SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 1995

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-F 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 ___

13,759,464 Common Shares, par value $.001 per share were outstanding as of June 30, 1995.

FORM 10-Q

DIGITAL SOLUTIONS, INC.

June 30, 1995

INDEX

DIGITAL SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS	June 30, 1995 (unaudited)	September 30, 1994
Current assets:		
Cash	$ 285,000	$ 178,000
Accounts receivable, net of allowance for doubtful accounts of $123,000 at June 30, 1995 and $99,000 at September 30, 1994	5,912,000	2,592,000
Current portion of notes due from officers (Note 3)	702,000	140,000
Deferred tax asset	300,000	300,000
Other current assets	1,128,000	500,000
Total current assets	8,327,000	3,710,000
Equipment and improvements:		
Machinery and equipment	2,708,000	2,231,000
Leasehold improvements	177,000	177,000
	2,885,000	2,408,000
Less accumulated depreciation and amortization	1,984,000	1,861,000
	901,000	547,000
Deferred tax asset, net of current portion	300,000	300,000
Goodwill, net of amortization (Note 2)	5,260,000	2,852,000
Other assets	1,391,000	318,000
	$16,179,000	$7,727,000

LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Revolving loan payable (Note 6)	$ 3,130,000	$1,010,000
Current portion of long-term debt	644,000	165,000
Accounts payable	964,000	493,000
Accrued expenses and other current liabilities	2,165,000	896,000
Total current liabilities	6,903,000	2,564,000
Subordinated debt (Note 4)	1,887,000	--
Long term debt, net of current portion	566,000	38,000
Other liabilities	55,000	69,000
Total liabilities	9,411,000	2,671,000
Shareholders' equity		
Common stock	14,000	12,000
Additional paid-in capital	8,081,000	6,839,000
Accumulated deficit	(1,127,000)	(1,795,000)
	6,968,000	5,056,000
	$16,379,000	$7,727,000

See notes to consolidated financial statements

DIGITAL SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Three Months Ended June 30,	
	1995	1994
Operating revenues	$ 19,841,000	$ 10,849,000
Direct costs	18,141,000	10,017,000
Gross profit	1,700,000	832,000
Selling, general and administrative	1,547,000	768,000
Net income from operations	153,000	64,000
Other credits (charges):		
Interest and other income	32,000	16,000
Interest expense	(100,000)	(29,000)
	(68,000)	(13,000)
Income before income taxes	85,000	51,000
Income tax benefit/(expense)	61,000	93,000
Net income	$ 146,000	$ 144,000
Net income per common share	$ 0.01	$ 0.01
Weighted average number of common shares outstanding	14,619,580	14,152,977

See notes to consolidated financial statements.

DIGITAL SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	Nine Months Ended June 30, 1995	Nine Months Ended June 30, 1994
Operating revenues	$ 52,468,000	$ 26,335,000
Direct costs	47,709,000	24,092,000
Gross profit	4,759,000	2,243,000
Selling, general and administrative	4,035,000	1,929,000
Net income from operations	724,000	314,000
Other credits (charges):		
Interest and other income	189,000	23,000
Interest expense	(227,000)	(55,000)
	(38,000)	(32,000)
Income before income taxes	686,000	282,000
Income tax benefit/(expense)	(18,000)	293,000
Net income	$ 668,000	$ 575,000
Net income per common share	$ 0.05	$ 0.04
Weighted average number of common shares outstanding	14,729,275	12,399,782

See notes to consolidated financial statements.

DIGITAL SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT STOCKHOLDER'S EQUITY

FOR THE PERIOD ENDED JUNE 30, 1995
(unaudited)

	Common Stock			
	Shares Issued (Retired)	Amount	Additional Paid-in Capital	Deficit
Balance, September 30, 1994	12,125,753	12,000	6,839,000	(1,795,000
Exercise of options in connection with employee stock option plan.	1,266,596	1,265	737,000	
Stock issued to satisfy debt on acquisition of Staff Rx to Rads (the sellers)	360,000	360	743,000	
Expenses related to private placement of common stock			(164,000)	
Stock issued to satisfy debt on acquisition of Turnkey Servcies, Inc a Southwest leasing company	68,205	68	166,000	
Stock reduced on acquisition of The Alternative Source	(106,508)	(106)	(240,000)	
Net income	-	-	-	668,000
Balance June 30, 1995	13,714,046	13,587	8,081,000	(1,127,000)

