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

FORM 10-Q

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

For the quarterly period ended March 31, 2011

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

For the transition period from _____ to _____

Commission File No. 0-18492

TEAMSTAFF, INC.

(Exact name of registrant as specified in its charter)

New Jersey

(State or other jurisdiction of incorporation or organization)

22-1899798

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

1 Executive Drive, Suite 130

Somerset, New Jersey

(Address of principal executive offices)

08873

(Zip Code)

(866) 952-1647

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting Company

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 5,641,913 shares of Common Stock, par value \$.001 per share, were outstanding as of May 9, 2011.

TEAMSTAFF, INC.
FORM 10-Q
For the Quarter Ended March 31, 2011

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

ASSETS	(unaudited) March 31, 2011	September 30, 2010
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,259	\$ 1,187
Accounts receivable, net of allowance for doubtful accounts of \$0 as of March 31, 2011 and September 30, 2010	11,955	11,324
Prepaid workers' compensation	547	512
Other current assets	246	344
Total current assets	14,007	13,367
EQUIPMENT AND IMPROVEMENTS:		
Furniture and equipment	177	2,259
Computer equipment	102	215
Computer software	612	960
Leasehold improvements	23	12
	914	3,446
Less accumulated depreciation and amortization	(643)	(3,112)
Equipment and improvements, net	271	334
TRADENAMES	2,583	2,583
GOODWILL	8,595	8,595
OTHER ASSETS	373	360
TOTAL ASSETS	\$ 25,829	\$ 25,239

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

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

LIABILITIES AND SHAREHOLDERS' EQUITY	(unaudited) March 31,	September 30,
	2011	2010
CURRENT LIABILITIES:		
Loan payable	\$ 1,474	\$ 362
Notes payable	1,500	1,500
Current portion of capital lease obligations	13	18
Accrued payroll	10,569	10,910
Accounts payable	1,627	1,887
Accrued expenses and other current liabilities	2,300	1,872
Liabilities from discontinued operation	238	289
Total current liabilities	17,721	16,838
CAPITAL LEASE OBLIGATIONS, net of current portion	4	8
OTHER LONG TERM LIABILITY	2	5
Total Liabilities	17,727	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 5,642 at March 31, 2011 and 5,105 at September 30, 2010, outstanding 5,640 at March 31, 2011 and 5,103 at September 30, 2010	6	5
Additional paid-in capital	69,736	69,503
Accumulated deficit	(61,616)	(61,096)
Treasury stock, 2 shares at cost at March 31, 2011 and September 30, 2010	(24)	(24)
Total shareholders' equity	8,102	8,388
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 25,829	\$ 25,239

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

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

	(Unaudited)	
	For the Three Months Ended	
	March 31, 2011	March 31, 2010
REVENUES	\$ 10,444	\$ 9,795
DIRECT EXPENSES	<u>8,936</u>	<u>8,826</u>
GROSS PROFIT	1,508	969
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,561	1,832
DEPRECIATION AND AMORTIZATION	28	27
Loss from operations	<u>(81)</u>	<u>(890)</u>
OTHER INCOME (EXPENSE)		
Interest income	6	2
Interest expense	(62)	(30)
Other expense	(7)	—
Other income, net	1	1
Legal expense related to pre-acquisition activity of acquired company	<u>(40)</u>	<u>(56)</u>
	<u>(102)</u>	<u>(83)</u>
Loss from continuing operations before income taxes	(183)	(973)
INCOME TAX EXPENSE	<u>—</u>	<u>(10)</u>
Loss from continuing operations	<u>(183)</u>	<u>(983)</u>
LOSS FROM DISCONTINUED OPERATION		
Loss from operations	<u>—</u>	<u>(25)</u>
Loss from discontinued operation	<u>—</u>	<u>(25)</u>
NET LOSS	\$ (183)	\$ (1,008)
LOSS PER SHARE — BASIC AND DILUTED		
Loss from continuing operations	\$ (0.04)	\$ (0.20)
Loss from discontinued operation	<u>—</u>	<u>(0.00)</u>
Net loss per share	<u>\$ (0.04)</u>	<u>\$ (0.20)</u>
WEIGHTED AVERAGE BASIC AND DILUTED SHARES OUTSTANDING	<u>5,147</u>	<u>5,040</u>

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

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

	(Unaudited)	
	For the Six Months Ended	
	March 31, 2011	March 31, 2010
REVENUES	\$ 21,019	\$ 20,588
DIRECT EXPENSES	18,193	18,257
GROSS PROFIT	2,826	2,331
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	3,123	3,489
OFFICER SEVERANCE	—	310
DEPRECIATION AND AMORTIZATION	59	53
Loss from operations	(356)	(1,521)
OTHER INCOME (EXPENSE)		
Interest income	7	5
Interest expense	(107)	(53)
Other expense	(7)	—
Other income, net	2	2
Legal expense related to pre-acquisition activity of acquired company	(59)	(57)
	(164)	(103)
Loss from continuing operations before income taxes	(520)	(1,624)
INCOME TAX EXPENSE	—	(10)
Loss from continuing operations	(520)	(1,634)
LOSS FROM DISCONTINUED OPERATION		
Loss from operations	—	(810)
Loss from disposal	—	(349)
Loss from discontinued operation	—	(1,159)
NET LOSS	\$ (520)	\$ (2,793)
LOSS PER SHARE — BASIC AND DILUTED		
Loss from continuing operations	\$ (0.10)	\$ (0.33)
Loss from discontinued operation	—	(0.23)
Net loss per share	\$ (0.10)	\$ (0.56)
WEIGHTED AVERAGE BASIC AND DILUTED SHARES OUTSTANDING	5,144	4,985

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

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

	(Unaudited)	
	For the Six Months Ended	
	March 31,	March 31,
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (520)	\$ (2,793)
Adjustments to reconcile net loss to net cash used in operating activities, net of divested business:		
Depreciation and amortization	59	53
Compensation expense related to employee stock option grants	49	70
Compensation expense related to employee restricted stock grants	14	57
Compensation expense related to director restricted stock grants	20	138
Loss on retirement of equipment	17	1
Changes in operating assets and liabilities, net of divested business:		
Accounts receivable	(631)	89
Other current assets	63	13
Other assets	(13)	28
Accounts payable, accrued payroll, accrued expenses and other current liabilities	(173)	355
Other long term liabilities	(3)	(2)
Cash flows from discontinued operation	—	1,121
Net cash used in operating activities	<u>(1,118)</u>	<u>(870)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash flows from discontinued operation	—	375
Purchase of equipment, leasehold improvements and software	(12)	(152)
Net cash provided by (used in) investing activities	<u>(12)</u>	<u>223</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net advances on revolving line of credit	1,112	—
Repayments on capital lease obligations	(9)	(12)
Proceeds from sale of Common Stock	150	
Cash flows from discontinued operation	(51)	(83)
Net cash provided by (used in) financing activities	<u>1,202</u>	<u>(95)</u>
Net change in cash and cash equivalents	72	(742)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>1,187</u>	<u>2,992</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 1,259</u>	<u>\$ 2,250</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	<u>\$ 107</u>	<u>\$ 24</u>
Cash paid during the period for income taxes	<u>\$ 58</u>	<u>\$ 49</u>

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

TEAMSTAFF, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 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 1 Executive Drive, Suite 130, Somerset, New Jersey 08873, where its telephone number is (866) 952-1647.

Company History

TeamStaff is a New Jersey corporation that was founded in 1969 as a payroll service company. Over the years, the Company has evolved into a national provider of contract and permanent medical and administrative staffing services and today, TeamStaff is a full-service provider of logistics, healthcare support and technical services to Federal Agencies and the Department of Defense. During the past 18 months, the Company has taken numerous steps in an effort to enhance the value of TeamStaff and has fully focused the Company’s efforts on the government services market, where the Company believes it has a proven track record of performance. In connection with the refocusing of the Company’s operations, during the 2010 calendar year, the Company replaced its Chief Executive Officer and Chief Financial Officer and hired a new Executive Vice President of Corporate Development, to lead its efforts as a government services provider.

TeamStaff GS, which is currently the Company’s only operating subsidiary changed its name from RS Staffing Services, Inc. on February 12, 2008 to reflect the subsidiary’s evolving service offerings. In connection with the evolution of the Company, on December 28, 2009, TeamStaff and TeamStaff Rx, Inc. (“TeamStaff Rx”), a wholly-owned subsidiary, entered into a definitive Asset Purchase Agreement with Advantage RN, LLC, for the sale of substantially all of the operating assets of TeamStaff Rx related to the business of providing travel nurse and allied healthcare professionals for temporary assignments. 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.

TeamStaff’s other wholly-owned subsidiaries include DSI Staff ConnXions Northeast, Inc., DSI Staff ConnXions Southwest, Inc., TeamStaff Solutions, Inc., TeamStaff I, Inc., TeamStaff II, Inc., TeamStaff III, Inc., TeamStaff IV, Inc., TeamStaff VIII, Inc., TeamStaff IX, Inc., Digital Insurance Services, Inc., HR2, Inc. and BrightLane.com, Inc. As a result of the sale of our Professional Employer Organization business in fiscal year 2004 and other Company business changes, these “other” subsidiaries are inactive.

(2) LIQUIDITY AND SIGNIFICANT ACCOUNTING POLICIES:

Liquidity

At March 31, 2011 the Company had a net working capital deficit of approximately \$3.7 million and an accumulated deficit of approximately \$61.6 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 \$0.5 million for the six months ended March 31, 2011. The Company has a limited amount of cash and equivalents at March 31, 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.

In an effort to improve the Company’s cash flows and financial position, the Company has recently 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, as of February 14, 2011, 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. In addition, as described in Note 6, on February 9, 2011, the Company entered into a further 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 March 31, 2011 the amount available was \$323,000. 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 \$1.3 million as of March 31, 2011, (b) the capital available pursuant to the Commitments, (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 currently contested by the Company (classified as current at March 31, 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 and to address any need for additional capital, the Company intends to pursue equity, equity-based and/or debt financing alternatives or other financing in order to raise needed funds. While the remaining Commitments are unconditional, the specific terms of any financing which the Company may request under these remaining Commitments are subject to final negotiation among the parties and the approval of the members of the Company's Board of Directors that are independent of the other parties involved in accordance with the Company's policy for approving related-party transactions. Further, such arrangements would be required to be structured in such a manner so as to comply with the listing requirements of the Nasdaq Stock Market. The parties also agreed that if the additional financing would be pursuant to a debt instrument, that any such debt would not mature prior to February 28, 2012. If the Company raises additional funds by selling shares of common stock or convertible securities, the ownership of its existing shareholders will be diluted. Further, if additional funds are raised through the issuance of equity or debt securities, such additional securities may have powers, designations, preferences or rights senior to our currently outstanding securities. Except for the remaining Commitments, the Company does not have any firm agreements with any third-parties for such transactions and no assurances can be given that the Company will be successful in raising any additional capital from financings, or that additional financing, if at all available, can be obtained on acceptable terms to us. Any inability to obtain required financing on sufficiently favorable terms could have a material adverse effect on our business, financial position, and results of operations.

The Company derives a substantial amount of revenue from agencies of the Federal government and, as described in greater detail in Note 8 on May 5, 2011 was notified of a positive response from the DVA on proposals submitted in 2010 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 holds order cover through June 30, 2011 under existing contracts. In addition, the Company also holds contractual order cover through June 30, 2011 in respect of contracts that generated close to a further 50% of its revenue in the year ended September 30, 2010, which are not yet the subject of requests for proposals at present. The Company believes, based on its past experience with the DVA, that such contracts are likely in due course, to 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 contract staffing customers as gross revenue because, among other things, TeamStaff is the primary obligor in the contract staffing arrangement; TeamStaff has pricing latitude; TeamStaff selects contract employees for a given assignment from a broad pool of individuals; TeamStaff is at risk for the payment of its direct costs; and TeamStaff assumes a significant amount of other risks and liabilities as an employer of its contract employees, and therefore, is deemed to be a principal in regard to these services. TeamStaff also recognizes as gross revenue and as unbilled receivables, on an accrual basis, any such amounts that relate to services performed by contract 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 staffed on contract assignments. These adjustments are due to changes in the contracted wage determination rates for these contract employees. A wage determination is the listing of wage rates and fringe benefit rates for each classification of laborers whom the Administrator of the Wage and Hour Division of the U.S. Department of Labor (“DOL”) has determined to be prevailing in a given locality. Contractors performing services for the Federal government under certain contracts are required to pay service employees in various classes no less than the wage rates and fringe benefits found prevailing in these localities. An audit by the DOL 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 March 31, 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 further government review, no assurances can be given that we will indeed receive the amounts recorded as accounts receivable, any additional billings from our government contracts or that if additional amounts are received, that the amount will be within the range specified above.

Direct costs of services are reflected in TeamStaff’s Consolidated Statements of Operations as “direct expenses” and are reflective of the type of revenue being generated. Direct costs of the contract staffing business 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 would 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.

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 March 31, 2011, the Company provided a 100% deferred tax valuation allowance of approximately \$14.4 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 March 31, 2011, there is \$153,000 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 \$303,000 to be recognized in future periods.

Stock Options and Restricted Stock

There was share-based compensation expense for options for the three months ended March 31, 2011 and March 31, 2010 of \$17,000 and \$56,000, respectively. There was share-based compensation expense for options for the six months ended March 31, 2011 and March 31, 2010 of \$49,000 and \$70,000, respectively.

During the three months ended March 31, 2011, Teamstaff did not grant any options. During the six months ended March 31, 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 \$18,000 in connection with this grant and \$31,000 for all other awards.

During the three months ended March 31, 2010, TeamStaff did not grant any shares of restricted stock. During the six months ended March 31, 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 \$57,000 and \$138,000 for the three and six months ended March 31, 2010, respectively.

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During the three months ended March 31, 2011, Teamstaff did not grant any shares of restricted stock. During the six months ended March 31, 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 six months ended March 31, 2011. During the three months ended March 31, 2011, 32,500 shares of restricted stock vested. During the six months ended March 31, 2011, 77,500 shares of restricted stock vested.

The stock option activity for the six months ended March 31, 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	7.8	\$ —
Granted	250,000	\$ 0.56	9.7	—
Exercised	—	—	—	—
Options outstanding, March 31, 2011	<u>972,500</u>	<u>\$ 3.84</u>	<u>8.3</u>	<u>\$ —</u>

At March 31, 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.

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 six months ended March 31, 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, March 31, 2011	<u>52,500</u>	<u>\$ 1.42</u>

At March 31, 2011, there were 52,500 shares of unvested restricted stock outstanding. As of March 31, 2011, there is \$150,000 remaining costs related to non-vested restricted stock awards.

At March 31, 2011, the Company had reserved 35,000 shares of common stock for issuance under various option, shares and warrant plans and arrangements.

Changes in Shareholders' Equity

During the three months ended March 31, 2011, additional paid in capital increased by \$17,000 as a result of stock compensation expense and \$150,000 as a result of an equity raise. During the six months ended March 31, 2011, additional paid-in capital increased by \$83,000 as a result of recognized stock compensation expense and \$150,000 as a result of the equity raise (see Note 7). For the six months ended March 31, 2011, there were a total of 536,681 shares issued.

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 six months ended March 31, 2011 and 2010.

(3) DISCONTINUED OPERATION:**Sale of TeamStaff Rx**

Based on an analysis of historical and forecasted results and the Company's strategic initiative to focus on core 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. 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 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 has not assumed any debts, obligations or liabilities of TeamStaff Rx nor did it purchase any accounts receivable outstanding as of the closing date.

