

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTIONS 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

(MARK ONE)

/X/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1997

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 No.)

300 ATRIUM DRIVE, SOMERSET, NEW JERSEY
(Address of principal executive offices)

08873
(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE (732) 748-1700

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
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NONE

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SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

COMMON STOCK, \$.001 PAR VALUE PER SHARE
(Title of class)

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 //

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. //

On January 2, 1998, the aggregate market value of the voting stock of Digital Solutions, Inc. (consisting of Common Stock, \$.001 par value per share) held by non-affiliates of the Registrant was approximately \$34,332,000 based upon the average bid and asked price for such Common Stock on said date as reported by Nasdaq. On such date, there were issued and outstanding 19,141,760 shares of Common Stock of the Registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement for 1998 Annual Meeting of Shareholders

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ITEM 1. BUSINESS

INTRODUCTION

Digital Solutions, Inc. ("DSI" or "the Company"), was founded in 1969 as a payroll service company and has evolved into a leading provider of human resource management services to a wide variety of industries in 50 states.

DSI currently offers three general categories of services: (1) professional employer organization ("PEO") services, (2) employer administrative services, such as payroll processing, personnel and administration, benefits administration and tax filing; and, (3) contract staffing, or the placement of temporary and permanent employees. DSI currently furnishes PEO, payroll and contract staffing services to over 1,438 client organizations with approximately 5,000 worksite PEO and staffing employees, and believes that it currently ranks, in terms of revenues and worksite employee base, as one of the largest professional employer organizations in the United States. In addition, DSI places temporary help in hospitals and clinics throughout the United States through its Houston, Texas and Clearwater, Florida offices. The Company has three regional offices in Somerset, New Jersey; Houston, Texas; and Clearwater, Florida and five sales service centers in New York, New York; El Paso and Houston, Texas; Clearwater, Florida; and Somerset, New Jersey.

Essentially, the Company provides services that function as the personnel department for small to medium sized companies. The Company believes that by offering services which relieve small and medium size businesses of the ever increasing burden of employee related record keeping, payroll processing, benefits administration, employment of temporary and permanent specialized employees and other human resource functions, the Company will position itself to take advantage of a major growth opportunity during this decade and the next.

Recognizing the desire by many small businesses to be relieved not only of the human resource administrative functions, but also of the responsibility to manage employees and oversee operational tasks ancillary to their core business, the Company has formulated a strategy of emphasizing PEO and "outsourcing" services. In PEO, a service provider becomes an employer of the client company's employees and provides these employees to the client to perform their intended functions at the worksite. In outsourcing, the service provider is not only responsible for human resource administration but also assumes ultimate responsibility in some cases for management of the employees and their job functions. For example, a provider of outsourcing services could be engaged by a hospital or clinic to manage the maintenance and operation of the facility. The medical staff would still be responsible for the medical

functions but the physical plant would be managed by the provider.

DSI is focusing its future growth on the PEO and outsourcing industry. The Company's expansion program will focus on internal growth through the cross marketing of its PEO services to its entire client base and the acquisition of compatible businesses strategically situated in new areas or with a client base serviceable from existing facilities.

DSI is now committed to focusing on the PEO and outsourcing industry for its future growth and to convert Staff-Rx, the Company's medical contract staffing subsidiary, into more than a staffing business by focusing on PEO, outsourcing and facilities management. While DSI will continue to sell stand-alone employer services, such as payroll and tax filing, it will emphasize the PEO component of its service offerings with a goal of becoming the leading provider of PEO services in the United States. A major component of the Company's growth strategy is the acquisition of well situated independent PEO companies whose business can be integrated into the Companies operations. However, there can be no assurance any such acquisition will be consummated by the Company.

Digital Solutions, Inc. was organized under the laws of the State of New Jersey on November 25, 1969 and maintains executive offices at 300 Atrium Drive, Somerset, New Jersey 08873 where its telephone number is (732) 748-1700.

GENERAL BUSINESS DEVELOPMENTS DURING THE LAST FISCAL YEAR

BANK CREDIT LINE

In February 1995, the Company entered into a one year revolving credit line facility (the "Line") with a bank which was subsequently extended and amended on seven occasions. Each loan extension has been for limited periods of time. The fifth amendment executed as of December 31, 1996, restricted the Company from borrowing any additional funds available on the Line and required weekly principal payments of \$10,000, effective February 24, 1997. Effective October 31, 1997, the Company entered into the seventh amendment to the loan agreement. Under the terms of this agreement, which expires October 31, 1998, the Company was required to grant to the bank 500,000 warrants to purchase the Company's common stock. The warrants will vest in amounts of 200,000 and 300,000 as of April 30, 1998 and October 31, 1998, respectively, if the obligations under the loan agreement are not paid in full by these dates. The warrants have an exercise price of \$2.4375 per share which was the fair market value of the stock at the date of the agreement. The Company is obligated to make monthly payments of interest on the outstanding amounts at the bank's floating base rate plus three percent (11.5% at September 30, 1997). The Line is collateralized by all of the

Company's assets. On December 1, 1997, as a requirement of the extension of its bank line of credit, the Company raised \$250,000. These funds were an equity investment provided by its directors, a former director and executive officers and will be available for general corporate purposes.

To address the capital needs of the Company, management is presently in discussions with several financial institutions. There can be no assurance that the Company will be successful in its efforts to raise additional funds.

SERVICES

PROFESSIONAL EMPLOYER ORGANIZATION (PEO)

The Company's core business, and the area management will continue to promote, is its PEO services. When a client utilizes the Company's PEO services, the client administratively transfers all or some of its employees to DSI which then provides them to the client. DSI thereby becomes the recognized legal co-employer and is responsible for all human resource functions, including payroll, benefits administration, tax reporting and personnel record keeping. The client still manages the employees and determines salary and duties in the same fashion as any employer. However, the client is relieved of reporting and tax filing requirements and other administrative tasks. Moreover, because of economies of scale, DSI is able to negotiate favorable terms on workers' compensation insurance, health benefits, retirement programs, and other valuable services. The client company benefits because it can now offer its employees the same or similar benefits as its larger competitors, and successfully compete in recruiting highly qualified personnel, as well as build the morale and loyalty of its staff.

The benefits DSI can offer include:

COMPREHENSIVE MAJOR MEDICAL PLANS -- DSI believes that medical insurance costs have forced small employers to reduce coverage provided to its employees and to increase employee contributions. DSI is able to leverage its large employee base and allow their clients to offer a variety of health coverage plans from traditional indemnity plans to Health Maintenance Organizations (HMO) or Preferred Provider Organizations (PPO).

DENTAL AND VISION COVERAGE -- Such coverage is generally beyond the reach of most small groups, but it is a cost effective option which can be provided by DSI.

LIFE INSURANCE -- Affordable basic coverage is available, plus optional supplemental life.

SECTION 125 PREMIUM CONVERSION PLAN -- Employees can pay for benefits with pre-tax earnings, reduce their taxable income and FICA payments, and increase their take-home pay.

401(K) RETIREMENT PLANS -- DSI believes that most small groups are not provided with any significant retirement benefits due to the administrative and regulatory requirements associated with the establishment and maintenance of retirement plans. DSI enables small business owners to offer their employees retirement programs comparable to those of major corporations. Such plans can be used to increase morale, productivity and promote employee loyalty.

CREDIT UNION -- An opportunity for employees to borrow money at lower interest than offered at most banks.

PAYROLL SERVICES -- Although ancillary to the PEO services, clients no longer incur the expense of payroll processing either through in-house staff or outside service. DSI's PEO services include all payroll and payroll tax processing.

UNEMPLOYMENT COMPENSATION COST CONTROL -- DSI provides an unemployment compensation cost control program to aggressively manage unemployment claims.

HUMAN RESOURCES MANAGEMENT SERVICES -- DSI can provide clients with expertise in areas such as personnel policies and procedures, hiring and firing, training, compensation and performance evaluation.

WORKERS COMPENSATION PROGRAM -- DSI has a national workers compensation policy which can provide DSI with a significant advantage in marketing its services, particularly in jurisdictions where workers compensation policies are difficult to obtain at reasonable costs. DSI also provides its clients where applicable with independent safety analysis and risk management services to reduce worker's injuries and claims.

By relieving client companies of personnel administrative tasks, the client is able to focus on its core business. The client is also able to offer a broader benefits package for its employees, a competitive rate in workers' compensation insurance, and savings in time and paperwork previously required in connection with personnel administration.

PAYROLL SERVICES

DSI was established as a payroll service firm in 1969, and continues to provide basic payroll services to its clients. Historically, DSI provided these services primarily to the construction industry and currently 60% of the Company's approximately 1,000 payroll service clients are in the construction industry. DSI offers most, if not all, of what other payroll services provide, including the preparation of checks, government reports, W-2's (including magnetic tape filings), remote processing (via modem) directly to the clients offices, and service.

In addition, DSI offers a wide array of tax reporting services including accrual of tax summaries, timely deposit of taxes, impounding of tax refunds, filing of returns, distribution of quarterly and year-end statements and responding to agency inquiries.

CONTRACT STAFFING SERVICES

DSI's contract staffing subsidiaries have, in the aggregate, more than 27 years of experience in placing permanent and temporary employees with specialized skills and talents with regional, national and international employers. Contract Staffing enables clients to attain management and productivity goals by matching highly trained professionals and technical personnel to specific project requirements. DSI works in two specific markets where it places people on a temporary long term assignment, or on a permanent basis: (1) technical employees such as engineers, information systems specialists and project managers primarily with Fortune 100 companies for specific projects, and, (2) radiologists, therapists, nurses, doctors with hospitals, clinics and therapy centers throughout the 50 states. Clients whose staff requirements vary depending on the level of current projects or business are able to secure the services of highly qualified individuals on an interim basis.

DSI's staffing services provide clients with the ability to "rightsize"; that is, expand or reduce its workforce in response to changing business conditions. DSI provides numerous benefits to the client, such as saving the costs of salary and benefits of a permanent employee whose services are not needed throughout the year. The client also avoids the costs, uncertainty and delays associated with searches for qualified interim employees. The Company also provides insurance bonding where necessary and assumes all responsibility for payroll tax filing and reporting functions, thereby saving the client administrative responsibility for all payroll, workers' compensation, unemployment and medical benefits.

DSI also increases the pool of qualified applicants for the client since contract staffing employees have access to a wide array of benefits such as health and life insurance, Section 125 premium conversion plans, and 401(k) retirement plans. These benefits provide interim employees with the motivation of full-time workers without additional benefit costs to the client. A client is also able to temporarily rehire a retired

employee for short-term or specialized projects without jeopardizing their pension plan.

ACQUISITION STRATEGY

A key component of the Company's growth strategy has been, and will continue to be, the acquisition of compatible businesses to expand its operations and customer base. Currently, the human resource service industry includes numerous small companies seeking to develop services, operations and customer base similar to those developed by the Company. The Company has actively acquired companies in the human resource industry during the last five years. However, with the business and strategy of the Company further developed, acquisitions in the future will be concentrated in the PEO and outsourcing business. The Company believes that with a limited number of key acquisitions of regional PEO companies who possess a strong customer base and regional reputation, the Company will be able to grow into an industry leader, in not only revenue size, but in scope of services offered.

