclusive benefit of the Holder and nothing in this Warrant shall be construed to confer upon any person other than the Holder any legal or equitable right, remedy or claim hereunder.

8.2 Acceptance. Receipt of this Warrant by the Holder shall constitute acceptance of and agreement to all of the terms and conditions contained herein.

8.3 No Recourse. No recourse shall be had for any claim based hereon or otherwise in any manner in respect hereof, against any incorporator, stockholder, officer or director, past, present or future, of the Company or of any predecessor corporation, whether by virtue of any constitutional provision or statute or rule of law, or by the enforcement of any assessment or penalty or in any other manner, all such liability being expressly waived and released by the acceptance hereof and as part of the consideration for the issue hereof.

8.4 Waivers and Amendments. No course of dealing between the Company and the Holder hereof shall operate as a waiver of any right of any Holder hereof, and no delay on the part of the Holder in exercising any right hereunder shall so operate. This Warrant may be amended or waived only by a written instrument executed by the Company and the Holder hereof. Any amendment shall be endorsed upon this Warrant, and all future Holders shall be bound thereby.

8.5 Notices. All notices required or permitted hereunder shall be in writing and shall be deemed effectively given: (a) upon personal delivery to the party to be notified, (b) when sent by confirmed telex or facsimile if sent during normal business hours of the recipient, if not, then on the next business day, (c) five days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (d) one day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt. All communications shall be sent to the Company at the address listed on the signature page hereto and to Holder at the applicable address set forth on the applicable signature page to the Purchase Agreement or at such other address as the Company or Holder may designate by ten (10) days advance written notice to the other parties hereto.

8.6 Governing Law. The provisions of this Warrant shall in all respects be constructed according to, and the rights and liabilities of the parties hereto shall in all respects be governed by, the laws of the State of New York. This Warrant shall be deemed a contract made under the laws of the State of New York and the validity of this Warrant and all rights and liabilities hereunder shall be determined under the laws of said State.

8.7 Headings. The headings of the Sections of this Warrant are inserted for convenience only and shall not be deemed to constitute a part of this Warrant.

Signature page to Common Stock Purchase Warrant follows.

IN WITNESS WHEREOF, TEAMSTAFF, INC. has, as of the date first set forth above, caused this Warrant to be executed in its corporate name by its officer, and its seal to be affixed hereto.

June 1, 2011

TEAMSTAFF, INC.

By: /s/ Zachary C. Parker
Name: Zachary C. Parker

Title: President and Chief Executive Officer

Address for Notice:

TeamStaff, Inc.
1 Executive Drive
Somerset, NJ 08873

NOTICE OF EXERCISE

TO: TEAMSTAFF, INC.

Attention: Chief Financial Officer

The undersigned Holder hereby irrevocably elects to exercise the right to purchase shares of Common Stock covered by this Warrant according to the conditions hereof and herewith makes full payment of the Exercise Price of such shares.

Kindly deliver to the undersigned a certificate representing the Shares.

INSTRUCTIONS FOR DELIVERY

Name:
(please typewrite or print in block letters)

Address:

Tax I.D. No. or Social Security No.:

If such number of shares shall not be all the shares purchasable upon the exercise of the Warrants evidenced by this Warrant, a new warrant certificate for the balance of such Warrants remaining unexercised shall be registered in the name of and delivered to:

Name:
(please typewrite or print in block letters)

Address:

Tax I.D. No. or Social Security No.:

Dated:

Signature

STATE OF)
COUNTY OF) ss:

On this day of , before me personally came , to me known, who being by me duly sworn, did depose and say that he resides at , that he is the holder of the foregoing instrument and that he executed such instrument and duly acknowledged to me that he executed the same.

Notary Public

[FORM OF ASSIGNMENT]

(To be executed by the registered holder if such holder
desires to transfer the Warrant Certificate.)

FOR VALUE RECEIVED, the undersigned Holder of this Warrant hereby sells, assigns and transfers the foregoing Warrant and all rights evidenced thereby to

Name:
(Please Print)

Address:
(Please Print)

Tax ID No.:

and does hereby irrevocably constitute and appoint , Attorney, to transfer the within Warrant Certificate on the books of TeamStaff, Inc., with full power of substitution.

NOTE: The signature to this Assignment Form must correspond with the name as it appears on the face of the Warrant, without alteration or enlargement or any change whatever. Officers of corporations and those acting in a fiduciary or other representative capacity should file proper evidence of authority to assign the foregoing Warrant.

Dated: _____ Holder: _____

_____
(Print Name)

_____
(Signature)

STATE OF)
COUNTY OF) ss:

On this day of , before me personally came , to me known, who being by me duly sworn, did depose and say that he resides at , that he is the holder of the foregoing instrument and that he executed such instrument and duly acknowledged to me that he executed the same.

_____
Notary Public

DEBENTURE PURCHASE AGREEMENT

THIS DEBENTURE PURCHASE AGREEMENT (this "Agreement"), dated as of June 1, 2011, is made by and among TeamStaff, Inc. (the "Company"), a New Jersey corporation with executive offices located at 1 Executive Drive, Somerset, NJ 08873, and each party executing the Purchaser Signature Page attached hereto (individually, a "Purchaser" and, collectively, the "Purchasers").

BACKGROUND

A. Upon the terms and subject to the conditions set forth herein, the Purchasers hereby agree to provide the Company with a standby commitment to purchase from the Company, and upon requisite notice from the Company to the Purchasers, the Company is willing to sell to the Purchasers, Convertible Debentures due on a date 27 months after the date of issuance of each such Convertible Debenture (as defined below), in the form attached hereto as Exhibit A, in the aggregate principal amounts set forth on the Purchaser Signature Pages (the "Purchase Price").

B. The proceeds of the Convertible Debentures will be used for general corporate purposes.

NOW, THEREFORE, IN CONSIDERATION of the mutual covenants contained in this Agreement and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Company and the Purchasers hereby agree as follows:

ARTICLE I
STANDBY PURCHASE COMMITMENT

1.1 Certain Definitions. In addition to the other terms specifically defined elsewhere in this Agreement, the following capitalized terms shall have the following respective meanings when used herein:

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control", when used with respect to any specified Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Board of Directors" means the board of directors of the Company or any authorized committee of the board of directors.

"Business Day" means each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which the banking institutions in the City of New York, New York are authorized or obligated by law or executive order to close or be closed.

"Capital Stock" of any Person means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interest in (however designated) equity of such Person, but excluding any debt securities convertible into such equity.

"Event of Default" has the meaning given such term in the Convertible Debentures.

"Exchange Act" means the Securities Exchange Act of 1934, as amended and the rules and regulations promulgated thereunder.

"Indebtedness" means, without duplication, with respect to any Person (the "subject Person"), all liabilities, obligations and indebtedness of the subject Person to any other Person, of any kind or nature, now or hereafter owing, arising, due or payable, howsoever evidenced, created, incurred, acquired or owing, whether primary, secondary, direct, contingent, fixed or otherwise, consisting of indebtedness for borrowed money or the deferred purchase price of property, excluding purchases of property, product, merchandise and services in the ordinary course of business, but including (a) all obligations and liabilities of any Person secured by any lien on the subject Person's property, even though the subject Person shall not have assumed or become liable for the payment thereof; (except unperfected liens incurred in the ordinary course of business and not in connection with the borrowing of money); *provided, however*, that all such obligations and liabilities which are limited in recourse to such property shall be included in Indebtedness only to the extent of the book value of such property as would be shown on a balance sheet of the subject Person prepared in accordance with GAAP; (b) all capital lease obligations and other obligations or liabilities created or arising under any conditional sale or other title retention agreement with respect to property used or acquired by the subject Person, even if the rights and remedies of the lessor, seller or lender thereunder are limited to repossession of such property; *provided, however*, that all such obligations and liabilities which are limited in recourse to such property shall be included in Indebtedness only to the extent of the book value of such property as would be shown on a balance sheet of the subject Person prepared in accordance with GAAP; (c) all obligations and liabilities under guarantees; (d) the present value of lease payments due under synthetic leases; (e) all obligations and liabilities under any asset securitization or sale/leaseback transaction; and (f) obligations of such Person in respect of letters of credit or similar instruments issued or accepted by banks and other financial institutions for the account of such Person; *provided, further*, however, that in no event shall the term Indebtedness include the capital stock surplus, retained earnings, minority interests in the common stock of Subsidiaries, lease obligations (other than pursuant to (b) or (d) above), reserves for deferred income taxes and investment credits, other deferred credits or reserves.

"Majority in Interest" shall mean the holders of fifty-one percent (51%) or more of the outstanding principal amount of all then outstanding Convertible Debentures.

"Person" shall mean and include an individual, a partnership, a corporation (including a business trust), a joint stock company, a limited liability company, an unincorporated association, a joint venture or other entity or a governmental authority.

"Required Approvals" means (i) filings expressly required pursuant to this Agreement, (ii) application(s) to the Company's principal Trading Market for the listing of the shares of Common Stock which may be issued pursuant to the terms of this Agreement for trading thereon in the time and manner required thereby; (iii) such filings as are required to be made under applicable federal and state securities laws; (iv) approvals or consents that have been made or obtained prior to or contemporaneously with the date of this Agreement; (v) filings pursuant to the Exchange Act; and (vi) the approval of the lender under the Senior Credit Facility, which has been made or obtained prior to or contemporaneously with the execution of this Agreement.

"Securities Act" means the Securities Act of 1933, as amended and the rules and regulations promulgated thereunder.

"Senior Credit Facility" means the secured credit facility entered into between TeamStaff Government Solutions, Inc. and Presidential Financial Corporation, as of July 29, 2010, as guaranteed by the Company in accordance with the terms of the Corporate Guaranty executed by the Company and as such facility may be amended or replaced from time to time.

"Significant Subsidiary" has the meaning assigned to it under Rule 405 of the Securities Act.

"Subsidiary" means, in respect of any Person, any corporation, association, partnership or other business entity of which more than 50% of the total voting power of shares of Capital Stock or other interests (including partnership interests) entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers, general partners or trustees thereof is at the time owned or controlled, directly or indirectly, by (i) such Person; (ii) such Person and one or more Subsidiaries of such Person; or (iii) one or more Subsidiaries of such Person.

"Trading Market" means any of the following markets or exchanges on which the Common Stock is listed or quoted for trading on the date in question: the NYSE AMEX, the Nasdaq Capital Market, the Nasdaq Global Market, the Nasdaq Global Select Market, the New York Stock Exchange or the OTC Bulletin Board.

"Transaction Agreements" means this Agreement, the Convertible Debentures, the Commitment Warrants and any other agreement or instrument executed by a party to this Agreement or in connection with the transactions contemplated hereunder.

1.2 Standby Purchase Commitment. In accordance with the terms and conditions of this Agreement, the Purchasers agree to provide the Company with a standby commitment ("Commitment") to purchase convertible debentures to be issued by the Company on the terms specified herein (each a "Convertible Debenture" and collectively, the "Convertible Debentures") in an aggregate principal amount of up to $350,000 (the "Total Commitment Amount"). From time to time during the Commitment Term (as defined below), the Company shall have the right to drawdown (the "Drawdown") on the Total Commitment Amount and to require the Purchasers to purchase the Convertible Debentures for the Purchase Price up to the Total Commitment Amount as specified by the Company in the Drawdown Notice (as defined below). Upon each exercise of the Drawdown by the Company, each Purchaser hereby covenants to purchase Convertible Debentures in a principal amount equal to its pro rata portion, as determined in accordance with Section 1.4 hereof, of the aggregate amount specified in the Drawdown Notice, up to its pro rata portion, as determined in accordance with Section 1.4 hereof, of the Total Commitment Amount. Purchasers shall pay the Purchase Price for Convertible Debenture purchased pursuant to a Drawdown at each closing specified in the applicable Drawdown Notice. Notwithstanding anything herein to the contrary, nothing contained in this Agreement shall obligate the Company to exercise the Drawdown.

1.3 Term of Commitment. Prior to the expiration or earlier termination of this Agreement in accordance with terms and conditions hereof, the Company's right to Drawdown on the Commitment shall be exercisable by the Company commencing with the date of this Agreement and expiring at 6:00 p.m. (New York time) on the date that is the second anniversary date of the date set forth at the top of this Agreement (the "Commitment Term"), subject to early termination, as provided below.

1.4 Drawdowns on Commitment. The Drawdown on the Commitment shall be exercisable by the Company from time to time during the Commitment Term upon no less than five (5) days' written notice from the Company to the Purchasers (the "Drawdown Notice") which shall specify the amount of Convertible Debentures to be purchased by each Purchaser and the Closing Date (as defined below) for each purchase of the Convertible Debentures by each Purchaser. The Purchasers shall purchase the Convertible Debentures *pro rata* based on each Purchaser's maximum Commitment and the amount of each Drawdown. Each closing shall occur on the 5th day following the date of the Drawdown Notice, or such other date as the Company and the Purchasers may agree from time to time. At each closing, the Purchasers shall purchase the Convertible Debentures pro rata based on each Purchaser's maximum

amount of the Total Commitment Amount and the amount of each Drawdown. The Purchasers shall pay the Purchase Price at the Closing by one or more wire transfers of immediately available funds. The minimum amount of each Drawdown shall be the lesser of (i) $75,000 or, (ii) $350,000 minus the aggregate principal amount of outstanding Convertible Debentures. The maximum amount of each Drawdown shall be the Total Commitment Amount less any previous Drawdowns. The Company shall not be entitled to make a Drawdown more than once every 30 days. For the avoidance of doubt, no Purchaser shall be liable or obligated to fulfill the Commitment of any other Purchaser.