Condensed results of the discontinued operation are as follows:

(amounts in thousands)	For the Three Months Ended		For the Six Months Ended	
	March 31, 2011	March 31, 2010	March 31, 2011	March 31, 2010
Revenues	\$ —	\$ —	\$ —	\$ 1,418
Direct expenses	—	—	—	(1,255)
Selling, general and administrative expenses	—	(33)	—	(971)
Other income (expense), net	—	8	—	(2)
Loss from operations	—	(25)	—	(810)
Loss from disposal	—	—	—	(349)
Net loss	\$ —	\$ (25)	\$ —	\$ (1,159)

Included in selling, general and administrative expense from discontinued operations for the six months ended March 31, 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.

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The following chart details the remaining liabilities from the discontinued operation (amounts in thousands):

	<u>September 30, 2010 Balance</u>	<u>Expensed This Period</u>	<u>Paid This Period</u>	<u>March 31, 2011 Balance</u>
Accrued expenses and other current liabilities	\$ 289	—	(51)	\$ 238
Total	<u>\$ 289</u>	<u>\$ —</u>	<u>\$ (51)</u>	<u>\$ 238</u>

(4) COMMITMENTS AND CONTINGENCIES:

Payroll Taxes

TeamStaff has received notices from the Internal Revenue Service (“IRS”) claiming taxes, interest and penalties due related to payroll taxes predominantly from its former PEO operations which were sold in fiscal 2003. TeamStaff has also received notices from the IRS reporting overpayments of taxes. Management believes that these notices are predominantly the result of misapplication of payroll tax payments between its legal entities. If not resolved favorably, the Company may incur interest and penalties. Until the sale of certain assets related to the former PEO operations, TeamStaff operated through 17 subsidiaries, and management believes that the IRS has not correctly identified payments made through certain of the different entities, therefore leading to the notices. To date, TeamStaff has been working with the IRS to resolve these discrepancies and has had certain interest and penalty claims abated. TeamStaff has also received notices from the Social Security Administration claiming variances in wage reporting compared to IRS transcripts. TeamStaff believes the notices from the Social Security Administration are directly related to the IRS notices received. TeamStaff had retained the services of Ernst & Young LLP as a consultant to assist in resolving certain of these matters with the IRS and Social Security Administration. TeamStaff believes that after the IRS applies all the funds correctly, any significant interest and penalties will be abated; however, there can be no assurance that each of these matters will be resolved favorably. In settling various years for specific subsidiaries with the IRS, the Company has received refunds for those specific periods; however, as the process of settling and concluding on other periods and subsidiaries is not yet completed, the potential exists for related penalties and interest. Based upon the most recent correspondence from the IRS and an assessment of open periods, we believe that our liability of \$1.2 million at March 31, 2011 (recorded in accounts payable) is fairly stated. Interest expense would accrue on such amounts through the ultimate payment date, unless waived by the IRS. No payments related to this matter were made during the fiscal year ended September 30, 2010, and the three and six months ended March 31, 2011, while in the fiscal year ended September 30, 2009, the Company paid \$1.1 million, related to this matter.

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.

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. The Company intends to pursue a claim against Advantage RN for all amounts owed, which the Company presently estimates is \$50,000. The Company has provided an allowance for the estimated uncollectible sub-lease funding.

Legal Proceedings

RS Staffing Services, Inc.

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

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

The Company originally acquired RS Staffing Services in June 2005. As part of the purchase price of the acquisition, the Company issued to the former owners of RS Staffing Services: (i) a \$3.0 million promissory note, 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 the investigation. Effective June 1, 2007, the Company and former owners of RS Staffing Services reached an agreement to extend the due date from June 8, 2007 to December 31, 2008 with respect to the remaining \$1.5 million principal payable and accrued interest payable. Such agreement was extended to August 31, 2010, but has not been further renewed. As of March 31, 2011, the amount has not been settled and negotiations with the former owners of RS Staffing Services are as yet to be resolved. The Company recognized expenses related to legal representation and costs incurred in connection with the investigation and dispute in the amount of \$40,000 and \$56,000 during the three months ended March 31, 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 \$59,000 and \$57,000 during the six months ended March 31, 2011 and 2010, respectively, as a component of other income (expense). Cumulative costs related to this matter approximate \$1.8 million. Pursuant to the acquisition agreement with RS Staffing Services, the Company has notified the former owners of RS Staffing Services that it is the Company's intention to exercise its right to 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 have 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 at a time when the Company's per share price was higher than its current per share price. The parties have unsuccessfully attempted to negotiate a settlement and the claimants have indicated their intention to proceed to mediation, as provided for in the stock purchase agreement.

The Company will pursue the recovery as a right of offset in future periods. Management has a good faith belief that the Company will recover such amounts; however, generally accepted accounting principles preclude the Company from recording an offset to the note payable to the former owners of RS Staffing Services until the final amount of the claim is settled and determinable. At present, no assurances can be given that the former owners of RS Staffing Services would not pursue action against us or that the Company will be successful in the offset of such amounts against the outstanding debt and accrued interest from notice date forward, if any, or in defending the partial counter-claims. Accordingly, the Company has expensed costs incurred related to the investigation through March 31, 2011.

Other Matters

On October 2, 2008, the United States Equal Employment Opportunity Commission ("EEOC") issued a subpoena to TeamStaff GS regarding the alleged wrongful termination of certain employees who were employed at a federal facility staffed by TeamStaff GS contract employees. The wrongful termination is alleged to have occurred when the former employees were terminated because they could not satisfy English proficiency requirements imposed by the Federal government. TeamStaff GS has produced all documents that it believes were required by the subpoena and has submitted its position statement to the EEOC. It is unclear, at present, if or when the EEOC will respond.

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.

Employment Agreements

On December 1, 2010, the Company named John F. Armstrong as our Executive Vice President of Corporate Development. On February 7, 2011, the Company and Mr. Armstrong entered into an employment agreement. The following is a description of the terms of employment agreed upon by the Company and Mr. Armstrong. Mr. Armstrong's appointment as Executive Vice President of Corporate Development commenced December 1, 2010 and the employment agreement will expire on November 30, 2013. Mr. Armstrong will receive an initial base salary of \$215,000 per annum. Mr. Armstrong may receive an annual bonus of up to 50% of base salary based on performance targets and other key objectives established by the Management Resources and Compensation Committee of the board of directors. Target bonus will be adjusted by 2% of base salary for every 1% of variance between targets and actual results and no bonus will be awarded if results are less than 90% of target and no bonus will exceed 70% of base salary. For the Company's 2011 fiscal year, \$40,000 of the potential bonus will be guaranteed provided Mr. Armstrong remains employed as of the date on which the bonus payment is made. The Company granted Mr. Armstrong options to purchase 250,000 shares of common stock under our 2006 Plan. The options vested or shall vest as follows: 50,000 options vested immediately; 100,000 options shall vest if the closing price of the Company's common stock equals or exceeds \$3.00 per share for ten consecutive trading days; an additional 50,000 options shall vest if the closing price of the Company's common stock equals or exceeds \$5.00 per share for ten consecutive trading days; and an additional 50,000 options shall vest if the closing price of the Company's common stock equals or exceeds \$7.00 per share for ten consecutive trading days. The options, to the extent vested, shall be exercisable for a period of ten years at the per share exercise price equal to the fair market value of the Company's common stock on the date his employment commenced.

(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. 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 March 31, 2011, the remaining prepaid asset of \$0.3 million will be received within the next twelve months. This amount is reflected on TeamStaff's balance sheet as of March 31, 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 March 31, 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 March 31, 2011, the amount of the unused availability under the line was \$323,000. The amount outstanding as of March 31, 2011 was \$1,474,000.

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.

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) SHAREHOLDERS' EQUITY

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. The Company intends to use these 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.

(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 matter described below, that no subsequent events have occurred which require disclosure through the date that these financial statements are issued.

On May 5, 2011, TeamStaff GS entered into 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. The tasks to be performed include pharmacy and pharmacy technician services in support of pharmacy production management at seven 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. Work is expected to begin on July 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.

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. We undertake no obligation to update any forward-looking statement or statements in this filing to reflect events or circumstances that occur after the date on which the statement is made or to reflect the occurrence of unanticipated events.

Critical Accounting Policies and Estimates

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 would be material to future periods' results of operations.

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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 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 March 31, 2011, the Company provided a 100% deferred tax valuation allowance of approximately \$14.4 million.

Overview

Business Description

We are a New Jersey corporation that was founded in 1969 as a payroll service company. Over the years, we evolved into a national provider of contract and permanent medical and administrative staffing services and today TeamStaff is a full-service provider of logistics, healthcare support and technical services to Federal Agencies and the Department of Defense. During the past 18 months, we have taken numerous steps in an effort to enhance 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 have replaced our Chief Executive Officer and Chief Financial Officer and hired a new Executive Vice President of Corporate Development, to lead our efforts as a government services provider.

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 for its 2011 fiscal year 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, inventory management, statistical process control, packaging/handling/storage & transportation, and supply support operations. In addition, it 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 a strong heritage in medical, pharmaceutical, 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 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/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 services. TeamStaff's outstanding track record of response during hurricanes Rita and Katrina demonstrates 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 five percent of fiscal 2010 revenue was derived from this line of service.

Management believes that streamlining the Company's strategic focus around these three lines of services serves to align its resourcing and investments decisions around 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 GS, which is currently the Company's only operating subsidiary changed its name from RS Staffing Services, Inc. on February 12, 2008 to reflect the subsidiary's evolving service offerings. In connection with the evolution of our company, on December 28, 2009, TeamStaff and TeamStaff Rx, Inc. ("TeamStaff Rx"), a wholly-owned subsidiary, entered into a definitive Asset Purchase Agreement with Advantage RN, LLC, for the sale of substantially all of the operating assets of TeamStaff Rx related to our business of providing travel nurse and allied healthcare professionals for temporary assignments. The closing of this transaction occurred on January 4, 2010.

TeamStaff provides logistics, healthcare support and other technical services to U.S. government entities through TeamStaff GS and 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, Seymour 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 Department of Veteran Affairs, 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 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 support services at six of the DVA's seven consolidated pharmacy distribution centers from the DVA national contracting office. Although the current task orders expired on December 31, 2009, continuation of services extensions for locations serviced by TeamStaff GS have been granted by the DVA to us through June 30, 2011 with respect to both pharmaceutical services and logistic services. The DVA released a new request for proposal related to pharmaceutical services in 2010 and the Company submitted a proposal in a timely manner. The DVA has not as of yet published a request for proposals with respect to the provision of logistic services at these locations. On May 5, 2011, TeamStaff GS entered into a single source Blanket Purchase Agreement with the DVA for the procurement of pharmaceutical services at all seven of the DVA's consolidated pharmacy distribution centers. 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 as 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 expected to begin on July 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.

TeamStaff's new leadership and management team possess significant experience in operating and growing government services businesses and manages over 800 employees in over 20 states. Committed to providing top-quality services, TeamStaff's managers are trained and certified (where applicable) in management processes utilized by the DoD and other Federal agencies. TeamStaff GS has developed a strong track record of delivering best-value and on-schedule services to its varied clients. TeamStaff has an on-going process to tailor its infrastructure to align with its remaining core business of government services.

Recent Business Trends

TeamStaff has developed a strategic plan which leverages the core competencies of TeamStaff GS in the areas of: (1) Logistics and Technical Services, (2) Healthcare Delivery Solutions and (3) Contingency & Staff Augmentation Services. The Company has a long history of providing these services to federal clients, the DVA in particular. The company has transitioned its executive management team to better align with its government services focus and the new business development focus will seek to compete in a much larger scale for business opportunities in the three lines of business cited above. All commercial staffing business and resources have been divested or replaced.

During the second quarter of fiscal 2011, the government services market overall was severely impacted by the Federal governments' dependence upon a Continuing Resolution for fiscal year funding. Many government contract awards were delayed, while others were operating with reduced funding. TeamStaff weathered this period with no significant erosion to its work level or revenue stream during the second quarter of fiscal 2011 and was able to achieve a significant reduction in its loss from operations after achieving an improved gross margin and significantly reducing Selling, General and Administrative expenses.

Management remains committed to expanding its business with the DVA, which has been our largest customer (95% of revenue in fiscal 2010) followed by the DoD, while leveraging its strengths to profitably grow new business in adjacent 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 and shortage in the government acquisition workforce. New business development processes have been put into place and new resources with successful track records in these areas have been secured. Over recent months the Company has developed a substantial new business pipeline and is working to implement an accelerated growth plan though the typical sales cycle is 18 to 24 months for major awards. In addition, the Company has established several new teaming and partnership arrangements with key companies with a view to assisting in profitably growing the business. Meanwhile expenditures continue to be constrained and the Company has implemented cost reduction initiatives such as: indirect personnel hiring freeze and headcount reductions; a temporary furlough program and salary freezes; restricted travel; terminated non-value added vendor agreements and negotiated significant cost reductions with continuing vendors.; and consolidated our benefit plans, resulting in additional savings.

Though our nation's economy continues to create headwinds for all 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. Further, there has been an increase in mergers and acquisition activity within the government services space due to an interest on the part of acquirers to reposition capability and customer portfolios in areas where future growth is anticipated. Management also believes that the most significant of the federal government's in-sourcing efforts have been completed. Further, management has found that many analysts continue to view the federal services market remains as an attractive growth area with quality customer credit (i.e. federal government) as a focus of buyer group portfolios and that strategically-focused and niche firms that can offer a differentiated product or service offering to support high demand areas will be considered higher value companies. Although we cannot provide any assurances of our growth or profitability, based on these factors, management believes that TeamStaff's new strategic direction to leverage and invest in its government services strengths within its market sector offers the potential for significantly enhanced shareholder value in the foreseeable future.

Further, under the new leadership team, the Company has developed a substantial qualified pipeline of opportunities to bid for contracts with DoD and other Federal agencies through fiscal year 2012. Many of these are through teaming arrangements with other strategic partner companies.

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		Six Months Ended	
	March 31, 2011	March 31, 2010	March 31, 2011	March 31, 2010
Revenues	100.0%	100.0%	100.0%	100.0%
Direct Expenses	85.6%	90.1%	86.6%	88.7%
Gross Profit	14.4%	9.9%	13.4%	11.3%
Selling, general and administrative	14.9%	18.7%	14.9%	16.9%
Officer Severance	0.0%	0.0%	0.0%	1.5%
Depreciation and amortization expense	0.3%	0.3%	0.3%	0.3%
(Loss) income from operations	-0.8%	-9.1%	-1.8%	-7.4%
Other income (expense)	-1.0%	-0.8%	-0.8%	-0.5%
(Loss) income from continuing operations before tax	-1.8%	-9.9%	-2.6%	-7.9%
Income tax expense (benefit)	0.0%	-0.1%	0.0%	0.0%
(Loss) income from continuing operations	-1.8%	-10.0%	-2.6%	-7.9%
Loss from discontinued operation	0.0%	-0.3%	0.0%	-5.6%
Net loss	-1.8%	-10.3%	-2.6%	-13.5%

Revenues from TeamStaff's operations for the three months ended March 31, 2011 and 2010 were \$10.4 million and \$9.8 million, respectively, which represent an increase of \$0.6 million or 6% over the prior fiscal year period. The increase in revenues is due primarily to the impact of increased overtime as well as net increases in headcount at certain Government facilities related to federal government "out sourcing" certain positions.

Revenues from TeamStaff's operations for the six months ended March 31, 2011 and 2010 were \$21.0 million and \$20.6 million respectively, which represents an increase of \$0.4 million or 1.9% over the prior fiscal period. The increase in revenues from continuing operations is due primarily to the impact of increased overtime as well as net increases in headcount at certain Government facilities related to federal government "out sourcing" certain positions.