A prospective acquisition candidate may be either a public or private company, but will be required to meet certain financial criteria and growth potential established by the Company. The Company evaluates acquisition candidates by analyzing the company's management, operations and customer base, which must complement or expand the Company's operations; financial stability, including the company's profitability and cash flow. The Company's long term plan is to expand sales and income potential by achieving economies of scale as it expands and regionalizes its revenue base. However, there can be no assurance that the Company will be able to successfully identify, acquire and integrate into the Company operations, compatible PEO companies.

Although the Company did not consummate any acquisitions during fiscal 1997, management anticipates its acquisition activities will increase next fiscal year. Any such acquisition activity will be subject to, among other things, general economic conditions and the Company's ability to raise capital or utilize its securities.

CUSTOMERS

The Company's customer base consists of over 1,438 client companies, representing approximately 33,000 employees (including payroll services) as of September 30, 1997. The Company's client base is broadly distributed throughout a wide variety of industries; however, more than 60% of the customers in the payroll processing area are in the construction industry and substantially all of Staff-RX customers are in the healthcare industry.

The Company intends to maintain diversity within its client base to lower its exposure to downturns or volatility in any particular industry and help insulate the Company to some extent from general economic cycles. All prospective customers are

also evaluated individually on the basis of workers' compensation risk, group medical history, unemployment history and operating stability.

SALES AND MARKETING

The Company has established sales teams in all of its locations.

Sales personnel offer a full array of DSI services, professional employment, payroll and contract staffing, which supports the cross-marketing of DSI's products and enables the sales representative to employ a professional consultative approach to satisfying clients needs rather than forcing a single solution.

All sales personnel have quotas and are held accountable on a weekly basis with a sales meeting held in each location where the activity for the week is discussed.

The Company has also implemented several focused marketing activities to increase sales opportunities. DSI has been licensed by the various state Boards of Accountancy to hold continuing professional education seminars for CPAs. In addition, the Company has become an active participant in many trade and community associations and chambers of commerce.

COMPETITION

The PEO industry consists of approximately 2,500 companies, most of which serve a single market or region. The Company believes that there are several PEOs with annual revenue exceeding \$500 million. The largest PEO is Staff Leasing of Bradenton, Florida with revenue in excess of \$1 billion. While there are several other large PEOs among the approximately 2,500 companies, many are located in Florida and other states in the Sunbelt. The Company considers its primary competition to be these large national and regional PEO providers, as well as the traditional form of employment of employees.

The payroll services industry is characterized by intense competition. The principal competitive factors are price and service. Management believes that Automatic Data Processing, Inc., and Paychex, Inc., which each purchased PEOs in Florida, will be major competitors in the future. The Company also competes with manual payroll systems sold by numerous companies, as well as other providers of computerized payroll services including banks, and smaller independent companies. Some companies have in-house computer capability to generate their own payroll documents and reports. The increasing availability of personal computers at low cost may result in additional businesses acquiring such capabilities. In the area of providing temporary technical and medical personnel, the Company competes with companies

such as Volt Information Services, Butler Arde, Olsten and Tech Aid, Inc., among others. Many of these competitors have longer operating histories and greater financial resources than the Company.

The Company competes with these companies by offering customized products, personalized service, competitive prices and specialized personnel to satisfy a client's particular employee requirements.

DSI believes that its broad scope of human resource management services and its commitment to quality service will differentiate it from its competition. Many companies compete in the various segments of the human resource and financial services marketplace. However, the Company believes there are none which compete in all of them and offer the broad range of services which the Company offers. DSI believes that its concentration on providing comprehensive services and moving into facilities management or outsourcing of human resource management services will set it apart from its competitors. While many of the PEOs entered the industry as a result of workers' compensation or health insurance problems, DSI is establishing itself as a professional employer organization which will assist companies, small and large, with all of their human resource management challenges.

INDUSTRY REGULATION

INTRODUCTION

The Company's operations are affected by numerous federal and state laws relating to labor, tax and employment matters. By entering into a co-employer relationship with employees who are assigned to work at client company locations (sometimes referred to as "worksites employees"), the Company assumes certain obligations and responsibilities of an employer under these federal and state laws. Many of these federal and state laws were enacted prior to the development of nontraditional employment relationships, such as professional employer organizations, temporary employment, and outsourcing arrangements, and do not specifically address the obligations and responsibilities of nontraditional employers. In addition, the definition of "employer" under these laws is not uniform. Accordingly, the application of these laws to the Company's business cannot be assured.

Some governmental agencies that regulate employment and labor laws have developed rules that specifically address labor and employment issues raised by the relationship among clients and PEOs. Existing regulations are relatively new and, therefore, their interpretation and application by administrative agencies and federal and state courts is limited or non-existent. The development of additional regulations and interpretation of existing regulations can be expected to evolve over time. The

Company cannot predict with certainty the nature or direction of the development of federal, state and local regulations.

As an employer, the Company is subject to all federal statutes and regulations governing its employer-employee relationships.

FEDERAL EMPLOYMENT TAXES

The Company assumes the sole responsibility and liability for the payment of federal and state employment taxes with respect to wages and salaries paid to its employees, including worksite employees. There are essentially three types of federal employment tax obligations: (i) withholding of income tax requirements governed by Code Section 3401, et seq.; (ii) obligations under FICA, governed by Code Section 3401, et seq.; and, (iii) obligations under the Federal Unemployment Tax Act (FUTA), governed by Code Section 3301, et seq.

Under these Code sections, employers have the obligation to withhold and remit the employer portion and, where applicable, the employee portion of these taxes. There is still considerable uncertainty as to the status of leased employees in relation to these statutes. While the Company believes that it can assume the client company's withholding obligations, in the event the Company fails to meet these obligations, the client company may be held jointly and severally liable for these payments. These interpretive uncertainties may have an impact on the Company's PEO business.

EMPLOYEE BENEFIT PLANS

The Company offers various employee benefit plans to its employees, including its worksite employees. These plans include a 401(k) Plan (a profit-sharing plan with a cash or deferred arrangement ("CODA") under Code Section 401(k)), a Section 125 plan, a group health plan, a group life insurance plan and a group disability insurance plan. Generally, employee benefit plans are subject to provisions of both the Code and the Employee Retirement Income Security Act ("ERISA").

In order to qualify for favorable tax treatment under the Code, the plans must be established and maintained by an employer for the exclusive benefit of its employees. In addition to the employer/employee threshold, pension and profit-sharing plans, including plans that offer CODAs under Code Section 401(k) and matching contributions under Code Section 401(m), must satisfy certain other requirements under the Code. These other requirements are generally designed to prevent discrimination

in favor of highly compensated employees to the detriment of non-highly compensated employees with respect to both the availability of, and the benefits, rights and features offered, in qualified employee benefit plans.

Employee pension and welfare benefit plans are also governed by ERISA. ERISA defines "employer" as "any person acting directly as an employer, or indirectly in the interest of an employer, in relation to an employee benefit plan." ERISA defines the term "employee" as "any individual employed by an employer." A definitive judicial interpretation of "employer" in the context of a PEO arrangement has not been established. If the Company were found not to be an employer for ERISA purposes, its plans would not comply with ERISA and the level of services the Company could offer may be adversely affected. Further, as a result of such finding, the Company and its plans would not enjoy the preemption of state laws provided by ERISA and could be subject to varying state laws and regulations, as well as to claims based upon state common laws.

In addition to ERISA and the Code provisions discussed herein, issues related to the relationship between the Company and its worksite employees may also arise under other federal laws, including other federal income tax laws.

STATE REGULATION

As an employer, the Company is subject to all statutes and regulations governing the employer-employee relationship. The Staff Leasing Services Licensing Act (the "Act") now regulates PEOs in Texas. The Act, which became effective on September 1, 1993, established a mandatory licensing scheme for PEOs and expressly recognizes a licensee as the employer of the assigned employee for purposes of the Texas Unemployment Compensation Act. The Company possesses a license to offer PEO services in the state of Texas.

While many states do not explicitly regulate PEOs, approximately 16 states have passed laws that have licensing or registration requirements for PEOs and other states are considering such regulation. Such laws vary from state to state, but generally provide for monitoring the fiscal responsibility of PEOs. Whether or not a state has licensing, registration or certification requirements, the Company faces a number of other state and local regulations that could impact its operations. The Company is currently licensed in Florida and New Mexico as well as Texas.

EMPLOYEES

As of January 2, 1998, the Company employed 117 employees, both full-time and part-time, including executive officers, a reduction from 133 during the previous

fiscal year. The Company also employs approximately 4,500 leased employees and 500 temporary employees on client assignments. The Company believes its relationship with its employees is satisfactory.

ITEM 2. PROPERTIES

OPERATIONS AND FACILITIES

The Company currently has three processing centers in Somerset, New Jersey, Houston, Texas and Clearwater, Florida. The Company also has five sales service centers which are located in New York City, Somerset, New Jersey, Clearwater, Florida, Houston, and El Paso, Texas. A sales service center is an office used primarily for sales efforts and client services. The Company's strategy is to target acquisitions in the current areas of operation, whereby the Company will acquire a business or business accounts and absorb these accounts into the current operations with minimal additional overhead. The Company intends to continue its national expansion efforts in fiscal years 1998-1999, most likely through additional acquisitions.

DSI leases its 15,000 square foot corporate headquarters in Somerset, New Jersey, as well as offices in Clearwater, Florida and Houston, Texas. The Company also leases sales offices in New York City and El Paso, Texas. The facilities provide sufficient capacity to meet demands for the foreseeable future. In fiscal year 1997, the Company's total lease expenses were \$537,000.

Although DSI's offices are equipped with software and computer systems, the Company is currently evaluating all systems including hardware and will upgrade accordingly. At the Company's headquarters in Somerset, New Jersey, two high speed Xerox printers produce 200,000 plus checks monthly for its client base. These machines, which are integrated with the software system, do all of the printing on the checks, including the client name, the employee, dates, as well as the "Micro Encoding".

