SECURITIES AND EXCHANGE COMMISSION
Washington, DC 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, 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

18,761,166 shares of Common Stock, par value $.001 per share, were outstanding as of August 8, 1996.

DIGITAL SOLUTIONS, INC. AND SUBSIDIARIES
FORM 10-Q

June 30, 1996

Table of Contents

DIGITAL SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	JUNE 30, 1996 (Unaudited)	SEPTEMBER 30, 1995
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents, including restricted cash equivalents of $1,145,000 at June 30, 1996 (Note 3)	$ 2,227,000	$ 20,000
Accounts receivable, net of allowance for doubtful accounts of $227,000 and $150,000 at June 30, 1996 and September 30, 1995, respectively	6,123,000	4,929,000
Notes due from officers (Note 4)	123,000	698,000
Deferred tax asset	300,000	300,000
Other current assets	406,000	549,000
Total current assets	9,179,000	6,496,000
EQUIPMENT AND IMPROVEMENTS		
Equipment	2,803,000	2,619,000
Leasehold improvements	177,000	252,000
	2,980,000	2,871,000
Accumulated depreciation and amortization	2,152,000	2,054,000
	828,000	817,000
DEFERRED TAX ASSET, net of current portion	460,000	460,000
GOODWILL, net of amortization	4,875,000	5,050,000
OTHER ASSETS	813,000	1,007,000
TOTAL ASSETS	$16,155,000	$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

	JUNE 30, 1996	SEPTEMBER 30, 1995
LIABILITIES AND SHAREHOLDERS' EQUITY	(Unaudited)	
CURRENT LIABILITIES		
Short-term borrowings	$ 2,507,000	$ 5,019,000
Current portion of long-term debt	45,000	958,000
Accounts payable	1,166,000	1,629,000
Accrued expenses and other current liabilities(Note 3)	2,095,000	2,839,000
Total current liabilities	5,813,000	10,445,000
LONG-TERM DEBT	149,000	133,000
OTHER LIABILITIES	--	42,000
Total Liabilities	5,962,000	10,620,000
COMMITMENTS AND CONTINGENCIES (Note 3)		
SHAREHOLDERS' EQUITY		
Preferred Stock, $.10 par value; authorized 5,000,000 shares; none issued and outstanding	--	--
Common Stock, $.001 par value; authorized 40,000,000 shares; issued and outstanding 18,465,394 and 14,010,121 at June 30, 1996 and September 30, 1995, respectively	18,000	14,000
Additional paid-in capital	14,415,000	8,307,000
Accumulated deficit	(4,240,000)	(5,111,000)
Total shareholders' equity	10,193,000	3,210,000
TOTAL LIABILITIES AND EQUITY	$ 16,155,000	$ 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 ENDED JUNE 30, 1996	FOR THE THREE MONTHS ENDED JUNE 30, 1995
OPERATING REVENUES	$ 26,791,000	$ 19,841,000
DIRECT OPERATING EXPENSES	24,474,000	18,141,000
Gross profit	2,317,000	1,700,000
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,907,000	1,414,000
DEPRECIATION AND AMORTIZATION	208,000	133,000
Income from operations	202,000	153,000
OTHER INCOME (EXPENSE)		
Interest and other income	75,000	32,000
Interest expense	(116,000)	(100,000)
	(41,000)	(68,000)
Income before tax	161,000	85,000
INCOME TAX (EXPENSE) BENEFIT	(1,000)	61,000
NET INCOME	$ 160,000	$ 146,000
NET INCOME PER COMMON SHARE	$ 0.01	$ 0.01
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	19,167,152	14,619,580