Direct expenses for the three months ended March 31, 2011 and 2010 were \$8.9 million and \$8.8 million, respectively. As a percentage of revenue, direct expenses were 85.6% and 90.1%, respectively, for the three months ended March 31, 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 six months ended March 31, 2011 and 2010 were \$18.2 million and \$18.3 million. As a percentage of revenue, direct expenses were 86.6% and 88.7%, respectively, for the six months ended March 31, 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.

Gross profit for the three months ended March 31, 2011 and 2010 were \$1.5 million and \$1.0 million, respectively which represents an increase of \$0.5 million or 50% over the prior fiscal year period. Gross profit from continuing operations, as a percentage of revenue, was 14.4% and 9.9%, for the three months ended March 31, 2011 and 2010, respectively. The key drivers for the period over period increase in gross profit (as a percentage of revenue) were greater overtime at certain government facilities which earn a higher gross profit margin and a reduction in direct expenses of approximately \$0.2 million related to obtaining an independent trustee consent in fiscal 2011 to utilization of surplus assets in a medical benefit plan which the Company had previously funded in connection with a completed commercial contract.

Gross profit for the six months ended March 31, 2011 and 2010 were \$2.8 million and \$2.3 million, respectively which represents an increase \$0.5 million or 22% over the prior fiscal year period. Gross profit from continuing operations, as a percentage of revenue, was 13.4% and 11.3%, for the six months ended March 31, 2011 and 2010, respectively. The key drivers for the period over period increase in gross profit (as a percentage of revenue) are greater overtime at certain government facilities which earn a higher gross profit margin and a reduction in direct expenses of approximately \$0.2 million related to obtaining independent trustee consent in the second quarter of fiscal 2011 to utilization of surplus assets in a benefit plan which the Company had previously funded in connection with a no longer on-going commercial contract.

Selling, general and administrative ("SG&A") expenses for the three months ended March 31, 2011 and 2010 were \$1.6 million and \$1.8 million, respectively, which represent a decrease of \$0.2 million, or 11.1%. The decrease is primarily due to cost reduction initiatives, which have included: headcount reductions; a temporary furlough program; and negotiating significant cost reductions with vendors.

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SG&A expenses for the six months ended March 31, 2011 and 2010 were \$3.1 million and \$3.5 million, respectively, which represent a decrease of \$0.4 million, or 11.4%. The decrease reflects cost reduction initiatives, which have included: headcount reductions; a temporary furlough program; and negotiating significant cost reductions with vendors. Officer severance for the Company's former Chief Executive Officer in the amount of \$0.3 million during the six months ended March 31, 2010 did not reoccur in the six months ended March 31, 2011.

Depreciation and amortization expense was approximately \$28,000 and \$27,000 for the three months ended March 31, 2011 and 2010, respectively.

Depreciation and amortization expense was approximately \$59,000 and \$53,000 for the six months ended March 31, 2011 and 2010, respectively.

Loss from operations for the three months ended March 31, 2011 was \$0.1 million as compared to loss from operations for the three months ended March 31, 2010 of \$0.9 million. This represents an improvement of \$0.8 million in results from operations from the prior fiscal period. The improvement is due to the above mentioned increase in gross profits and reduction in SG&A expenses for the three months ended March 31, 2011.

Loss from operations for the six months ended March 31, 2011 was \$0.4 million as compared to loss from operations for the six months ended March 31, 2010 of \$1.5 million. This represents an improvement of \$1.1 million in results from operations from the prior fiscal period. The improvement is due to the above mentioned increase in gross profits, reduction in SG&A expenses and non-recurring of officer severance in the six months ended March 31, 2011.

Interest income and other income were negligible for the three and six months ended March 31, 2011 and 2010. The comparative increases in interest income arose due to increased collateral deposits.

Interest expense for the three months ended March 31, 2011 and 2010 was approximately \$62,000 and \$30,000 respectively. The increase of \$32,000 was due to increased borrowings with our existing credit facility.

Interest expense for the six months ended December 31, 2010 and 2009 was approximately \$107,000 and \$53,000 respectively. The increase of \$54,000 was due to increased borrowings with our existing credit facility.

The Company recorded other expense of \$40,000 and \$56,000, for the three months ended March 31, 2011 and 2010, respectively, and \$59,000 and \$57,000 for the six months ended March 31, 2011 and 2010, respectively, related to legal representation and investigation and dispute related costs incurred in connection with the Federal Grand Jury subpoena issued to our subsidiary formerly known as RS Staffing Services on April 17, 2007. The subpoena requested production of certain documents dating back to 1997. The Company acquired RS Staffing effective as of June 2005. These expenses are classified as non-operating expenses because the subpoena relates to activity prior to the acquisition.

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 for the three months ended March 31, 2011 and 2010.

Loss from continuing operations for the three months ended March 31, 2011 was \$0.2 million, or \$0.04 per basic and diluted share, as compared to loss from continuing operations of \$1.0 million, or \$0.20 per basic and diluted share, for the three months ended March 31, 2010.

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Loss from continuing operations for the six months ended March 31, 2011 was \$0.5 million, or \$0.10 per basic and diluted share, as compared to loss from continuing operations of \$1.6 million, or \$0.33 per basic and diluted share, for the six months ended March 31, 2010.

There was no net income or loss from discontinued operations for the three months or six months ended March 31, 2011.

Loss from discontinued operations for the three months ended March 31, 2010 was \$25,000 or \$0.00 per basic and diluted share arising from operations of the TeamStaff Rx discontinued business.

Loss from discontinued operations for the six months ended March 31, 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. Loss from disposal of the TeamStaff Rx discontinued business was \$0.3 million. Included in this loss are 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 for the three months ended March 31, 2011 was \$0.2 million, or \$0.04 per basic and diluted share, as compared to net loss of \$1.0 million, or \$0.20 per basic and diluted share, for the three months ended March 31, 2010. This represents a reduction in net loss of \$0.8 million primarily due to improved gross profit of \$0.5 million coupled with reductions of \$0.3 million in SG&A expenses.

Net loss for the six months ended March 31, 2011 was \$0.5 million, or \$0.10 per basic and diluted share, as compared to net loss of \$2.8 million, or \$0.56 per basic and diluted share, for the six months ended March 31, 2010. This represents a reduction in net loss of \$2.3 million primarily due to improved gross profit of \$0.5 million and reductions of \$0.4 million in SG&A expenses, as well as both officer severance in the amount of \$0.3 million and loss from discontinued operations of \$1.2 million recorded in the six months ended March 31, 2010 and not in the six months ended March 31, 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 staffed on contract assignments. These adjustments are due to changes in the contracted wage determination rates for these contract employees. A wage determination is the listing of wage rates and fringe benefit rates for each classification of laborers whom the Administrator of the Wage and Hour Division of the U.S. Department of Labor (“DOL”) has determined to be prevailing in a given locality. Contractors performing services for the Federal government under certain contracts are required to pay service employees in various classes no less than the wage rates and fringe benefits found prevailing in these localities. An audit by the DOL 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 March 31, 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 further government review, no assurances can be given that we will indeed receive the amounts recorded as accounts receivable, any additional billings 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 March 31, 2011, the Company had a net working capital deficit of approximately \$3.7 million and an accumulated deficit of approximately \$61.6 million. The Company has a limited amount of cash and equivalents at March 31, 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.

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In an effort to improve our cash flows and financial position, we have recently taken measures which are expected to enhance 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. As of February 14, 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 (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. In addition, a further \$75,000 of credits were granted by certain individuals against Company obligations due such persons. In addition, as described in greater detail below, on February 9, 2011, we entered into a further 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 \$1.3 million as of March 31, 2011, (b) the available capital pursuant to the Commitments, (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 March 31, 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 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 and to address any need for additional capital, we intend to pursue equity, equity-based and/or debt financing alternatives or other financing in order to raise needed funds. While the remaining Commitments are unconditional, the specific terms of any financing which we may request under the Commitments are subject to final negotiation among the parties and the approval of members of our Board of Directors that are independent of the remaining other parties involved in accordance with our policy for approving related-party transactions. Further, the transactions will also be required to be structured in such a manner so as to comply with the listing requirements of the Nasdaq Stock Market. If we raise additional funds by selling shares of common stock or convertible securities, the ownership of our existing shareholders will be diluted. Further, if additional funds are raised through the issuance of equity or debt securities, such additional securities may have powers, designations, preferences or rights senior to our currently outstanding securities. Except for the remaining Commitments, we do not have any firm agreements with any third-parties for such transactions and no assurances can be given that we will be successful in raising any additional capital from financings, or that additional financing, if at all available, can be obtained on acceptable terms to us. Any inability to obtain required financing on sufficiently favorable terms could have a material adverse effect on our business, results of operations, financial condition, cash flows and liquidity.

Cash from operating activities

Net cash used in operating activities for the six months ended March 31, 2011 was \$1.1 million. This decrease in cash was primarily driven by net loss, an increase in accounts receivable due to a slowdown in cash collections that occurred during this period and a decrease in the accrued expenses.

Net cash used in operating activities for the six months ended March 31, 2010 was \$0.9 million. This decrease in cash was primarily driven by net losses offset by an increase in accounts payable, accrued payroll and accrued expenses.

Cash from investing activities

Net cash used in investing activities for the six months ended March 31, 2011 was \$12,000 for costs related to the purchase of fixed assets.

Net cash used in investing activities for the six months ended March 31, 2010, included proceeds of \$375,000 on the disposal of Teamstaff RX, offset by \$152,000 primarily for costs associated with the purchase and implementation of a new computer operating systems for TeamStaff GS to fulfill Defense Contract Audit Agency costs accounting system requirements for the award of certain larger value government contracts.

Cash from financing activities

Net cash provided by financing activities was \$1.2 million for the six months ended March 31, 2011. The increase is primarily the result of borrowing \$1.1 million on the credit facility to fund operations during the six months ended March 31, 2011 and the receipt of \$150,000 cash proceeds from the Commitments.

Net cash used in financing activities for the six months ended March 31, 2010 was \$0.1 million used to pay off in full capital lease obligations related to the discontinued operation as well as scheduled repayment of capital lease obligations for continuing operations.

Cash Flows

As of March 31, 2011, TeamStaff had cash and cash equivalents of \$1.3 million and net accounts receivable of \$12.0 million. At March 31, 2011, the amount of the accounts receivable associated with the DVA retroactive billings approximates \$9.3 million and was unbilled at March 31, 2011. At March 31, 2011 there was \$1.5 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 \$0.03 million and \$0.6 million, at March 31, 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 six months ended March 31, 2011 was \$1.2 million. As of March 31, 2011, we had a working capital deficit of \$3.7 million. The Company also classifies a \$1.5 million note payable related to the acquisition of RS Staffing Services as a current liability (See Note 4 of Notes to Consolidated Financial Statements). However, the Company plans to pursue its right of offset against the note for legal expenses incurred and has a good faith belief that we will recover such amounts. The Company believes that it has adequate liquidity resources to fund operations over the next twelve months in view of the additional funding committed by the Company's Lender and other parties in February 2011 as discussed in the notes to the consolidated financial statements.

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 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 March 31, 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 March 31, 2011, the amount of the unused availability under the line was \$323,000. The amount outstanding as of March 31, 2011 was \$1,474,000.

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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.

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.

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. If not resolved favorably, the Company may incur interest and penalties. To date, TeamStaff has been working with the IRS to resolve these discrepancies and has had certain interest and penalty claims abated. TeamStaff has also received notices from the Social Security Administration claiming variances in wage reporting compared to IRS transcripts. TeamStaff believes the notices from the Social Security Administration are directly related to the IRS notices received. TeamStaff believes that after the IRS applies all the funds correctly, any significant interest and penalties will be abated; however, there can be no assurance that each of these matters will be resolved favorably. In settling various years for specific subsidiaries with the IRS, the Company has received refunds for those specific periods; however, as the process of settling and concluding on other periods and subsidiaries is not yet completed and the potential exists for related penalties and interest, the remaining liability (\$1.2 million at March 31, 2011) has been recorded in accounts payable. Management believes that the ultimate resolution of these remaining payroll tax matters will not have a significant adverse effect on its financial position or future results of operations.

Contractual Obligations

Contractual Obligations (Amounts in thousands)	Total	Payments Due By Period		
		Less than 1 Year	1-3 Years	4-5 Years
Debt (1)	\$ 2,991	\$ 2,987	\$ 4	\$ —
Operating Leases (2)	595	266	291	38
Total Obligations	\$ 3,586	\$ 3,253	\$ 295	\$ 38

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

(2) Represents lease payments net of sublease income, including those of discontinued operations.

Employment Agreements

On December 1, 2010, the Company named John F. Armstrong as our Executive Vice President of Corporate Development. On February 7, 2011, the Company and Mr. Armstrong entered into an employment agreement. The following is a description of the terms of employment agreed upon by the Company and Mr. Armstrong. Mr. Armstrong's appointment as Executive Vice President of Corporate Development commenced December 1, 2010 and the employment agreement will expire on November 30, 2013. Mr. Armstrong will receive an initial base salary of \$215,000 per annum. Mr. Armstrong may receive an annual bonus of up to 50% of base salary based on performance targets and other key objectives established by the Management Resources and Compensation Committee of the board of directors. Target bonus will be adjusted by 2% of base salary for every 1% of variance between targets and actual results and no bonus will be awarded if results are less than 90% of target and no bonus will exceed 70% of base salary. For the Company's 2011 fiscal year, \$40,000 of the potential bonus will be guaranteed provided Mr. Armstrong remains employed as of the date on which the bonus payment is made. The Company granted Mr. Armstrong options to purchase 250,000 shares of common stock under our 2006 Plan. The options vested or shall vest as follows: 50,000 options vested immediately; 100,000 options shall vest if the closing price of the Company's common stock equals or exceeds \$3.00 per share for ten consecutive trading days; an additional 50,000 options shall vest if the closing price of the Company's common stock equals or exceeds \$5.00 per share for ten consecutive trading days; and an additional 50,000 options shall vest if the closing price of the Company's common stock equals or exceeds \$7.00 per share for ten consecutive trading days. The options, to the extent vested, shall be exercisable for a period of ten years at the per share exercise price equal to the fair market value of the Company's common stock on the date his employment commenced.

Off-Balance Sheet Arrangements

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

Effects of Inflation

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

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

TeamStaff does not undertake trading practices in securities or other financial instruments and therefore does not have any material exposure to interest rate risk, foreign currency exchange rate risk, commodity price risk or other similar risks, which might otherwise result from such practices. TeamStaff is not materially subject to fluctuations in foreign exchange rates, commodity prices or other market rates or prices from market sensitive instruments. TeamStaff 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 March 31, 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 March 31, 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.

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

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

The Company originally acquired RS Staffing Services in June 2005. As part of the purchase price of the acquisition, the Company issued to the former owners of RS Staffing Services; (i) a \$3.0 million promissory note, of which \$1.5 million in principal and interest of \$150,000 was paid in June 2006 (ii) and common 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 the investigation. Effective June 1, 2007, the Company and former owners of RS Staffing Services reached an agreement to extend the due date from June 8, 2007 to December 31, 2008 with respect to the remaining \$1.5 million principal payable and accrued interest payable. Such agreement was extended to August 31, 2010, but has not been further renewed. As of March 31, 2011, the amount has not been settled and negotiations with the former owners of RS Staffing Services are as yet to be resolved. The Company recognized expenses related to legal representation and costs incurred in connection with the investigation and dispute in the amount of \$40,000 and \$56,000 in the three months ended March 31, 2011 and 2010 and \$59,000 and \$57,000 in the six months ended March 31, 2011 and 2010, respectively, as a component of other income (expense). Cumulative costs related to this matter approximate \$1.8 million. Pursuant to the acquisition agreement with RS Staffing Services, the Company has notified the former owners of RS Staffing Services that it is the Company's intention to exercise its right to 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 have notified the Company of their disagreement with the Company's course of action and of the alleged existence of partial counter-claims based on the Company's alleged failure to permit them to transfer certain shares of the Company's stock at a time when the Company's per share price was higher than its current per share price. The parties have unsuccessfully attempted to negotiate a settlement and the claimants have indicated their intention to proceed to mediation, as provided for in the stock purchase agreement.