The following is summary information on DSI's facilities:

LOCATION - - - - -	APPROXIMATE SQUARE FEET - - - - -	EXPIRATION DATE ----	TERMS -----
DSI Staff RX, Inc. (Houston) 2 Northpoint Drive, Suite 110	5,398 7,396	9/30/99 2/28/00	\$13,440 per month

Houston, TX 77060

DSI Staff RX, Inc. (Clearwater) 601 Cleveland Sreet Suite 350 Clearwater, FL 34615	2,805	5/31/00	\$ 3,272 per month
Staff ConnXions Southwest (El Paso) 4050 Rio Bravo, Suite 151 El Paso, TX 79902	3,126	3/31/02	\$ 3,759 per month
Corporate Office 300 Atrium Drive Somerset, NJ 08873	15,244	9/30/07	\$23,819 per month
New York Office 245 Fifth Avenue, Suite 2104 New York, NY 10016	391	4/30/01	\$ 3,082 per month

ITEM 3. 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 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. As a result, the financing agreement was terminated and never funded. Through the efforts of the Company, 1,258,334 of these shares were recovered and the Company received proceeds of \$229,000 for a partial payment on the 525,000 shares not 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. On July 2, 1997, the Company settled the action. Without admitting or denying the allegations in the complaint, the defendants agreed to pay \$676,000 of which \$426,000 has been paid with the balance of \$250,000 to be paid by LNB

on or before August 4, 1997. The payment was not made by LNB as of December 16, 1997. The Company has commenced collection proceedings. The subsequent payment is secured by a confession of judgment and a mortgage in the amount of \$625,000. The payments under the settlement agreement are in addition to \$229,000 previously received from LNB bringing the total recovered to approximately \$905,000, assuming LNB complies with the terms of the settlement and remits the last payment of \$250,000. The agreement also provides that upon payment of all sums due under the settlement agreement, LNB shall be deemed to have made full restitution to the Company for the claims alleged in the action.

The Company is engaged in no other litigation, the effect of which is anticipated to have a material adverse impact on the Company.

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

NOT APPLICABLE

PART II

ITEM 5. MARKET OF AND DIVIDENDS ON THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

A. Principal Market

The Company's Common Stock is traded in the over-the-counter market and included in the SmallCap Market System of the National Association of Securities Dealers, Inc. ("NASDAQ") under the symbol "DGSI".

B. Market Information

The Company's common stock commenced trading in the over-the-counter market on May 15, 1986. The range of high and low bid prices for such securities for the periods indicated below, are:

FISCAL YEAR 1996 -----	HIGH ----	LOW ---
1st Quarter	5 15/16	1 15/32
2nd Quarter	6 15/16	4 5/16
3rd Quarter	6 1/8	3 9/16
4th Quarter	6 1/4	3 5/8
FISCAL YEAR 1997 -----	HIGH ----	LOW ---
1st Quarter	6 1/4	3 1/8
2nd Quarter	3 15/16	1 13/16
3rd Quarter	2 7/16	1 9/16
4th Quarter	2 5/16	1 9/16
FISCAL YEAR 1998 -----	HIGH ----	LOW ---
1st Quarter	2 11/16	1 1/2

The above quotations, reported by NASDAQ, represent prices between dealers and do not include retail mark-ups, mark-downs or commissions. Such quotations do not necessarily represent actual transactions.

C. Dividends

The payment by the Company of cash dividends, if any, rests within the discretion of its Board of Directors and, among other things, will depend upon the Company's earnings, capital requirements and financial condition, as well as other relevant factors. The Company has not declared any cash dividends on its common stock since inception, and has no present intention of paying any cash dividends on its common stock in the foreseeable future.

D. Approximated Number of Equity Security Holders

The approximate number of record holders of the Company's common stock as of January 2, 1998 was 329. Such number of record holders was determined from the Company's stockholder records, and does not include beneficial owners of the Company's common stock whose shares are held in the names of various security holders, dealers and clearing agencies. The Company believes there are in excess of 500 beneficial holders of the Company's common stock.

ITEM 6. SELECTED FINANCIAL DATA

	YEARS ENDED SEPTEMBER 30				
	1997	1996	1995	1994	1993
OPERATING DATA:					
Operating Revenues	\$122,695,000	\$100,927,000	\$73,821,000	\$37,998,000	\$14,681,000
Direct Costs	113,894,000	92,490,000	68,530,000	34,939,000	12,459,000
Gross Profit	8,801,000	8,437,000	5,291,000	3,059,000	2,222,000
Selling, General & Administrative Expenses (includes Depreciation and Amortization)	11,316,000	8,801,000	7,547,000	2,695,000	1,962,000
Income (Loss) From Continuing Operations	(2,515,000)	(364,000)	(2,256,000)	364,000	260,000
Net Income (Loss)	<u>\$(2,832,000)</u>	<u>\$(597,000)</u>	<u>\$(3,316,000)</u>	<u>\$720,000</u>	<u>\$301,000</u>
Income (Loss) From Continuing Operations Per Share of Common Stock	(\$0.13)	(\$0.02)	(\$0.16)	\$0.03	\$0.04
Net Income (Loss) Per Share	(\$0.15)	(\$0.04)	(\$0.24)	\$0.05	\$0.04
Dividends Paid Per Preferred Stock	\$0.00	\$0.00	\$0.00	\$3.30	\$4.00
BALANCE SHEET DATA:					
Assets	\$14,163,000	\$14,800,000	\$13,816,000	\$7,727,000	\$4,264,000
Liabilities	9,291,000	7,632,000	10,967,000	2,671,000	1,079,000
Long Term Debt	89,000	100,000	175,000	107,000	241,000
Working Capital (Deficiency)	(1,401,000)	286,000	(4,771,000)	1,146,000	1,920,000
Shareholders' Equity	\$4,872,000	\$7,168,000	\$2,849,000	\$5,056,000	\$3,195,000

RESULTS OF OPERATIONS

Certain statements contained herein constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "1995 Reform Act"). The Company desires to avail itself of certain "safe harbor" provisions of the 1995 Reform Act and is therefore including this special note to enable the Company to do so. Forward-looking statements included in this Report on Form 10-K involve known and unknown risks, uncertainties, and other factors which could cause the Company's actual results, performance (financial or operating) or achievements to differ from the future results, performance (financial or operating) achievements expressed or implied by such forward looking statements. Such future results are based upon management's best estimates based upon current conditions and the most recent results of operations. These risks include, but are not limited to, risks associated with the Company's recent losses, the Company's ongoing need for a new credit facility, need for additional capital, risks of recently consummated acquisitions as well as future acquisitions, effects of competition and technological changes and dependence upon key personnel.

Fiscal Year 1997 as Compared to Fiscal Year 1996

Operating revenues for the fiscal year 1997 were \$122,695,000 as compared to fiscal year 1996 of \$100,927,000 which represents an increase of \$21,768,000 or 21.6%. This increase is due to the efforts of the internal sales force to continually bring in new business which accounted for all of the increase. PEO services accounted for 83% of the growth, while the balance is attributed to the Company's staffing business.

Direct costs for fiscal year 1997 were \$113,894,000 as compared to \$92,490,000 for fiscal year 1996 which represents an increase of \$21,404,000, or 23.1%. The workers' compensation profit for the first four months of fiscal 1996 of \$493,000 was recorded as a reduction of selling, general and administrative expenses, whereas subsequent to that the revenue and direct costs for the workers' compensation program were reflected in their respective accounts. In addition, the first nine months of fiscal 1997 included \$308,000 in underbilled/excess charges for PEO medical expenses. After adjusting for the treatment of the workers' compensation profit, one-time charges of \$678,000 recorded in the second quarter of 1997 (primarily due to increased workers' compensation charges) and medical expenses, direct costs increased \$20,911,000 or 22.7%. As a percentage of revenue, and on an adjusted basis, direct costs for fiscal 1997 and fiscal 1996 were 92% and 91.1% respectively. This increase is attributed to the increase in the PEO business as well as the new workers' compensation program, in which the Company is now expensing the maximum workers' compensation exposure on a current basis.

Gross profits were \$8,801,000 and \$8,437,000 for fiscal 1997 and 1996, respectively, for an increase of 4.3%. Giving effect to the previously discussed adjustments, gross profits for fiscal 1997 and 1996 would have been \$9,787,000 and \$8,930,000, respectively. As a percentage of revenue, adjusted gross profits for fiscal 1997 and 1996 would have been 8% and 8.8%, respectively, reflecting the increased PEO business in fiscal 1997 which has lower margins but adds more dollars of gross profit.

Selling, general and administrative costs ("SG&A") for fiscal 1997 increased \$2,334,000, or 29%, from \$7,972,000 in fiscal 1996 to \$10,306,000. Of this increase, \$1,973,000 pertains to charges recorded in the second quarter of fiscal 1997, \$1,000,000 of which was to increase the bad debt reserve with the balance for other miscellaneous items. Giving effect to these adjustments, SG&A increased 4.5%.

Depreciation and amortization increased \$181,000 in fiscal 1997 due to the write-off of all the intangible assets of Digital Insurance Services (\$261,000) recorded in the second fiscal quarter.

Net loss for fiscal 1997 was (\$2,832,000) versus a net loss of (\$597,000) in fiscal 1996. The increased loss is due to \$3,100,000 in adjustments recorded in the second quarter of 1997.

Fiscal Year 1996 as Compared to Fiscal Year 1995

Operating revenues for the fiscal year 1996 were \$100,927,000 as compared to fiscal year 1995 of \$73,821,000 which represents an increase of 36.7%. This increase is attributable to the increased sales efforts of the internal sales force as well as the full year impact of the acquisition of Turnkey Services which was acquired in May, 1995.

Direct costs as a percentage of revenue for fiscal year 1996 was 91.6% as compared to 92.8% for the prior fiscal year. These changes are attributable to the increased margins in the PEO business due to reduced costs of the Company's workers' compensation programs and the full year effect of the acquisition of Turnkey Services. The Company provides management personnel services to certain clients of Turnkey Services which generate higher than average administrative fees. The reduction in workers' compensation costs were achieved through better managed claims experience.

Selling, general and administrative costs ("SG&A") increased \$1,270,000. This growth in expenses includes \$195,000 in charges for intangibles associated with acquisitions that were not consummated during the year and \$309,000 in an increase in allowance for doubtful accounts attributable to accounts that have aged beyond acceptable limits but which the Company continues to pursue. Approximately \$500,000 is attributable to the full year impact of Turnkey Services which was acquired May 1, 1995. Additionally, the Company reversed \$515,000 in

previously established reserves for claims which the Company resolved in its favor. As a percentage of gross profit, SG&A expenses are 94.5% in fiscal 1996 as compared to 126.7% in fiscal 1995 and 88.1% in fiscal 1994. Management believes that although there is improvement from 1995, it will continue to improve this margin in the future.

Net loss before taxes was (\$563,000) in fiscal year 1996 as compared to loss of (\$3,453,000) in fiscal year 1995. This decrease in net loss is primarily attributable to the increase in gross profit and the decrease in SG&A as a percentage of gross profit, explained above.

Fiscal Year 1995 as Compared to Fiscal Year 1994

Operating revenues for the fiscal year 1995 were \$73,821,000 as compared to fiscal year 1994 of \$37,998,000. This represents an increase of \$35,823,000 or 94%. This increase is attributable to the increased sales efforts of the internal sales force \$15,700,000, as well as the acquisition of Staff Rx \$8,400,000, Turnkey Services, Inc. \$6,200,000 and the full year effect of the other PEO companies which were acquired in the second quarter of fiscal year 1994 \$5,500,000.

Direct costs as a percentage of revenue for fiscal year 1995 was 92.8% as compared to 92.0% in fiscal year 1994. This increase is due to the continued growth in the PEO business which has a higher direct cost than any other segment, as a percentage of revenues.