1.5 Commitment Warrants. Upon execution of this Agreement, the Company shall contemporaneously issue to the Purchasers warrants (each a "Commitment Warrant" and the "Commitment Warrants") to purchase an aggregate of 53,846 shares of the Company's common stock, par value $.001 per share ("Common Stock"), pro rata based on each Purchaser's maximum amount of the Total Commitment. The exercise price of the Commitment Warrants shall be $1.00. The Purchasers shall be entitled to exercise the Commitment Warrants through cashless exercise provisions in the event that the Common Stock to be issued upon the exercise of the Commitment Warrants is not registered pursuant to an effective registration statement filed with the Securities and Exchange Commission ("SEC"). The Commitment Warrants shall be exercisable for a period of five (5) years from the date of issuance and shall be in the form attached hereto as Exhibit B.

ARTICLE II
PURCHASE AND SALE OF CONVERTIBLE DEBENTURES

2.1 Purchase and Sale of Convertible Debentures; Closing.

(a) Upon all of the terms and subject to all of the conditions hereof, including, without limitation, the exercise of a Drawdown by the Company, the Company agrees to issue and sell to each of the Purchasers, and each of the Purchasers hereby confirms its irrevocable subscription for and offer to purchase, in the principal amount set forth below the Purchaser's name on the Purchaser Signature Page. The obligations of the Purchasers to

purchase Convertible Debentures are several and not joint. The aggregate principal amount for all Convertible Debentures issued hereunder shall not exceed $350,000.

(b) Each Purchaser acknowledges and agrees that the Company reserves the right, in its absolute discretion, to reject a subscription for Convertible Debentures, in whole or in part, at any time prior to the closing time. If a subscription is rejected in whole, any checks or other forms of payment delivered to the Company representing the Purchase Price will be promptly returned to each Purchaser without interest or deduction. If a subscription is accepted only in part, a check representing any refund of the Purchase Price for that portion of the subscription for the Convertible Debentures which is not accepted will be promptly delivered to each Purchaser without interest or deduction.

(c) The Company may conduct one or more closings (each a "Closing" and collectively, the "Closings") to effect the issuance of the Convertible Debentures at its discretion. The Closing of the sale and purchase of the Convertible Debentures shall take place at a closing on the 5th day following the date of the Drawdown Notice, or such other date as the Company and the Purchasers may agree from time to time. The Company may conduct one or more additional Closings to be held at such place and date as the Company and the Purchasers participating in such Closing may agree.

(d) At each Closing, the Company will deliver to each of the Purchasers the Convertible Debentures to be purchased by such Purchaser, against receipt by the Company of the corresponding Purchase Price in immediately available funds.

(e) The Purchasers' obligation to close each Drawdown shall be subject to: (1) satisfaction of the closing conditions in Section 5.1 and (2) receipt of a closing certificate from the Company's Chief Executive Officer or Chief Financial Officer certifying that the Company: (i) is not in default, nor are there any events that constitute a default, under its Senior Credit Facility; (ii) is current in filing its periodic reports with the SEC as required under the Exchange Act; (iii) is not in default in payment of interest under the Convertible Debentures; (iv) the representations and warranties contained in this Agreement are true and correct in all material respects as of the Drawdown date; and (v) as of the Drawdown date, is in compliance with all covenants contained in this Agreement, the Commitment Warrants and the Convertible Debentures (if any are outstanding as of such date).

2.2 Terms of Convertible Debentures.

(a) Interest. The Convertible Debentures shall bear interest at the rate equal to the greater of (i) the prime rate, as reported in the Wall Street Journal and as in effect for such interest period, plus 5%; or (ii) 10% per annum (the "Interest Rate"). Interest shall accrue quarterly on a 360-day year basis and the Interest Rate for each quarterly period during the term of the Convertible Debentures shall be determined independently for each quarterly interest period in accordance with the preceding sentence. Interest shall be payable in cash to the account of the Purchasers on the Maturity Date (as defined below), and on the date of redemption (if any). Interest shall cease to accrue with respect to any principal amount of Convertible Debentures that are converted.

(b) Maturity Date. The Convertible Debentures shall mature and the outstanding principal and accrued but unpaid interest thereon shall be due and payable on the date that is 27 months after the date of issuance of each Convertible Debenture (the "Maturity Date"), subject to early redemption, as provided below.

(c) Conversion of Convertible Debentures. At any time and from time to time prior to the Maturity Date and prior to redemption (if any), upon no less than 15 days' written notice by a Purchaser to the Company, all or a portion of the principal amount of outstanding Convertible Debentures may be converted into shares of the Company's Common Stock ("Conversion Shares") at a conversion rate equal to $1.30 (the "Conversion Rate"). In calculating the number of Conversion Shares to be issued to the Purchasers, such number shall be rounded up or down to the nearest whole number. The Company shall not issue any fractional Conversion Shares under any circumstances, but shall pay to the Purchasers any cash amounts in respect of the value of any fractional Conversion Shares that may have been issuable in the absence of the aforementioned prohibition. The Conversion Rate shall be subject to adjustment from time to time in accordance with the provisions of the Convertible Debentures in the form annexed to this Purchase Agreement as Exhibit A.

(d) Redemption of Convertible Debentures. At any time and from time to time prior to the Maturity Date, upon no less than 30 days' written notice by the Company to the Purchaser (the "Redemption Notice"), all or a portion of the then outstanding Convertible Debentures may be redeemed by payment of 120% of the principal amount thereof, plus the unpaid interest which has accrued on the principal of the outstanding Convertible Debentures at the end of such 30-day notice period. Within 15 days from the date of the Redemption Notice, a Purchaser may exercise the conversion feature of the Convertible Debentures that are the subject of the Redemption Notice, by providing written notice to the Company of such Purchaser's intention to exercise such conversion feature in accordance with the applicable terms of the Convertible Debentures. The shares of Common Stock underlying such Convertible Debentures shall be issued by the Company on or prior to the 15th day following the date of the Purchaser's notice of intention to exercise such conversion feature.

(e) Priority. The Convertible Debentures will be unsecured obligations of the Company and (i) subordinated to (A) the Senior Credit Facility and (B) such other Indebtedness of the Company and its Subsidiaries as set forth on Schedule 2.2 and (ii) *pari passu* in right of payment to all other Indebtedness of the Company which is unsecured and does not otherwise have priority over general unsecured creditors of the Company.

2.3 Limitations on Conversion of Convertible Debentures and Exercise of Warrants. Notwithstanding anything in this Purchase Agreement or any of the other agreements and instruments executed in accordance with this Purchase Agreement to the contrary, subject to receipt of the approval of the Company's stockholder, the Company shall not issue, and no Purchaser shall be permitted to purchase (whether hereunder, upon conversion of the Convertible Debentures or upon exercise of the Commitment Warrants) any shares of Common Stock if and to the extent that the purchase and issuance of such shares of Common Stock would cause the Company to exceed the aggregate number of shares of Common Stock which the Company may issue or be deemed to have issued without breaching the Company's obligations under the applicable rules and regulations of the Nasdaq Stock Market (including, without limitation, Nasdaq Listing Rule 5635(d)) and such other Trading Market on which the Company's shares of Common Stock are then listed or quoted for trading (the "Exchange Cap"). In the absence of such stockholder approval, in no event shall a Purchaser be permitted to acquire shares of Common Stock in an amount greater than the product of the Exchange Cap multiplied by a fraction, the numerator of which is the aggregate of the total amount of shares of Common Stock issuable to the Purchaser pursuant to terms of the Convertible Debentures and Commitment Warrants issued or to be issued to the Purchaser

hereunder and the denominator of which is the total number of shares of Common Stock issuable to all the Purchasers pursuant to terms of the Convertible Debentures and Commitment Warrants issued or to be issued to the Purchasers hereunder (with respect to each Purchaser, the "Exchange Cap Allocation"). In the event that Purchaser shall sell or otherwise transfer any of the securities issued hereunder, the transferee thereof shall be allocated a pro rata portion of Purchaser's Exchange Cap Allocation, and the restrictions of the prior sentence shall apply to such transferee with respect to the portion of the Exchange Cap Allocation allocated to such transferee.

2.4 Stockholder Approval. Solely in the event that it is required in order to permit the full conversion of the Convertible Debentures or full exercise of the Commitment Warrants issued pursuant to this Agreement into shares of Common Stock in excess of 19.99% of the Company's issued and outstanding Common Stock (the "Stockholder Approval"), the Company shall, following its determination that such Stockholder Approval is required pursuant to the applicable rules of the Nasdaq Stock Market, at its next regularly scheduled annual or special meeting of stockholders, hold a meeting of its stockholders for the purpose of obtaining the Stockholder Approval, with the recommendation of the Board of Directors that such proposal be approved, and the Company shall solicit proxies from its stockholders in connection therewith in the same manner as all other management proposals in such proxy statement and all management-appointed proxyholders shall vote their proxies in favor of such proposal. If the Company does not obtain Stockholder Approval at the first meeting, the Company shall call a meeting no less frequently than every 180 days thereafter to seek Stockholder Approval until the earlier of the date that Stockholder Approval is obtained or the Convertible Debentures are no longer outstanding. Each Purchaser further agrees that it shall not be entitled to vote the shares of Common Stock of the Company issuable to it pursuant to the terms of this Agreement at any meeting of the Company's stockholders convened to vote on a proposal to enable the Company to issue the shares of Common Stock underlying the Convertible Debentures and Warrants in excess of 19.99% of the issued and outstanding Common Stock of the Company.

ARTICLE III
REPRESENTATIONS AND WARRANTIES

3.1 Representations and Warranties of the Company. The Company hereby represents and warrants to the Purchasers as follows:

(a) Organization and Qualification. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of New Jersey and has the requisite legal authority to own and use its properties and assets and to carry on its business as currently conducted. The Company is not in violation of any of the provisions of its certificate of incorporation, bylaws or other organizational or charter documents. The Company is duly qualified to do business and is in good standing as a foreign corporation or other entity in each jurisdiction in which the nature of the business conducted or property owned by the Company makes such qualification necessary, except where the failure to be so qualified or in good standing, as the case may be, would not, individually or in the aggregate, have, or reasonably be expected to result in, a Material Adverse Effect (defined below). For purposes of this Agreement, "Material Adverse Effect" means (i) a material adverse effect on the results of operations, assets, business or financial condition of the Company and its Subsidiaries, taken as a whole on a consolidated basis, or (ii) material and adverse impairment of the Company's ability to perform its obligations under this Agreement, provided that none of the following alone shall be deemed, in and of itself, to constitute a Material Adverse Effect: (A) a change in the market price or trading volume of the shares of Common Stock of the Company or (B) changes in general economic conditions or changes affecting the industry in which the Company operates generally (as opposed to Company-specific changes) so long as such changes do not have a disproportionate effect on the Company and its Subsidiaries, taken as a whole.

(b) Authorization; Enforcement. The Company has the requisite corporate authority to enter into this Agreement and to carry out its obligations hereunder. The execution and delivery of this Agreement, and the certificates representing the Convertible Debentures and the Commitment Warrants have been duly authorized by all necessary corporate action on the part of the Company. This Agreement has been duly executed and delivered by the Company and constitutes, and the certificates representing the Convertible Debentures and Commitment Warrants, when executed and delivered in accordance with the terms hereof, will constitute, a valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except as may be limited by (i) applicable bankruptcy, insolvency, reorganization or other laws of general application relating to or affecting the enforcement of creditors' rights generally and (ii) the effect of rules of law governing the availability of specific performance and other equitable remedies.

(c) Required Approvals; No Conflicts. The Company is not required to obtain any consent, waiver, authorization or order of, give any notice to, or make any filing or registration with, any court or other federal, state, local or other governmental authority or other Person or entity in connection with the execution, delivery and performance by the Company of this Agreement or the issuance, sale or delivery of the Securities other than the Required Approvals. The execution and delivery by the Company of this Agreement and the certificates representing the Convertible Debentures and the Commitment Warrants, and the performance by the Company of its obligations hereunder and thereunder, do not and will not (i) conflict with or violate any provision of the Company's certificate of incorporation, bylaws or other organizational or charter documents, (ii) subject to the Company obtaining the Required Approvals, conflict with, or constitute a default under (or an event that, with notice or lapse of time or both, would become a default under), or give to others any rights of termination, amendment, acceleration or cancellation under (with or without notice, lapse of time or both), any agreement, credit facility, debt or other instrument evidencing a debt of the Company or other understanding to which the Company is a party, or by which any of its properties or assets is bound, except to the extent that such conflict or default

or termination, amendment, acceleration or cancellation right would not reasonably be expected to have a Material Adverse Effect, or (iii) result in a violation of any law, rule, regulation, order, judgment, injunction, decree or other restriction of any court or governmental authority to which the Company is subject, or by which any of its properties or assets is bound, except to the extent that such violation would not reasonably be expected to have a Material Adverse Effect.