The Company will pursue the recovery as a right of offset in future periods. Management has a good faith belief that the Company will recover such amounts; however, generally accepted accounting principles preclude the Company from recording an offset to the note payable to the former owners of RS Staffing Services until the final amount of the claim is settled and determinable. At present, no assurances can be given that the former owners of RS Staffing Services would not pursue action against us or that the Company will be successful in the offset of such amounts against the outstanding debt and accrued interest from notice date forward, if any, or in defending the partial counter-claims. Accordingly, the Company has expensed costs incurred related to the investigation through March 31, 2011.

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 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

As previously reported, 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 of 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”). Pursuant to the Purchase Agreement, the Company sold to the Purchasers a total of 459,181 shares of its Common Stock. 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 aggregate amount of such credits totaled \$75,000. The Company intends to use these proceeds for general working capital. The value ascribed to the shares issued in the Equity Investment was based on the fair value of the Company’s common stock on March 31, 2011. Based in part upon the representations of the Purchasers in the Purchase Agreement, the shares of Common Stock were offered and sold in a private placement to accredited investors (as such term is defined in Rule 501(a), as promulgated under the Securities Act of 1933, as amended), 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 and similar exemptions under applicable state laws. The securities sold in the Equity Investment may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

We have entered into a Loan Agreement with Presidential Financial Corporation (“Lender”) which requires compliance with customary covenants and restrictions on our ability to, among other things, dispose of certain assets, engage in certain transactions, incur indebtedness and pay dividends, and TeamStaff GS’s tangible net worth. As part of the amendment to the Loan Agreement we entered into with the Lender on February 9, 2011, the Lender agreed to waive our 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.

ITEM 4: REMOVED AND RESERVED

ITEM 5: OTHER INFORMATION

None.

ITEM 6: EXHIBITS

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

Exhibit No.	Description
10.1#	Employment Agreement between the Company and John F. Armstrong, dated February 7, 2011 (filed as Exhibit 10.34 to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2010).
10.2	Third Amendment to Secured Promissory Note and Loan and Security Agreement with Presidential Financial Corporation dated February 9, 2011 (filed as Exhibit 10.35 to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2010).
10.3*	Form of Subscription Agreement
10.4*	Form of Subscription Agreement
31.1*	Certification of Chief Executive Officer pursuant to Section 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a).
31.2*	Certification of Chief Financial Officer pursuant to Section 17 CFR 240.13a-14(a) or 17 CFR 240.15d-14(a).
32.1*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 17 CFR 240.13a-14(b) or 17 CFR 240.15d-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code.

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: May 16, 2011

Name of Subscriber

Agreement No.

CONFIDENTIAL SUBSCRIPTION AGREEMENT

TEAMSTAFF INC.

Private Sale of Securities

Consisting of up to approximately 500,000 Shares of Common Stock

Aggregate Offering Amount: \$250,000

THIS SUBSCRIPTION AGREEMENT CONTAINS MATERIAL NONPUBLIC INFORMATION CONCERNING TEAMSTAFF, INC. AND IS PREPARED SOLELY FOR THE USE OF THE OFFEREE NAMED ABOVE. ANY USE OF THIS INFORMATION FOR ANY PURPOSE OTHER THAN IN CONNECTION WITH THE CONSIDERATION OF AN INVESTMENT IN THE SECURITIES OFFERED HEREBY MAY SUBJECT THE USER TO CRIMINAL AND CIVIL LIABILITY.

THE SECURITIES OFFERED HEREBY ARE HIGHLY SPECULATIVE AND INVOLVE A HIGH DEGREE OF RISK AND IMMEDIATE DILUTION AND MAY BE PURCHASED ONLY BY PERSONS WHO QUALIFY AS "ACCREDITED INVESTORS" UNDER RULE 501 (a) OF REGULATION D UNDER THE SECURITIES ACT.

THIS DOCUMENT HAS NOT BEEN FILED WITH OR REVIEWED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR ANY OTHER COMMISSION OR REGULATORY AUTHORITY, AND HAS NOT BEEN FILED WITH OR REVIEWED BY THE ATTORNEY GENERAL OF ANY STATES NOR HAS ANY SUCH COMMISSION, AUTHORITY OR ATTORNEY GENERAL DETERMINED WHETHER IT IS ACCURATE OR COMPLETE OR PASSED UPON OR ENDORSED THE MERITS OF THIS OFFERING. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

TEAMSTAFF, INC.
1 Executive Drive
Somerset, NJ 08873
Tel. (866) 352-5304

March 7, 2011

CONFIDENTIAL SUBSCRIPTION AGREEMENT

INSTRUCTIONS:

Items to be delivered by all Investors:

- a. One (1) completed and executed Subscription Agreement, including the Investor Questionnaire.
- b. Payment in the amount of subscription, by wire transfer of funds or check. All checks should be made payable TeamStaff, Inc. in the total amount of the Securities subscribed for.
- c. Wired funds should be directed as follows:

**BECKER & POLIAKOFF, LLP
ATTORNEY IOLA ACCOUNT #2
ACCOUNT NO.**

Signature Bank
261 Madison Avenue
New York, New York 10016
ABA No. 026013576

THE SUBSCRIBER IS RESPONSIBLE FOR ALL WIRE TRANSFER FEES IMPOSED BY THE SUBSCRIBER'S BANK.

ALL DOCUMENTS SHOULD BE RETURNED TO:

TeamStaff, Inc.
c/o Becker & Poliakoff, LLP
45 Broadway, 8th Floor
New York, New York 10006

**THE FOLLOWING EXHIBITS ARE ANNEXED TO
AND FORM PART OF THIS SUBSCRIPTION AGREEMENT:**

SUBSCRIPTION AGREEMENT

The undersigned (the "Subscriber" or the "Purchaser") hereby subscribes to purchase from TeamStaff, Inc., a New Jersey corporation (the "Company"), shares of the Company's Common Stock, at a purchase price per share equal to closing bid price as reported by Nasdaq on the Closing Date (the "Purchase Price"). The Company is offering hereby (the "Offering") a maximum of approximately 500,000 shares of its Common Stock (the "Common Shares").

Article I

SALE OF SECURITIES

1.1 Sale of Securities; Offering Period

(a) Subject to the terms and conditions hereof and on the basis of the representations and warranties hereinafter set forth, the Company hereby agrees to issue and sell to the Subscriber and the Subscriber agrees to purchase from the Company, upon Closing, the Common Shares as described herein for the Purchase Price as set forth on the signature page of this Subscription Agreement executed by the Subscriber. The number of Common Shares purchased hereunder by a Subscriber shall be as specified on the signature page of this Subscription Agreement executed by the Subscriber. The Company may reject any subscription in whole or in part. The securities being offered consist of a total of up to approximately 500,000 Common Shares, par value \$0.001 per share. The Common Shares are being offered at the Purchase Price for a minimum subscription amount of \$25,000, unless waived by the Company. This Offering is only being made to "accredited investors" (as defined in Rule 501 under the Securities Act of 1933, as amended (the "Securities Act")) in reliance upon an exemption from registration under Section 4(2) of the Securities Act and/or Regulation D promulgated thereunder, and on similar exemptions under applicable state laws, and by officers and directors of the Company. The Common Shares may be referred to herein as the "Securities". The Closing Date will be the date on which this Agreement is countersigned by the Company, which shall occur after the close of trading on Nasdaq.

(b) The Common Shares are being offered during the offering period commencing on the date set forth on the cover page of this Subscription Agreement and terminating on the earlier of (a) 5:00 p.m. (New York time) on April 15, 2011, or (b) the date on which all Common Shares authorized for sale have been sold (the "Offering Period").

High Risk Investment.

This investment is speculative and should only be made by investors who can afford the risk of loss of their entire investment. The proceeds from the sale of the Common Shares will be used to fund short term capital needs to enable the Company to maintain operations until additional funding is received. The Company may sell additional securities after the completion of this transaction to further fund its operations. Unless the Company is successful in completing these additional funding transactions, or is able to generate sufficient revenue from operations, the Company may be forced to significantly curtail its operations and the Subscribers will lose their entire investment.

Summary of Offering

Offering Summary:	The Company is offering a maximum of approximately 500,000 Common Shares solely to accredited investors on a best efforts basis.
Restricted Offerees	This Offering is restricted to officers and directors of the Company.
Minimum Subscription:	The minimum subscription amount for the Common Shares is \$25,000, although the Company may accept subscriptions in lesser amounts in its sole discretion.
No Registration Rights:	Subscribers shall be entitled to no registration rights and are receiving restricted shares of the Company.
Subscription Procedure:	In order to subscribe for the Common Shares, each prospective subscriber must complete, execute and deliver to the Company a signature page evidencing such prospective subscriber's execution of this Subscription Agreement along with a completed confidential Purchaser Questionnaire.
Restrictions on Transferability:	The Common Shares have not been registered under the Securities Act or under the securities laws of the United States or of any state or other jurisdiction. As a result, the Common Shares may not be transferred without registration under the Securities Act, or, if applicable, the securities laws of any state or other jurisdiction, unless in the opinion of counsel to the Company, such registration is not then required because of the availability of an exemption from registration.
Investment:	An investment in the Company is highly speculative, and each investor bears the risk of losing his, her or its entire investment. All Purchasers must complete and execute a Subscription Agreement and a confidential Purchaser Questionnaire. Purchasers must set forth representations in such documents that he, she or it is purchasing the Common Shares for investment purposes only and without a view toward distribution. The Common Shares are suitable investments only for sophisticated investors for whom an investment in the Common Shares does not constitute a complete investment program and who fully understand, are willing to assume, and who have the financial resources necessary to withstand, the risks involved in investing in the Common Shares and who can bear the potential loss of their entire investment. The Common Shares are being offered and sold only to persons who qualify as "accredited investors," as defined under Regulation D of the Securities Act.

1.2 No Escrow; No Minimum Offering Amount. The Subscriber acknowledges and agrees that all subscription amounts will be immediately released to the Company and in closings held, from time to time, as determined by the Company at any time during the Offering Period. During the Offering Period, subscription funds will not be placed into the escrow account and closings will be held from time to time up to the sale of the maximum amount of Common Shares described in this Subscription Agreement or the expiration of the Offering Period. The final Closing shall be either the date on which this Offering is fully subscribed or the last date during the Offering Period on which the Company accepts a subscription, whichever is latest. Each closing of the transactions contemplated hereunder (the "Closing") shall be deemed to occur at the offices of Becker & Poliakoff, LLP, 45 Broadway, 8th Floor, New York, New York 10006, or at such other place as shall be mutually agreeable to the parties, at 11:00 a.m., New York Time, on such other date as shall be mutually agreeable to the parties.

1.3 Closing Matters. At each Closing the following actions shall be taken:

(a) each Subscriber shall deliver its Purchase Price in immediately available United States funds to the escrow account established for the Offering;

(b) the Company shall cause its stock transfer agent to deliver certificates representing the Common Shares subscribed for to each Subscriber; and

(c) each of the Company and the Subscriber shall deliver to the other signed copies of this Substriction Agreement.

1.4 Use of Proceeds. The Company intends to use the proceeds derived from this Offering to satisfy its working capital requirements and general corporate purposes. Management reserves the right to utilize the net proceeds of the Offering in a manner in the best interests of the Company. The amount of the net proceeds that will be invested in particular areas of the Company's business will depend upon future economic conditions and business opportunities. To the extent that the Company continues to incur losses from operations, such losses will be funded from its general funds, including the net proceeds of this Offering.

1.5 Company Information. As an officer and/or director of TeamStaff, you acknowledge that you are fully aware of all aspects of the Company's business, the risks of an investment in the Company and the risks of a purchase of restricted Common Stock of the Company. You have been provided with information on the status of other business and financial transactions that are pending and have not been publically disclosed. You also have been given access to the officers of the Company to obtain any additional information you have deemed necessary.

1.6 Non-public Information. The fact of this offering, and certain other material financial and business matters that have not been publically disclosed, constitute material non-public information of the Company. **Any use of this information by you, or any other person to whom you have communicated such information, for any purpose other than your consideration of an investment in TeamStaff, may be a criminal offense and subject you to criminal and civil liability.**

1.7 Subscriber Information

(a) **Name(s) of SUBSCRIBER(s):** _____

(b) **Principal Amount of Securities Subscribed for:** \$ _____

(c) Accredited Investor Status

The Subscriber acknowledges and agrees that the offering and sale of the Securities are intended to be exempt from registration under the Securities Act, by virtue of Section 4(2) thereof and/or Regulation D promulgated thereunder. In accordance therewith and in furtherance thereof, the Subscriber represents and warrants to and agrees with the Company as follows [Please check statements applicable to the Subscriber]:

The Subscriber is an Accredited Investor because the Subscriber is (check appropriate item):

- o a bank as defined in Section 3(a)(2) of the Securities Act;
- o a savings and loan association or other institution as defined in Section 3(a)(5)(A) of the Securities Act;
- o a broker or dealer registered pursuant to Section 15 of the Securities Exchange Act of 1934 as amended (the "Exchange Act");
- o an insurance company as defined in Section 2(13) of the Securities Act;
- o an investment company registered under the Investment Company Act of 1940, as amended or a business development company as defined in Section 2(a)(48) of such act;
- o a Small Business Investment Company licensed by the U.S. Small Business Administration under Section 301(c) or (d) of the Small Business Investment Act of 1958;
- o an employee benefit plan within the meaning of Title I of the Employee Retirement Income Security Act of 1974, as amended, if the investment decision is made by a plan fiduciary, as defined in Section 3(21) of such Act, which is either a bank, savings and loan association, insurance company, or registered investment adviser, or if the employee benefit plan has total assets in excess of \$5,000,000 or, if a self-directed plan, with investment decisions made solely by persons that are accredited investors;
- o a private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940, as amended;
- o an organization described in Section 501(c)(3) of the Internal Revenue Code, a corporation, Massachusetts or similar business trust, or partnership, not formed for the specific purpose of acquiring the securities offered, with total assets in excess of \$5,000,000;
- o a natural person whose individual net worth or joint net worth with that person's spouse, at the time of his purchase exceeds \$1,000,000;
- o a natural person who had an individual income in excess of \$200,000 in each of the two most recent years or joint income with that person's spouse in excess of \$300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year;
- o 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 as described in Rule 506(b)(2)(ii) of the Exchange Act; or
- o an entity in which all of the equity owners are accredited investors. (If this alternative is checked, the Subscriber must identify each equity owner and provide statements signed by each demonstrating how each qualifies as an accredited investor.)

- o a plan established and maintained by a state, its political subdivisions, or any agency or instrumentality thereof, for the benefit of its employees, if such plan has total assets in excess of \$5,000,000
- o a director or officer of the Company.

(d) Additional Information.

The Subscriber has completed the signature page to this Subscription Agreement.