Selling, general and administrative costs ("SG&A") increased \$4,007,000 from fiscal year 1994 and was primarily due to: (i) increased selling and marketing expenses including the cost of direct mail efforts and the addition of 15 senior account managers (sales force); (ii) additions at the corporate level needed to help position and transform the Company into a national firm; (iii) the establishment of a Houston processing center to support client and sales activities in the Southwest and Florida; and, (iv) establishment of certain necessary reserves and balances at year end.

Net loss before tax benefit was (\$3,453,000) for fiscal year 1995 as compared to a net gain of \$720,000 the prior year. In accordance with Statement of Financial Standards 109 (SFAS 109), the Company has recorded an additional tax asset of \$160,000 in the current fiscal year of 1994, representing the expected future utilization of existing net operating loss carryforwards against operating income. As of September 30, 1995, the Company has recorded total deferred assets of \$760,000, which it believes, based on the current level of sales activity and the positive impacts of recent acquisitions, will more likely than not be realized in accordance with SFAS 109.

Liquidity and Capital Resources

The Company's working capital for fiscal year 1997 was a deficit of (\$1,401,000) versus

\$286,000 in fiscal 1996. At September 30, 1997, the Company had cash of \$841,000, restricted cash of \$738,000 and net accounts receivable of \$5,820,000.

In February 1995, the Company entered into a one year revolving credit line facility (the "Line") with a bank which was subsequently extended and amended on seven occasions. Each loan extension has been for limited periods of time. The fifth amendment executed as of December 31, 1996, restricted the Company from borrowing any additional funds available on the Line and required weekly principal payments of \$10,000, effective February 24, 1997. Effective October 31, 1997, the Company entered into the seventh amendment to the loan agreement. Under the terms of this agreement, which expires October 31, 1998, the Company was required to grant to the bank 500,000 warrants to purchase the Company's common stock. The warrants will vest in amounts of 200,000 and 300,000 as of April 30, 1998 and October 31, 1998, respectively, if the obligations under the loan agreement are not paid in full by these dates. The warrants have an exercise price of \$2.4375 per share, which was the fair market value of the stock at the date of the agreement. The Company is obligated to make monthly payments of interest on the outstanding amounts at the bank's floating base rate plus three percent (11.5% at September 30, 1997). Under the present amendment, the Company can not borrow additional funds and continues to make weekly principal payments of \$10,000. The line is collateralized by all of the Company's assets. At September 30, 1997 and December 31, 1997, the total amount outstanding on the Line was \$2,697,000 and \$2,567,000, respectively. In December 1997, the Company's directors and executive officers, as well as a former director, made an equity investment of \$250,000 for general corporate purposes. The raising of these funds was a requirement of the recently negotiated bank line of credit extension.

To address the capital needs of the Company, management is presently in discussions with several financial institutions. There can be no assurance that the Company will be successful in its efforts to raise additional funds. At the present time, the Company does not have funds available to repay the Line. Repayment of the Line is due in full on October 31, 1998.

In December 1996, due to the favorable trends in losses in its Workers' Compensation program, the Company's former carrier reduced its letter of credit requirement from \$1,610,000 to \$1,193,000 which resulted in \$417,000 in additional cash available. Of this availability, \$344,000 has been added to working capital during the quarter ended December 31, 1996 while the balance of \$73,000 was added to working capital during the quarter ended March 31, 1997.

Inflation and changing prices have not had a material effect on the Company's net revenues and results of operations in the last three fiscal years, as the Company has been able to modify its prices to respond to inflation and changing prices.

ITEM 8. FINANCIAL STATEMENTS

See Attached Financial Statements appearing at pages F-1 through F-18.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not Applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS

The executive officers and directors of the Company are as follows:

NAME - - - - -	AGE ---	OFFICE -----
Karl W. Dieckmann	69	Chairman of the Board of Directors
George J. Eklund	54	Director
Donald T. Kelly	48	Vice President, Chief Financial Officer and Corporate Secretary
Senator John H. Ewing	77	Director
William J. Marino	54	Director
Donald W. Kappauf	51	President and Chief Executive Officer

Each director is elected for a period of one year at the Company's annual meeting of shareholders and will serve until his successor is duly elected by the shareholders.

Karl W. Dieckmann, Director of the Company since April, 1990, has been Chairman of the Board since November, 1991. From 1980 to 1988, Mr. Dieckmann was the Executive Vice President of Science Management Corporation and managed the Engineering, Technology and Management Services Groups. From 1948 to 1980, Mr. Dieckmann was employed by the Allied Corporation (now Allied Signal Corporation) in various capacities including President, Semet Solvay Division; Executive Vice President, Industrial Chemicals Division; Vice President Technical -- Fibers Division; Group General Manager -- Fabricated Products Division; and General Manager --Plastics Division, as well as various positions with the Chemicals Division.

George J. Eklund became President and Chief Operating Officer of the Company on September 21, 1994, and President and Chief Executive Officer on March 13, 1996. On December 16, 1997, Mr. Eklund's position changed for health reasons but he remains active with the Company. From 1992 to 1994, Mr. Eklund was President of the

Human Resource Information Services division of Fiserv, Inc., which provides outsourcing services. From 1977 to 1992, Mr. Eklund was employed by ADP (Automatic Data Processing) in various positions eventually serving as Corporate Vice President and Eastern Division President. His eastern division served the northeast area of the country.

Donald T. Kelly, has been Chief Financial Officer and Vice President of Finance since he joined DSI on January 20, 1997. He was elected Corporate Secretary in August of 1997. Mr. Kelly was Vice President and Chief Financial Officer of Wireless Cable International and its predecessor company, Cross Country Wireless, Inc. from 1993 to 1997. From 1987 to 1993, he was Vice President of Finance and Administration at Potters Industries.

Senator John H. Ewing, has been a Director of the Company since April, 1990. Senator Ewing has been a State Senator for the state of New Jersey from 1978 to the present. From 1968 to 1977, Senator Ewing was a New Jersey State Assemblyman. From 1940 to 1968, he was employed by Abercrombie and Fitch Co., New York City, and eventually rose to the position of Chairman of the Board. Senator Ewing is also currently Chairman of the New Jersey Senate Education Committee.

William J. Marino, President and Chief Executive Officer of Blue Cross and Blue Shield of New Jersey, joined the Board of Directors in October, 1995. He joined Blue Cross and Blue Shield in 1992 and was named to his present post in 1994. From 1968 to 1991, Mr. Marino held a variety of sales, marketing and management positions with the Prudential Insurance Company of America. He is Chairman of the Board of Trustees of the United Way of Essex and West Hudson (NJ) and is Chairman of the Board of Directors and Executive Committee of the Regional Business Partnership, and a Trustee of the New Jersey Network Foundation, St. Peter's College and the Newark Museum.

Donald W. Kappauf became President and Chief Executive Officer of Digital Solutions, Inc. on December 16, 1997. Mr. Kappauf joined Digital Solutions, Inc. in 1990 and has held several senior management positions including Division President and Executive Vice President. From 1988 to 1990, Mr. Kappauf was President of Perm Staff/Temp Staff in Princeton, New Jersey. He was Assistant Vice President of SMC Engineering and then President of SMC Personnel Support from 1968 to 1988.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION IN COMPENSATION DECISIONS

Karl W. Dieckmann, John H. Ewing and William J. Marino served on the Company's Compensation Committee during the last fiscal year.

ITEM 11. EXECUTIVE COMPENSATION

The following provides certain summary information concerning compensation paid or accrued by the Company during the years ended September 30, 1997, 1996 and 1995 to the Company's Chief Executive Officer and each of the executive officers of the Company who received in excess of \$100,000 in compensation during the last fiscal year.

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION			LONG TERM COMPENSATION OPTIONS/SAR'S
		SALARY	BONUS	OTHER	
Raymond Skiptunis (1)	1997	\$0	\$0	\$210,000	0
	1996	\$214,061	\$0	\$0	0
	1995	\$193,542	\$0	\$0	0
George J. Eklund, (2) Chief Executive Officer	1997	\$210,000	\$0	\$0	0
	1996	\$207,924	\$100,000	\$0	300,000
	1995	\$181,866	\$50,000	\$0	0
Donald T. Kelly, (3) Chief Financial Officer	1997	\$90,865	\$20,000	\$0	30,000
Louis J. Monari, (4) Vice President	1997	\$106,077	\$0	\$0	0
	1996	\$91,539	\$20,000	\$0	30,000
	1995	\$90,538	\$15,000	\$0	0
Donald W. Kappauf, (5) Executive Vice President	1997	\$121,154	\$0	\$0	0
	1996	\$110,000	\$20,000	\$0	0
	1995	\$110,000	\$0	\$0	0

- (1) Mr. Skiptunis was replaced as Chief Executive Officer by Mr. Eklund in March, 1996. The other compensation of \$210,000 during 1997 was severance pay.
- (2) Mr. Eklund's employment with the Company commenced on September 19, 1994. He assumed the position of Chief Executive Office in March 1996.
- (3) Mr. Kelly was granted a sign on bonus of \$20,000 at employment, on January 20, 1997.
- (4) Mr. Monari's employment terminated in July, 1997.
- (5) This includes Mr. Kappauf's compensation for the executive vice president position he assumed on August 27, 1997. His compensation in 1997, prior to becoming executive

vice president was \$105,288. Compensation for 1996 and 1995 was for his position as Division Vice President.

The Corporation provides normal and customary life and health insurance benefits to all of its employees including executive officers. The Corporation has no retirement or pension plan other than a 401(k), which is voluntary.

Compensation of Directors

Directors who are employees of the Company are not compensated for services in such capacity except under the Director Plan, as defined below. Non-Employee Directors receive \$400 per meeting, \$50 in travel expenses, and \$250 for each committee meeting. Effective October 1, 1997 the meeting and committee meeting fees were increased to \$1,000 and \$500 respectively.

Employment Agreement

Effective March 12, 1996, the Company entered into a new employment agreement with Mr. Eklund for a three year term. The employment agreement provided for (i) annual compensation of \$210,000 for the first year of the agreement increasing at the discretion of the Company; (ii) a bonus in accordance with a plan to be established by the Company; (iii) the award of stock options to purchase 300,000 shares of the Company's common stock, subject to vesting requirements; (iv) certain insurance and severance benefits; and (v) a \$700 per month automobile allowance. Effective December 16, 1997, Mr. Eklund's position was changed for health reasons. The Company and Mr. Eklund have entered into an agreement regarding the change in his position. Pursuant to this agreement, Mr. Eklund no longer serves as President and Chief Executive Officer of the Company. Mr. Eklund remains a Director. Mr. Eklund will continue to receive his salary and certain other benefits as provided in his original employment agreement.