(d) Capitalization. The Company is currently authorized to issue 40,000,000 shares of Common Stock, $0.001 par value per share, of which 5,692,933 shares are issued and outstanding on the date hereof, and 5,000,000 shares of Preferred Stock, $0.001 par value per share, of which no shares are issued and outstanding on the date hereof. All of the issued and outstanding shares of the Company's Common Stock have been duly authorized and validly issued and are fully paid, nonassessable and were issued in full compliance with applicable state and federal securities laws and any rights of third parties. Except as may be described in this Agreement, no securities of the Company are entitled to preemptive or similar rights, and no entity or Person

has any right of first refusal, preemptive right, right of participation, or any similar right to participate in the transactions contemplated by this Agreement unless any such rights have been waived.

(e) Due Issuance. The Convertible Debentures and the Commitment Warrants to be issued and the shares of Common Stock to be issued upon conversion of the Convertible Debentures and exercise of the Commitment Warrants will be duly authorized and, when issued and paid for in accordance with this Agreement, and the Convertible Debentures and Commitment Warrants, as the case may be, will be duly and validly issued and outstanding, fully paid and non-assessable, free and clear of all liens and will not be subject to pre-emptive or similar rights of stockholders of the Company.

(f) Litigation. Except as described in the Company's reports filed with the SEC pursuant to the Exchange Act (the "SEC Reports"), there is no pending or, to the best knowledge of the Company, threatened action, suit, proceeding or investigation before any court, governmental agency or body, or arbitrator having jurisdiction over the Company, or any of its Affiliates that would affect the execution by the Company or the performance by the Company of its obligations under this Agreement, and all other agreements entered into by the Company relating hereto. Except as disclosed in the SEC Reports, there is no pending or, to the best knowledge of the Company, threatened action, suit, proceeding or investigation before any court, governmental agency or body, or arbitrator having jurisdiction over the Company, or any of its Affiliates which litigation if adversely determined could have a Material Adverse Effect.

(g) Material Liabilities and Indebtedness. Neither the Company nor any of its Significant Subsidiaries has any material liabilities or obligations which are not disclosed in the SEC Reports, other than those incurred in the ordinary course of the their businesses and which, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect. Except as disclosed in the Company's SEC Reports, the Company does not have any material outstanding Indebtedness as of the date of this Agreement.

(h) Financial Statements. The financial statements included in the Company's Annual Report on Form 10-K for the year ended September 30, 2010 and in the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2010, present fairly, in all material respects, the consolidated financial position of the Company as of the dates shown and its consolidated results of operations and cash flows for the periods shown, and such financial statements have been prepared in conformity with United States generally accepted accounting principles applied on a consistent basis (except as may be disclosed therein or in the notes thereto, and, in the case of quarterly financial statements, as permitted by Form 10-Q under the Exchange Act).

(i) No Defaults. Except as disclosed in the Company's SEC Reports, the Company and its Subsidiaries are not, nor have they received notice that they would be with the passage of time, giving of notice, or both, in breach or violation of any of the terms and provisions of, or in default under (a) their charters and bylaws, (b) any statute, rule, regulation or order of any governmental agency or body or any court, domestic or foreign, having jurisdiction over them, or any of their material assets or properties, or (c) any material agreement or instrument to which they are a party or by which they are bound or to which any of their assets or properties are subject, except, in the case of clauses (b) and (c) only, for such conflicts, breaches or violations as have not and could not reasonably be expected to result in, individually or in the aggregate, a Material Adverse Effect.

(j) Brokers. No broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement, based upon any arrangement made by or on behalf of the Company.

3.2 Representations, Warranties and Acknowledgements of the Purchasers.

(a) Organization; Authority. Each Purchaser certifies that it is resident in the jurisdiction set out on the face page of this Agreement. Such address was not created and is not used solely for the purpose of acquiring the Convertible Debentures and each Purchaser was solicited to purchase in such jurisdiction. In the case of a Purchaser that is not a natural person, (i) such Purchaser is an entity duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization and has the requisite corporate, partnership or other power and authority to enter into this Agreement, to subscribe for and purchase the Convertible Debentures as contemplated herein and to carry out its obligations hereunder, and (ii) the execution and delivery of this Agreement have been duly authorized by all necessary corporate, partnership or other action on the part of such Purchaser. The Purchaser is duly authorized to execute and deliver this Agreement and all other necessary documentation. In the case of all Purchasers, whether or not a natural person, this Agreement has been duly authorized, executed and delivered by such Purchaser and constitutes a legal, valid and binding obligation of each such Purchaser, enforceable against him, her or it in accordance with its terms, except as may be limited by (A) applicable bankruptcy, insolvency, reorganization or other laws of general application relating to or affecting the enforcement of creditors' rights generally and (B) the effect of rules of law governing the availability of specific performance and other equitable remedies.

(b) No General Solicitation. The subscription for the Convertible Debentures by each Purchaser has not been made through or as a result of, and the distribution of the Convertible Debentures is not being accompanied by any advertisement, including without limitation in printed public media, radio, television or telecommunications, including electronic display, or as part of a general solicitation.

(c) Limited Representations. No Person has made any written or oral representations that (i) any Person will resell or repurchase the Convertible Debentures, the Commitment Warrants or the shares in Common Stock underlying the Convertible Debentures and, the Commitment Warrants, (ii) that any Person will refund all or any part of the Purchase Price, or (iii) as to the future price or value of the shares of Common Stock of the Company.

(d) Restricted Securities. Each Purchaser understands that the Convertible Debentures, the Commitment Warrants, and shares of Common Stock issuable upon conversion or exercise thereof, will be characterized as "restricted securities" under U.S. federal securities laws inasmuch as, if issued, they will be acquired from the Company in a transaction not involving a public offering and that, under U.S. federal securities laws and applicable regulations, the Convertible Debentures, the Commitment Warrants, and shares of Common Stock issuable upon conversion of the Convertible Debentures or exercise of the Commitment Warrants may be resold without registration

under the Securities Act only in certain limited circumstances. Such Purchaser acknowledges that all certificates representing any of the Convertible Debentures, the Commitment Warrants, and shares of Common Stock issuable upon conversion of the Convertible Debentures or exercise of the Commitment Warrants will bear a restrictive legend in a form as set forth below and hereby consents to the transfer agent for the Common Stock making a notation on its records to implement the restrictions on transfer described herein.

(e) Certain Legends.

(i) The Convertible Debentures and the Commitment Warrants will bear, as of the Closing Date, legends substantially in the following form and with the necessary information inserted:

NEITHER THIS SECURITY NOR THE SECURITIES INTO WHICH THIS SECURITY IS CONVERTIBLE OR EXERCISABLE HAS BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED, ASSIGNED, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT, OR APPLICABLE STATE SECURITIES LAWS OR PURSUANT TO AN AVAILABLE EXEMPTION THEREFROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS AS EVIDENCED BY A LEGAL OPINION OF COUNSEL TO THE TRANSFEROR TO SUCH EFFECT, THE SUBSTANCE OF WHICH SHALL BE REASONABLY ACCEPTABLE TO THE COMPANY.

(ii) In the event that the Convertible Debentures are converted into shares of Common Stock or, the Commitment Warrants are exercised for shares of Common Stock, such shares of Common Stock will bear legends substantially in the following form and with the necessary information inserted:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED (I) IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT, OR (B) AN OPINION OF COUNSEL, IN A GENERALLY ACCEPTABLE FORM, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT (II) UNLESS SOLD OR TRANSFERRED TO A "QUALIFIED INSTITUTIONAL BUYER" WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT OR (III) UNLESS SOLD PURSUANT TO RULE 144 OR RULE 144A UNDER SAID ACT.

(iii) The Company may at any time place a stop transfer order on its transfer books against the shares of Common Stock underlying the Convertible Debentures and Commitment Warrants. Such stop order will be removed, and further transfer of such shares of Common Stock will be permitted, upon an effective registration of the respective shares of Common Stock, or the receipt by the Company of an opinion of counsel satisfactory to the Company that such further transfer may be effected pursuant to an applicable exemption from registration.

(f) Reliance on Representations. The Company is relying on the representations, warranties and covenants contained herein and in the applicable Schedules attached hereto to determine the Purchaser's eligibility to subscribe for the Convertible Debentures and such Commitment Warrants under securities laws applicable in the United States. The Purchaser undertakes to immediately notify the Company of any change in any statement or other information relating to the Purchaser set forth in such applicable Schedules which takes place prior to the Closing time.

(g) Schedules. Each Purchaser acknowledges that this Agreement and the Schedules attached hereto require the Purchaser to provide certain personal information to the Company. Such information is being collected by the Company for the purposes of completing the transactions contemplated by this Agreement, which includes, without limitation, determining the Purchaser's eligibility to purchase the Convertible Debentures under the securities laws applicable in the United States and other applicable securities laws, preparing and registering certificates representing the Convertible Debentures and completing filings required by any stock exchange or securities regulatory authority. The Purchaser's personal information may be disclosed by the Company to: (a) stock exchanges or securities regulatory authorities, and (b) any of the other parties involved in the Offering, including legal counsel and may be included in record books in connection with the Offering. By executing this Agreement, the Purchaser is deemed to be consenting to the foregoing collection, use and disclosure of the Purchaser's personal information; provided, that in the event of a disclosure pursuant to clause (a) of the preceding sentence, the Company shall (to the extent it is legally permitted), use commercially reasonable efforts to give such Purchaser advance notice of any required disclosure. The Purchaser also consents to the filing of copies or originals of any of the Purchaser's documents as may be required to be filed with any stock exchange or securities regulatory authority in connection with the transactions contemplated hereby.

(h) No Public Sale or Distribution. Each Purchaser will be acquiring the Convertible Debentures, the Commitment Warrants and the shares of the Common Stock issuable upon conversion of the Convertible Debentures or exercise of the Commitment Warrants, in the ordinary course of business for his, her or its account and not for the benefit of any other Person and not with a view towards, or for resale in connection with, the public sale or distribution thereof, and the Purchaser covenants that it will not resell the Convertible Debentures the Commitment Warrants, or shares of Common Stock except pursuant to sales registered under the Securities Act or under an exemption from such registration and in compliance with applicable U.S. federal and state securities laws, and such Purchaser does not have a present arrangement to effect any distribution of Convertible Debentures, the Commitment Warrants, and the shares of the Common Stock issuable upon conversion of the Convertible Debentures or exercise of such Commitment Warrants to or through any Person or entity.

(i) Investor Status. On the date such Purchaser was offered the Convertible Debentures, on the date hereof and on the Conversion Date (as defined in the Convertible Debentures), if any, such Purchaser is and will be an "accredited investor" as defined in Rule 501(a) promulgated under Regulation D of the Securities Act. The Purchaser has properly completed, executed and delivered to the Company the applicable "accredited investor" certificate set forth in the Schedules hereto and the information contained therein is true and correct.

(j) Experience of Purchaser. There are risks associated with the purchase of and investment in the Convertible Debentures, the Commitment Warrants, and shares of Common Stock of the Company, and the Purchaser, either alone or together with his, her or its representatives, has such knowledge, sophistication and experience in business and financial matters so as to be capable of evaluating the merits and risks of entering into this Agreement and making his, her or its Purchase Price and the merits and risks of the prospective investment in the Convertible Debentures, the Commitment

Warrants, and shares of Common Stock of the Company, and such Purchaser has so evaluated such merits and risks. Such Purchaser understands that he, she or it must bear the economic risk of an investment in

the Convertible Debentures, the Commitment Warrants, and shares of Common Stock of the Company, if any, indefinitely and is able to bear such risk and to afford a complete loss of such investment.

(k) Access to Information. Such Purchaser acknowledges that he, she or it has reviewed the SEC Reports and has been afforded (i) the opportunity to ask such questions as he, she or it has deemed necessary of, and to receive answers from, representatives of the Company concerning the terms and conditions of this Agreement and the merits and risks of the prospective investment in the Convertible Debentures and Warrants, (ii) access to information about the Company and its Subsidiaries and their respective financial condition, results of operations, business, properties, management and prospects sufficient to enable him, her or it to evaluate the terms and conditions of this Agreement and the merits and risks of the prospective investment in the Securities and (iii) the opportunity to obtain such additional information that the Company possesses or can acquire without unreasonable effort or expense that is necessary to make an informed decision. The Purchaser is not purchasing the Convertible Debentures based on knowledge of material information concerning the Company that has not been generally disclosed.

(l) No Governmental Review. Each Purchaser understands that no United States federal or state agency, or any other government or governmental agency has reviewed or passed on or made, or will pass on or make, any recommendation or endorsement of the Convertible Debentures, the Commitment Warrants, or shares of Common Stock of the Company or the fairness or suitability of the prospective investment in the Convertible Debentures, the Commitment Warrants, or shares of Common Stock of the Company.

(m) Aggregate Investment. Each Purchaser understands that his, her or its subscription for the Convertible Debentures forms part of a larger offering of Convertible Debentures by the Company for gross proceeds to the Company of a maximum of $350,000. There is no minimum aggregate subscription required to close the Offering.

(n) Securities Transactions. No Purchaser has engaged, directly or indirectly, and no Person or entity acting on behalf of or pursuant to any understanding with such Purchaser has engaged, in any purchases or sales of any securities of the Company since the time such Purchaser was first contacted by the Company, or by any other Person or entity, regarding an investment in the Company, including this Agreement and the transactions contemplated herein.

(o) No Legal, Tax or Investment Advice. Each Purchaser understands that nothing in this Agreement or any other materials presented by or on behalf of the Company to him, her or it in connection with this Agreement and the transactions contemplated herein, including the prospective investment in the Convertible Debentures, the Commitment Warrants, and shares of Common Stock, constitutes legal, tax or investment advice. Each Purchaser has consulted such legal, tax and investment advisors as he, she or it, in his, her or its sole discretion, has deemed necessary or appropriate in the circumstances. The Purchaser is not relying on the Company or its counsel in this regard.