Article II
REPRESENTATIONS AND WARRANTIES OF COMPANY

The Company hereby represents and warrants to the Purchasers as of the date of this Agreement as follows:

(A) The Company is duly organized, validly existing and in good standing under the laws of its state of incorporation, with all requisite power and authority to own, lease, license, and use its properties and assets and to carry out the business in which it is engaged, except where the failure to have or be any of the foregoing may not be expected to have a material adverse effect on the Company's presently conducted businesses. The Company is not in violation of any of the provisions of its articles of incorporation, bylaws or other organizational or charter documents. The Company is duly qualified to transact the business in which it is engaged and is in good standing as a foreign corporation in every jurisdiction in which its ownership, leasing, licensing or use of property or assets or the conduct of its business make such qualification necessary, except where the failure to be so qualified or in good standing, as the case may be, could not, individually or in the aggregate, have or reasonably be expected to result in (i) a material and adverse effect on the legality, validity or enforceability of this Agreement, (ii) a material and adverse effect on the results of operations, assets, prospects, business or condition (financial or otherwise) of the Company, taken as a whole, or (iii) an adverse impairment to the Company's ability to perform on a timely basis its obligations hereunder (any of (i), (ii) or (iii), a "Material Adverse Effect").

(B) The Company is currently authorized to issue 40,000,000 shares of Common Stock, \$0.001 par value per share and 5,000,000 shares of Preferred Stock, \$0.10 par value per share. 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. The issue and sale of the Securities will not (except pursuant to their terms thereunder), immediately or with the passage of time, obligate the Company to issue shares of Common Stock or other securities to any entity or person and will not result in a right of any holder of Company securities to adjust the exercise, conversion, exchange or reset price under such securities.

(C) The Company has the requisite corporate power and authority to enter into, deliver and consummate the transactions contemplated by this Agreement, to issue and sell the Securities and deliver the Common Shares, and otherwise to carry out its obligations hereunder. The execution and delivery of this Agreement and the consummation by it of the transactions contemplated thereby have been duly authorized by the Company and no further action is required by the Company in connection therewith. When executed and delivered by the Company, this Agreement will constitute the legal, valid and binding obligation of the Company, enforceable as to the Company in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance or transfer, moratorium or other laws or court decisions, now or hereinafter in effect, relating to or affecting the rights of creditors generally and as may be limited by general principles of equity and the discretion of the court having jurisdiction in an enforcement action (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(D) 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 (i) any filings required by state securities laws, (ii) the filing of a Notice of a Sale of Securities on Form D with the Commission under Regulation D of the Securities Act, (iii) those that have been made or obtained prior to or contemporaneously with the date of this Agreement, and (iv) filings pursuant to the Exchange Act.

(E) The execution, delivery and performance of this Agreement by the Company and the consummation by the Company of the transactions contemplated hereby in accordance with the terms and conditions described herein do not and will not: (i) conflict with or violate any provision of the Company's certificate or articles of incorporation, bylaws or other organizational or charter documents, or (ii) violate, conflict with, or constitute a default or breach (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 (with or without notice, lapse of time or both) of, any agreement, credit facility, debt or other instrument (evidencing a Company debt or otherwise) or other understanding to which the Company is a party or by which any property or asset of the Company is bound or affected, 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 (including federal and state securities laws and regulations), or by which any property or asset of the Company is bound or affected; except in the case of each of clauses (ii) and (iii), such as could not, individually or in the aggregate, have or reasonably be expected to result in a Material Adverse Effect.

(F) The Common Shares have been duly authorized and, when issued and paid for in accordance with this Agreement, will be duly and validly issued, fully paid and nonassessable and will be issued free and clear of all liens and encumbrances, other than restrictions on transfer under applicable securities laws.

(G) 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 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 on the Company.

(H) The Company has no liabilities or obligations which are material, individually or in the aggregate, which are not disclosed in the SEC Reports, other than those incurred in the ordinary course of the Company's businesses and which, individually or in the aggregate, would not reasonably be expected to have a material adverse effect on the Company's financial condition.

Article III
REPRESENTATIONS AND WARRANTIES OF PURCHASERS

By signing this Agreement, each undersigned Purchaser hereby represents and warrants to the Company as follows as an inducement to the Company to accept the subscription of the Purchaser:

(A) The Purchaser acknowledges and agrees that (i) the offering and sale of the Securities are intended to be exempt from registration under the Securities Act by virtue of Section 4(2) of the Securities Act and/or Regulation D promulgated thereunder, (ii) the Securities have not been registered under the Securities Act and (iii) that the Company has represented to the Purchaser (assuming the veracity of the representations of the Purchaser made herein that the Securities have been offered and sold by the Company in reliance upon an exemption from registration provided in Section 4(2) of the Securities Act and Regulation D thereunder. In accordance therewith and in furtherance thereof, the Purchaser represents and warrants to and agrees with the Company that it is an accredited investor (as defined in Rule 501 promulgated under the Securities Act) for the reason indicated in Article I of this Subscription Agreement.

(B) The Purchaser hereby represents and warrants that the Purchaser is acquiring the Securities hereunder for its own account for investment and not with a view to distribution, and with no present intention of distributing the Securities or selling the Securities for distribution. The Purchaser understands that the Securities are being sold to the Purchaser in a transaction which is exempt from the registration requirements of the Securities Act. Accordingly, the Purchaser acknowledges that it has been advised that the Securities have not been registered under the Securities Act and are being sold by the Company in reliance upon the veracity of the Purchaser's representations contained herein and upon the exemption from the registration requirements provided by the Securities Act and the securities laws of all applicable states. The Purchaser's acquisition of the Securities shall constitute a confirmation of the foregoing representation and warranty and understanding thereof.

(C) The Purchaser (or its "Purchaser Representative", if any) has such knowledge and experience in financial and business matters as is required for evaluating the merits and risks of making this investment, and the Purchaser or its Purchaser Representative(s) has received such information requested by the Purchaser concerning the business, management and financial affairs of the Company in order to evaluate the merits and risks of making this investment. Further, the Purchaser acknowledges that the Purchaser has had the opportunity to ask questions of, and receive answers from, the officers of the Company concerning the terms and conditions of this investment and to obtain information relating to the organization, operation and business of the Company and of the Company's contracts, agreements and obligations or needed to verify the accuracy of any information contained herein or any other information about the Company. Except as set forth in this Agreement, no representation or warranty is made by the Company to induce the Purchaser to make this investment, and any representation or warranty not made herein or therein is specifically disclaimed and no information furnished to the Purchaser or the Purchaser's advisor(s) in connection with the sale were in any way inconsistent with the information stated herein. The Purchaser further understands and acknowledges that no person has been authorized by the Company to make any representations or warranties concerning the Company, including as to the accuracy or completeness of the information contained in this Agreement.

(D) The Purchaser is making the foregoing representations and warranties with the intent that they may be relied upon by the Company in determining the suitability of the sale of the Securities to the Purchaser for purposes of federal and state securities laws. Accordingly, each Purchaser represents and warrants that the information stated herein is true, accurate and complete, and agrees to notify and supply corrective information promptly to the Company as provided above if any of such information becomes inaccurate or incomplete. The Purchaser has completed this Agreement and Questionnaire, has delivered it herewith and represents and warrants that it is accurate and true in all respects and that it accurately and completely sets forth the financial condition of the Purchaser on the date hereof. The Purchaser has no reason to expect there will be any material adverse change in its financial condition and will advise the Company of any such changes occurring prior to the closing or termination of the Offering.

(E) The Purchaser is not subscribing for any of the Securities as a result of or subsequent to any advertisement, article, notice or other communication published in any newspaper, magazine or similar media or broadcast over television or radio, any seminar or meeting, or any solicitation of a subscription by a person not previously known to the Purchaser in connection with investments in Securities generally.

(F) The Purchaser has received or obtained access to certain information regarding the Company, including this Agreement, the SEC Reports and other accompanying documents of the Company receipt of which is hereby acknowledged. The Purchaser has carefully reviewed all information provided to it and has carefully evaluated and understands the risks described therein related to the Company and an investment in the Company, and understands and has relied only on the information provided to it in writing by the Company relating to this investment. No agent prepared any of the information to be delivered to prospective investors in connection with this transaction. Prospective investors are advised to conduct their own review of the business, properties and affairs of the Company before subscribing to purchase the Securities.

(G) The Purchaser also understands and agrees that, although the Company will use its best efforts to keep the information provided in this Agreement strictly confidential, the Company or its counsel may present this Agreement and the information provided in answer to it to such parties as they may deem advisable if called upon to establish the availability under any federal or state securities laws of an exemption from registration of the private placement or if the contents thereof are relevant to any issue in any action, suit or proceeding to which the Company or its affiliates is a party, or by which they are or may be bound or as otherwise required by law or regulatory authority.

(H) The individual signing below on behalf of any entity hereby warrants and represents that he/she is authorized to execute this Agreement on behalf of such entity. If an individual, the Purchaser has reached the age of majority in the state in which the Purchaser resides. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all requisite action, if any, in respect thereof on the part of Purchasers and no other proceedings on the part of Purchasers are necessary to consummate the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by Purchasers and constitutes a valid and binding obligation of Purchasers, enforceable against Purchasers in accordance with its terms (subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally and subject, as to enforceability, to general principles of equity (whether applied in a proceeding in equity or at law)).

(I) The Purchaser is aware that the offering of the Securities involves securities for which only a limited trading market exists, thereby requiring any investment to be maintained for an indefinite period of time. The purchase of the Securities involves risks which the Purchaser has evaluated, and the Purchaser is able to bear the economic risk of the purchase of such Securities and the loss of its entire investment. The undersigned is able to bear the substantial economic risk of the investment for an indefinite period of time, has no need for liquidity in such investment and can afford a complete loss of such investment. The Purchaser's overall commitment to investments that are not readily marketable is not, and his acquisition of the Securities will not cause such overall commitment to become, disproportionate to his net worth and the Purchaser has adequate means of providing for its current needs and contingencies.

(J) The Purchaser acknowledges and agrees that there is no "minimum" offering amount for the Securities offered hereby. The Purchaser acknowledges and agrees that funds may be immediately released to the Company.

(K) In entering into this Agreement and in purchasing the Securities, the Purchaser further acknowledges that:

(i) The Company has informed the Purchaser that the Securities have not been offered for sale by means of general advertising or solicitation and the Purchaser acknowledges that it has either a pre-existing personal or business relationship with either the Company or any of its officers, directors or controlling person, of a nature and duration such as would enable a reasonable prudent investor to be aware of the character, business acumen, and general business and financial circumstances of the Company and an investment in the Securities.

(ii) Neither the Securities nor any interest therein may be resold by the Purchaser in the absence of a registration under the Securities Act or an exemption from registration. In particular, the Purchaser is aware that all of the foregoing described Securities will be “restricted securities”, as such term is defined in Rule 144 promulgated under the Securities Act (“Rule 144”), and they may not be sold pursuant to Rule 144, unless the conditions thereof are met. Other than set forth in this Agreement, the Company has no obligation to register any securities purchased or issuable hereunder.

(iii) The following legends (or similar language) shall be placed on the certificate(s) or other instruments evidencing the Securities:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 (THE “ACT”), OR ANY STATE SECURITIES LAWS AND NEITHER SUCH NOTES NOR ANY INTEREST THEREIN MAY BE OFFERED, SOLD, PLEDGED, ASSIGNED OR OTHERWISE TRANSFERRED UNLESS (1) A REGISTRATION STATEMENT WITH RESPECT THERETO IS EFFECTIVE UNDER THE ACT AND ANY APPLICABLE STATE SECURITIES LAWS, OR (2) THE COMPANY RECEIVES AN OPINION OF COUNSEL TO THE HOLDER OF SUCH NOTES, WHICH COUNSEL AND OPINION ARE REASONABLY SATISFACTORY TO THE COMPANY, THAT SUCH NOTES MAY BE OFFERED, SOLD, PLEDGED, ASSIGNED OR TRANSFERRED IN THE MANNER CONTEMPLATED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT OR APPLICABLE STATE SECURITIES LAWS.

(iv) The Company may at any time place a stop transfer order on its transfer books against the Securities. Such stop order will be removed, and further transfer of the Securities will be permitted, upon an effective registration of the respective Securities, 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.

(L) The Company has employed its own legal counsel in connection with the Offering. The Purchasers have not been represented by independent counsel in connection with the preparation of this Agreement or the terms of this Offering and no investigation of the merits or fairness of the Offering has been conducted on behalf of the Purchasers. Prospective Purchasers should consult with their own legal, tax and financial advisors with respect to the Offering made pursuant to this Agreement.

(M) _____ (insert name of Purchaser Representative: if none leave blank) has acted as the Purchaser’s Purchaser Representative for purposes of the private placement exemption under the Act. If the Purchaser has appointed a Purchaser Representative (which term is used herein with the same meaning as given in Rule 501(h) of Regulation D), the Purchaser has been advised by his Purchaser Representative as to the merits and risks of an investment in the Company in general and the suitability of an investment in the Securities for the Purchaser in particular.

(N) The undersigned hereby acknowledges that officers, affiliates, employees and directors of the Company and/or the Selling Agents may purchase Securities in the Offering.

(O) It never has been represented, guaranteed or warranted by the Company, any of the officers, directors, stockholders, partners, employees or agents of the Company, or any other persons, whether expressly or by implication, that: (i) the Company or the Purchasers will realize any given percentage of profits and/or amount or type of consideration, profit or loss as a result of the Company’s activities or the Purchaser’s investment in the Company; or (ii) the past performance or experience of the management of the Company, or of any other person, will in any way indicate the predictable results of the ownership of the Securities or of the Company’s activities.

(P) The Purchaser acknowledges that any delivery to it of this Agreement relating to the Securities prior to the determination by the Company of its suitability as a Purchaser shall not constitute an offer of the Securities until such determination of suitability shall be made, and the Purchaser hereby agrees that it shall promptly return this Agreement and the other Offering documents to the Company upon request. The Purchaser understands that the Company shall have the right to accept or reject this subscription in whole or in part. Unless this subscription is accepted in whole or in part by the Company this subscription shall be deemed rejected in whole.

Article IV **INDEMNIFICATION**

4.1 Indemnification by the Company. The Company agrees to defend, indemnify and hold harmless the Purchasers and shall reimburse Purchasers for, from and against each claim, loss, liability, cost and expense (including without limitation, interest, penalties, costs of preparation and investigation, and the reasonable fees, disbursements and expenses of attorneys, accountants and other professional advisors) (collectively, "Losses") directly or indirectly relating to, resulting from or arising out of any untrue representation, misrepresentation, breach of warranty or non-fulfillment of any covenant, agreement or other obligation by or of the Company contained herein or in any certificate, document, or instrument delivered to Purchasers pursuant hereto.

4.2 Indemnification by Purchasers. Purchasers agrees to defend, indemnify and hold harmless the Company and shall reimburse the Company for, from and against all Losses directly or indirectly relating to, resulting from or arising out of any untrue representation, misrepresentation, breach of warranty or non-fulfillment of any covenant, agreement or other obligation of the Purchasers contained herein or in any certificate, document or instrument delivered to the Company pursuant hereto.

4.3 Procedure. The indemnified party shall promptly notify the indemnifying party of any claim, demand, action or proceeding for which indemnification may be sought under Sections 4.1 or 4.2 of this Agreement, and, if such claim, demand, action or proceeding is a third party claim, demand, action or proceeding (collectively, a "Claim"), the indemnifying party will have the right at its expense to assume the defense thereof using counsel reasonably acceptable to the indemnified party. The indemnified party shall have the right to participate, at its own expense, with respect to any such third party Claim. In connection with any such third party Claim, Purchasers and the Company shall cooperate with each other and provide each other with access to relevant books and records in their possession. No such third party Claim shall be settled without the prior written consent of the indemnified party, which shall not be unreasonably withheld. If a firm written offer is made to settle any such third party Claim and the indemnifying party proposes to accept such settlement and the indemnified party refuses to consent to such settlement, then: (i) the indemnifying party shall be excused from, and the indemnified party shall be solely responsible for, all further defense of such third party Claim; and (ii) the maximum liability of the indemnifying party relating to such third party Claim shall be the amount of the proposed settlement if the amount thereafter recovered from the indemnified party on such third party Claim is greater than the amount of the proposed settlement.