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 NINE MONTHS ENDED JUNE 30,	
	1996	1995
OPERATING REVENUES	$ 73,898,000	$ 52,468,000
DIRECT OPERATING EXPENSES	67,254,000	47,709,000
Gross profit	6,644,000	4,759,000
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	5,195,000	3,696,000
DEPRECIATION AND AMORTIZATION	464,000	339,000
Income from operations	985,000	724,000
OTHER INCOME (EXPENSE)		
Interest and other income	150,000	189,000
Interest expense	(253,000)	(227,000)
Other expense	(10,000)	--
	(113,000)	(38,000)
Income before tax	872,000	686,000
INCOME TAX EXPENSE	(1,000)	(18,000)
NET INCOME	$ 871,000	$ 668,000
NET INCOME PER COMMON SHARE	$ 0.05	$ 0.05
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	16,336,460	14,729,275

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 NINE MONTHS ENDED JUNE 30, 1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 871,000	$ 668,000
Adjustments to reconcile net income to net cash used in operating activities:		
Deferred income taxes	--	18,000
Depreciation and amortization	464,000	339,000
Provision for doubtful accounts	98,000	24,000
Amortization of rent deferral	(42,000)	(21,000)
Changes in operating assets and liabilities:		
Accounts receivable	(1,289,000)	(3,466,000)
Other current assets	143,000	(1,158,000)
Notes due from officers	(134,000)	(542,000)
Accounts payable, accrued expenses and other current liabilities	(1,177,000)	2,305,000
Net cash used in operating activities	(1,066,000)	(1,833,000)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment and improvements	(99,000)	(411,000)
Acquisitions of businesses, net of cash acquired	--	(2,229,000)
Net cash used in investing activities	(99,000)	(2,640,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
(Repayments) proceeds from borrowings on revolving line of credit - net	(625,000)	2,120,000
Repayments of long-term debt	(907,000)	--
(Repayments) proceeds from subordinated bridge loan	(1,887,000)	1,887,000
Proceeds from issuance of common stock and exercise of common stock options and warrants - net	6,791,000	573,000
Net cash provided by financing activities	3,372,000	4,580,000
Net increase in cash and cash equivalents	2,207,000	107,000
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	20,000	178,000
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 2,227,000	$ 285,000
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	$ 253,000	$ 125,000

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 Employer 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 necessary 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, Staff ConnXions - Northeast, Inc., 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 its 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, 1993, 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. The dilutive effect of stock options and warrants was to increase the weghted average number of shares outstanding by approximately 2,000,000 shares for the quarter ended June 30, 1996.

Statements of Cash Flows

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

(3) COMMITMENTS AND CONTINGENCIES

In connection with the Company's workers compensation insurance policy, 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 12 months. As of June 30, 1996 and September 30, 1995, this accrual amounted to $512,000 and $785,000, respectively. During the nine months ended June 30, 1996 and 1995, the Company recognized approximately $1,018,000 and $397,000, respectively, as its share of premiums collected in excess of claims and fees paid and established reserves.

The Company has outstanding letters of credit amounting to $1,600,000 as of June 30, 1996. The letters of credit are required to collateralize unpaid claims in connection with the workers compensation insurance policy and can only be drawn upon by the beneficiary if the Company does not perform according to the terms of the related agreement. In conjunction with the letters of credit, the Company is required to maintain compensating cash and cash equivalent balances amounting to $1,145,000.

During the third quarter of fiscal 1996, the Company favorably resolved a claim for which it had previously established a reserve. Accordingly, the reserve, amounting to $280,000, was reversed and included as a reduction of selling, general and administrative expenses for the three months ended June 30, 1996. For the nine months ended June 30, 1996, the Company has reversed previously established reserves amounting to $515,000 due to the favorable resolution of claims.

(4) SHAREHOLDERS' EQUITY

During the third quarter of fiscal 1996, the Company completed a $1,200,000 private equity financing. The private equity financing consisted of the issuance of 300,000 shares of the Company's common stock at $4.00 per share.

On April 4, 1996, notes due from officers amounting to $709,000, including accrued interest, were settled through the remittance of 123,286 shares of the Company's common stock back to the Company. The exchange was based on the fair market value of the shares on the date of the transaction, calculated using the closing stock price of $5.75 per share.