ARTICLE IV
TERMINATION

4.1 Early Termination of Commitment by Company. At any time during the Commitment Term, the Company may terminate the Purchasers' obligation to purchase Convertible Debentures by providing the Purchasers with 30 days' prior written notice of its intention to terminate such obligation and redeeming any Convertible Debentures then outstanding that the Purchasers have not converted within 15 days after receiving the termination notice for a redemption payment equal to 120% of the

principal amount the Convertible Debentures to be redeemed, together with the unpaid interest which has accrued on the principal of the outstanding Convertible Debentures being redeemed.

4.2 Early Termination of Commitment by Purchasers. At any time during the Commitment Term, the Purchasers may, acting through a Majority in Interest, terminate their obligation to purchase Convertible Debentures by providing the Company with thirty (30) days prior written notice of their intention to terminate such obligation upon the occurrence of any of the following: (i) the Company is in default under its Senior Credit Facility; (ii) the Company is not current in filing periodic reports required to be filed with the SEC pursuant to the Exchange Act (after giving effect to any permitted extension periods permitted by the rules and regulations adopted by the SEC); or (iii) an Event of Default has occurred and is continuing under the Convertible Debentures. In the event the Company has failed to cure the grounds for termination within such 30 day period, the Purchasers obligation to purchase Convertible Debentures shall automatically terminate.

ARTICLE V
CONDITIONS OF CLOSING

5.1 Closing Conditions in Favor of the Purchasers. The obligation of each of the Purchasers to deliver the Purchase Price to the Company in connection with a Drawdown is subject to the satisfaction, or the waiver by such Purchaser, on or prior to such payment, of each of the following conditions:

(a) Representations and Warranties. The representations and warranties of the Company contained herein shall be true and correct in all material respects as of the date hereof and as of the applicable Closing as though made on and as of such date (provided that representations and warranties which are confined to a specified date shall speak only as of such date).

(b) Performance. The Company shall have performed, satisfied and complied with, in all material respects, all covenants, agreements and conditions required by this Agreement to be performed, satisfied or complied with by it at or prior to the Closing.

(c) Required Approval. The Company shall have received all Required Approvals for the applicable Closing.

5.2 Closing Conditions in Favor of the Company. The entering into of this Agreement by the Company with each of the Purchasers, and the acceptance by the Company of such Purchaser's Purchase Price, is subject to the satisfaction, or the waiver by the Company, at or prior to the applicable Closing, of each of the following conditions:

(a) Representations and Warranties. The representations and warranties of such Purchaser contained herein shall be true and correct in all material respects as of the date hereof and as of the applicable Closing as though made on and as of such date.

(b) Accredited Investor Certificate. Such Purchaser shall have completed and executed and delivered the applicable Accredited Investor Certificate.

(c) Performance. Such Purchaser shall have performed, satisfied and complied with, in all material respects, all other covenants, agreements and conditions required by this Agreement to be performed, satisfied or complied with by him, her or it at or prior to the applicable Closing.

(d) Required Approval. The Company shall have received all Required Approvals for the applicable Closing.

ARTICLE VI
COVENANTS

6.1 Reservation of Common Stock. The Company shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, solely for the purpose of providing for the conversion of Convertible Debentures and exercise of the Warrants, such number of shares of Common Stock as shall from time to time equal the number of shares sufficient to permit the exercise of the Convertible Debentures and the Warrants issued pursuant to this Agreement in accordance with their respective terms.

6.2 Piggyback Registration Rights. Each Purchaser and the Company agree that the Purchasers shall be entitled to the registration rights with respect to the Securities as set forth in this Section 6.2

(a) Definition of Registrable Securities. As used in this Section 6.2, the term "Registrable Security" means (i) each of the shares of Common Stock which may be issued upon conversion of the Convertible Debentures and (ii) each of the shares of Common Stock which may be issued upon the exercise of the Commitment Warrants; provided, however, that with respect to any particular Registrable Security, such security shall cease to be a Registrable Security when, as of the date of determination; (A) it has been and remains effectively registered under the Securities Act and disposed of pursuant thereto; (B) in the opinion of counsel to the Company, registration under the Securities Act is no longer required for subsequent public distribution of such security pursuant to Rule 144 promulgated under the Securities Act, or otherwise; or (C) it has ceased to be outstanding. The term "Registrable Securities" means any and all of the securities falling within the foregoing definition of "Registrable Security." In the event of any merger, reorganization, consolidation, recapitalization or other change in corporate structure affecting the Common Stock, such adjustment shall be made in the definition of "Registrable Security" as is appropriate to prevent any dilution or increase of the rights granted pursuant to this clause (a) as determined in good faith by the Board of Directors.

(b) Piggyback Registration Rights. If at any time or from time to time while any Registrable Securities remain outstanding, the Company shall determine to register or shall be required to register any of its Common Stock, whether or not for its own account, other than a registration relating to employee benefit plans (whether effected on Form S-8 or its successor) or a registration effected on Form S-4 (or its successor) (a "Registration Statement"), the Company shall:

(i) provide to each Purchaser written notice thereof at least ten days prior to the filing of the Registration Statement by the Company in connection with such registration;

(ii) include in such registration, and in any underwriting involved therein, all those Registrable Securities specified in a written request by each Purchaser received by the Company within five days after the Company mails the written notice referred to above. The Company may withdraw the registration at any time. If a registration covered by this Section 6.2 is an underwritten registration on behalf of the Company, and the underwriters advise the Company in writing that in their opinion the number of securities requested to be included in such registration exceeds the number which can be sold in such offering without adversely affecting the marketability of the offering, the Company shall include in such registration: (1) first, the securities the Company proposes to sell, (2) second, the Registrable Securities and other securities requested to be included in such registration, pro rata among the selling Purchasers and any other selling security holders on the basis of the number of shares owned

by each such Purchaser and other selling security holder. The Purchasers' right to have Registrable Securities included in the first registration statement filed by the Company may be deferred to the second registration statement filed by the Company, which deferral may be continued to the third or subsequent registration statement so long as the registration statements are pursuant to underwritten offerings and the underwriter determines in good faith that marketing factors require exclusion of some or all of the Registrable Securities held by the Purchasers, but such deferral shall be only to the extent of such required exclusion as determined by the underwriter; and

(iii) if the registration is an underwritten registration, each Purchaser of Registrable Securities shall enter into an underwriting agreement in customary form with the underwriter and provide such information regarding Purchaser that the underwriter shall reasonably request in connection with the preparation of the prospectus describing such offering, including completion of FINRA Questionnaires.

(c) Covenants with Respect to Registration. In connection with the registration in which the Registrable Securities are included, the Company and Purchaser covenant and agree as follows:

(i) The foregoing registration rights shall be contingent on the Purchasers furnishing the Company with such appropriate information (relating to the intended means of distribution of the Registrable Securities of such Purchasers) as the Company shall reasonably request.

(ii) The Company shall indemnify each Purchaser of Registrable Securities to be sold pursuant to the registration statement and each person, if any, who controls such Purchaser within the meaning of Section 15 of the Securities Act or Section 20(a) of the Exchange Act, against all loss, claim, damage, expense or liability (including reasonable expenses reasonably incurred in investigating, preparing or defending against any claim) to which any of them may become subject under the Securities Act, the Exchange Act or otherwise, arising from such registration statement, except to the extent arising under paragraph (iii) below.

(iii) Each Purchaser to be sold pursuant to a registration statement, and their successors and assigns, shall severally, and not jointly, indemnify the Company, its officers and directors and any underwriter, and each person, if any, who controls the Company or such underwriter within the meaning of Section 15 of the Act or Section 20(a) of the Exchange Act, against all loss, claim, damage or reasonable expense or liability (including expenses reasonably incurred in investigating, preparing or defending against any claim) to which they may become subject under the Securities Act, the Exchange Act or otherwise, arising (A) from information furnished by or on behalf of such Purchaser, or their successors or assigns, for inclusion in such registration statement, or (B) as a result of use by the Purchaser of a registration statement that the Purchaser was advised to discontinue.

ARTICLE VII
INDEMNIFICATION

7.1 Survival of Representations; Indemnity; Purchaser's Liability.

(a) Survival. All representations and warranties herein shall survive the execution and delivery of this Agreement and the advance by each of the Purchasers of his, her or its Purchase Price for the duration of the later of the Commitment Term or six months from the date of the final Drawdown hereunder.

(b) Indemnification.

(i) The Company agrees to indemnify and hold harmless each Purchaser, its Affiliates, each of their officers, directors, employees and agents and their respective successors and assigns, from and against any losses, damages, or expenses which are caused by or arise out of (A) any breach or default in the performance by the Company of any covenant or agreement made by the Company in the this Agreement or in the other Transaction Agreements; (B) any breach of warranty or representation made by the Company in this Agreement or in the other Transaction Agreements; and (C) any and all actions, suits, proceedings, claims, demands, judgments, costs and expenses (including reasonable legal fees and expenses) incident to any of the foregoing.

(ii) Each Purchaser agrees to indemnify and hold harmless the Company, its Affiliates, each of their officers, directors, employees and agents and their respective successors and assigns, from and against any losses, damages, or expenses which are caused by or arise out of: (A) any breach or default in the performance by such Purchaser of any covenant or agreement made by such Purchaser in this Agreement or in the other Transaction Agreements; (B) any breach of warranty or representation made by such Purchaser in this Agreement or in the other Transaction Agreements; and (C) any and all actions, suits, proceedings, claims, demands, judgments, costs and expenses (including reasonable legal fees and expenses) incident to any of the foregoing.

ARTICLE VIII
GENERAL

8.1 Confidentiality. The Purchasers acknowledge that due to certain of the covenants contained herein or in the Convertible Debenture, from time to time the Purchasers may come into possession of confidential information of the Company, including material, non-public information relating to the Company. The Purchasers hereby agree that (i) they shall keep all such information strictly confidential, applying, at a minimum, the same degree of care as it does to protect its own confidential information of a similar nature; (ii) shall only use such information in connection with the transactions contemplated by this Agreement; and (iii) shall not disclose any of such information other than: (a) to the Purchaser's employees, representatives, directors, attorneys, auditors, or Affiliates who are advised of the confidential nature of such information (so long as any of the foregoing persons agree to be bound by the provisions of this Section), (b) to the extent such information presently is or hereafter becomes available on a non-confidential basis from any source of such information that is in the public domain at the time of disclosure, (c) to the extent disclosure is required by law (including applicable securities law), regulation, subpoena or judicial order or any administrative body or commission to whose jurisdiction the Purchasers are subject (*provided* that notice of such requirement or order shall be promptly furnished to the Company in advance of such disclosure), (d) to assignees or participants or prospective assignees or participants who agree to be bound by the provisions of this Section, or (e) with the Company's prior written consent. The Purchasers agree to be responsible for any breach of this agreement by any of the persons identified in Section 8.1(iii). The Purchasers are aware that, under certain circumstances, the United States securities laws may prohibit a Person who has received material, non-public information from an issuer from purchasing or selling securities of such issuer or from communicating such information to any other Person under circumstances in which it is reasonably foreseeable that such other Person is likely to purchase or sell such securities.

8.2 Amendments; Waivers. No provision of this Agreement may be amended or waived except in a written instrument signed, (i) in the case of an amendment, by the Company and a Majority in Interest, or (ii) in the case of a waiver, by the party against whom enforcement of any such waiver is sought; provided that, in the case of waiver by or on behalf of all of the Purchasers, such written instrument shall be signed by Purchasers representing a Majority in Interest; and provided, further that that any amendment that would (i) change the maturity of the principal of or any installment of interest on any of the Convertible Debentures, (ii) reduce the principal amount of, or any premium or interest on any

Convertible Debenture, (iii) reduce the percentage in aggregate principal amount of Convertible Debentures outstanding necessary to modify or amend the Convertible Debentures; or (iv) modify this Section 8.2 shall, in each case, require the approval of the holder of each Purchaser to which such amendment

shall apply. No waiver of any default with respect to any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any subsequent default or a waiver of any other provision, condition or requirement hereof, nor shall any delay or omission of any party to exercise any right hereunder in any manner impair the exercise of any such right.

8.3 Notices. Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be in writing and shall be deemed given and effective on the earliest of (a) the date of transmission, if such notice or communication is delivered via facsimile or e-mail at the facsimile number or e-mail address referred to in this Section 8.3 prior to 5:00 p.m. (Eastern time) on a Business Day, (b) the next Business Day after the date of transmission, if such notice or communication is delivered via facsimile or e-mail at the facsimile number or e-mail address referred to in this Section 8.3 on a day that is not a Business Day or later than 5:00 p.m. (Eastern time) on any Business Day, (c) the Business Day following the date of deposit with a nationally recognized overnight courier service or (d) upon actual receipt by the party to whom such notice is required to be given. The addresses, facsimile numbers and e-mail addresses for such notices and communications are those set forth on the signature pages hereof, or such other address, facsimile number or e-mail address as may be designated in writing hereafter, in the same manner, by the relevant party hereto.

8.4 Headings. The headings herein are for convenience only, do not constitute a part of this Agreement and shall not be deemed to limit or affect any of the provisions hereof.

8.5 Meaning of "Including". The word "including", whenever used in this Agreement, shall be deemed to be followed by the phrase "without limitation".