ARTICLE V **MISCELLANEOUS**

5.1 Survival. The representations and warranties set forth in Articles II and III hereof shall survive the Closing. No investigation made by or on behalf of either party shall affect the representations and warranties made pursuant to this Agreement. No party makes any additional or implied representations other than those set forth herein.

5.2 Expenses. Each party hereto shall bear and pay all costs and expenses incurred by it in connection with the transactions contemplated hereby, including fees and expenses of its own brokers, finders, financial consultants, accountants and counsel.

5.3 Entire Agreement. This Agreement, including the Exhibits, contains the entire agreement and understanding of the parties with respect to its subject matter. This Agreement supersedes all prior arrangements and understandings between the parties, either written or oral, with respect to its subject matter.

5.4 Binding Effect of Subscription. The Purchaser hereby acknowledges and agrees, subject to any applicable state securities laws that the subscription and application hereunder are irrevocable, that the Purchaser is not entitled to cancel, terminate or revoke this Agreement and that this Agreement shall survive the death or disability of the Purchaser and shall be binding upon and inure to the benefit of the Purchaser and his heirs, executors, administrators, successors, legal representatives, and assigns. If the Purchaser is more than one person, the obligations of the Purchaser hereunder shall be joint and several, and the agreements, representations, warranties, and acknowledgments herein contained shall be deemed to be made by and be binding upon each such person and his heirs, executors, administrators, successors, legal representatives, and assigns.

5.5 Captions. The table of contents and captions contained in this Agreement are for reference purposes only and are not part of this Agreement.

5.6 Amendments; Waivers. No provision of this Agreement may be waived or amended except in a written instrument signed, in the case of an amendment, by the Company and the Purchasers holding a majority of the Securities subscribed for in the Offering or, in the case of a waiver, by the party against whom enforcement of any such waiver is sought (in the case of the Purchasers, such waiver shall be in writing and approved by a majority of the Purchasers). 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 either party to exercise any right hereunder in any manner impair the exercise of any such right.

5.7 Notices. Any notice, demand or other communication which any party hereto may be required, or may elect, to give to anyone interested hereunder shall be sufficiently given if (a) deposited, postage prepaid, in a United States mail box, stamped, registered or certified mail, return receipt requested, addressed to such address as may be listed on the books of the Company, or, if to the Company, the Company's executive office, or (b) delivered personally at such address.

5.8 Execution. This Agreement may be executed through the use of separate signature pages or in any number of counterparts, and each of such counterparts shall, for all purposes, constitute one agreement binding on all parties, notwithstanding that all parties are not signatories to the same counterpart.

5.9 Severability. Each provision of this Agreement is intended to be severable from every other provisions, and the invalidity or illegality of any portion hereof, shall not affect the validity or legality of the remainder hereof.

5.10 Non-Assignment. This Agreement is not transferable or assignable by the Purchaser except as may be provided herein.

5.11 Governing Law. All questions concerning the construction, validity, enforcement and interpretation of this Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of New Jersey, without regard to the principles of conflicts of law thereof. Each party agrees that all proceedings concerning the interpretations, enforcement and defense of the transactions contemplated by this Agreement (whether brought against a party hereto or its respective Affiliates, employees or agents) shall be commenced exclusively in the state and federal courts sitting in the State of New Jersey (the "New Jersey Courts"). Each party hereto hereby irrevocably submits to the exclusive jurisdiction of the New Jersey Courts for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any proceeding, any claim that it is not personally subject to the jurisdiction of any New Jersey Court, or that such proceeding has been commenced in an improper or inconvenient forum. Each party hereto hereby irrevocably waives personal service of process and consents to process being served in any such proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. Each party hereto hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any proceeding arising out of or relating to this Agreement or the transactions contemplated hereby. If either party shall commence a proceeding to enforce any provisions of this Agreement, then the prevailing party in such proceeding shall be reimbursed by the other party for its reasonable attorney's fees and other reasonable costs and expenses incurred with the investigation, preparation and prosecution of such Proceeding.

5.12 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the Company, the Purchasers and their respective successors and permitted assigns.

Signature pages to Subscription Agreement Follows

SIGNATURE PAGE TO SUBSCRIPTION AGREEMENT

IN WITNESS WHEREOF, the parties hereto have executed or caused this Agreement to be executed by their signature as natural persons or by individuals by their duly authorized officers as of the ____ day of _____, 2011.

THE COMPANY:

TEAMSTAFF, INC.:

Zachary Parker,
Chief Executive Officer

EXECUTION BY AN INDIVIDUAL
(Not applicable to entities)

IF YOU ARE PURCHASING SECURITIES WITH YOUR SPOUSE, YOU MUST BOTH SIGN THIS SIGNATURE PAGE.

PLEASE INDICATE DESIRED TYPE OF OWNERSHIP OF SECURITIES:

- Individual
- Joint Tenants (rights of survivorship)
- Tenants in Common (no rights of survivorship)

I represent that the foregoing information is true and correct.

IN WITNESS WHEREOF, the undersigned has duly executed this Subscription Agreement and agrees to the terms hereof.

Dated: _____, 2011

Subscription Amount: \$_____

Number of Shares of Common Stock to be purchased: _____

(Name of Investor — Please Print)

(Signature)

(Name of co-Investor — Please Print)

(Signature of Co-Investor)

Exact name Shares are to be issued under: _____

*Address for Delivery of Certificates
(if not the same as in Questionnaire):*

PARTNERSHIP SIGNATURE PAGE

The undersigned PARTNERSHIP hereby represents and warrants that the person signing this Subscription Agreement on behalf of the PARTNERSHIP is a general partner of the PARTNERSHIP, has been duly authorized by the PARTNERSHIP to acquire the Securities and sign this Subscription Agreement on behalf of the PARTNERSHIP and, further, that the undersigned PARTNERSHIP has all requisite authority to purchase such Securities and enter into the Subscription Agreement.

IN WITNESS WHEREOF, the undersigned has duly executed this Subscription Agreement and agrees to the terms hereof.

Dated: _____, 2011

Subscription Amount: \$ _____

Number of Shares of Common Stock to be purchased: _____

Name of Partnership
(Please Type or Print)

By: _____
(Signature)

Name: _____
(Please Type or Print)

Title: _____
(Please Type or Print)

Exact name Shares are to be issued under: _____

*Address for Delivery of Certificates
(if not the same as in Questionnaire):*

CORPORATION/LIMITED LIABILITY COMPANY SIGNATURE PAGE

The undersigned CORPORATION or LIMITED LIABILITY COMPANY hereby represents and warrants that the person signing this Subscription Agreement on behalf of the CORPORATION or LIMITED LIABILITY COMPANY has been duly authorized by all requisite action on the part of the CORPORATION or LIMITED LIABILITY COMPANY to acquire the Securities and sign this Subscription Agreement on behalf of the CORPORATION or LIMITED LIABILITY COMPANY and, further, that the undersigned CORPORATION or LIMITED LIABILITY COMPANY has all requisite authority to purchase the Securities and enter into this Subscription Agreement.

IN WITNESS WHEREOF, the undersigned has duly executed this Subscription Agreement and agrees to the terms hereof.

Dated: _____, 2011

Subscription Amount: \$_____

Number of Shares of Common Stock to be purchased: _____

Name of Corporation
Or Limited Liability Company
(Please Type or Print)

By: _____
Signature

Name: _____
(Please Type or Print)

Title: _____
(Please Type or Print)

Exact name Shares are to be issued under: _____

*Address for Delivery of Certificates
(if not the same as in Questionnaire):*

TRUST/RETIREMENT PLAN SIGNATURE PAGE

The undersigned TRUST or RETIREMENT PLAN hereby represents and warrants that the persons signing this Subscription Agreement on behalf of the TRUST or RETIREMENT PLAN are duly authorized to acquire the Securities and sign this Subscription Agreement on behalf of the TRUST or RETIREMENT PLAN and, further, that the undersigned TRUST or RETIREMENT PLAN has all requisite authority to purchase such Securities and enter into the Subscription Agreement.

IN WITNESS WHEREOF, the undersigned has duly executed this Subscription Agreement and agrees to the terms hereof.

Dated: _____, 2011

Subscription Amount: \$ _____

Number of Shares of Common Stock to be purchased: _____

Title of Trust or Retirement Plan
(Please Type or Print)

By: _____
Signature of Trustee or
Authorized Signatory

Name of Trustee: _____
(Please Type or Print)

By: _____
Signature of Co-Trustee if applicable

Name of Co-Trustee: _____
(Please Type or Print)

Exact name Shares are to be issued under: _____

*Address for Delivery of Certificates
(if not the same as in Questionnaire):*

Name of Subscriber

Agreement No.

CONFIDENTIAL SUBSCRIPTION AGREEMENT

TEAMSTAFF INC.

Private Sale of Securities

Consisting of up to approximately 500,000 Shares of Common Stock

Aggregate Offering Amount: \$250,000

THIS SUBSCRIPTION AGREEMENT CONTAINS MATERIAL NONPUBLIC INFORMATION CONCERNING TEAMSTAFF, INC. AND IS PREPARED SOLELY FOR THE USE OF THE OFFEREE NAMED ABOVE. ANY USE OF THIS INFORMATION FOR ANY PURPOSE OTHER THAN IN CONNECTION WITH THE CONSIDERATION OF AN INVESTMENT IN THE SECURITIES OFFERED HEREBY MAY SUBJECT THE USER TO CRIMINAL AND CIVIL LIABILITY.

THE SECURITIES OFFERED HEREBY ARE HIGHLY SPECULATIVE AND INVOLVE A HIGH DEGREE OF RISK AND IMMEDIATE DILUTION AND MAY BE PURCHASED ONLY BY PERSONS WHO QUALIFY AS "ACCREDITED INVESTORS" UNDER RULE 501 (a) OF REGULATION D UNDER THE SECURITIES ACT.

THIS DOCUMENT HAS NOT BEEN FILED WITH OR REVIEWED BY THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION OR ANY OTHER COMMISSION OR REGULATORY AUTHORITY, AND HAS NOT BEEN FILED WITH OR REVIEWED BY THE ATTORNEY GENERAL OF ANY STATES NOR HAS ANY SUCH COMMISSION, AUTHORITY OR ATTORNEY GENERAL DETERMINED WHETHER IT IS ACCURATE OR COMPLETE OR PASSED UPON OR ENDORSED THE MERITS OF THIS OFFERING. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

TEAMSTAFF, INC.
1 Executive Drive
Somerset, NJ 08873
Tel. (866) 352-5304

March 7, 2011

CONFIDENTIAL SUBSCRIPTION AGREEMENT

INSTRUCTIONS:

Items to be delivered by all Investors:

- a. One (1) completed and executed Subscription Agreement, including the Investor Questionnaire.
- b. Payment in the amount of subscription by granting a credit to the Company of amounts payable by the Company to the Purchaser.
- c. The Purchaser hereby grants the Company a credit in the amount of \$_____ against any obligation of the Company to the Purchaser payable within twelve months of the Closing Date, except for base salary.

THE SUBSCRIBER IS RESPONSIBLE FOR ALL WIRE TRANSFER FEES IMPOSED BY THE SUBSCRIBER'S BANK.

ALL DOCUMENTS SHOULD BE RETURNED TO:

TeamStaff, Inc.
c/o Becker & Poliakoff, LLP
45 Broadway, 8th Floor
New York, New York 10006

**THE FOLLOWING EXHIBITS ARE ANNEXED TO
AND FORM PART OF THIS SUBSCRIPTION AGREEMENT:**

SUBSCRIPTION AGREEMENT

The undersigned (the “Subscriber” or the “Purchaser”) hereby subscribes to purchase from TeamStaff, Inc., a New Jersey corporation (the “Company”), shares of the Company’s Common Stock, at a purchase price per share equal to closing bid price as reported by Nasdaq on the Closing Date (the “Purchase Price”). The Company is offering hereby (the “Offering”) a maximum of approximately 500,000 shares of its Common Stock (the “Common Shares”).

Article I **SALE OF SECURITIES**

1.1 Sale of Securities; Offering Period

(a) Subject to the terms and conditions hereof and on the basis of the representations and warranties hereinafter set forth, the Company hereby agrees to issue and sell to the Subscriber and the Subscriber agrees to purchase from the Company, upon Closing, the Common Shares as described herein for the Purchase Price as set forth on the signature page of this Subscription Agreement executed by the Subscriber. The number of Common Shares purchased hereunder by a Subscriber shall be as specified on the signature page of this Subscription Agreement executed by the Subscriber. The Company may reject any subscription in whole or in part. The securities being offered consist of a total of up to approximately 500,000 Common Shares, par value \$0.001 per share. The Common Shares are being offered at the Purchase Price for a minimum subscription amount of \$25,000, unless waived by the Company. This Offering is only being made to “accredited investors” (as defined in Rule 501 under the Securities Act of 1933, as amended (the “Securities Act”)) in reliance upon an exemption from registration under Section 4(2) of the Securities Act and/or Regulation D promulgated thereunder, and on similar exemptions under applicable state laws, and by officers and directors of the Company. The Common Shares may be referred to herein as the “Securities”. The Closing Date will be the date on which this Agreement is counter-signed by the Company, which shall occur after the close of trading on Nasdaq.

(b) The Common Shares are being offered during the offering period commencing on the date set forth on the cover page of this Subscription Agreement and terminating on the earlier of (a) 5:00 p.m. (New York time) on April 15, 2011, or (b) the date on which all Common Shares authorized for sale have been sold (the “Offering Period”).

(c) The Purchaser hereby elects to pay the Purchase Price by granting a credit (the “Credit”) to the Company for amount of the Purchase Price. The Credit, at the option of the Company, may be used for any obligation of the Company to the Purchaser payable within twelve months of the Closing Date except for base salary. The Common Shares shall be held by the Company as security for the payment of the Purchase Price until the Purchase Price is paid in full through the application of the Credit by the Company. In the event the Credit is insufficient to pay the Purchase Price in full, upon the one year anniversary of the Closing Date, such number of Common Shares equal to the Credit divided by the Purchase Price shall be delivered to the Purchaser, and the remainder of the Common Shares shall be surrendered for cancellation to the Company. The Company shall have no recourse against the Purchaser for any amount of the Purchase Price.

High Risk Investment.

This investment is speculative and should only be made by investors who can afford the risk of loss of their entire investment. The proceeds from the sale of the Common Shares will be used to fund short term capital needs to enable the Company to maintain operations until additional funding is received. The Company may sell additional securities after the completion of this transaction to further fund its operations. Unless the Company is successful in completing these additional funding transactions, or is able to generate sufficient revenue from operations, the Company may be forced to significantly curtail its operations and the Subscribers will lose their entire investment.