Effective December 16, 1997, the Company entered into a verbal agreement with Mr. Donald Kappauf wherein Mr. Kappauf assumed the duties of President and Chief Executive Officer. The agreement provides for (i) annual compensation of \$165,000 for the first year of the agreement increasing at the discretion of the Company; (ii) a bonus equivalent to 6% of the Company's pre-tax profit for fiscal 1998 (8% of the amount over \$2,500,000) provided the Company's earnings before taxes are at least \$1,500,000; (iii) the award of stock options to purchase 100,000 shares of the Company's common stock, 50,000 of which will vest in one year while the remainder will vest in two years; (iv) a two year term.

OPTION/SAR GRANTS IN LAST FISCAL YEAR

OPTION/SAR GRANTS IN LAST FISCAL YEAR
(INDIVIDUAL GRANTS)

NAME	NO. OF SECURITIES UNDERLYING OPTIONS GRANTED	PERCENTAGE OF TOTAL OPTIONS/ GRANTED IN FISCAL YEAR	EXERCISE OF BASE PRICE PER SHARE	EXPIRATION DATE
Donald T. Kelly	30,000	29%	\$1.875	01/20/02

AGGREGATED OPTION/SAR EXERCISES IN LAST FISCAL YEAR
AND FY-END OPTION/SAR VALUES

The following table sets forth information with respect to the named executive officers concerning exercise of stock options and SARs during the last fiscal year and the value of unexercised options and SARs held as of the year ended September 30, 1997.

NAME	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS/SARS SEPTEMBER 30, 1997 EXERCISABLE/ UNEXERCISABLE	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AS OF AT SEPTEMBER 30, 1997 EXERCISABLE/ UNEXERCISABLE (1)
-----	-----	-----	-----	-----
George J. Eklund	0	0	300,000/200,000	\$0/\$0
Louis Monari	0	0	30,000/20,000	\$63,900/\$0
Donald W. Kappauf	0	0	100,000/0	\$213,000/\$0
Donald T. Kelly	0	0	10,000/20,000	\$21,300/\$42,600

(1) Based upon a closing bid price of the Common Stock at \$2.1300 per share on September 30, 1997.

1990 STOCK OPTION PLANS

In April, 1990, the Board of Directors adopted the 1990 Employees Stock Option Plan (the "1990 Plan") which was approved by shareholders in August, 1990. The

1990 Plan provides for the grant of options to purchase up to 1,000,000 shares of the Company's common stock. Under the terms of the 1990 Plan, options granted thereunder may be designated as options which qualify for incentive stock option treatment ("ISOs") under Section 422A of the Code, or options which do not so qualify ("Non-ISO's").

The 1990 Plan is administered by a Stock Option Committee designated by the Board of Directors. The Stock Option Committee has the discretion to determine the eligible employees to whom, and the times and the price at which, options will be granted; whether such options shall be ISOs or Non-ISOs; the periods during which each option will be exercisable; and the number of shares subject to each option. The Committee has full authority to interpret the 1990 Plan and to establish and amend rules and regulations relating thereto.

Under the 1990 Plan, the exercise price of an option designated as an ISO shall not be less than the fair market value of the common stock on the date the option is granted. However, in the event an option designated as an ISO is granted to a ten percent (10%) shareholder (as defined in the 1988 Plan), such exercise price shall be at least 110% of such fair market value. Exercise prices of Non-ISO options may be less than such fair market value.

The aggregate fair market value of shares subject to options granted to a participant, which are designated as ISOs and which become exercisable in any calendar year, shall not exceed \$100,000.

The Stock Option Committee may, in its sole discretion, grant bonuses or authorize loans to or guarantee loans obtained by an optionee to enable such optionee to pay any taxes that may arise in connection with the exercise or cancellation of an option.

Unless sooner terminated, the 1990 Plan will expire in April 2000.

In April 1990, the Board of Directors adopted the Non-Executive Director Stock Option Plan (the "Director Plan") which was approved by shareholders in August, 1991 and amended in March 1996. The Director Plan provides for issuance of a maximum of 500,000 shares of common stock upon the exercise of stock options arising under the Director Plan. Options may be granted under the Director Plan until April, 2000 to: (i) non-executive directors as defined and, (ii) members of any advisory board established by the Company who are not full-time employees of the Company or any of its subsidiaries. The Director Plan provides that each non-executive director is automatically granted an option to purchase 5,000 shares upon joining the Board and each September 1st, pro rata, based on the time the director has served in such

capacity during the previously year. Similarly, each eligible director of an advisory board will receive on each September 1st an option to purchase 5,000 shares of the Company's common stock each September 1st. The Directors' Plan also provides that directors, upon joining the Board, and for one (1) year thereafter, will be entitled to purchase restricted stock from the Company at a price equal to 80% of the closing bid price on the date of purchase up to an aggregate purchase price of \$50,000.

The exercise price for options granted under the Director Plan shall be 100% of the fair market value of the common stock on the date of grant. Until otherwise provided in the Stock Option Plan, the exercise price of options granted under the Director Plan must be paid at the time of exercise, either in cash, by delivery of shares of common stock of the Company or by a combination of each. The term of each option commences on the date it is granted and unless terminated sooner as provided in the Director Plan, expires five (5) years from the date of grant. The Director Plan shall be administered by a committee of the board of directors composed of not fewer than three persons who are officers of the Company (the "Committee"). The Committee has no discretion to determine which non-executive director or advisory board member will receive options or the number of shares subject to the option, the term of the option or the exercisability of the option. However, the Committee will make all determinations of the interpretation of the Director Plan. Options granted under the Director Plan are not qualified for incentive stock option treatment.

In April 1990, the Board of Directors adopted and in August, 1990, the Company's shareholders approved the Senior Management Incentive Plan (the "Management Plan") for use in connection with the issuance of stock, options and other stock purchase rights to executive officers and other key employees and consultants who render significant services to the Company and its subsidiaries. It is contemplated that only those executive management employees (generally the Chairman of the Board, Chief Executive Officer, Chief Operating Officer, President and Vice Presidents of the Company or Presidents of the Company's subsidiaries) who perform services of special importance to the Company will be eligible to participate under the Management Plan. A total of 5,000,000 shares of common stock will be reserved for issuance under the Management Plan. Awards made under the Management Plan will be subject to three-(3) year vesting periods, although the vesting periods are subject to the discretion of the Administrator.

Unless otherwise indicated, the Management Plan is to be administered by the Board of Directors or a committee of the Board, if one is appointed for this purpose (the Board or such committee, as the case may be, shall be referred to in the following description as the "Administrator"). The Management Plan generally provides that, unless the Administrator determines otherwise, each option or right granted under a plan shall become exercisable in full upon certain "change of control" events as

described in the Management Plan. If any change is made in the stock subject to the Management Plan, or subject to any right or option granted under the Management Plan (through merger, consolidation, reorganization, recapitalization, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or otherwise), the Administrator will make appropriate adjustments to such plans and the classes, number of shares and price per share of stock subject to outstanding rights or options. The Management Plan permits awards until April, 2000.

Directors who are not otherwise employed by the Company will not be eligible for participation in the Management Plan.

The Management Plan provides four types of awards: stock options, incentive stock rights, stock appreciation rights (including limited stock appreciation rights) and restricted stock purchase agreements, as described below.

Options granted under the Management Plan may be either incentive stock options ("ISOs") or options which do not qualify as ISOs ("non-ISOs") similar to the options granted under the 1990 Plan.

Incentive stock rights consist of incentive stock units equivalent to one share of common stock in consideration for services performed for the Company. If the employment or consulting services of the holder with the Company terminate prior to the end of the incentive period relating to the units awarded, the rights shall thereupon be null and void, except that if termination is caused by death or permanent disability, the holder or his heirs, as the case may be, shall be entitled to receive a pro-rata portion of the shares represented by the units, based upon that portion of the incentive period which shall have elapsed prior to the death or disability.

Restricted stock purchase agreements provide for the sale by the Company of shares of common stock at a price to be determined by the Board of Directors, which shares shall be subject to restrictions on disposition for a stated period during which the purchaser must continue employment with the Company in order to retain the shares. Payment can be made in cash, a promissory note or a combination of both. If termination of employment occurs for any reason within six months after the date of purchase, or for any reason other than death or by retirement with the consent of the Company after the six month period, but prior to the time that the restrictions on disposition lapse, the Company shall have the option to reacquire the shares at the original purchase price.

Restricted shares awarded under the Management Plan will be subject to a period of time designated by the Administrator (the "restricted period") during which the

recipient must continue to render services to the Company before the restricted shares will become vested. The Administrator may also impose other restrictions, terms and conditions that must be fulfilled before the restricted shares may vest.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information as of January 2, 1998 with respect to each director, each of the named executive officers as defined in Item 402(a)(3), and directors and executive officers of the Company as a group, and to the persons known by the Company to be the beneficial owner of more than five percent of any class of the Company's voting securities.

Name of Shareholder -----	Number of Shares Presently Owned(1) -----	Percent of Company's Outstanding Stock -----
Karl W. Dieckmann(2) c/o Digital Solutions, Inc. 300 Atrium Drive Somerset, NJ 08873	310,743	1.6%
George J. Eklund(3) c/o Digital Solutions, Inc. 300 Atrium Drive Somerset, NJ 08873	379,545	2.0%
Senator John H. Ewing(4) 76 Claremont Road Barnardsville, NJ 07924	120,625	*
William J. Marino(5) c/o Blue Cross/Blue Shield of New Jersey 3 Penn Plaza East Newark, NJ 07105	88,617	*
Donald W. Kappauf(6) c/o Digital Solutions, Inc. 300 Atrium Drive Somerset, NJ 08873	526,248	2.75%

Donald T. Kelly(7) c/o Digital Solutions, Inc. 300 Atrium Drive Somerset, NJ 08873	18,850	*
All officers and directors as a group (6) persons (2,3,4,5,6,7)	1,444,628	7.55%

* Less than 1 percent.

- (1) Ownership consists of sole voting and investment power except as otherwise noted.
- (2) Includes options to purchase 10,000 shares of the Company's common stock, and warrants to purchase 10,000 shares of common stock, and excludes unvested options to purchase 5,000 shares of common stock.
- (3) Includes options to purchase 300,000 shares of the Company's common stock, and excludes unvested options to purchase 200,000 shares of common stock.
- (4) Includes options to purchase 35,000 shares of common stock, and excludes unvested options to purchase 5,000 shares of common stock.
- (5) Includes options to purchase 10,000 shares of the Company's common stock, and excludes unvested options to purchase 5,000 shares of common stock.
- (6) Includes options to purchase 150,000 shares of the Company's common stock, and excludes unvested options to purchase 150,000 shares of common stock.
- (7) Includes options to purchase 10,000 shares of common stock, and excludes unvested options to purchase 70,000 shares of common stock.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

For information concerning employment agreements with and compensation of the Corporation's executive officers and directors, see "Executive Compensation".

(a) 1. Financial Statements

The financial statements and schedules of the Company are included in Part II, Item 8 of this report and appear as pages F-1 through F-18 and includes page S-1.

2. All other schedules have been omitted since the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the Consolidated Financial Statements or the notes thereto.

3. Exhibit List

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.