8.6 Entire Agreement. This Agreement, together with the Convertble Debentures and Commitment Warrants contain the entire understanding of the parties with respect to the subject matter hereof and supersede all prior agreements and understandings, oral or written, with respect to such matters, which the parties acknowledge have been merged into such agreements and exhibits. At or after the Closing, and without further consideration, the parties hereto will make, do and execute and deliver, or cause to be made, done and executed and delivered, such further acts, deeds, assurances, documents and things as may be reasonably requested by any of the other parties hereto in order to give practical effect to the intention of the parties hereunder.

8.7 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and permitted assigns.

8.8 No Third Party Beneficiaries. This Agreement is intended for the benefit of the parties hereto and their respective successors and permitted assigns and is not for the benefit of, nor may any provision hereof be enforced by, any other Person or entity.

8.9 Governing Law; Venue. ALL QUESTIONS CONCERNING THE CONSTRUCTION, VALIDITY, ENFORCEMENT AND INTERPRETATION OF THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK. THE PARTIES HERETO HEREBY IRREVOCABLY SUBMIT TO THE EXCLUSIVE JURISDICTION OF THE FEDERAL OR STATE COURTS OF THE CITY OF NEW YORK IN THE STATE OF NEW YORK FOR THE ADJUDICATION OF ANY DISPUTE BROUGHT BY ANY OF THE PARTIES HERETO, IN CONNECTION HEREWITH OR WITH ANY TRANSACTION CONTEMPLATED HEREBY OR DISCUSSED HEREIN (INCLUDING WITH RESPECT TO THE

ENFORCEMENT OF THE SECURITY AGREEMENT), AND HEREBY IRREVOCABLY WAIVE, AND AGREE NOT TO ASSERT IN ANY SUIT, ACTION OR PROCEEDING BROUGHT BY ANY OF THE OTHER PARTIES HERETO, ANY CLAIM THAT IT IS NOT PERSONALLY SUBJECT TO THE JURISDICTION OF ANY SUCH COURT OR THAT SUCH SUIT, ACTION OR PROCEEDING IS IMPROPER.

8.10 Execution. This Agreement may be executed by one or more of the parties hereto on any number of separate counterparts (including by facsimile or e-mail transmission), all of which when taken together shall be considered one and the same agreement. In the event that any signature is delivered by facsimile transmission or e-mail attachment, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) with the same force and effect as if such facsimile or e-mail-attached signature page were an original thereof.

8.11 Severability. If any provision of this Agreement is held to be invalid or unenforceable in any respect, the validity and enforceability of the remaining terms and provisions of this Agreement shall not in any way be affected or impaired thereby and the parties will attempt to agree upon a valid and enforceable provision that is a reasonable substitute therefor, and upon so agreeing, shall incorporate such substitute provision in this Agreement.

[SIGNATURE PAGES TO FOLLOW]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized signatories as of the date first indicated above.

TEAMSTAFF, INC.

By: /s/ Zachary C. Parker
Name: Zachary C. Parker
Title: Chief Executive Officer

Address for Notices:
TeamStaff, Inc.
1 Executive Drive
Somerset, NJ 08873

Purchaser Signature Page

By his, her or its execution and delivery of this signature page, the Purchaser hereby joins in and agrees to be bound by the terms and conditions of the Purchase Agreement (the "Purchase Agreement"), by and among TeamStaff, Inc., the Purchasers (as defined therein) and authorizes this signature page to be attached to the Debenture Purchase Agreement or counterparts thereof.

Name of Purchaser of Convertible Debentures: Wynnefield Partners SmallCap Value, LP I

By: /s/ Nelson Obus
Holder Name:

If signing on behalf of an entity:

Name: Nelson Obus
Title: Co-Managing Member of Wynnefield Capital Management LLC, as General Partner

Purchaser's Maximum Commitment Amount: $210,000

Name of Purchaser of Convertible Debentures: Wynnefield Partners SmallCap Value, LP

By: /s/ Nelson Obus
Holder Name:

If signing on behalf of an entity:

Name: Nelson Obus
Title: Co-Managing Member of Wynnefield Capital Management LLC, as General Partner

Purchaser's Maximum Commitment Amount: $140,000

SCHEDULE A

ACCREDITED INVESTOR CERTIFICATE

This Accredited Investor Certificate is being delivered to the Company pursuant to the Purchase Agreement. Capitalized terms used in this Accredited Investor Certificate, but not defined herein, have the respective meanings attributed to such terms in the Purchase Agreement. Investor agrees to furnish any additional information the Company deems necessary in order to verify the information provided below.

The Purchaser hereby acknowledges that the Company is relying on this Accredited Investor Certificate to determine the Purchaser's suitability for investment in the Loan and investment, if any, in the Securities pursuant to the Securities Purchase Agreement (collectively, the "Investment") and hereby represents and warrants and certifies that, as of the Closing, the Purchaser:

Category I	o	The Purchaser is an individual (not a partnership, corporation, etc.) whose individual net worth, or joint net worth with his or her spouse, presently exceeds $1,000,000 (excluding the value of such Purchaser's principal residence).
Category II	o	The Purchaser is a corporation, partnership, business trust or a non profit organization within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, that was not formed for the specific purpose of acquiring the securities offered and that has total assets in excess of $5,000,000.
Category III	o	The Purchaser is an individual (not a partnership, corporation, etc.) who reasonably expects an individual income in excess of $200,000 in the current year and had an individual income in excess of $200,000 in each of the last two years (including foreign income, tax exempt income and the full amount of capital gains and losses but excluding any income of the Purchaser's spouse or other family members and any unrealized capital appreciation);
		Or
	o	The Purchaser is an individual (not a partnership, corporation, etc.) who, together with his or her spouse, reasonably expects joint income in excess of $300,000 for the current year and had joint income in excess of $300,000 in each of the last two years (including foreign income, tax exempt income and the full amount of realized capital gains and losses).
Category IV	o	The Purchaser is a director or executive officer of the Company.
Category V	o	The Purchaser is a bank, savings and loan association or credit union, insurance company, registered investment company, registered business development company, licensed small business investment company, or employee benefit plan within the

meaning of Title 1 of ERISA whose plan fiduciary is either a bank, insurance company or registered investment advisor or whose total assets exceed $5,000,000.

Describe entity:

Category VI	o	The Purchaser is a private business development company as defined in Section 202(a)(22) of the Investment Advisors Act of 1940.
Category VII	o	The Purchaser is a trust with total assets in excess of $5,000,000, not formed for the specific purpose of acquiring the securities offered, whose purchase is directed by a sophisticated person (a person who either alone or with his or her purchaser representative(s) has such knowledge and experience in financial and business matters that he or she is capable of evaluating the merits and risks of the prospective investment). A copy of the declaration of trust or trust agreement and a representation as to the sophistication of the person directing purchases for the trust is enclosed.
Category VIII	o	The Purchaser is a self directed employee benefit plan for which all persons making investment decisions are "accredited investors" within one or more of the categories described above.
Category IX	o	The Purchaser is an entity in which all of the equity owners are "accredited investors" within one or more of the categories described above. If relying upon this category alone, each equity owner must complete a separate copy of this agreement.
	o	Describe entity:
Category X	o	The Purchaser does not come within any of the Categories I — IX set forth above.

IN WITNESS WHEREOF, the Purchaser has duly executed this Accredited Investor Certificate as of the Closing.

IF THE PURCHASER IS AN ENTITY:

_____
(Name of Entity — Please Print)

By: _____

Name: _____

Title: _____

IF THE PURCHASER IS AN INDIVIDUAL:

_____
(Name — Please Print)

_____
(Signature)

(Address)

(Telephone)

(Facsimile)

(E-Mail)

Schedule 2.2

Pursuant to Section 2.2 of the Agreement, the Convertible Debentures will also be subordinated to the following Indebtedness:

Aggregate of $1,500,000 of Indebtedness as evidenced by promissory notes issued by the Company to the former of owners of RS Staffing Services, Inc., and all accrued interest thereon.

EXHIBIT A

FORM OF CONVERTIBLE DEBENTURE

EXHIBIT B

FORM OF WARRANT

Exhibit 10.2

AMENDMENT TO EMPLOYMENT AGREEMENT

This Amendment (the "Amendment") to the Employment Agreement by and between Zachary C. Parker ("Employee") and TeamStaff, Inc. (the "Company"), is made and entered into this 1st day of June, 2011.

RECITALS

WHEREAS, the Company and the Employee have entered into that certain Employment Agreement dated February 9, 2010 (the "Original Agreement");

WHEREAS, the Company and the Employee wish to make certain changes to the Original Agreement, as described herein.

NOW, THEREFORE, in consideration of the premises and the mutual promises and agreements contained herein, the parties hereto, intending to be legally bound, hereby agree as follows:

AGREEMENT

1. Definitions. Capitalized terms used herein but not otherwise defined herein shall have the meanings assigned to such terms in the Original Agreement.

2. Amendments to Original Agreement.

(a) Section 1.3(a)(i) of the Original Agreement is hereby amended by deleting the first sentence thereof and replacing it with the following new language:

a. (i) An acquisition (other than directly from the Company) of any voting securities of the Company (the "Voting Securities") by any "Person" (as the term person is used for purposes of Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the "1934 Act")) immediately after which such Person has "Beneficial Ownership" (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of twenty percent (20%) or more of the combined voting power of the Company's then outstanding Voting Securities (provided, however, if such Person is Wynnefield Capital Inc. and/or its affiliates, the relevant percentage shall be equal to the sum of (i) 27% plus (ii) such additional percentage as may be caused by the issuance of the maximum amount of securities issuable pursuant to the convertible debentures and warrants that the Company may issue pursuant to that certain debenture purchase agreement dated as of June 1, 2011 between the Company and Wynnefield Capital, Inc. or its affiliates, and such percentage shall be referred to herein as the "WCI Percentage"); provided, however, that in determining whether a Change in Control has occurred, Voting Securities which are acquired in a "Non-Control Acquisition" (as defined below) shall not constitute an acquisition which would cause a Change in Control. A "Non-Control Acquisition" shall mean an acquisition by (1) an employee benefit plan (or a trust forming a part thereof) maintained by (x) the Company or (y) any corporation or other

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Person of which a majority of its voting power or its equity securities or equity interest is owned directly or indirectly by the Company (a "Subsidiary"), or (2) the Company or any Subsidiary.

(b) Section 1.3(c)(i) of the Original Agreement is hereby amended by deleting clause (3) thereof and replacing it with the following new language:

(3) no Person (other than the Company, any Subsidiary, any employee benefit plan (or any trust forming a part thereof) maintained by the Company, the Surviving Corporation or any Subsidiary) becomes Beneficial Owner of twenty percent (20%) or more of the combined voting power of the Surviving Corporation's then outstanding voting securities (except that if such Person is Wynnefield Capital Inc. and/or its affiliates, then the relevant percentage shall be the WCI Percentage) as a result of such merger, consolidation or reorganization, a transaction described in clauses (1) through (3) shall herein be referred to as a "Non-Control Transaction"; or . . . .

3. Miscellaneous Provisions.

(a) Governing Law. This Amendment shall in all respects be governed by and construed in accordance with the laws of the State of Georgia without giving effect to any conflicts of law principles.

(b) No Other Amendment. Except as expressly provided in this Amendment, the Original Agreement (a) has not otherwise been modified by the parties and (b) all other terms and conditions of the Original Agreement shall remain in full force and effect and are hereby ratified, affirmed and approved.

(c) Entire Agreement. This Amendment constitutes the entire agreement between the parties hereto with respect to its subject matters and supersedes all prior arrangements and understandings, written or oral, between the parties hereto with respect to the transactions contemplated hereby.

(d) Binding Agreement. This Amendment and all of the provisions hereof shall inure to the benefit of, and be binding upon, the parties hereto and their respective heirs, devisees, successors and assigns and are not intended to confer upon any other person any rights or remedies hereunder.

(e) Counterparts. This Amendment may be executed in one or more counterparts, each of which shall be deemed an original, but both of which together shall constitute one and the same agreement.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the parties to this Amendment have duly executed it as of the date set forth above.

TeamStaff, Inc.

By: /s/ John E. Kahn
John E. Kahn,
Chief Financial Officer

Zachary C. Parker

/s/ Zachary C. Parker
Zachary C. Parker

AMENDMENT TO EMPLOYMENT AGREEMENT

This Amendment (the "Amendment") to the Employment Agreement by and between John E. Kahn ("Employee") and TeamStaff, Inc. (the "Company"), is made and entered into this 1st day of June, 2011.

RECITALS

WHEREAS, the Company and the Employee have entered into that certain Employment Agreement effective as of dated September 17, 2010 (the "Original Agreement");

WHEREAS, the Company and the Employee wish to make certain changes to the Original Agreement, as described herein.

NOW, THEREFORE, in consideration of the premises and the mutual promises and agreements contained herein, the parties hereto, intending to be legally bound, hereby agree as follows:

AGREEMENT

1. Definitions. Capitalized terms used herein but not otherwise defined herein shall have the meanings assigned to such terms in the Original Agreement.