See notes to consolidated financial statements

DIGITAL SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended June 30, 1995	Nine Months Ended June 30, 1994
Cash Flows from Operating Activities:		
Net Income	$ 668,000	$ 575,000
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Deferred income taxes	18,000	(300,000)
Depreciation and amortization	339,000	198,000
Provision for doubtful accounts	24,000	16,000
Amortization of rent deferral	(21,000)	(21,000)
Changes in operating assets and liabilities		
Increase in accounts receivable	(3,466,000)	(890,000)
Increase in other assets	(1,158,000)	(492,000)
Increase in notes due from officers (Note 3)	(542,000)	--
Increase in accounts payable, accrued expenses and other current liabilities	2,305,000	1,004,000
Net cash used in operating activities	(1,833,000)	90,000
Cash flows from Investing Activities:		
Purchases of equipment and improvements	(411,000)	(177,000)
Collections on note receivable	--	109,000
Acquisition of Businesses	(2,229,000)	(871,000)
Net cash used in investing activities	(2,640,000)	(939,000)
Cash flows from financing activities:		
Proceeds from stock options exercised	737,000	189,000
Principal payments on long-term debt	1,887,000	600,000
Net proceeds from subordinated debt		
Expenses related to issuance of common stock	(164,000)	
Net borrowings from (payments to) line of credit/factor	2,120,000	(80,000)
Payment of dividends on preferred stock	--	(98,000)
Net cash provided by financing activities	4,580,000	611,000
Net increase/(decrease) in cash	107,000	(238,000)
Cash at beginning of period	178,000	997,000
Cash at end of period	$ 285,000	$ 759,000
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for:		
Interest	$ 125,000	$ 49,000

See notes to consolidated financial statements.

DIGITAL SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
June 30, 1995

NOTE 1: BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting only of normally recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine month period ended June 30, 1995 are not necessarily indicative of the results that may be expected for the year ended September 30, 1995. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended September 30, 1994.

NOTE 2: ACQUISITIONS

On November 21, 1994, the Company acquired certain assets of several affiliated contract staffing firms through the Company's wholly owned subsidiary DSI-Staff Rx, Inc in exchange for $200,000 in cash and a promissory note for $1,300,000. In addition the Company incurred approximately $636,000 in costs associated with this acquisition. The Company recorded goodwill of approximately $1,766,000, which is being amortized over 20 years. The acquisition was accounted for under the purchase method of accounting.

In March, 1995, the Company issued 360,000 shares of its common stock which was valued at $743,000. This was used to satisfy part of the aforementioned promissory note. The balance was paid in cash.

In January, 1995, the Company purchased certain assets of Physicians Unlimited for $46,000 in cash. This acquisition was consolidated with DSI-Staff Rx, Inc. which compliments the business by staffing physicians in the medical field. The cost of the acquisition is being amortized over 20 years.

In May, 1995, the Company, through its subsidiary, DSI Staff Connxions-Southwest, purchased certain assets of an employee leasing company located in El Paso, Texas, Turnkey Services, Inc. The assets acquiered include the customer lists and all owned and leased assets utilized by Turnkey in its business operations subject to interest of equipment lessors. In consideration for the assets and noncompetition agreements, the Company paid to Turnkey $784,000 in cash and issued common stock in the amount of $166,000. In addition, the Company expects to incur an additional $200,000 in transaction costs for a total price of $1,150,000.

NOTE 3: NOTES DUE FROM OFFICERS

In March, 1995, certain officers exercised 523,532 stock options from the Management Options Plan for a total purchase price of $556,000 at an option price of $1.0625. In exchange the officers issued a one year promissory note for the total purchase price at 8% per annum, secured by the shares purchased.

NOTE 4: SUBORDINATED DEBT

In January,1995, the Company completed a private placement offering to accredited investors of units consisting of a $50,000 principal amount convertible subordinated note and a warrant to purchase 5,000 shares of the Company's common stock. The exercise price of the warrant is $2.59 per share which was the price of common stock at the date of the offering. The notes bear interest, to be paid semi-annually, at 12% per annum. Unless redeemed, the notes are convertible at any time from the first closing, at the option of the holder, into such number of shares of common stock as shall equal the principal amount of the note divided by 70% of the average closing bid price for the thirty consecutive trading days immediately preceding the date of conversion, subject to certain anti-dilution adjustments.

Total proceeds of $1,887,000 were used in part to re-pay the Company's promissory note issued in connection with the Staff-Rx acquisition previously reported as well as the Company's working capital requirements.

NOTE 5: SUBSEQUENT EVENT

On July 27, 1995, the Company's stockholders approved an increase in the number of "authorized" shares from 20 million to 40 million. This was requested to provide the Company with 'contingent' shares required to collateralize prospective debt financing for acquisitions and working capital needs.

NOTE 6: COMMITMENTS AND CONTINGENCIES

The Company has entered into a new Worker's Compensation minimum premium agreement with a nationally recognized insurance carrier. As part of this program, the Company will share in any 'claims not paid' pool. As a result of this arrangement, Management will reduce costs for its workers' compensation expense periodically, by estimating expected claims against premiums collected and establish a reserve for unpaid claims. This reserve is periodically reviewed by the Company's risk management department and the carrier and adjusted based upon the claims information available.