EXHIBIT

EXHIBIT NO.	DESCRIPTION
3.1 --	Amended and Restated Certificate of Incorporation of Registrant (Exhibit A to Definitive Proxy Material dated July 20, 1990)
3 (c) --	By-Laws of Registrant (Exhibit 10.1 to Form 8-K dated March 21, 1990)
10.6.1 *--	Lease dated May 30, 1997 for office space at 300 Atrium, Somerset, New Jersey
10.15.1 -	Employment agreement between George J. Eklund and the Company dated March 12, 1996
10.15.2 *--	Amended employment agreement between George J. Eklund and the Company dated December 16, 1997
10.16.1 *--	Seventh Amended Loan Agreement between Registrant and Summit Bank and sixth amended Promissory Note

- 21.0 -- Subsidiaries (Exhibit 21 to Form 10-K for fiscal 1996)
- 23.1 *-- Consent of Arthur Andersen, LLP to the incorporation of its report on the Company's financial statements for the fiscal year ended 1997 into the Company's registration Statement on form S-3 file number 33-85526.
- 23.2 *-- Consent of Arthur Andersen, LLP to the incorporation of its report on the Company's financial statements for the fiscal year ended 1997 into the Company's registration Statement on form S-3 file number 33-70928.
- 23.3 *-- Consent of Arthur Andersen, LLP to the incorporation of its report on the Company's financial statements for the fiscal year ended 1997 into the Company's registration Statement on form S-3 file number 33-91700.
- 23.4 *-- Consent of Arthur Andersen, LLP to the incorporation of its report on the Company's financial statements for the fiscal year ended 1997 into the Company's registration Statement on form S-3 file number 33-09313.
27. *-- Financial Data Schedule.
- (b) Reports on Form 8-K. No 8-K reports were filed in the last fiscal quarter.
- (c) See Item (a)(3) above.
- (d) See Schedule II annexed hereto and appearing at page S-1.

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.

DIGITAL SOLUTIONS, INC.

/s/Donald W. Kappauf

Donald W. Kappauf
President and Chief Executive Officer

Dated: January 13, 1998

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/George J. Eklund ----- George J. Eklund	Director	January 13, 1998
/s/Karl W. Dieckmann ----- Karl W. Dieckmann	Chairman of the Board	January 13, 1998
/s/John H. Ewing ----- Senator John H. Ewing	Director	January 13, 1998
/s/William J. Marino ----- William J. Marino	Director	January 13, 1998
/s/Donald W. Kappauf ----- Donald W. Kappauf	President & Chief Executive Officer	January 13, 1998
/s/Donald T. Kelly ----- Donald T. Kelly	Chief Financial Officer & Corporate Secretary	January 13, 1998

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Schedules other than those listed above have been omitted as they are either not required or because the related information has been included in the notes to consolidated financial statements	

To the Board of Directors and Shareholders of

Digital Solutions, Inc.:

We have audited the accompanying consolidated balance sheets of Digital Solutions, Inc. and subsidiaries (the "Company") as of September 30, 1997 and 1996, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended September 30, 1997. These consolidated financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Digital Solutions, Inc. and subsidiaries as of September 30, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1997 in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedule listed in the index to the financial statements is presented for purposes of complying with the Securities and Exchange Commission's rules and regulations and is not part of the basic consolidated financial statements. This schedule has been subjected to the auditing procedures applied in our audit of the basic consolidated financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Roseland, New Jersey
December 23, 1997

DIGITAL SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF SEPTEMBER 30, 1997 AND 1996

ASSETS -----	1997 ----	1996 ----
CURRENT ASSETS:		
Cash	\$841,000	\$0
Restricted cash (Note 8)	738,000	1,155,000
Accounts receivable, net of allowance for doubtful accounts of \$862,000 at September 30, 1997 and \$339,000 at September 30, 1996	5,820,000	6,338,000
Notes due from officers	0	136,000
Other current assets	402,000	189,000
	-----	-----
Total current assets	7,801,000	7,818,000
	-----	-----
EQUIPMENT AND IMPROVEMENTS:		
Equipment	3,170,000	2,883,000
Leasehold improvements	47,000	180,000
	-----	-----
	3,217,000	3,063,000
Less - accumulated depreciation and amortization	2,310,000	2,226,000
	-----	-----
	907,000	837,000
DEFERRED TAX ASSET (Note 4)	760,000	760,000
GOODWILL, net of accumulated amortization of \$835,000 in 1997 and \$713,000 in 1996 (Notes 2 and 3)	4,344,000	4,780,000
OTHER ASSETS	351,000	605,000
	-----	-----
	\$14,163,000	\$14,800,000
	=====	=====

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

DIGITAL SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF SEPTEMBER 30, 1997 AND 1996

LIABILITIES AND SHAREHOLDERS' EQUITY -----	1997 ----	1996 ----
CURRENT LIABILITIES:		
Short-term borrowings (Notes 5 and 8)	\$2,697,000	\$2,907,000
Current portion of long-term debt (Note 7)	113,000	88,000
Accounts payable	2,254,000	1,620,000
Accrued expenses and other current liabilities (Note 6)	4,138,000	2,917,000
	-----	-----
Total current liabilities	9,202,000	7,532,000
LONG-TERM DEBT, net of current portion (Note 7)	89,000	100,000
	-----	-----
Total liabilities	9,291,000	7,632,000
	-----	-----
COMMITMENTS AND CONTINGENCIES (Note 8)		
SHAREHOLDERS' EQUITY (Notes 8 and 9):		
Common stock, \$.001 par value; authorized 40,000,000 shares; issued and outstanding 19,141,760 in 1997 and 18,786,609 in 1996	19,000	19,000
Additional paid-in capital	13,393,000	12,857,000
Accumulated deficit	(8,540,000)	(5,708,000)
	-----	-----
	4,872,000	7,168,000
	-----	-----
	\$14,163,000	\$14,800,000
	=====	=====

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

DIGITAL SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended September 30		
	1997	1996	1995
OPERATING REVENUES	\$122,695,000	\$100,927,000	\$73,821,000
DIRECT OPERATING COSTS	113,894,000	92,490,000	68,530,000
Gross profit	8,801,000	8,437,000	5,291,000
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 8)	10,306,000	7,972,000	6,702,000
DEPRECIATION AND AMORTIZATION	1,010,000	829,000	845,000
Loss from operations	(2,515,000)	(364,000)	(2,256,000)
OTHER CREDITS (CHARGES):			
Interest income	60,000	173,000	124,000
Interest expense (Notes 5 and 7)	(377,000)	(422,000)	(935,000)
Other income (expense)	0	50,000	(386,000)
	(317,000)	(199,000)	(1,197,000)
Loss before income taxes	(2,832,000)	(563,000)	(3,453,000)
INCOME TAX (EXPENSE) BENEFIT (Note 4)	0	(34,000)	137,000
Net loss	(\$2,832,000)	(\$597,000)	(\$3,316,000)
NET LOSS PER COMMON SHARE	(\$0.15)	(\$0.04)	(\$0.24)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	19,070,349	16,840,371	13,595,382

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

DIGITAL SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED SEPTEMBER 30, 1997, 1996 AND 1995

	Common Stock		Additional Paid-In Capital	Deficit
	Shares Issued (Retired)	Amount		
BALANCE, September 30, 1994	12,125,753	\$ 12,000	\$ 6,492,000	\$ (1,795,000)
Exercise of stock options	1,605,426	2,000	853,000	
Exercise of stock warrants	206,500	-	110,000	
Retirement of common stock in connection with exercise of stock options and warrants	(249,255)	-	-	
Common stock issued in connection with the acquisition of Staff Rx	360,000	-	743,000	
Expenses related to private placement of common stock	-	-	(164,000)	
Common stock issued in connection with the acquisition of Turnkey Services, Inc.	68,205	-	166,000	
Common stock retired related to the acquisition of The Alternative Source, Inc., Ram Technical Corp. and MLB Medical Staffing, Inc.	(112,714)	-	(254,000)	
Net loss	-	-	-	(3,316,000)
BALANCE, September 30, 1995	14,003,915	14,000	7,946,000	(5,111,000)
Common stock issued in connection with private placements, net of expenses	2,304,200	2,000	4,526,000	-
Common stock received and retired in satisfaction of officer loans	(107,130)	-	(679,000)	-
Common stock issued	525,000	1,000	228,000	-
Exercise of stock options	794,157	1,000	48,000	-
Exercise of stock warrants	1,209,799	1,000	703,000	-
Stock issued for services rendered	56,668	-	85,000	-
Net loss	-	-	-	(597,000)
BALANCE, September 30, 1996	18,786,609	19,000	12,857,000	(5,708,000)
Exercise of stock options	204,471	-	53,000	
Exercise of stock warrants	117,347	-	181,000	
Stock issued for employee bonus	33,333	-	100,000	
Proceeds related to LNB settlement, net of expenses	-	-	202,000	
Net loss	-	-	-	(2,832,000)
BALANCE, September 30, 1997	19,141,760	\$ 19,000	\$ 13,393,000	\$ (8,540,000)

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

DIGITAL SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended September 30		
	1997	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	(\$2,832,000)	(\$597,000)	(\$3,316,000)
Adjustments to reconcile net loss to net cash used in operating activities-			
Deferred income taxes	0	0	(160,000)
Depreciation and amortization	1,010,000	829,000	845,000
Provision for doubtful accounts	1,120,000	462,000	153,000
Amortization of rent deferral	0	0	28,000
Stock issued employee bonus	100,000	85,000	0
Changes in operating assets and liabilities-			
Increase in accounts receivable	(602,000)	(1,871,000)	(2,490,000)
Decrease (increase) in other assets	(106,000)	239,000	(909,000)
Increase (decrease) in accounts payable, accrued expenses and other current liabilities	1,855,000	(278,000)	2,806,000
Decrease in other liabilities	0	(75,000)	(55,000)
Decrease (increase) in restricted cash	417,000	(1,155,000)	0
Net cash provided by (used in) operating activities	962,000	(2,361,000)	(3,098,000)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of equipment and improvements	(361,000)	(187,000)	(355,000)
Acquisitions of businesses, net of cash acquired	0	0	(1,351,000)
Net cash used in investing activities	(361,000)	(187,000)	(1,706,000)

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

For the Years Ended September 30

	1997	1996	1995
CASH FLOWS FROM FINANCING ACTIVITIES:			
(Repayments) proceeds from borrowings on revolving line of credit	(\$210,000)	(\$225,000)	\$2,122,000
Principal payments on long-term debt	0	(941,000)	(443,000)
(Principal payments) proceeds on subordinated bridge loan	0	(1,887,000)	1,887,000
Proceeds from other borrowings, net of repayments	14,000	71,000	837,000
Net proceeds from issuance of common stock, net of expenses	0	4,528,000	245,000
Net proceeds from the exercise of stock options and warrants	234,000	753,000	0
Net proceeds from common stock issued	0	229,000	0
Proceeds from LNB settlement, net of expenses	202,000	0	0
Other	0	0	(2,000)
Net cash provided by financing activities	240,000	2,528,000	4,646,000
Net increase (decrease) in cash	841,000	(20,000)	(158,000)
CASH AT BEGINNING OF PERIOD	0	20,000	178,000
CASH AT END OF PERIOD	\$841,000	\$0	\$20,000
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the period for- Interest	\$363,000	\$412,000	\$705,000
SUPPLEMENTAL DISCLOSURES OF NONCASH TRANSACTIONS:			
Value of common stock issued in a business acquisition	\$0	\$0	\$909,000
Value of common stock retired in satisfaction of shareholder loans	\$0	\$679,000	\$0

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

(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 services, payroll processing, human resource administration and placement of temporary and permanent employees.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation-

The accompanying consolidated financial statements include those of DSI, a New Jersey Corporation and its wholly-owned subsidiaries; DSI Contract Staffing, DSI Staff ConnXions-Northeast, DSI Staff ConnXions Southwest, and DSI Staff Rx, Inc. The results of operations of acquired companies (see Note 3) 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.