2. Amendments to Original Agreement.

(a) Section 1.3(a) of the Original Agreement is hereby amended by deleting the first sentence thereof and replacing it with the following new language:

> (a) An acquisition (other than directly from the Company) of any voting securities of the Company (the "Voting Securities") by any "Person" (as the term person is used for purposes of Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the "1934 Act")) immediately after which such Person has "Beneficial Ownership" (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of twenty percent (20%) or more of the combined voting power of the Company's then outstanding Voting Securities (provided, however, if such Person is Wynnefield Capital Inc. and/or its affiliates, the relevant percentage shall be equal to the sum of (i) 27% plus (ii) such additional percentage as may be caused by the issuance of the maximum amount of securities issuable pursuant to the convertible debentures and warrants that the Company may issue pursuant to that certain debenture purchase agreement dated as of June 1, 2011 between the Company and Wynnefield Capital, Inc. or its affiliates, and such percentage shall be referred to herein as the "WCI Percentage"); provided, however, that in determining whether a Change in Control has occurred, Voting Securities which are acquired in a "Non-Control Acquisition" (as defined below) shall not constitute an acquisition which would cause a Change in Control. A "Non-Control Acquisition" shall mean an acquisition by (1) an employee benefit plan (or a trust forming a part thereof) maintained by (x) the Company or (y) any corporation or other Person of which a majority of its voting power or its equity securities or equity interest is owned directly or indirectly by the Company (a "Subsidiary"), or (2) the Company or any Subsidiary.

(b) Section 1.3(c)(i)(C) of the Original Agreement is hereby amended by deleting clause (C) thereof and replacing it with the following new language:

> (C) no Person (other than the Company, any Subsidiary, any employee benefit plan (or any trust forming a part thereof) maintained by the Company, the Surviving Corporation or any Subsidiary) becomes Beneficial Owner of twenty percent (20%) or more of the combined voting power of the Surviving Corporation's then outstanding voting securities (except that if such Person is Wynnefield Capital Inc. and/or its affiliates, then the relevant percentage shall be the WCI Percentage) as a result of such merger, consolidation or reorganization, a transaction described in clauses (A) through (C) shall herein be referred to as a "Non-Control Transaction"; or . . . .

3. Miscellaneous Provisions.

(a) Governing Law. This Amendment shall in all respects be governed by and construed in accordance with the laws of the State of Georgia without giving effect to any conflicts of law principles.

(b) No Other Amendment. Except as expressly provided in this Amendment, the Original Agreement (a) has not otherwise been modified by the parties and (b) all other terms and conditions of the Original Agreement shall remain in full force and effect and are hereby ratified, affirmed and approved.

(c) Entire Agreement. This Amendment constitutes the entire agreement between the parties hereto with respect to its subject matters and supersedes all prior arrangements and understandings, written or oral, between the parties hereto with respect to the transactions contemplated hereby.

(d) Binding Agreement. This Amendment and all of the provisions hereof shall inure to the benefit of, and be binding upon, the parties hereto and their respective heirs, devisees, successors and assigns and are not intended to confer upon any other person any rights or remedies hereunder.

(e) Counterparts. This Amendment may be executed in one or more counterparts, each of which shall be deemed an original, but both of which together shall constitute one and the same agreement.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the parties to this Amendment have duly executed it as of the date set forth above.

TeamStaff, Inc.

By: /s/ Zachary C. Parker
Zachary C. Parker,
Chief Executive Officer

John E. Kahn

/s/ John E. Kahn
John E. Kahn

AMENDMENT TO EMPLOYMENT AGREEMENT

This Amendment (the "Amendment") to the Employment Agreement by and between John F. Armstrong ("Employee") and TeamStaff, Inc. (the "Company"), is made and entered into this 1st day of June, 2011.

RECITALS

WHEREAS, the Company and the Employee have entered into that certain Employment Agreement effective as of December 1, 2010 (the "Original Agreement");

WHEREAS, the Company and the Employee wish to make certain changes to the Original Agreement, as described herein.

NOW, THEREFORE, in consideration of the premises and the mutual promises and agreements contained herein, the parties hereto, intending to be legally bound, hereby agree as follows:

AGREEMENT

1. Definitions. Capitalized terms used herein but not otherwise defined herein shall have the meanings assigned to such terms in the Original Agreement.

2. Amendments to Original Agreement.

(a) Section 1.3(a) of the Original Agreement is hereby amended by deleting the first sentence thereof and replacing it with the following new language:

> (a) An acquisition (other than directly from the Company) of any voting securities of the Company (the "Voting Securities") by any "Person" (as the term person is used for purposes of Section 13(d) or 14(d) of the Securities Exchange Act of 1934, as amended (the "1934 Act")) immediately after which such Person has "Beneficial Ownership" (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of twenty percent (20%) or more of the combined voting power of the Company's then outstanding Voting Securities (provided, however, if such Person is Wynnefield Capital Inc. and/or its affiliates, the relevant percentage shall be equal to the sum of (i) 27% plus (ii) such additional percentage as may be caused by the issuance of the maximum amount of securities issuable pursuant to the convertible debentures and warrants that the Company may issue pursuant to that certain debenture purchase agreement dated as of June 1, 2011 between the Company and Wynnefield Capital, Inc. or its affiliates, and such percentage shall be referred to herein as the "WCI Percentage"); provided, however, that in determining whether a Change in Control has occurred, Voting Securities which are acquired in a "Non-Control Acquisition" (as defined below) shall not constitute an acquisition which would cause a Change in Control. A "Non-Control Acquisition" shall mean an acquisition by (1) an employee benefit plan (or a trust forming a part thereof) maintained by (x) the Company or (y) any corporation or other Person of which a majority of its voting power or its equity securities or equity interest is owned

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> directly or indirectly by the Company (a "Subsidiary"), or (2) the Company or any Subsidiary.

(b) Section 1.3(c)(i)(C) of the Original Agreement is hereby amended by deleting clause (C) thereof and replacing it with the following new language:

> (C) no Person (other than the Company, any Subsidiary, any employee benefit plan (or any trust forming a part thereof) maintained by the Company, the Surviving Corporation or any Subsidiary) becomes Beneficial Owner of twenty percent (20%) or more of the combined voting power of the Surviving Corporation's then outstanding voting securities (except that if such Person is Wynnefield Capital Inc. and/or its affiliates, then the relevant percentage shall be the WCI Percentage) as a result of such merger, consolidation or reorganization, a transaction described in clauses (A) through (C) shall herein be referred to as a "Non-Control Transaction"; or . . . .

3. Miscellaneous Provisions.

(a) Governing Law. This Amendment shall in all respects be governed by and construed in accordance with the laws of the State of Georgia without giving effect to any conflicts of law principles.

(b) No Other Amendment. Except as expressly provided in this Amendment, the Original Agreement (a) has not otherwise been modified by the parties and (b) all other terms and conditions of the Original Agreement shall remain in full force and effect and are hereby ratified, affirmed and approved.

(c) Entire Agreement. This Amendment constitutes the entire agreement between the parties hereto with respect to its subject matters and supersedes all prior arrangements and understandings, written or oral, between the parties hereto with respect to the transactions contemplated hereby.

(d) Binding Agreement. This Amendment and all of the provisions hereof shall inure to the benefit of, and be binding upon, the parties hereto and their respective heirs, devisees, successors and assigns and are not intended to confer upon any other person any rights or remedies hereunder.

(e) Counterparts. This Amendment may be executed in one or more counterparts, each of which shall be deemed an original, but both of which together shall constitute one and the same agreement.

[Remainder of page intentionally left blank.]

IN WITNESS WHEREOF, the parties to this Amendment have duly executed it as of the date set forth above.

TeamStaff, Inc.

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

John F. Armstrong

/s/ John F. Armstrong
John F. Armstrong

CREDITOR SUBORDINATION AGREEMENT

This Creditor Subordination Agreement (the "Agreement") is made and entered into by **Wynnefield Partners SmallCap Value, LP** (the "Creditor"), **TeamStaff Government Solutions, Inc.**, a Georgia corporation (the "Borrower"), and **TeamStaff, Inc.**, a New Jersey corporation (the "Guarantor"), for the benefit of **Presidential Financial Corporation**, a Georgia corporation, and its successors and assigns ("Lender").

WHEREAS, Borrower has obtained from Lender a $3,000,000 revolving line of credit (the "Loan"); and

WHEREAS, Creditor has heretofore loaned Guarantor sums of money; and

WHEREAS, as a condition to continuing to make the Loan available to Borrower, Lender has required that Creditor subordinate any and all loans and indebtedness outstanding under any Convertible Debentures, now or hereafter owed or owing by Guarantor to Creditor to any loan or indebtedness heretofore, now or hereafter owed or owing from Guarantor or Borrower to Lender, including, without limitation, any amounts now or hereafter owed or owing under or in connection with the Loan.

NOW, THEREFORE, in consideration of the premises, ten dollars, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the undersigned Guarantor and Creditor do hereby covenant and agree with Lender as follows:

1. Certain Definitions. Unless otherwise defined herein, the following terms have the following meanings:

"Convertible Debentures" shall mean any and all Convertible Debentures issued by the Guarantor pursuant to that certain Debenture Purchase Agreement, dated as of June 1, 2011, between the Guarantor, the Creditor and the other purchaser party thereto, up to a maximum principal amount of $350,000.

"Event of Default" shall mean an Event of Default under the Loan and Security Agreement.

"Lender Indebtedness" means the principal of all loans, all interest (including interest accrued subsequent to the filing of any petition under any bankruptcy, insolvency or similar law) on such principal amounts of such loans and all other indebtedness, obligations and liabilities (including without limitation principal, interest and fees, and obligations under guaranties), whether now existing or hereafter incurred, of Borrower and/or Guarantor to Lender, under the Loan and Security Agreement, including without limitation to the generality of the foregoing, under or with respect to the Loan or any documents or instruments executed or delivered in connection therewith.

"Lender Security Documents" means each and all of the mortgages, revolving credit and security agreements, pledges, assignments, security agreements and other documents and instruments at any time securing any of the Lender Indebtedness.

"Loan and Security Agreement" means that certain Loan and Security Agreement, dated as of July 29, 2010, as amended through the date hereof, and as may be subsequently amended, modified, restated, extended or renewed from time to time (but not to exceed at any one time $4,000,000 in maximum principal amount), by and among the Lender, the Borrower and the Guarantor.

"Subordinated Obligations" means all indebtedness (plus any interest heretofore, now or hereafter accrued thereon, including any interest accrued subsequent to the filing of any petition under any bankruptcy, insolvency or similar law), whether now existing or hereafter incurred, owing by Guarantor to Creditor pursuant to any Convertible Debentures, as the same may be amended, modified, extended, replaced or superseded from time to time.

"Subordinated Security Documents" means each and all of the mortgages, security agreements, pledges, assignments and other documents and instruments at any time securing any of the Subordinated Obligations, subject, however, to Lender's consent in accordance with Section 2(d) of this Agreement.

2. Subordination of Subordinated Obligations.

(a) Creditor covenants and agrees that anything in any agreement or instrument creating, evidencing or relating to the Subordinated Obligations to the contrary notwithstanding, the Subordinated Obligations shall be subordinate and junior in right of payment, distribution and lien to the Lender Indebtedness, and without limiting the generality of the foregoing:

(i) Upon payment or distribution of all or any of the assets or securities of Borrower and/or Guarantor of any kind or character, whether in cash, property or securities, upon any dissolution, winding up, or total or partial liquidation, reorganization, arrangement, adjustment, protection, relief or composition of Borrower and/or Guarantor or its debts, whether voluntary or involuntary or in bankruptcy, insolvency, receivership, arrangement, reorganization, relief or other proceeding or upon an assignment for the benefit of creditors or any other marshalling of the assets and liabilities of Borrower and/or Guarantor or otherwise, all Lender Indebtedness shall first be paid in full in cash before any payment or distribution may be made in respect of the Subordinated Obligations; and

(ii) No direct or indirect payment or demand for payment of principal or interest shall be made in respect of the Subordinated Obligations if, at the time of such payment or demand for payment, any Lender Indebtedness is outstanding or unpaid or Lender has any obligation to advance funds to or for the account of Borrower or Guarantor under any instrument or document; provided, however, that so long as there is no uncured Event of Default under the Loan and Security Agreement and no such Event of Default would be caused by a payment to Creditor, Guarantor shall be permitted to make, and Creditor shall be permitted to receive, any interest and/or principal payment on

all Convertible Debentures outstanding and held by Creditor, but only upon maturity of the same.

(b) If in the event that, notwithstanding the foregoing provisions, Creditor shall receive any payment or distribution in respect of the Subordinated Obligations at a time when any Lender Indebtedness is outstanding or unpaid or Lender has any obligation to advance funds to or for the account of Borrower or Guarantor under any instrument or document (other than payments permitted under this Agreement), then such payment or distribution shall be received and held in trust by Creditor apart from Creditor's assets and shall be promptly paid over or delivered to Lender for application (in the case of cash) or as collateral for (in the case of non-cash property or securities) the payment or prepayment of the Lender Indebtedness; provided, that this Section 2(b) shall not apply to the issuance by the Guarantor of any Conversion Shares (as such term is defined in the Convertible Debenture Agreement) to the Creditor upon the conversion of any Convertible Debentures.

