SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q/A
Amendment No. 1

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

For the quarterly period ended March 31, 1996

OR

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

For the transition period from ________________ to ____________________

Commission File No. 0-18492

DIGITAL SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

New Jersey	22-1899798
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
4041 Hadley Road, South Plainfield, NJ	07080
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (908) 561-1200

Former name, former address and former fiscal year, if changed since last report.

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

Yes X No ___

16,218,877 shares, par value $.001 per share were outstanding as of April 24, 1996.

FORM 10-Q

DIGITAL SOLUTIONS, INC. AND SUBSIDIARIES

March 31, 1996

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DIGITAL SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	MARCH 31, 1996	SEPTEMBER 30, 1995
ASSETS	(Unauduted)	
CURRENT ASSETS		
Cash	$ 1,804,000	$ 20,000
Accounts receivable, net of allowance for doubtful accounts of $236,000 and $150,000 at March 31, 1996 and September 30, 1995, respectively	5,555,000	4,929,000
Notes due from officers	823,000	698,000
Deferred tax assets	300,000	300,000
Other current assets	470,000	549,000
Total current assets	8,952,000	6,496,000
EQUIPMENT AND IMPROVEMENTS		
Equipment	2,751,000	2,619,000
Leasehold improvements	177,000	252,000
	2,928,000	2,871,000
Accumulated depreciation and amortization	2,125,000	2,054,000
	803,000	817,000
DEFERRED TAX ASSETS, net of current portion	460,000	460,000
GOODWILL, net of amortization	4,928,000	5,050,000
OTHER ASSETS	944,000	1,007,000
TOTAL ASSETS	$ 16,087,000	$ 13,830,000

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

DIGITAL SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	MARCH 31, 1996	SEPTEMBER 30, 1995
LIABILITIES AND SHAREHOLDERS' EQUITY	(Unauduted)	
CURRENT LIABILITIES		
Short-term borrowings	$ 3,038,000	$ 5,019,000
Current portion of long-term debt	596,000	958,000
Accounts payable	1,303,000	1,629,000
Accrued expenses and other current	2,206,000	2,839,000
Total current liabilities	7,143,000	10,445,000
LONG-TERM DEBT	123,000	133,000
OTHER LIABILITIES	--	42,000
Total Liabilities	7,266,000	10,620,000
SHAREHOLDERS' EQUITY		
Preferred Stock, $.10 par value; authorized 5,000,000; none issued and outstanding	--	--
Common Stock, $.001 par value; authorized 40,000,000; issued and outstanding 15,500,000 and 14,010,121 at March 31, 1996 and September 30, 1995, respectively	17,000	14,000
Additional paid-in capital	13,204,000	8,307,000
Deficit	(4,400,000)	(5,111,000)
Total shareholders' equity	8,821,000	3,210,000
TOTAL LIABILITIES AND EQUITY	$ 16,087,000	$ 13,830,000

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

DIGITAL SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	FOR THE THREE MONTHS MARCH 31,	
	1996	1995
OPERATING REVENUES	24,017,000	16,741,000
DIRECT OPERATING EXPENSES	21,864,000	15,173,000
Gross profit	2,153,000	1,568,000
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,669,000	1,070,000
DEPRECIATION & AMORTIZATION	117,000	100,000
Income from operations	367,000	398,000
OTHER INCOME (EXPENSE)		
Interest and other income	7,000	62,000
Interest expense	(55,000)	(86,000)
	(48,000)	(24,000)
Income before tax	319,000	374,000
INCOME TAX EXPENSE	0	(35,000)
NET INCOME	319,000	339,000
NET INCOME PER COMMON SHARE	0.02	0.02
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	15,561,454	14,781,912

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

DIGITAL SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	FOR THE SIX MONTHS MARCH 31,	
	1996	1995
OPERATING REVENUES	$ 47,107,000	$ 32,627,000
DIRECT OPERATING EXPENSES	42,780,000	29,568,000
Gross profit	4,327,000	3,059,000
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	3,288,000	2,282,000
DEPRECIATION & AMORTIZATION	256,000	206,000
Income from operations	783,000	571,000
OTHER INCOME (EXPENSE)		
Interest and other income	75,000	157,000
Interest expense	(137,000)	(127,000)
Other expense	(10,000)	--
	(72,000)	30,000
Income before tax	711,000	601,000
INCOME TAX EXPENSE	--	(79,000)
NET INCOME	$ 711,000	$ 522,000
NET INCOME PER COMMON SHARE	$ 0.05	$ 0.04
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	14,921,114	14,735,181