As more fully explained in Note 5, the Company has recently extended its line of credit and is currently in discussion with several financial institutions to receive additional financing for its capital needs. In addition, management has instituted several cost reduction programs in an effort to address its recurring operating losses. These management initiatives have resulted in return to profitability of the Company in the 4th quarter of fiscal 1997. Based upon the actions instituted and forecast operating cash flows, management of the Company believes it can sustain operations for at least twelve months from September 30, 1997.

Use of Estimates-

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Policy-

The Company recognizes revenue in connection with its professional employer organization program (PEO) and its temporary placement service program when the services have been provided. Revenues represent 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 the acquisition date and is being amortized on a straight line basis over 20 years for substantially all of the Company's acquisitions (see Note 3). Goodwill amortization expense charged to operations was approximately \$434,000 for 1997, \$415,000 for 1996 and \$327,000 for 1995. Amortization expense for 1997 and 1996 includes a provision for goodwill impairment as described below.

During 1995, the Company adopted the provisions of Statement of Financial Accounting Standard No. 121, "Accounting for the Impairment of Long-Lived Assets" ("SFAS 121"). SFAS 121 requires, among other things, that an entity review its long-lived assets and certain related intangibles for impairment whenever changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. As a result of certain of the acquisitions described in Note 3 experiencing operating cash flow losses, the Company, utilizing the present value of estimated future cash flows from these operations discounted at a rate of return (15%), determined that some impairment had occurred in certain of these acquisitions. As a result, the Company charged approximately \$195,000 and \$180,000 of additional amortization to depreciation and amortization for the year ended September 30, 1996 and 1995, respectively.

In 1997, the Company decided not to remain in the insurance business and elected to write off \$261,000 in intangible assets of Digital Insurance, Inc.

Insurance Programs-

The Company previously maintained a large deductible workers' compensation insurance program which was replaced on April 1, 1997 with a new program. Under the old program the Company still maintains a reserve for claims that are outstanding as of the balance sheet date. However the new program requires the funding of anticipated loss reserves on a current basis. To be conservative the Company expenses the maximum loss it can be held accountable for under this program which is greater than the current funding requirement.

Net Loss Per Common Share-

Net loss per common share is based upon the weighted average number of shares outstanding. Outstanding stock options and warrants have not been considered in the computations of net loss per common share in 1997, 1996 and 1995 since their effect was antidilutive. In March, 1997 the Financial Accounting Standards Board issued Statement on Financial Accounting Standards Number 128, (Earnings Per Share) [(SFAS No. 128)]. SFAS No. 128 is effective for fiscal years ending after December 15, 1997, and when adopted, it will require restatement of prior year earnings per share. If the Company had adopted SFAS No. 128 for the year ended September, 1997 there would have been no effect on earnings per share.

Statement 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) ACQUISITIONS:

The following acquisitions have been accounted for under the purchase method of accounting. Accordingly, the results of operations of these entities have been included in the consolidated financial statements of the Company since the date of acquisition.

Turnkey Services, Inc.-

In May 1995, the Company, through its subsidiary, DSI Staff ConnXions-Southwest, purchased certain assets of a PEO company located in El Paso, Texas, Turnkey Services, Inc. The assets acquired included 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, the Company paid to Turnkey \$784,000 in cash and a note payable and issued common stock in the amount of \$166,000. In addition, the Company incurred approximately \$200,000 in transaction costs and recorded goodwill of approximately \$989,000 associated with this acquisition.

If this acquisition had been included in the consolidated financial statements for the entire year ended September 30, 1995, the effect would not have been significant.

Staff Rx, Inc.-

In November 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 \$266,000 in transaction costs and recorded goodwill of approximately \$1,766,000, associated with this acquisition.

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

If this acquisition had been included in the consolidated financial statements for the entire year ended September 30, 1995, the effect would not have been significant.

(4) INCOME TAXES:

At September 30, 1997, the Company had available operating loss carryforwards of approximately \$6,945,000 to reduce future periods' taxable income. The carryforwards expire in various years beginning in 2004 and extending through 2012.

The Company has recorded a \$760,000 deferred tax asset at September 30, 1997 and 1996. This represents management's estimate of the income tax benefits to be realized upon utilization of a portion of its net operating losses for which management believes utilization to be more likely than not. In order for the Company to realize a \$760,000 tax benefit, the Company would have to generate approximately \$2,000,000 in future taxable income. Management believes the Company's operations can generate sufficient taxable income to realize this tax asset as a result of recent business developments, its ability to meet its operating plan as well as the resolution of significant past problems which had adversely affected the Company in prior years.

The income tax benefit reflected in the consolidated statement of operations for 1995 represents a portion of the recorded deferred tax asset described above.

An analysis of the Company's deferred income tax asset is as follows-

	1997	1996
Net operating loss carryforwards	\$2,500,000	\$1,985,000
Accrued workers' compensation	476,000	278,000
Allowance for doubtful accounts	310,000	122,000
Other items, net	154,000	0
Gross deferred income tax asset	3,440,000	2,335,000
Valuation allowance	(2,680,000)	(1,575,000)
Deferred income tax asset	\$760,000	\$760,000

(5) SHORT-TERM BORROWINGS:

In February 1995, the Company entered into a one year revolving credit line facility (the "Line") with a bank which was subsequently extended and amended on seven occasions. Each loan extension has been for limited periods of time. The fifth amendment executed as of December 31, 1996, restricted the Company from borrowing any additional funds available on the Line and required weekly principal payments of \$10,000, effective February 24, 1997. Effective October 31, 1997, the Company entered into the seventh amendment to the loan agreement. Under the terms of this agreement, which expires October 31, 1998, the Company was required to grant to the bank 500,000 warrants to purchase the Company's common stock. The warrants will vest in amounts of 200,000 and 300,000 as of April 30, 1998 and October 31, 1998, respectively, if the obligations under the loan agreement are not paid in full by these dates. The warrants have an exercise price of \$2.4375 per share which was the fair market value of the stock at the date of the agreement. The Company is obligated to make monthly payments of interest on the outstanding amounts at the bank's floating base rate plus three percent (11.5% at September 30, 1997). The Line is collateralized by all of the Company's assets. On December 1, 1997, as a requirement of the Line, the Company raised \$250,000. These funds were an equity investment provided by its directors, a former director and executive officers and will be available for general corporate purposes.

To address the capital needs of the Company, management is presently in discussions with several financial institutions. There can be no assurance that the Company will be successful in its efforts to raise additional funds.

During 1995, the Company issued approximately \$1,975,000 of Subordinated Bridge Notes to various investors. The notes bore interest at a rate of 12% per annum (which was increased to 16% in November, 1995 in consideration for extending the maturity date) and were repaid in full in 1996. In connection with the issuance of these notes, the Company also granted these investors warrants to purchase the Company's common stock (see Note 9).

Other information with respect to short term borrowings for 1997 and 1996 is as follows-

	1997	1996
Balance at end of period	\$2,697,000	\$2,907,000
Maximum amount outstanding during period	3,017,000	5,019,000
Weighted average balance outstanding during the period	2,916,000	3,382,000
Weighted average interest rate during the period	11.16%	12.31%

(6) ACCRUED EXPENSES AND
OTHER CURRENT LIABILITIES:

Accrued expenses and other current liabilities at September 30, 1997 and 1996 consist of the following-

	1997	1996
	-----	-----
Payroll and payroll taxes	\$2,271,000	\$1,888,000
Worker's compensation insurance reserves	1,321,000	631,000
Legal	134,000	100,000
Other	412,000	298,000
	-----	-----
	\$4,138,000	\$2,917,000
	=====	=====

(7) LONG-TERM DEBT:

Long-term debt at September 30, 1997 and 1996 consists of the following-

	1997	1996
	-----	-----
Leases	\$202,000	\$188,000
Less- Current portion	(113,000)	(88,000)
	-----	-----
	\$89,000	\$100,000
	=====	=====

Maturities of long-term debt as of September 30, 1997 are as follows-

Year Ending September 30	

1998	\$113,000
1999	48,000
2000	34,000
2001	7,000

	\$202,000
	=====

(8) COMMITMENTS AND CONTINGENCIES:

Leases-

In November 1991, the Company entered into a lease for its corporate headquarters facility. The lease term extended 69 months with fixed monthly payments of \$18,000. The Company recognized rent expense of \$253,000 under this lease in 1997, 1996 and 1995. Commencing September, 1997, the Company relocated its corporate headquarters to a new facility. The lease for this facility extends through September, 2007 and provides for minimum annual payments of \$286,000. The old lease was a triple net lease resulting in actual total payments approximating the lease payments in the new building. Rent expense under all operating leases was \$537,000 in 1997, \$627,000 in 1996 and \$384,000 in 1995.

Minimum payments under noncancellable lease obligations at September 30, 1997 are as follows-

Year Ending September 30 -----	
1998	\$ 567,000
1999	572,000
2000	434,000
2001	353,000
2002	308,000
Thereafter	1,601,000

	\$ 3,835,000
	=====

Workers' Compensation Policy-

In connection with the Company's former workers' compensation insurance policy which expired on April 1, 1997, the insurance company developed reserve factors on each claim that may or may not materialize after the claim is fully investigated. Generally Accepted Accounting Principles 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 September 30, 1997 and September 30, 1996, this accrual amounted to \$818,000 and \$631,000, respectively. On April 1, 1997, the Company entered into a workers' compensation policy with a new carrier. Under the terms of the new workers' compensation insurance program the Company fully accrues the maximum loss on a monthly basis. During the twelve months ended September 30, 1997 and 1996, the Company recognized approximately \$868,000 and \$1,332,000, respectively, as its share of premiums collected from customers covered by these policies in excess of claims and fees paid. The decrease in reported workers' compensation profit is due to the revised methodology in evaluating the Company's exposure as reported in the Company's second fiscal quarter 10-Q and the new insurance program.