(c) Without notice to or assent by Creditor:

(i) the Lender Indebtedness and the obligations or liabilities of any other party or parties (including without limitation any guarantor, endorser or co-obligor) in respect of the Lender Indebtedness may, from time to time, in whole or in part, be renewed, extended, modified, accelerated, restated, compromised or released; and

(ii) any and all mortgages, pledges, assignments, encumbrances, liens or security interests (legal or equitable) at any time, present or future, held, given or intended to be given for the Lender Indebtedness, and any rights or remedies in respect thereof, may, from time to time, in whole or in part, be exchanged, sold, surrendered, released, modified, waived, restated or extended by Lender, and Lender may permit or consent to any such action or the result of any such action;

all as Lender may deem advisable and all without impairing, abridging, diminishing, releasing or affecting the subordination provided for herein to the Lender Indebtedness. All rights and interests of Lender hereunder shall remain in full force and effect irrespective of any circumstance that might constitute a defense available to, or a discharge of, Borrower and/or Guarantor, or any lack of validity or enforceability of any document or instrument.

(d) In the event that payment may not be made to Creditor pursuant to Section 2(a)(ii) as a result of an outstanding Event of Default, then the Lender shall use commercially reasonable efforts to give prompt notice to Creditor of the nature of such Event of Default; provided, however, that any failure by Lender to give such notice shall not affect the Lender's rights under this Agreement or otherwise. Creditor shall have the right (but not the obligation) to cure any monetary default under the Loan and Security Agreement within five (5) calendar days after the later of (i) Creditor receives written notice of such default and (ii) after expiration of any applicable cure period for the Borrower or Guarantor; provided, however, that Lender shall not be required to delay its exercise of any of Lender's rights or remedies under the Loan and Security Agreement during such period.

(d) Creditor hereby represents and warrants to Lender that none of the Subordinated Obligations are secured by any assets of Borrower or Guarantor or any other person or entity, and covenants and agrees that, unless otherwise consented to in writing by Lender, none of the Subordinated Obligations will be secured, directly or indirectly, by any of the assets of Borrower or Guarantor or any other person or entity. Without limitation to the generality of the foregoing, or any of the other provisions hereof, in the event at any time any of the Subordinated Obligations are secured, it is further hereby agreed and acknowledged that all rights, titles, liens, estates, interest and remedies accruing to Creditor or its successors, assigns, designees, transferees, purchasers at foreclosure and/or other purchasers, whether as mortgagee, secured party, landlord, owner or otherwise, and whether consensual or arising by operation of law or in equity or otherwise, are and shall be subject and subordinate in all respects to all mortgages, security agreements, security interests, assignments, pledges, rights, titles, interests, estates and remedies of Lender and its successors, assigns, designees, transferees, purchasers at foreclosure and/or other purchasers, arising in connection with any of the Lender Indebtedness, whether consensual or arising by operation of law or in equity or otherwise. For so long as any of the Lender Security Documents and any modifications, consolidations, replacements or extensions thereof shall remain in effect, the mortgages, security agreements, security interests, rights, titles, interests, estates and remedies arising under any Subordinated Security Documents shall be superior to any mortgages, security agreements, security interests, rights, titles, liens, interest and estate in favor of any person or entity other than Lender, its successors or assigns, with respect to any collateral under the Lender Security Documents, and Creditor agrees that it shall not voluntarily subordinate any Subordinated Security Document to any mortgage, lease, security agreement, indenture, agreement, contract or encumbrance in favor of any person or entity other than Lender, its successors or assigns, respecting any such collateral under the Lender Security Documents.

Creditor further agrees that, for so long as any Lender Indebtedness remains outstanding, Creditor shall take no action to enforce collection of the Subordinated Obligations against Borrower or Guarantor of such Subordinated Obligations; nor shall the Creditor take any action to foreclose or enforce its rights as a secured creditor or lienholder or to establish its status as a lienholder under any Subordinated Security Documents or otherwise against any assets of Borrower or Guarantor or any guarantor of such Subordinated Obligations, except in accord with Section 4 below and Section 2 above; nor shall the payment terms of the Subordinated Obligations be modified.

3. Subordination Absolute. Neither the subordination provided for herein nor the rights of Lender hereunder shall be affected, modified or impaired by (a) any extension, renewal, modification, restatement, forbearance or waiver of any terms of any other instrument or document executed in connection herewith nor (b) any release, modification or substitution of any collateral therefor.

4. Reinstatement. The provisions of this Agreement shall continue in full force and effect (i) if at any time while the Loan and Security Agreement remains in effect, the Lender Indebtedness is reduced (even if reduced to zero) and thereafter increased or (ii) if at any time any payment of any of the Lender Indebtedness is rescinded or must otherwise be returned by Lender upon the insolvency, bankruptcy or reorganization of Borrower and/or Guarantor or otherwise, all as though such payment had not been made.

5. [Intentionally Deleted.]

6. Cumulative Rights; No Waiver; Modification. Nothing herein contained or arising shall limit or restrict any of the obligations or agreements of Creditor, Borrower or Guarantor under any other document or instrument with or in favor of Lender. Each and every right granted to Lender hereunder or in connection herewith, or allowed by law or equity, shall be cumulative and may be exercised from time to time. No failure on the part of Lender to exercise, and no delay in exercising, any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial

exercise by Lender of any right, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege. No amendment or modification of any provision of this Agreement or any waiver thereof shall in any event be effective unless made by an instrument in writing signed by Lender and the party to be charged therewith.

7. Legends. Any instrument evidencing any of the Subordinated Obligations, or any portion thereof, shall be inscribed with a legend, or otherwise include a reference, conspicuously indicating that payment thereof is subordinated pursuant to the terms of this Agreement, and a copy thereof shall be delivered to Lender. Any such instrument shall also provide in substance that any transferee thereof shall, by acceptance thereof, assume, agree to and accept the terms of this Agreement.

8. Governing Law. This Agreement shall be governed by, and construed and interpreted in accordance with, the laws of the State of Georgia.

9. Termination. This Agreement is a continuing agreement and shall remain in full force and effect until the final payment in full of all of the Lender Indebtedness, expiration of all commitments by Lender to make advances to Borrower and/or Guarantor under any document or instrument and the termination of all documents and instruments evidencing and/or securing any Lender Indebtedness.

10. Descriptive Headings. The captions in this Agreement are for convenience of reference only and shall not define or limit the provisions hereof.

11. Binding Effect. Wherever in this Agreement one of the parties hereto is named or referred to, the heirs, administrators, executors, successors, assigns, distributees and legal and personal representatives of such party shall be included, and all covenants and agreements contained in this Agreement by or on behalf of Creditor, Borrower and/or Guarantor or by or on behalf of Lender shall bind and inure to the benefit of their respective heirs, administrators, executors, successors, assigns, distributees, and legal and personal representatives, whether so expressed or not. Notwithstanding the foregoing, neither Creditor, Borrower nor Guarantor shall be entitled to assign any of their respective rights, titles, and interest hereunder, delegate any of their respective obligations, liabilities, duties, or responsibilities hereunder, or permit any such assignment or delegation to occur (voluntarily or involuntarily, or directly or indirectly), without the prior written consent of Lender.

12. Severability. If any provision of this Agreement shall be held or deemed to be or shall, in fact, be inoperative or unenforceable as applied in any particular case in any jurisdiction

or jurisdictions or in all jurisdictions, or in all cases because it conflicts with any other provision or provisions hereof or any constitution or statute or rule of public policy, or for any other reason, such circumstances shall not have the effect of rendering the provision in question inoperative or unenforceable in any other case or circumstance, or of rendering any other provision or provisions herein contained invalid, inoperative, or unenforceable to any extent whatever.

[signature pages follow]

IN WITNESS WHEREOF, the undersigned have caused this Agreement to be executed as of this the 1st day of June, 2011.

GUARANTOR:

TEAMSTAFF, INC.

By: /s/ Zachary C. Parker
Name: Zachary C. Parker
Title: CEO

STATE OF

COUNTY OF

I, the undersigned, Notary Public in and for said County in said State, hereby certify that whose name as of TEAMSTAFF, INC., is signed to foregoing instrument and who is known to me, acknowledged before me on this day that, being informed of the contents of the instrument she/he, as such officer, and with full authority, executed the same voluntarily for and as the act of said corporation.

Given under my hand this the day of , 2011.

Notary Public

My commission expires:

[NOTARIAL SEAL]

BORROWER:

TEAMSTAFF GOVERNMENT SOLUTIONS, INC.

By: /s/ Zachary C. Parker
Name: Zachary C. Parker
Title: CEO

STATE OF

COUNTY OF

I, the undersigned, Notary Public in and for said County in said State, hereby certify that whose name as of TEAMSTAFF GOVERNMENT SOLUTIONS, INC., is signed to foregoing instrument and who is known to me, acknowledged before me on this day that, being informed of the contents of the instrument she/he, as such officer, and with full authority, executed the same voluntarily for and as the act of said corporation.

Given under my hand this the day of , 2011.

Notary Public

My commission expires:

[NOTARIAL SEAL]

CREDITOR:

WYNNEFIELD PARTNERS SMALLCAP VALUE, LP

By: /s/ Nelson Obus
Name: Nelson Obus
Title: Co-Managing Member of Wynnefield Capital Mangement, LLC, as General Partner

STATE OF

COUNTY OF

I, the undersigned, Notary Public in and for said County in said State, hereby certify that whose name as of WYNNEFIELD PARTNERS SMALLCAP VALUE, LP, is signed to foregoing instrument and who is known to me, acknowledged before me on this day that, being informed of the contents of the instrument she/he, as such officer, and with full authority, executed the same voluntarily for and as the act of said limited partnership.

Given under my hand this the day of , 2011.

Notary Public

My commission expires:

[NOTARIAL SEAL]

LENDER

PRESIDENTIAL FINANCIAL CORPORATION

By: /s/ Robert Dysart, Jr.
Name: Robert Dysart, Jr.

Title: Vice Preident

STATE OF

COUNTY OF

I, the undersigned, Notary Public in and for said County in said State, hereby certify that whose name as of PRESIDENTIAL FINANCIAL CORPORATION., is signed to foregoing instrument and who is known to me, acknowledged before me on this day that, being informed of the contents of the instrument she/he, as such officer, and with full authority, executed the same voluntarily for and as the act of said corporation.

Given under my hand this the day of , 2011.

Notary Public

My commission expires:

[NOTARIAL SEAL]

CREDITOR SUBORDINATION AGREEMENT

This Creditor Subordination Agreement (the "Agreement") is made and entered into by **Wynnefield Partners SmallCap Value, LP I** (the "Creditor"), **TeamStaff Government Solutions, Inc.**, a Georgia corporation (the "Borrower"), and **TeamStaff, Inc.**, a New Jersey corporation (the "Guarantor"), for the benefit of **Presidential Financial Corporation**, a Georgia corporation, and its successors and assigns ("Lender").

WHEREAS, Borrower has obtained from Lender a $3,000,000 revolving line of credit (the "Loan"); and

WHEREAS, Creditor has heretofore loaned Guarantor sums of money; and

WHEREAS, as a condition to continuing to make the Loan available to Borrower, Lender has required that Creditor subordinate any and all loans and indebtedness outstanding under any Convertible Debentures, now or hereafter owed or owing by Guarantor to Creditor to any loan or indebtedness heretofore, now or hereafter owed or owing from Guarantor or Borrower to Lender, including, without limitation, any amounts now or hereafter owed or owing under or in connection with the Loan.

NOW, THEREFORE, in consideration of the premises, ten dollars, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the undersigned Guarantor and Creditor do hereby covenant and agree with Lender as follows:

1. Certain Definitions. Unless otherwise defined herein, the following terms have the following meanings:

"Convertible Debentures" shall mean any and all Convertible Debentures issued by the Guarantor pursuant to that certain Debenture Purchase Agreement, dated as of June 1, 2011, between the Guarantor, the Creditor and the other purchaser party thereto, up to a maximum principal amount of $350,000.

"Event of Default" shall mean an Event of Default under the Loan and Security Agreement.

"Lender Indebtedness" means the principal of all loans, all interest (including interest accrued subsequent to the filing of any petition under any bankruptcy, insolvency or similar law) on such principal amounts of such loans and all other indebtedness, obligations and liabilities (including without limitation principal, interest and fees, and obligations under guaranties), whether now existing or hereafter incurred, of Borrower and/or Guarantor to Lender, under the Loan and Security Agreement, including without limitation to the generality of the foregoing, under or with respect to the Loan or any documents or instruments executed or delivered in connection therewith.

"Lender Security Documents" means each and all of the mortgages, revolving credit and security agreements, pledges, assignments, security agreements and other documents and instruments at any time securing any of the Lender Indebtedness.

"Loan and Security Agreement" means that certain Loan and Security Agreement, dated as of July 29, 2010, as amended through the date hereof, and as may be subsequently amended, modified, restated, extended or renewed from time to time (but not to exceed at any one time $4,000,000 in maximum principal amount), by and among the Lender, the Borrower and the Guarantor.

"Subordinated Obligations" means all indebtedness (plus any interest heretofore, now or hereafter accrued thereon, including any interest accrued subsequent to the filing of any petition under any bankruptcy, insolvency or similar law), whether now existing or hereafter incurred, owing by Guarantor to Creditor pursuant to any Convertible Debentures, as the same may be amended, modified, extended, replaced or superseded from time to time.

"Subordinated Security Documents" means each and all of the mortgages, security agreements, pledges, assignments and other documents and instruments at any time securing any of the Subordinated Obligations, subject, however, to Lender's consent in accordance with Section 2(d) of this Agreement.