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

DIGITAL SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	FOR THE SIX MONTHS ENDED MARCH 31, 1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 711,000	$ 522,000
Adjustments to reconcile net income to net cash used in operating activities:		
Deferred income taxes	--	79,000
Depreciation and amortization	256,000	206,000
Provision for doubtful accounts	86,000	4,000
Amortization of rent deferral	(42,000)	(14,000)
Changes in operating assets and liabilities:		
Increase in accounts receivable	(712,000)	(2,026,000)
Increase in other assets	(46,000)	(828,000)
(Decrease) increase in accounts payable, accrued expenses and other current liabilities	(959,000)	984,000
Net cash used in operating activities	(706,000)	(1,073,000)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment and improvements	(57,000)	(224,000)
Acquisitions of businesses, net of cash acquired	--	(1,673,000)
Net cash used in investing activities	(57,000)	(1,897,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
(Payments) proceeds from borrowings on revolving line of credit - net	(93,000)	765,000
(Payments) proceeds from long-term debt	(372,000)	10,000
(Payments) proceeds from subordinated bridge loan	(1,888,000)	1,803,000
Proceeds (expenses) from issuance of common stock - net	4,498,000	(114,000)
Proceeds from exercise of common stock options and warrants - net	402,000	625,000
Net cash provided by financing activities	2,547,000	3,089,000
Net increase in cash	1,784,000	119,000
CASH AT BEGINNING OF PERIOD	20,000	178,000
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 1,804,000	$ 297,000
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	$ 137,000	$ 65,000

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

DIGITAL SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) ORGANIZATION AND BUSINESS:

Digital Solutions, Inc. (the Company) was incorporated under the laws of the State of New Jersey on November 25, 1969. The Company, with its subsidiaries, provides a broad spectrum of human resource services including Professional Employee Organization (PEO) services, payroll processing, human resource administration and placement of temporary and permanent employees.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation

The consolidated financial statements included herein have been prepared by the registrant, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the registrant believes that the disclosures are adequate to make the information presented not misleading. It is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's latest annual report on form 10-K. This financial information reflects, in the opinion of management, all adjustments to present fairly the results for the interim periods. The results of operations for such interim periods are not necessarily indicative of the results for the full year.

The accompanying consolidated financial statements include those of DSI, a New Jersey Corporation and its wholly-owned subsidiaries; DSI Contract Staffing, DSI Staff ConnXions, Digital Insurance Services, Inc., DSI Staff ConnXions of Mississippi, DSI Staff ConnXions - Southwest, MLB Medical Staffing, Inc., Ram Technical Services, Inc. and DSI Staff Rx, Inc. The results of operations of acquired companies have been included in the consolidated financial statements from the date of acquisition. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

Revenue Policy

The Company recognizes revenue in connection with PEO business and its temporary placement service program, when the services have been provided. Revenues are recorded based on the Company's billings to customers, with the corresponding cost of providing those services reflected as direct operating expenses. Payroll services, commissions and other fees for administrative services are recognized as revenue as the related service is provided.

Equipment and Improvements

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

Goodwill

Goodwill represents the excess of the cost of companies acquired over the fair value of their net assets at dates of acquisition and is being amortized on a straight line basis over 40 years for acquisitions completed through September 30, 1992. Commencing with the year ended September 30, 1994, the Company's policy is to amortize any newly acquired goodwill over 20 years.

Earnings Per Common Share

Earnings per common share are based upon the weighted average number of shares outstanding as well as the dilutive effect of stock options and warrants.

Statements of Cash Flows

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

(3) COMMITMENTS AND CONTINGENCIES:

On April 1, 1996 the Company renewed its workers compensation minimum premium agreement with a nationally recognized insurance carrier. In connection with this program, the insurance company develops reserve factors on each claim that may or may not materialize after the claim is fully investigated. Generally Accepted Accounting Principals require that all incurred, but not paid claims, as well as an estimate for claims incurred, but not reported (IBNR), be accrued on the balance sheet as a current liability, although a portion of the claims may not be paid in the following twelve (12) months. As of March 31, 1996 and September 30, 1995, this accrual amounted to $525,000 and $785,000, respectively. During the six months ended March 31, 1996 and 1995, the Company recognized approximately $541,000 and $200,000, respectively, as its share of premiums collected in excess of claims and fees paid and established reserves.

The Company has increased its outstanding letters of credit and related restricted cash and cash equivalents to approximately $811,000 as of March 31, 1995. These letters of credit are required to collateralize unpaid claims in connection with the workers compensation insurance policy for unpaid claims and can only be drawn upon by the beneficiary if the Company does not perform according to the terms of the related agreement.

(4) SHAREHOLDERS' EQUITY:

During the second quarter of fiscal 1996, the Company completed a $3,500,000 private equity financing. The private equity financing resulted in the issuance of approximately 1,556,000 shares of the Company's common stock at $2.25 per share.