Summary of Offering

- Offering Summary:** The Company is offering a maximum of approximately 500,000 Common Shares solely to accredited investors on a best efforts basis.
- Restricted Offerees** This Offering is restricted to officers and directors of the Company.
- Minimum Subscription:** The minimum subscription amount for the Common Shares is \$25,000, although the Company may accept subscriptions in lesser amounts in its sole discretion.
- No Registration Rights:** Subscribers shall be entitled to no registration rights and are receiving restricted shares of the Company.
- Subscription Procedure:** In order to subscribe for the Common Shares, each prospective subscriber must complete, execute and deliver to the Company a signature page evidencing such prospective subscriber's execution of this Subscription Agreement along with a completed confidential Purchaser Questionnaire.
- Restrictions on Transferability:** The Common Shares have not been registered under the Securities Act or under the securities laws of the United States or of any state or other jurisdiction. As a result, the Common Shares may not be transferred without registration under the Securities Act, or, if applicable, the securities laws of any state or other jurisdiction, unless in the opinion of counsel to the Company, such registration is not then required because of the availability of an exemption from registration.
- Investment:** An investment in the Company is highly speculative, and each investor bears the risk of losing his, her or its entire investment. All Purchasers must complete and execute a Subscription Agreement and a confidential Purchaser Questionnaire. Purchasers must set forth representations in such documents that he, she or it is purchasing the Common Shares for investment purposes only and without a view toward distribution. The Common Shares are suitable investments only for sophisticated investors for whom an investment in the Common Shares does not constitute a complete investment program and who fully understand, are willing to assume, and who have the financial resources necessary to withstand, the risks involved in investing in the Common Shares and who can bear the potential loss of their entire investment. The Common Shares are being offered and sold only to persons who qualify as "accredited investors," as defined under Regulation D of the Securities Act.

1.2 No Escrow; No Minimum Offering Amount. The Subscriber acknowledges and agrees that all subscription amounts will be immediately released to the Company and in closings held, from time to time, as determined by the Company at any time during the Offering Period. During the Offering Period, subscription funds will not be placed into the escrow account and closings will be held from time to time up to the sale of the maximum amount of Common Shares described in this Subscription Agreement or the expiration of the Offering Period. The final Closing shall be either the date on which this Offering is fully subscribed or the last date during the Offering Period on which the Company accepts a subscription, whichever is latest. Each closing of the transactions contemplated hereunder (the "Closing") shall be deemed to occur at the offices of Becker & Poliakoff, LLP, 45 Broadway, 8th Floor, New York, New York 10006, or at such other place as shall be mutually agreeable to the parties, at 11:00 a.m., New York Time, on such other date as shall be mutually agreeable to the parties.

1.3 Closing Matters. At each Closing the following actions shall be taken:

(a) each Subscriber shall deliver its Purchase Price in immediately available United States funds to the escrow account established for the Offering;

(b) the Company shall cause its stock transfer agent to deliver certificates representing the Common Shares subscribed for to each Subscriber; and

(c) each of the Company and the Subscriber shall deliver to the other signed copies of this Subscription Agreement.

1.4 Use of Proceeds. The Company intends to use the proceeds derived from this Offering to satisfy its working capital requirements and general corporate purposes. Management reserves the right to utilize the net proceeds of the Offering in a manner in the best interests of the Company. The amount of the net proceeds that will be invested in particular areas of the Company's business will depend upon future economic conditions and business opportunities. To the extent that the Company continues to incur losses from operations, such losses will be funded from its general funds, including the net proceeds of this Offering.

1.5 Company Information. As an officer and/or director of TeamStaff, you acknowledge that you are fully aware of all aspects of the Company's business, the risks of an investment in the Company and the risks of a purchase of restricted Common Stock of the Company. You have been provided with information on the status of other business and financial transactions that are pending and have not been publically disclosed. You also have been given access to the officers of the Company to obtain any additional information you have deemed necessary.

1.6 Non-public Information. The fact of this offering, and certain other material financial and business matters that have not been publically disclosed, constitute material non-public information of the Company. **Any use of this information by you, or any other person to whom you have communicated such information, for any purpose other than your consideration of an investment in TeamStaff, may be a criminal offense and subject you to criminal and civil liability.**

1.7 Subscriber Information

(a) Name(s) of SUBSCRIBER(s): _____

(b) Principal Amount of Securities Subscribed for: \$ _____

(c) Accredited Investor Status

The Subscriber acknowledges and agrees that the offering and sale of the Securities are intended to be exempt from registration under the Securities Act, by virtue of Section 4(2) thereof and/or Regulation D promulgated thereunder. In accordance therewith and in furtherance thereof, the Subscriber represents and warrants to and agrees with the Company as follows [Please check statements applicable to the Subscriber]:

The Subscriber is an Accredited Investor because the Subscriber is (check appropriate item):

- o a bank as defined in Section 3(a)(2) of the Securities Act;
- o a savings and loan association or other institution as defined in Section 3(a)(5)(A) of the Securities Act;
- o a broker or dealer registered pursuant to Section 15 of the Securities Exchange Act of 1934 as amended (the "Exchange Act");
- o an insurance company as defined in Section 2(13) of the Securities Act;
- o an investment company registered under the Investment Company Act of 1940, as amended or a business development company as defined in Section 2(a)(48) of such act;
- o a Small Business Investment Company licensed by the U.S. Small Business Administration under Section 301(c) or (d) of the Small Business Investment Act of 1958;
- o an employee benefit plan within the meaning of Title I of the Employee Retirement Income Security Act of 1974, as amended, if the investment decision is made by a plan fiduciary, as defined in Section 3(21) of such Act, which is either a bank, savings and loan association, insurance company, or registered investment adviser, or if the employee benefit plan has total assets in excess of \$5,000,000 or, if a self-directed plan, with investment decisions made solely by persons that are accredited investors;
- o a private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940, as amended;
- o an organization described in Section 501(c)(3) of the Internal Revenue Code, a corporation, Massachusetts or similar business trust, or partnership, not formed for the specific purpose of acquiring the securities offered, with total assets in excess of \$5,000,000;
- o a natural person whose individual net worth or joint net worth with that person's spouse, at the time of his purchase exceeds \$1,000,000;
- o a natural person who had an individual income in excess of \$200,000 in each of the two most recent years or joint income with that person's spouse in excess of \$300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year;
- o 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 as described in Rule 506(b)(2)(ii) of the Exchange Act; or
- o an entity in which all of the equity owners are accredited investors. (If this alternative is checked, the Subscriber must identify each equity owner and provide statements signed by each demonstrating how each qualifies as an accredited investor.)

- o a plan established and maintained by a state, its political subdivisions, or any agency or instrumentality thereof, for the benefit of its employees, if such plan has total assets in excess of \$5,000,000
- o a director or officer of the Company.

(d) Additional Information.

The Subscriber has completed the signature page to this Subscription Agreement.

Article II
REPRESENTATIONS AND WARRANTIES OF COMPANY

The Company hereby represents and warrants to the Purchasers as of the date of this Agreement as follows:

(A) The Company is duly organized, validly existing and in good standing under the laws of its state of incorporation, with all requisite power and authority to own, lease, license, and use its properties and assets and to carry out the business in which it is engaged, except where the failure to have or be any of the foregoing may not be expected to have a material adverse effect on the Company's presently conducted businesses. The Company is not in violation of any of the provisions of its articles of incorporation, bylaws or other organizational or charter documents. The Company is duly qualified to transact the business in which it is engaged and is in good standing as a foreign corporation in every jurisdiction in which its ownership, leasing, licensing or use of property or assets or the conduct of its business make such qualification necessary, except where the failure to be so qualified or in good standing, as the case may be, could not, individually or in the aggregate, have or reasonably be expected to result in (i) a material and adverse effect on the legality, validity or enforceability of this Agreement, (ii) a material and adverse effect on the results of operations, assets, prospects, business or condition (financial or otherwise) of the Company, taken as a whole, or (iii) an adverse impairment to the Company's ability to perform on a timely basis its obligations hereunder (any of (i), (ii) or (iii), a "Material Adverse Effect").

(B) The Company is currently authorized to issue 40,000,000 shares of Common Stock, \$0.001 par value per share and 5,000,000 shares of Preferred Stock, \$0.10 par value per share. 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. The issue and sale of the Securities will not (except pursuant to their terms thereunder), immediately or with the passage of time, obligate the Company to issue shares of Common Stock or other securities to any entity or person and will not result in a right of any holder of Company securities to adjust the exercise, conversion, exchange or reset price under such securities.

(C) The Company has the requisite corporate power and authority to enter into, deliver and consummate the transactions contemplated by this Agreement, to issue and sell the Securities and deliver the Common Shares, and otherwise to carry out its obligations hereunder. The execution and delivery of this Agreement and the consummation by it of the transactions contemplated thereby have been duly authorized by the Company and no further action is required by the Company in connection therewith. When executed and delivered by the Company, this Agreement will constitute the legal, valid and binding obligation of the Company, enforceable as to the Company in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance or transfer, moratorium or other laws or court decisions, now or hereinafter in effect, relating to or affecting the rights of creditors generally and as may be limited by general principles of equity and the discretion of the court having jurisdiction in an enforcement action (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(D) 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 (i) any filings required by state securities laws, (ii) the filing of a Notice of a Sale of Securities on Form D with the Commission under Regulation D of the Securities Act, (iii) those that have been made or obtained prior to or contemporaneously with the date of this Agreement, and (iv) filings pursuant to the Exchange Act.

(E) The execution, delivery and performance of this Agreement by the Company and the consummation by the Company of the transactions contemplated hereby in accordance with the terms and conditions described herein do not and will not: (i) conflict with or violate any provision of the Company's certificate or articles of incorporation, bylaws or other organizational or charter documents, or (ii) violate, conflict with, or constitute a default or breach (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 (with or without notice, lapse of time or both) of, any agreement, credit facility, debt or other instrument (evidencing a Company debt or otherwise) or other understanding to which the Company is a party or by which any property or asset of the Company is bound or affected, 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 (including federal and state securities laws and regulations), or by which any property or asset of the Company is bound or affected; except in the case of each of clauses (ii) and (iii), such as could not, individually or in the aggregate, have or reasonably be expected to result in a Material Adverse Effect.

(F) The Common Shares have been duly authorized and, when issued and paid for in accordance with this Agreement, will be duly and validly issued, fully paid and nonassessable and will be issued free and clear of all liens and encumbrances, other than restrictions on transfer under applicable securities laws.

(G) 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 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 on the Company.

(H) The Company has no liabilities or obligations which are material, individually or in the aggregate, which are not disclosed in the SEC Reports, other than those incurred in the ordinary course of the Company's businesses and which, individually or in the aggregate, would not reasonably be expected to have a material adverse effect on the Company's financial condition.

Article III
REPRESENTATIONS AND WARRANTIES OF PURCHASERS

By signing this Agreement, each undersigned Purchaser hereby represents and warrants to the Company as follows as an inducement to the Company to accept the subscription of the Purchaser:

(A) The Purchaser acknowledges and agrees that (i) the offering and sale of the Securities are intended to be exempt from registration under the Securities Act by virtue of Section 4(2) of the Securities Act and/or Regulation D promulgated thereunder, (ii) the Securities have not been registered under the Securities Act and (iii) that the Company has represented to the Purchaser (assuming the veracity of the representations of the Purchaser made herein that the Securities have been offered and sold by the Company in reliance upon an exemption from registration provided in Section 4(2) of the Securities Act and Regulation D thereunder. In accordance therewith and in furtherance thereof, the Purchaser represents and warrants to and agrees with the Company that it is an accredited investor (as defined in Rule 501 promulgated under the Securities Act) for the reason indicated in Article I of this Subscription Agreement.

(B) The Purchaser hereby represents and warrants that the Purchaser is acquiring the Securities hereunder for its own account for investment and not with a view to distribution, and with no present intention of distributing the Securities or selling the Securities for distribution. The Purchaser understands that the Securities are being sold to the Purchaser in a transaction which is exempt from the registration requirements of the Securities Act. Accordingly, the Purchaser acknowledges that it has been advised that the Securities have not been registered under the Securities Act and are being sold by the Company in reliance upon the veracity of the Purchaser's representations contained herein and upon the exemption from the registration requirements provided by the Securities Act and the securities laws of all applicable states. The Purchaser's acquisition of the Securities shall constitute a confirmation of the foregoing representation and warranty and understanding thereof.

(C) The Purchaser (or its "Purchaser Representative", if any) has such knowledge and experience in financial and business matters as is required for evaluating the merits and risks of making this investment, and the Purchaser or its Purchaser Representative(s) has received such information requested by the Purchaser concerning the business, management and financial affairs of the Company in order to evaluate the merits and risks of making this investment. Further, the Purchaser acknowledges that the Purchaser has had the opportunity to ask questions of, and receive answers from, the officers of the Company concerning the terms and conditions of this investment and to obtain information relating to the organization, operation and business of the Company and of the Company's contracts, agreements and obligations or needed to verify the accuracy of any information contained herein or any other information about the Company. Except as set forth in this Agreement, no representation or warranty is made by the Company to induce the Purchaser to make this investment, and any representation or warranty not made herein or therein is specifically disclaimed and no information furnished to the Purchaser or the Purchaser's advisor(s) in connection with the sale were in any way inconsistent with the information stated herein. The Purchaser further understands and acknowledges that no person has been authorized by the Company to make any representations or warranties concerning the Company, including as to the accuracy or completeness of the information contained in this Agreement.

(D) The Purchaser is making the foregoing representations and warranties with the intent that they may be relied upon by the Company in determining the suitability of the sale of the Securities to the Purchaser for purposes of federal and state securities laws. Accordingly, each Purchaser represents and warrants that the information stated herein is true, accurate and complete, and agrees to notify and supply corrective information promptly to the Company as provided above if any of such information becomes inaccurate or incomplete. The Purchaser has completed this Agreement and Questionnaire, has delivered it herewith and represents and warrants that it is accurate and true in all respects and that it accurately and completely sets forth the financial condition of the Purchaser on the date hereof. The Purchaser has no reason to expect there will be any material adverse change in its financial condition and will advise the Company of any such changes occurring prior to the closing or termination of the Offering.

(E) The Purchaser is not subscribing for any of the Securities as a result of or subsequent to any advertisement, article, notice or other communication published in any newspaper, magazine or similar media or broadcast over television or radio, any seminar or meeting, or any solicitation of a subscription by a person not previously known to the Purchaser in connection with investments in Securities generally.

(F) The Purchaser has received or obtained access to certain information regarding the Company, including this Agreement, the SEC Reports and other accompanying documents of the Company receipt of which is hereby acknowledged. The Purchaser has carefully reviewed all information provided to it and has carefully evaluated and understands the risks described therein related to the Company and an investment in the Company, and understands and has relied only on the information provided to it in writing by the Company relating to this investment. No agent prepared any of the information to be delivered to prospective investors in connection with this transaction. Prospective investors are advised to conduct their own review of the business, properties and affairs of the Company before subscribing to purchase the Securities.

(G) The Purchaser also understands and agrees that, although the Company will use its best efforts to keep the information provided in this Agreement strictly confidential, the Company or its counsel may present this Agreement and the information provided in answer to it to such parties as they may deem advisable if called upon to establish the availability under any federal or state securities laws of an exemption from registration of the private placement or if the contents thereof are relevant to any issue in any action, suit or proceeding to which the Company or its affiliates is a party, or by which they are or may be bound or as otherwise required by law or regulatory authority.

(H) The individual signing below on behalf of any entity hereby warrants and represents that he/she is authorized to execute this Agreement on behalf of such entity. If an individual, the Purchaser has reached the age of majority in the state in which the Purchaser resides. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all requisite action, if any, in respect thereof on the part of Purchasers and no other proceedings on the part of Purchasers are necessary to consummate the transactions contemplated hereby. This Agreement has been duly and validly executed and delivered by Purchasers and constitutes a valid and binding obligation of Purchasers, enforceable against Purchasers in accordance with its terms (subject to applicable bankruptcy, insolvency and similar laws affecting creditors' rights generally and subject, as to enforceability, to general principles of equity (whether applied in a proceeding in equity or at law)).

(I) The Purchaser is aware that the offering of the Securities involves securities for which only a limited trading market exists, thereby requiring any investment to be maintained for an indefinite period of time. The purchase of the Securities involves risks which the Purchaser has evaluated, and the Purchaser is able to bear the economic risk of the purchase of such Securities and the loss of its entire investment. The undersigned is able to bear the substantial economic risk of the investment for an indefinite period of time, has no need for liquidity in such investment and can afford a complete loss of such investment. The Purchaser's overall commitment to investments that are not readily marketable is not, and his acquisition of the Securities will not cause such overall commitment to become, disproportionate to his net worth and the Purchaser has adequate means of providing for its current needs and contingencies.