The Company recently re-negotiated its line of credit with a major New Jersey bank which increased its credit line to $3.5 million collateralized by the Company's accounts receivable. The additional credit line was used to fund the working capital needs of the Company and the acquisition of Turnkey Services, Inc. mentioned in Note 2.

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 June 30, 1995 and 1994, were approximately $19,841,000 and $10,849,000, respectively. For the nine months ended June 30, 1995 and 1994, revenues were $52,468,000 and $26,335,000, respectively. These revenues represent an increase from prior period of approximately 83% for the quarter and 99% for the nine month period. This increase is primarily the result of; increased revenues in the payroll service division; internal growth in the northeast operations in employee leasing and contract staffing; and the full year impact of certain acquisitions in the employee leasing business in the southwest United States. The increase is also attributable to the incremental revenues related to the acquisition of the business of Staff Rx. completed in December, 1994 and Turnkey Services completed in May, 1995.

Direct costs as a percentage of sales were 91% for the three month period ended June 30, 1995 compared to 92% for the same period in 1994. For the nine months ended June 30, 1995 and 1994, the direct costs as a percentage to sales was 91% The decrease for the quarter reflects the incremental increase in revenues for those divisions that carry a higher gross margin including the acquisition of the business of Staff Rx and Turnkey Services.

Selling, general, and administrative expenses as a percentage of sales were 8% for the quarter ended June 30, 1995 versus 7% for the corresponding quarter in 1994. On a year-to-date basis, the percentage to sales is 8% and 7% for 1995 and 1994, respectively. The percentage increase reflects management's plan to add additional skills and resources to the Company's management team and to expand the marketing and selling program. Among other things, the Company retained a new president, chief financial officer and PEO Executive whose salaries are reflective in the increase in administrative expenses. In addition, the Company incurred one time charges of approximately $30,000 in connection with aborted acquisition attempts.

Interest expense, for the quarter ended June 30, 1995 and 1994 was $100,000 and $29,000, respectively. For the nine months ended June 30, 1995 and 1994, interest expense was $227,000 and $55,000, respectively. This increase is attributable to the interest paid on the increased borrowing under the line of credit and the accrued interest on the subordinated debt discussed in note 6. These borrowed funds were used to fund the acquisitions indicated in Note 2 as well as funding the internal growth of existing businesses.

Net income for the quarter ended June 30, 1995 was $146,000 as compared to $144,000 for the comparable period in the previous fiscal year. For the nine months ended June 30, 1995 and 1994, net income was $668,000 and $575,000, respectively.

Income before taxes for the quarter ending June 30, 1995 was $85,000 as compared to $51,000 for the comparable period in the previous year, an increase of 67%. For the nine months ended June 30, 1995 and 1994, income before taxes were $686,000 and $282,000, respectively, an increase of 143%. This increase is reflective of improved gross margin performance in the payroll service division, an increase in administrative fees for the employee leasing businesses and the acquisition of the business of Staff Rx, Inc. and Turnkey Services as indicated in note 2.

Liquidity and Capital Resources

The Company's working capital at June 30, 1995 was $1,424,000 or a ratio of 1.21 to 1.0 versus working capital of $1,146,000 or a ratio of 1.45 to 1.0 at September 30, 1994.

The decline in working capital reflects the increased use of current capital to fund the acquisition of Turnkey Services, Inc as indicated in Note 2.

Total debt has increased due to the acquisition of the business of Staff Rx, the issuance of subordinated debt and the increased use of the line of credit.

The Company had net income for the fiscal year ended September 30, 1994 of $720,000 and shareholders' equity of $5,056,000. For the nine months ended June 30, 1995, the Company reported a net profit of $668,000 and shareholders' equity of $6,968,000.

The Company is currently seeking to raise subordinated debt through private financing in order to improve working capital and fund future acquisitions.

PART II

OTHER INFORMATION

Item 6. Exhibits and Reports on Forms 8-K.

Item 27. Financial Data Schedule

(b) Reports on Form 8-K

During the quarter ended June 30, 1995, the Company filed an amended 10-Q for March, 1995 on the acquisition of Turnkey Services, Inc.

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/ RAYMOND J. SKIPTUNIS

Raymond J. Skiptunis
Chief Executive Officer

/s/ KENNETH P. BRICE

Kenneth P. Brice
Chief Financial Officer

Date: August 14, 1995

EXHIBIT INDEX

Exhibit No.	Description
27	Financial Data Schedule

3-MOS
SEP-30-1995
APR-01-1995
JUN-30-1995
285,000
0
6,036,000
123,000
0
8,327,000
2,885,000
1,984,000
11,379,000
6,903,000
1,887,000
14,000
0
0
6,968,000
16,379,000
0
19,841,000
0
18,141,000
1,547,000
20,000
100,000
85,000
(61,000)
146,000
0
0
0
146,000
.01
0