2. Subordination of Subordinated Obligations.

(a) Creditor covenants and agrees that anything in any agreement or instrument creating, evidencing or relating to the Subordinated Obligations to the contrary notwithstanding, the Subordinated Obligations shall be subordinate and junior in right of payment, distribution and lien to the Lender Indebtedness, and without limiting the generality of the foregoing:

(i) Upon payment or distribution of all or any of the assets or securities of Borrower and/or Guarantor of any kind or character, whether in cash, property or securities, upon any dissolution, winding up, or total or partial liquidation, reorganization, arrangement, adjustment, protection, relief or composition of Borrower and/or Guarantor or its debts, whether voluntary or involuntary or in bankruptcy, insolvency, receivership, arrangement, reorganization, relief or other proceeding or upon an assignment for the benefit of creditors or any other marshalling of the assets and liabilities of Borrower and/or Guarantor or otherwise, all Lender Indebtedness shall first be paid in full in cash before any payment or distribution may be made in respect of the Subordinated Obligations; and

(ii) No direct or indirect payment or demand for payment of principal or interest shall be made in respect of the Subordinated Obligations if, at the time of such payment or demand for payment, any Lender Indebtedness is outstanding or unpaid or Lender has any obligation to advance funds to or for the account of Borrower or Guarantor under any instrument or document; provided, however, that so long as there is no uncured Event of Default under the Loan and Security Agreement and no such Event of Default would be caused by a payment to Creditor, Guarantor shall be permitted to make, and Creditor shall be permitted to receive, any interest and/or principal payment on

all Convertible Debentures outstanding and held by Creditor, but only upon maturity of the same.

(b) If in the event that, notwithstanding the foregoing provisions, Creditor shall receive any payment or distribution in respect of the Subordinated Obligations at a time when any Lender Indebtedness is outstanding or unpaid or Lender has any obligation to advance funds to or for the account of Borrower or Guarantor under any instrument or document (other than payments permitted under this Agreement), then such payment or distribution shall be received and held in trust by Creditor apart from Creditor's assets and shall be promptly paid over or delivered to Lender for application (in the case of cash) or as collateral for (in the case of non-cash property or securities) the payment or prepayment of the Lender Indebtedness; provided, that this Section 2(b) shall not apply to the issuance by the Guarantor of any Conversion Shares (as such term is defined in the Convertible Debenture Agreement) to the Creditor upon the conversion of any Convertible Debentures.

(c) Without notice to or assent by Creditor:

(i) the Lender Indebtedness and the obligations or liabilities of any other party or parties (including without limitation any guarantor, endorser or co-obligor) in respect of the Lender Indebtedness may, from time to time, in whole or in part, be renewed, extended, modified, accelerated, restated, compromised or released; and

(ii) any and all mortgages, pledges, assignments, encumbrances, liens or security interests (legal or equitable) at any time, present or future, held, given or intended to be given for the Lender Indebtedness, and any rights or remedies in respect thereof, may, from time to time, in whole or in part, be exchanged, sold, surrendered, released, modified, waived, restated or extended by Lender, and Lender may permit or consent to any such action or the result of any such action;

all as Lender may deem advisable and all without impairing, abridging, diminishing, releasing or affecting the subordination provided for herein to the Lender Indebtedness. All rights and interests of Lender hereunder shall remain in full force and effect irrespective of any circumstance that might constitute a defense available to, or a discharge of, Borrower and/or Guarantor, or any lack of validity or enforceability of any document or instrument.

(d) In the event that payment may not be made to Creditor pursuant to Section 2(a)(ii) as a result of an outstanding Event of Default, then the Lender shall use commercially reasonable efforts to give prompt notice to Creditor of the nature of such Event of Default; provided, however, that any failure by Lender to give such notice shall not affect the Lender's rights under this Agreement or otherwise. Creditor shall have the right (but not the obligation) to cure any monetary default under the Loan and Security Agreement within five (5) calendar days after the later of (i) Creditor receives written notice of such default and (ii) after expiration of any applicable cure period for the Borrower or Guarantor; provided, however, that Lender shall not be required to delay its exercise of any of Lender's rights or remedies under the Loan and Security Agreement during such period.

(d) Creditor hereby represents and warrants to Lender that none of the Subordinated Obligations are secured by any assets of Borrower or Guarantor or any other person or entity, and covenants and agrees that, unless otherwise consented to in writing by Lender, none of the Subordinated Obligations will be secured, directly or indirectly, by any of the assets of Borrower or Guarantor or any other person or entity. Without limitation to the generality of the foregoing, or any of the other provisions hereof, in the event at any time any of the Subordinated Obligations are secured, it is further hereby agreed and acknowledged that all rights, titles, liens, estates, interest and remedies accruing to Creditor or its successors, assigns, designees, transferees, purchasers at foreclosure and/or other purchasers, whether as mortgagee, secured party, landlord, owner or otherwise, and whether consensual or arising by operation of law or in equity or otherwise, are and shall be subject and subordinate in all respects to all mortgages, security agreements, security interests, assignments, pledges, rights, titles, interests, estates and remedies of Lender and its successors, assigns, designees, transferees, purchasers at foreclosure and/or other purchasers, arising in connection with any of the Lender Indebtedness, whether consensual or arising by operation of law or in equity or otherwise. For so long as any of the Lender Security Documents and any modifications, consolidations, replacements or extensions thereof shall remain in effect, the mortgages, security agreements, security interests, rights, titles, interests, estates and remedies arising under any Subordinated Security Documents shall be superior to any mortgages, security agreements, security interests, rights, titles, liens, interest and estate in favor of any person or entity other than Lender, its successors or assigns, with respect to any collateral under the Lender Security Documents, and Creditor agrees that it shall not voluntarily subordinate any Subordinated Security Document to any mortgage, lease, security agreement, indenture, agreement, contract or encumbrance in favor of any person or entity other than Lender, its successors or assigns, respecting any such collateral under the Lender Security Documents.

Creditor further agrees that, for so long as any Lender Indebtedness remains outstanding, Creditor shall take no action to enforce collection of the Subordinated Obligations against Borrower or Guarantor of such Subordinated Obligations; nor shall the Creditor take any action to foreclose or enforce its rights as a secured creditor or lienholder or to establish its status as a lienholder under any Subordinated Security Documents or otherwise against any assets of Borrower or Guarantor or any guarantor of such Subordinated Obligations, except in accord with Section 4 below and Section 2 above; nor shall the payment terms of the Subordinated Obligations be modified.

3. Subordination Absolute. Neither the subordination provided for herein nor the rights of Lender hereunder shall be affected, modified or impaired by (a) any extension, renewal, modification, restatement, forbearance or waiver of any terms of any other instrument or document executed in connection herewith nor (b) any release, modification or substitution of any collateral therefor.

4. Reinstatement. The provisions of this Agreement shall continue in full force and effect (i) if at any time while the Loan and Security Agreement remains in effect, the Lender Indebtedness is reduced (even if reduced to zero) and thereafter increased or (ii) if at any time any payment of any of the Lender Indebtedness is rescinded or must otherwise be returned by Lender upon the insolvency, bankruptcy or reorganization of Borrower and/or Guarantor or otherwise, all as though such payment had not been made.

5. [Intentionally Deleted.]

6. Cumulative Rights; No Waiver; Modification. Nothing herein contained or arising shall limit or restrict any of the obligations or agreements of Creditor, Borrower or Guarantor under any other document or instrument with or in favor of Lender. Each and every right granted to Lender hereunder or in connection herewith, or allowed by law or equity, shall be cumulative and may be exercised from time to time. No failure on the part of Lender to exercise, and no delay in exercising, any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial

exercise by Lender of any right, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege. No amendment or modification of any provision of this Agreement or any waiver thereof shall in any event be effective unless made by an instrument in writing signed by Lender and the party to be charged therewith.

7. Legends. Any instrument evidencing any of the Subordinated Obligations, or any portion thereof, shall be inscribed with a legend, or otherwise include a reference, conspicuously indicating that payment thereof is subordinated pursuant to the terms of this Agreement, and a copy thereof shall be delivered to Lender. Any such instrument shall also provide in substance that any transferee thereof shall, by acceptance thereof, assume, agree to and accept the terms of this Agreement.

8. Governing Law. This Agreement shall be governed by, and construed and interpreted in accordance with, the laws of the State of Georgia.

9. Termination. This Agreement is a continuing agreement and shall remain in full force and effect until the final payment in full of all of the Lender Indebtedness, expiration of all commitments by Lender to make advances to Borrower and/or Guarantor under any document or instrument and the termination of all documents and instruments evidencing and/or securing any Lender Indebtedness.

10. Descriptive Headings. The captions in this Agreement are for convenience of reference only and shall not define or limit the provisions hereof.

11. Binding Effect. Wherever in this Agreement one of the parties hereto is named or referred to, the heirs, administrators, executors, successors, assigns, distributees and legal and personal representatives of such party shall be included, and all covenants and agreements contained in this Agreement by or on behalf of Creditor, Borrower and/or Guarantor or by or on behalf of Lender shall bind and inure to the benefit of their respective heirs, administrators, executors, successors, assigns, distributees, and legal and personal representatives, whether so expressed or not. Notwithstanding the foregoing, neither Creditor, Borrower nor Guarantor shall be entitled to assign any of their respective rights, titles, and interest hereunder, delegate any of their respective obligations, liabilities, duties, or responsibilities hereunder, or permit any such assignment or delegation to occur (voluntarily or involuntarily, or directly or indirectly), without the prior written consent of Lender.

12. Severability. If any provision of this Agreement shall be held or deemed to be or shall, in fact, be inoperative or unenforceable as applied in any particular case in any jurisdiction

or jurisdictions or in all jurisdictions, or in all cases because it conflicts with any other provision or provisions hereof or any constitution or statute or rule of public policy, or for any other reason, such circumstances shall not have the effect of rendering the provision in question inoperative or unenforceable in any other case or circumstance, or of rendering any other provision or provisions herein contained invalid, inoperative, or unenforceable to any extent whatever.

[signature pages follow]

IN WITNESS WHEREOF, the undersigned have caused this Agreement to be executed as of this the 1st day of June, 2011.

GUARANTOR:

TEAMSTAFF, INC.

By: /s/ Zachary C. Parker
Name: Zachary C. Parker
Title: CEO

STATE OF

COUNTY OF

I, the undersigned, Notary Public in and for said County in said State, hereby certify that whose name as of TEAMSTAFF, INC., is signed to foregoing instrument and who is known to me, acknowledged before me on this day that, being informed of the contents of the instrument she/he, as such officer, and with full authority, executed the same voluntarily for and as the act of said corporation.

Given under my hand this the day of , 2011.

Notary Public

My commission expires:

[NOTARIAL SEAL]

BORROWER:

TEAMSTAFF GOVERNMENT SOLUTIONS, INC.

By: /s/ Zachary C. Parker
Name: Zachary C. Parker
Title: CEO

STATE OF

COUNTY OF

I, the undersigned, Notary Public in and for said County in said State, hereby certify that whose name as of TEAMSTAFF GOVERNMENT SOLUTIONS, INC., is signed to foregoing instrument and who is known to me, acknowledged before me on this day that, being informed of the contents of the instrument she/he, as such officer, and with full authority, executed the same voluntarily for and as the act of said corporation.

Given under my hand this the day of , 2011.

Notary Public

My commission expires:

[NOTARIAL SEAL]

CREDITOR:

WYNNEFIELD PARTNERS SMALLCAP VALUE, LP I

By: /s/ Nelson Obus
Name: Nelson Obus
Title: Co-Managing Member of Wynnefield Capital Mangement, LLC, as General Partner

STATE OF

COUNTY OF

I, the undersigned, Notary Public in and for said County in said State, hereby certify that whose name as of WYNNEFIELD PARTNERS SMALLCAP VALUE, LP I, is signed to foregoing instrument and who is known to me, acknowledged before me on this day that, being informed of the contents of the instrument she/he, as such officer, and with full authority, executed the same voluntarily for and as the act of said limited partnership.

Given under my hand this the day of , 2011.

Notary Public

My commission expires:

[NOTARIAL SEAL]

LENDER

PRESIDENTIAL FINANCIAL CORPORATION

By: /s/ Robert Dysart, Jr.
Name: Robert Dysart, Jr.

Title: Vice Preident

STATE OF

COUNTY OF

I, the undersigned, Notary Public in and for said County in said State, hereby certify that whose name as of PRESIDENTIAL FINANCIAL CORPORATION, is signed to foregoing instrument and who is known to me, acknowledged before me on this day that, being informed of the contents of the instrument she/he, as such officer, and with full authority, executed the same voluntarily for and as the act of said corporation.

Given under my hand this the day of , 2011.

Notary Public

My commission expires:

[NOTARIAL SEAL]

EXHIBIT 31.1

Certification

I, Zachary C. Parker, certify that:

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

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

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

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

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

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

Date: August 15, 2011

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

EXHIBIT 31.2

Certification

I, John Kahn, certify that:

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

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

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

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

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

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

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

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

Date: August 15, 2011

/s/ John Kahn
John Kahn
Chief Financial Officer
(Principal Accounting 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

In connection with the Quarterly Report of TeamStaff, Inc. ("TeamStaff") on Form 10-Q for the period ending June 30, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, being, Zachary C. Parker, Chief Executive Officer, and John Kahn, Chief Financial Officer and Principal Accounting Officer, certify, pursuant to 18 U.S.C. ss.1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

Dated: August 15, 2011

/s/ Zachary C. Parker	/s/ John Kahn
Zachary C. Parker	John Kahn
Chief Executive Officer	Chief Financial Officer
(Principal Executive Officer)	(Principal Accounting Officer)

A signed original 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.