(5) SUBSEQUENT EVENTS:

On April 4, 1996, notes due from officers amounting to $709,000, including accrued interest, were settled through remittance of 123,286 shares of the Company's common stock back to the Company.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

The Company's operating revenues for the three months ended March 31, 1996 and 1995 were $24,017,000 and $16,741,000, respectively, which represents an increase of $7,276,000 or 43%. For the six months ended March 31, 1996 and 1995, the Company's operating revenues were $47,107,000 and $ 32,627,000, respectively, which represents an increase of $14,480,000 or 44%. This increase is attributable to continued efforts of the sales force to obtain new business ($10,000,000) and the full quarter revenue effect of a May 1, 1995 acquisition ($4,500,000).

Direct operating expenses, as a percentage of sales, were 91% and 94% for the three months ended March 31, 1996 and 1995, respectively, reflecting improved costs in the worker's compensation program and in administrative fees. For the six months ended March 31, 1996 and 1995, direct operating expenses, as a percentage of sales, were 91%.

Selling, general and administrative expenses, for the three months ended March 31, 1996 and 1995, were $1,669,000 and $1,070,000, respectively, or an increase of 56% reflecting primarily the increase in sales expenses due to the Company's commitment to increase revenues through its own sales force to complement the growth through the acquisition of other companies. For the six months ended March 31, 1996 and 1995, selling, general and administrative expenses were $3,288,000 and $2,282,000, respectively, representing an increase of 44%.

Interest expense for the three months ended March 31, 1996 and 1995 was $55,000 and $86,000, respectively, reflecting the payment of the bridge note during the quarter. For the six months ended March 31, 1996 and 1995, interest expense was $137,000 and $127,000, respectively.

Net income for the three months ended March 31, 1996 and 1995 was $319,000 and $339,000, respectively, and $711,000 and $522,000 for the six months ended March 31, 1996 and 1995, respectively.

Liquidity and Capital Resources

The Company's working capital at March 31, 1996 was $2,239,000 or a ratio of 1.33 to one versus a negative working capital of $2,603,000 or .74 to one at December 31, 1995. This improvement reflects the Company's successful Private Placement offering of $3,500,000 in the second quarter as well as approximately $300,000 raised in capital through the exercise of stock options and warrants.

Total liabilities of the Company decreased by $3,354,000 or 32% during the six months ended March 31, 1996, including the payment of $1,888,000 in outstanding bridge notes to private investors.

The Company has increased its private offering by an additional 600,000 shares of common stock. The Company has agreed to pay broker fees of 8% and non-accountable expense reimbursements of 1% of the money raised. The Company will use the proceeds of this offering for working capital.

The Company had a net loss for the fiscal year ended September 30, 1995 of $3,316,000 and shareholders equity of $3,210,000. The Company has reported a net profit for the six months ended March 31, 1996 of $711,000 and shareholders equity of $8,821,000.

As of March 31, 1996, the Company is in compliance with all of its covenants with its bank accounts receivable line. The line matured on January 31, 1996 and the Company has been granted an extension of the line through August 31, 1996. Any previous non-compliance with any covenant has been waived by the bank.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

In October 1995, the Company entered into a note and finance agreement with LNB Investment Corporation ("LNB") providing for the loan to the Company of up to $3,000,000. The loan was for a term of 15 months and was to be secured by shares of the Company's common stock having a market value of no less than four times the outstanding balance of the loan. LNB agreed not to sell or otherwise liquidate the shares unless the Company were to default under the loan agreement and failed to cure such default after notice. A total of 7,500,000 shares to be pledged as collateral were registered under a registration statement filed under the Securities Act of 1933, as amended.

The Company issued 1,783,334 shares (the "Shares") in the name of LNB and delivered the Shares to a depository to secure the first portion of the loan of $1,000,000.

In January, 1996, the Company determined that the Shares the Company pledged as collateral had been transferred and sold in violation of the loan and finance agreement. Through the efforts of the Company, the Company recovered 1,258,334 Shares.

In March 1996, the Company commenced an action against LNB, Donaldson, Lufkin & Jenrette Securities Corporation and other individuals to recover damages on account of the wrongful sale of the Company's common stock. The Company seeks to recover 525,000 shares which were not returned and damages against all of the defendants. The Company is engaged in preliminary discovery and the defendants have not as yet answered the complaint.

Item 3. Exhibits and Reports on Forms 8-K.

(a) Exhibits

(b) Reports on Form 8-K

Item 5. Other Information

On January 19, 1996, the Company reported the misappropriation of shares of the Company's common stock which were pledged as collateral for a loan.

During the second quarter of fiscal 1996, the Company completed a $3,500,000 private equity financing. The private equity financing resulted in the issuance of approximately 1,556,000 shares of the Company's common stock at $2.25 per share.

SIGNATURES

Pursuant to the requirements 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.

DIGITAL SOLUTIONS, INC.
(Registrant)

/s/ George J. Eklund

George J. Eklund
Chief Executive Officer

/s/ Kenneth P. Brice

Kenneth P. Brice
Chief Financial Officer

Date: July 2, 1996