(J) The Purchaser acknowledges and agrees that there is no "minimum" offering amount for the Securities offered hereby. The Purchaser acknowledges and agrees that funds may be immediately released to the Company.

(K) In entering into this Agreement and in purchasing the Securities, the Purchaser further acknowledges that:

(i) The Company has informed the Purchaser that the Securities have not been offered for sale by means of general advertising or solicitation and the Purchaser acknowledges that it has either a pre-existing personal or business relationship with either the Company or any of its officers, directors or controlling person, of a nature and duration such as would enable a reasonable prudent investor to be aware of the character, business acumen, and general business and financial circumstances of the Company and an investment in the Securities.

(ii) Neither the Securities nor any interest therein may be resold by the Purchaser in the absence of a registration under the Securities Act or an exemption from registration. In particular, the Purchaser is aware that all of the foregoing described Securities will be "restricted securities", as such term is defined in Rule 144 promulgated under the Securities Act ("Rule 144"), and they may not be sold pursuant to Rule 144, unless the conditions thereof are met. Other than set forth in this Agreement, the Company has no obligation to register any securities purchased or issuable hereunder.

(iii) The following legends (or similar language) shall be placed on the certificate(s) or other instruments evidencing the Securities:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 (THE "ACT"), OR ANY STATE SECURITIES LAWS AND NEITHER SUCH NOTES NOR ANY INTEREST THEREIN MAY BE OFFERED, SOLD, PLEDGED, ASSIGNED OR OTHERWISE TRANSFERRED UNLESS (1) A REGISTRATION STATEMENT WITH RESPECT THERETO IS EFFECTIVE UNDER THE ACT AND ANY APPLICABLE STATE SECURITIES LAWS, OR (2) THE COMPANY RECEIVES AN OPINION OF COUNSEL TO THE HOLDER OF SUCH NOTES, WHICH COUNSEL AND OPINION ARE REASONABLY SATISFACTORY TO THE COMPANY, THAT SUCH NOTES MAY BE OFFERED, SOLD, PLEDGED, ASSIGNED OR TRANSFERRED IN THE MANNER CONTEMPLATED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT UNDER THE ACT OR APPLICABLE STATE SECURITIES LAWS.

(iv) The Company may at any time place a stop transfer order on its transfer books against the Securities. Such stop order will be removed, and further transfer of the Securities will be permitted, upon an effective registration of the respective Securities, 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.

(L) The Company has employed its own legal counsel in connection with the Offering. The Purchasers have not been represented by independent counsel in connection with the preparation of this Agreement or the terms of this Offering and no investigation of the merits or fairness of the Offering has been conducted on behalf of the Purchasers. Prospective Purchasers should consult with their own legal, tax and financial advisors with respect to the Offering made pursuant to this Agreement.

(M) _____ (insert name of Purchaser Representative: if none leave blank) has acted as the Purchaser's Purchaser Representative for purposes of the private placement exemption under the Act. If the Purchaser has appointed a Purchaser Representative (which term is used herein with the same meaning as given in Rule 501(h) of Regulation D), the Purchaser has been advised by his Purchaser Representative as to the merits and risks of an investment in the Company in general and the suitability of an investment in the Securities for the Purchaser in particular.

(N) The undersigned hereby acknowledges that officers, affiliates, employees and directors of the Company and/or the Selling Agents may purchase Securities in the Offering.

(O) It never has been represented, guaranteed or warranted by the Company, any of the officers, directors, stockholders, partners, employees or agents of the Company, or any other persons, whether expressly or by implication, that: (i) the Company or the Purchasers will realize any given percentage of profits and/or amount or type of consideration, profit or loss as a result of the Company's activities or the Purchaser's investment in the Company; or (ii) the past performance or experience of the management of the Company, or of any other person, will in any way indicate the predictable results of the ownership of the Securities or of the Company's activities.

(P) The Purchaser acknowledges that any delivery to it of this Agreement relating to the Securities prior to the determination by the Company of its suitability as a Purchaser shall not constitute an offer of the Securities until such determination of suitability shall be made, and the Purchaser hereby agrees that it shall promptly return this Agreement and the other Offering documents to the Company upon request. The Purchaser understands that the Company shall have the right to accept or reject this subscription in whole or in part. Unless this subscription is accepted in whole or in part by the Company this subscription shall be deemed rejected in whole.

Article IV **INDEMNIFICATION**

4.1 Indemnification by the Company. The Company agrees to defend, indemnify and hold harmless the Purchasers and shall reimburse Purchasers for, from and against each claim, loss, liability, cost and expense (including without limitation, interest, penalties, costs of preparation and investigation, and the reasonable fees, disbursements and expenses of attorneys, accountants and other professional advisors) (collectively, "Losses") directly or indirectly relating to, resulting from or arising out of any untrue representation, misrepresentation, breach of warranty or non-fulfillment of any covenant, agreement or other obligation by or of the Company contained herein or in any certificate, document, or instrument delivered to Purchasers pursuant hereto.

4.2 Indemnification by Purchasers. Purchasers agrees to defend, indemnify and hold harmless the Company and shall reimburse the Company for, from and against all Losses directly or indirectly relating to, resulting from or arising out of any untrue representation, misrepresentation, breach of warranty or non-fulfillment of any covenant, agreement or other obligation of the Purchasers contained herein or in any certificate, document or instrument delivered to the Company pursuant hereto.

4.3 Procedure. The indemnified party shall promptly notify the indemnifying party of any claim, demand, action or proceeding for which indemnification may be sought under Sections 4.1 or 4.2 of this Agreement, and, if such claim, demand, action or proceeding is a third party claim, demand, action or proceeding (collectively, a "Claim"), the indemnifying party will have the right at its expense to assume the defense thereof using counsel reasonably acceptable to the indemnified party. The indemnified party shall have the right to participate, at its own expense, with respect to any such third party Claim. In connection with any such third party Claim, Purchasers and the Company shall cooperate with each other and provide each other with access to relevant books and records in their possession. No such third party Claim shall be settled without the prior written consent of the indemnified party, which shall not be unreasonably withheld. If a firm written offer is made to settle any such third party Claim and the indemnifying party proposes to accept such settlement and the indemnified party refuses to consent to such settlement, then: (i) the indemnifying party shall be excused from, and the indemnified party shall be solely responsible for, all further defense of such third party Claim; and (ii) the maximum liability of the indemnifying party relating to such third party Claim shall be the amount of the proposed settlement if the amount thereafter recovered from the indemnified party on such third party Claim is greater than the amount of the proposed settlement.

ARTICLE V **MISCELLANEOUS**

5.1 Survival. The representations and warranties set forth in Articles II and III hereof shall survive the Closing. No investigation made by or on behalf of either party shall affect the representations and warranties made pursuant to this Agreement. No party makes any additional or implied representations other than those set forth herein.

5.2 Expenses. Each party hereto shall bear and pay all costs and expenses incurred by it in connection with the transactions contemplated hereby, including fees and expenses of its own brokers, finders, financial consultants, accountants and counsel.

5.3 Entire Agreement. This Agreement, including the Exhibits, contains the entire agreement and understanding of the parties with respect to its subject matter. This Agreement supersedes all prior arrangements and understandings between the parties, either written or oral, with respect to its subject matter.

5.4 Binding Effect of Subscription. The Purchaser hereby acknowledges and agrees, subject to any applicable state securities laws that the subscription and application hereunder are irrevocable, that the Purchaser is not entitled to cancel, terminate or revoke this Agreement and that this Agreement shall survive the death or disability of the Purchaser and shall be binding upon and inure to the benefit of the Purchaser and his heirs, executors, administrators, successors, legal representatives, and assigns. If the Purchaser is more than one person, the obligations of the Purchaser hereunder shall be joint and several, and the agreements, representations, warranties, and acknowledgments herein contained shall be deemed to be made by and be binding upon each such person and his heirs, executors, administrators, successors, legal representatives, and assigns.

5.5 Captions. The table of contents and captions contained in this Agreement are for reference purposes only and are not part of this Agreement.

5.6 Amendments; Waivers. No provision of this Agreement may be waived or amended except in a written instrument signed, in the case of an amendment, by the Company and the Purchasers holding a majority of the Securities subscribed for in the Offering or, in the case of a waiver, by the party against whom enforcement of any such waiver is sought (in the case of the Purchasers, such waiver shall be in writing and approved by a majority of the Purchasers). 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 either party to exercise any right hereunder in any manner impair the exercise of any such right.

5.7 Notices. Any notice, demand or other communication which any party hereto may be required, or may elect, to give to anyone interested hereunder shall be sufficiently given if (a) deposited, postage prepaid, in a United States mail box, stamped, registered or certified mail, return receipt requested, addressed to such address as may be listed on the books of the Company, or, if to the Company, the Company's executive office, or (b) delivered personally at such address.

5.8 Execution. This Agreement may be executed through the use of separate signature pages or in any number of counterparts, and each of such counterparts shall, for all purposes, constitute one agreement binding on all parties, notwithstanding that all parties are not signatories to the same counterpart.

5.9 Severability. Each provision of this Agreement is intended to be severable from every other provisions, and the invalidity or illegality of any portion hereof, shall not affect the validity or legality of the remainder hereof.

5.10 Non-Assignment. This Agreement is not transferable or assignable by the Purchaser except as may be provided herein.

5.11 Governing Law. All questions concerning the construction, validity, enforcement and interpretation of this Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of New Jersey, without regard to the principles of conflicts of law thereof. Each party agrees that all proceedings concerning the interpretations, enforcement and defense of the transactions contemplated by this Agreement (whether brought against a party hereto or its respective Affiliates, employees or agents) shall be commenced exclusively in the state and federal courts sitting in the State of New Jersey (the "New Jersey Courts"). Each party hereto hereby irrevocably submits to the exclusive jurisdiction of the New Jersey Courts for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein, and hereby irrevocably waives, and agrees not to assert in any proceeding, any claim that it is not personally subject to the jurisdiction of any New Jersey Court, or that such proceeding has been commenced in an improper or inconvenient forum. Each party hereto hereby irrevocably waives personal service of process and consents to process being served in any such proceeding by mailing a copy thereof via registered or certified mail or overnight delivery (with evidence of delivery) to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law. Each party hereto hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any proceeding arising out of or relating to this Agreement or the transactions contemplated hereby. If either party shall commence a proceeding to enforce any provisions of this Agreement, then the prevailing party in such proceeding shall be reimbursed by the other party for its reasonable attorney's fees and other reasonable costs and expenses incurred with the investigation, preparation and prosecution of such Proceeding.

5.12 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the Company, the Purchasers and their respective successors and permitted assigns.

Signature pages to Subscription Agreement Follows

SIGNATURE PAGE TO SUBSCRIPTION AGREEMENT

IN WITNESS WHEREOF, the parties hereto have executed or caused this Agreement to be executed by their signature as natural persons or by individuals by their duly authorized officers as of the ____ day of _____, 2011.

THE COMPANY:

TEAMSTAFF, INC.:

Zachary Parker,
Chief Executive Officer

EXECUTION BY AN INDIVIDUAL
(Not applicable to entities)

IF YOU ARE PURCHASING SECURITIES WITH YOUR SPOUSE, YOU MUST BOTH SIGN THIS SIGNATURE PAGE.

PLEASE INDICATE DESIRED TYPE OF OWNERSHIP OF SECURITIES:

- Individual
- Joint Tenants (rights of survivorship)
- Tenants in Common (no rights of survivorship)

I represent that the foregoing information is true and correct.

IN WITNESS WHEREOF, the undersigned has duly executed this Subscription Agreement and agrees to the terms hereof.

Dated: _____, 2011

Subscription Amount: \$_____

Number of Shares of Common Stock to be purchased: _____

(Name of Investor — Please Print)

(Signature)

(Name of co-Investor — Please Print)

(Signature of Co-Investor)

Exact name Shares are to be issued under: _____

*Address for Delivery of Certificates
(if not the same as in Questionnaire):*

PARTNERSHIP SIGNATURE PAGE

The undersigned PARTNERSHIP hereby represents and warrants that the person signing this Subscription Agreement on behalf of the PARTNERSHIP is a general partner of the PARTNERSHIP, has been duly authorized by the PARTNERSHIP to acquire the Securities and sign this Subscription Agreement on behalf of the PARTNERSHIP and, further, that the undersigned PARTNERSHIP has all requisite authority to purchase such Securities and enter into the Subscription Agreement.

IN WITNESS WHEREOF, the undersigned has duly executed this Subscription Agreement and agrees to the terms hereof.

Dated: _____, 2011

Subscription Amount: \$ _____

Number of Shares of Common Stock to be purchased: _____

Name of Partnership
(Please Type or Print)

By: _____
(Signature)

Name: _____
(Please Type or Print)

Title: _____
(Please Type or Print)

Exact name Shares are to be issued under: _____

*Address for Delivery of Certificates
(if not the same as in Questionnaire):*

CORPORATION/LIMITED LIABILITY COMPANY SIGNATURE PAGE

The undersigned CORPORATION or LIMITED LIABILITY COMPANY hereby represents and warrants that the person signing this Subscription Agreement on behalf of the CORPORATION or LIMITED LIABILITY COMPANY has been duly authorized by all requisite action on the part of the CORPORATION or LIMITED LIABILITY COMPANY to acquire the Securities and sign this Subscription Agreement on behalf of the CORPORATION or LIMITED LIABILITY COMPANY and, further, that the undersigned CORPORATION or LIMITED LIABILITY COMPANY has all requisite authority to purchase the Securities and enter into this Subscription Agreement.

IN WITNESS WHEREOF, the undersigned has duly executed this Subscription Agreement and agrees to the terms hereof.

Dated: _____, 2011

Subscription Amount: \$ _____

Number of Shares of Common Stock to be purchased: _____

Name of Corporation
Or Limited Liability Company
(Please Type or Print)

By: _____
Signature

Name: _____
(Please Type or Print)

Title: _____
(Please Type or Print)

Exact name Shares are to be issued under: _____

*Address for Delivery of Certificates
(if not the same as in Questionnaire):*

TRUST/RETIREMENT PLAN SIGNATURE PAGE

The undersigned TRUST or RETIREMENT PLAN hereby represents and warrants that the persons signing this Subscription Agreement on behalf of the TRUST or RETIREMENT PLAN are duly authorized to acquire the Securities and sign this Subscription Agreement on behalf of the TRUST or RETIREMENT PLAN and, further, that the undersigned TRUST or RETIREMENT PLAN has all requisite authority to purchase such Securities and enter into the Subscription Agreement.

IN WITNESS WHEREOF, the undersigned has duly executed this Subscription Agreement and agrees to the terms hereof.

Dated: _____, 2011

Subscription Amount: \$ _____

Number of Shares of Common Stock to be purchased: _____

Title of Trust or Retirement Plan
(Please Type or Print)

By: _____
Signature of Trustee or
Authorized Signatory

Name of Trustee: _____
(Please Type or Print)

By: _____
Signature of Co-Trustee if applicable

Name of Co-Trustee: _____
(Please Type or Print)

Exact name Shares are to be issued under: _____

*Address for Delivery of Certificates
(if not the same as in Questionnaire):*

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: May 16, 2011

/s/ Zachary C. Parker

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

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: May 16, 2011

/s/ John Kahn

John Kahn
Chief Financial Officer
(Principal Accounting Officer)

**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 March 31, 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: May 16, 2011

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

/s/ John Kahn
John Kahn
Chief Financial 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.