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, 1996 and 1995 were $26,791,000 and $19,841,000, respectively, which represents an increase of $6,950,000 or 35%. For the nine months ended June 30, 1996 and 1995, the Company's operating revenues were $73,898,000 and $ 52,468,000, respectively, which represents an increase of $21,430,000 or 41%. This increase is attributable to continued efforts of the sales force to obtain new business which accounted for $11,507,000 of the increase and the effect of a May 1, 1995 acquisition which accounted for $9,923,000 of the increase.

Direct operating expenses, as a percentage of sales, were 91% for the three months ended June 30, 1996 and 1995 and for the nine months ended June 30, 1996 and 1995.

Selling, general and administrative expenses for the three months ended June 30, 1996 and 1995 were $1,907,000 and $1,414,000, respectively, representing an increase of 35%. This increase is net of $280,000 of income representing the reversal of a previously established reserve for a claim which has been favorably resolved. The overall increase in selling, general and administrative expenses is primarily due to increased sales expenses resulting from the Company's commitment to increase revenues through its own sales force to complement the growth resulting from the acquisition of other companies. For the nine months ended June 30, 1996 and 1995, selling, general and administrative expenses were $5,195,000 and $3,696,000, respectively, representing an increase of 41%. This increase is net of $515,000 of income representing the reversal of previously established reserves for claims which have been favorably resolved.

Interest expense for the three months ended June 30, 1996 and 1995 was $116,000 and $100,000, respectively. For the nine months ended June 30, 1996 and 1995, interest expense was $253,000 and $227,000, respectively.

Net income for the three months ended June 30, 1996 and 1995 was $160,000 and $146,000, respectively, and $871,000 and $668,000 for the nine months ended June 30, 1996 and 1995, respectively.

Liquidity and Capital Resources

The Company's working capital as of June 30, 1996 amounted to $3,366,000 or a ratio of 1.58 to one versus working capital of $1,809,000 or 1.25 to one at March 31, 1996 and a working capital deficiency of $3,949,000 or .62 to one at September 30, 1995. This improvement reflects the Company's successful $1,200,000 private placement offering of common stock in the third quarter and total net proceeds from common stock and common stock options and warrants of $6,791,000 for the nine months ended June 30, 1996.

Total liabilities decreased by $4,658,000 or 44% during the nine months ended June 30, 1996, including the payment of $1,887,000 in outstanding bridge notes to private investors.

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 income for the nine months ended June 30, 1996 of $871,000 and shareholders' equity of $10,193,000.

As of June 30, 1996, the Company was in compliance with all covenants under its revolving line of credit facility. The line matured on January 31, 1996, however, the Company has been granted an extension of the line through August 31, 1996. Prior to August 31, 1996, the Company fully expects to renew the line or to be granted a further extension. In the event that this does not occur, the Company will pursue other financing alternatives.

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

In March 1996, the Company commenced 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 yet answered the complaint.

Item 5. Other information

During the third quarter of fiscal 1996, the Company completed a $1,200,000 private equity financing under regulation D. The private equity financing consisted of the issuance of 300,000 shares of the Company's common stock at $4.00 per share. Net proceeds amounted to $1,092,000, after commissions to various selling agents who assisted with the private placement. In addition to the commissions paid amounting to $108,000, the selling agents also received a total of 30,000 common stock warrants which can each be used to purchase one share of the Company's common stock at a price yet to be determined.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits - None

(b) Reports on Form 8-K

On April 4, 1996, the Company filed a Form 8-K to report under Item 5 that it had completed a $3,500,000 private equity financing.

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: August 8, 1996

EXHIBIT INDEX

Exhibit 27	Financial Data Schedule

5

9-MOS
SEP-30-1995
OCT-01-1995
JUN-30-1996
2227000
0
6350000
227000
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9179000
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