The Company has outstanding letters of credit amounting to \$1,193,000 as of September 30, 1997. The letters of credit are required to collateralize unpaid claims in connection with the Company's former 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. The Company has collateralized these letters of credit by maintaining compensating restricted cash balances of \$738,000 and utilizing \$455,000 of amounts available under its line of credit. The Company's current policy does not require a letter of credit because the Company funds the estimated loss reserves on a monthly basis.

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 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. As a result, the financing agreement was terminated and never funded. Through the efforts of the Company, 1,258,334 of these shares were recovered and the Company received proceeds of \$229,000 for a partial payment on the 525,000 shares not 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. On July 2, 1997, the Company settled the action. Without admitting or denying the allegations in the complaint, the defendants agreed to pay \$676,000 of which \$426,000 (\$202,000, net of expenses) has been paid with the balance of \$250,000 to be paid by LNB on or before August 4, 1997. The payment was not made by LNB as of December 16, 1997 and as a result, the Company has commenced collection proceedings. The subsequent payment is secured by a confession of judgment and a mortgage in the amount of \$625,000. The payments under the settlement agreement are in addition to \$229,000 previously received from LNB bringing the total recovered to approximately \$905,000, assuming LNB complies with the terms of the settlement and remits the last payment of \$250,000. The agreement also provides that upon payment of all sums due under the settlement agreement, LNB shall be deemed to have made full restitution to the Company for the claims alleged in the action.

At September 30, 1997 the Company is involved in various other legal proceedings incurred in the normal course of business. In the opinion of management and its counsel, none of these proceedings would have a material effect, if adversely decided, on the consolidated financial position or results of operations of the Company.

(9) SHAREHOLDERS' EQUITY

Private Placements-

In November, 1995, the Company issued in a private placement 500 Shares of \$.10 par value Series B Convertible Preferred Stock. Holders of the preferred stock were entitled to dividends of \$60 per annum, payable semiannually and had the right to convert up to 50% of their shares at any time after 41 days from the date of issuance of the Series B Preferred Stock and 100% after 60 days after issuance into the Company's common stock at a conversion price equaled to 75% of the average closing price at the date of conversion. In January 1996, holders of the Company's preferred stock exercised their conversion privilege and received 421,792 shares of the Company's common stock. The Company realized net proceeds of \$437,000 from the proceeds of this offering.

Additionally, during 1996 the Company raised an additional \$4,091,000, net of expenses through a private placement of 1,882,408 shares of its common stock. The proceeds from these offerings were used in part to pay down the balance on the Subordinated Bridge Notes, collateralize letters of credit issued to secure the Company's workers' compensation program (see Note 8) and for working capital needs.

On December 1, 1997, as a requirement of the extension of its bank line of credit, the Company raised \$250,000. These funds were an equity investment provided by its directors, a former director and executive officers and will be available for general corporate purposes.

Stock Warrants -

The following is a summary of the outstanding warrants to purchase the Company's common stock at September 30, 1997 as a result of various debt and equity offerings that have occurred since the Company's inception:

Exercise Period From	Exercise Period To	Exercise Price Per Common Share	Number of Shares of Common Stock Reserved
-----	-----	-----	-----
October 1991	October 2001	0.75	100,000
June 1993	June 1998	0.75	25,000
August 1993	August 1998	0.75	300
September 1993	September 1998	1.06	50,000
January 1995	January 2000	1.90	64,350
April 1995	April 2000	2.50	5,000
October 1995	October 2000	2.25	24,000
December 1995	December 2000	1.56	5,000
June 1996	June 2001	2.70	112,979

			386,629
			=====

Stock Option Plans -

In April 1990 the Company adopted three stock option plans, the 1990 Employees Stock Option Plan, the Non-Executive Director Stock Option Plan, and the Senior Management Incentive Plan (collectively the "1990 Plans"). The 1990 Plans will remain in effect until April 2000 or unless terminated sooner by the Board of Directors.

The 1990 Employees Stock Option Plan (the "Employee Plan") provides for options to be granted to employees, including certain officers of the Company, for the purchase of up to 1,000,000 shares of common stock. Some of the options granted under the 1990 Plan are intended to qualify as incentive stock options under the Internal Revenue Code. The exercise price of incentive stock options granted may not be less than the fair market value of the shares on the date of grant, or in certain circumstances, an option price at least equal to 110% of the fair market value of the stock at the time the option is granted. Options granted under the plan may not be exercised more than ten years from the date of the grant (or in certain circumstances, five years from the date of grant).

The Non-Executive Director Stock Option Plan (the "Director Plan"), provides for the issuance of options for the purchase of up to 500,000 shares of common stock. Eligible participants are directors of the Company who are also not employees of the Company and nonemployee directors of any advisory board established by the Company. Under the terms of the Director Plan, the exercise price of options granted will equal 100% of the fair market value of the common stock at the date the options are granted. Options will be granted to eligible participants as follows: 5,000 upon becoming nonexecutive directors and 5,000 each September 1, commencing September 1, 1990 provided such person had been eligible for the preceding 12 months. Directors of advisory boards will receive on each September 1 an option to purchase 10,000 shares of common stock, providing such director has served as a director of the advisory board for the previous 12 month period. The term of each option commences on the date it is granted and expires five years from grant date unless terminated sooner as provided in the Director Plan.

The Senior Management Incentive Plan (the "Management Plan") provides for the issuance of stock, options and other stock rights to executive officers and other key employees who render significant services to the Company. Under the terms of the Management Plan, the exercise price of options granted will equal 100% of the fair market value of the common stock at the date the options are granted. A total of 5,000,000 shares of common stock have been reserved for issuance under the Management Plan. Awards made under the Management Plan are generally subject to three-year vesting periods (subject to the discretion of the Board of Directors), but may become exercisable in full upon certain "change of control" events as defined in the Management Plan.

The following tables summarizes the activity in the Company's stock option plans for the year ended September 30, 1997 and 1996.

Plan	Options Outstanding September 30, 1996	Granted (1)	Canceled	Exercised	Options Outstanding September 30, 1997
Employee Plan	248,558	60,000	135,751	79,682	93,125
Director Plan	71,250	15,000	10,000	0	76,250
Management Plan	977,540	30,000	207,751	124,789	675,000
	1,297,348	105,000	353,502	204,471	844,375

(1) Options granted during 1997 have a weighted average exercise price and weighted average fair value of \$1.875 and \$1.12, respectively.

Plan	Options Outstanding September 30, 1995	Granted(2)	Canceled	Exercised	Options Outstanding September 30, 1996
Employee Plan	186,964	131,500	6,655	63,251	248,558
Director Plan	70,000	31,250	0	30,000	71,250
Management Plan	1,451,500	350,000	123,054	700,906	977,540
	1,708,464	512,750	129,709	794,157	1,297,348

(2) Options granted during 1996 have a weighted average exercise price and weighted average fair value of \$4.63 and \$2.40, respectively.

During 1997, certain individuals exercised options by delivering to the Company shares previously purchased in consideration for the option price. The amounts reflected in additional paid in capital are net of the fair market value of the shares redeemed by the Company.

Options outstanding as of September 30, 1997 become exercisable as follows-

Plan	Exercise Price	Total	1997	1998	1999	Thereafter
Employee Plan	\$0.75- \$6.50	93,125	41,178	24,614	15,833	11,500
Director Plan	\$0.81- \$4.4375	76,250	61,250	15,000	0	0
Management Plan	\$.875- \$5.8125	675,000	438,999	124,000	112,001	0
		844,375	541,427	163,614	127,834	11,500

In accordance with Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("FAS 123"), which was effective October 1, 1996, the fair value of option grants is estimated on the date of grant using the Black-Scholes option-pricing model for proforma footnote purposes with the following assumptions used for options granted subsequent to October 1, 1996; dividend yield of 0%, risk-free interest rate of 6.31% and 6.64% in 1997 and 1996, and expected option life of 4 years. Expected volatility was assumed to be 73.5% and 78% in 1997 and 1996, respectively.

As permitted by FAS 123, the Company has chosen to continue to account for its employee stock-based compensation at their intrinsic value in accordance with Accounting Principle Board Opinion No. 25. Accordingly no compensation expense has been recognized for its stock option compensation plans. Had the fair value method of accounting been applied to the company's stock option plans, the tax-effected impact would be as follows:

(Thousands of dollars except per share amounts)

	1997	1996
Net loss as reported	\$2,832	\$597
Estimated fair value of the year's option grants, net of tax	76	788
Net loss adjusted	\$2,908	\$1,385
Adjusted net loss per share	\$.15	\$.08

DIGITAL SOLUTIONS, INC. AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

FOR THE YEARS ENDED SEPTEMBER 30, 1997, 1996 AND 1995

(a) Description -----	(b) Balance at Beginning of Year -----	(c) Additions Charged to Costs and Expenses -----	(d) Deductions - Net Write-Offs -----	(e) Other Adjustment -----	(f) Balance at End of Year -----
Allowance for doubtful accounts, year ended-					
September 30, 1997	\$339,000 =====	\$1,120,000 =====	(\$597,000) =====	\$0 =====	\$862,000 =====
September 30, 1996	\$150,000 =====	\$462,000 =====	(\$273,000) =====	\$0 =====	\$339,000 =====
September 30, 1995	\$99,000 =====	\$153,000 =====	(\$102,000) =====	\$0 =====	\$150,000 =====

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Exhibit Index

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.

EXHIBIT

EXHIBIT NO.	DESCRIPTION
3.1 --	Amended and Restated Certificate of Incorporation of Registrant (Exhibit A to Definitive Proxy Material dated July 20, 1990)
3 (c) --	By-Laws of Registrant (Exhibit 10.1 to Form 8-K dated March 21, 1990)
10.6.1 *--	Lease dated May 30, 1997 for office space at 300 Atrium, Somerset, New Jersey
10.15.1 -	Employment agreement between George J. Eklund and the Company dated March 12, 1996
10.15.2 *--	Amended employment agreement between George J. Eklund and the Company dated December 16, 1997
10.16.1 *--	Seventh amended Loan Agreement between Registrant and Summit Bank and sixth amended Promissory Note
21.0 --	Subsidiaries (Exhibit 21 to Form 10-K for fiscal 1996)
23.1 *--	Consent of Arthur Andersen, LLP to the incorporation of its report on the Company's financial statements for the fiscal year ended 1997 into the Company's registration Statement on form S-3 file number 33-85526.
23.2 *--	Consent of Arthur Andersen, LLP to the incorporation of its report on the Company's financial statements for the fiscal year ended 1997 into the Company's registration Statement on form S-3 file number 33-70928.
23.3 *--	Consent of Arthur Andersen, LLP to the incorporation of its report on the Company's financial statements for the fiscal year ended 1997 into the Company's registration Statement on form S-3 file number 33-91700.
23.4 *--	Consent of Arthur Andersen, LLP to the incorporation of its report on the Company's financial statements for the fiscal year ended 1997 into the Company's registration Statement on form S-3 file number 33-09313.
27. *--	Financial Data Schedule.

LEASE AGREEMENT BETWEEN

WHATR REAL ESTATE LIMITED PARTNERSHIP,

AS LANDLORD, AND

DIGITAL SOLUTIONS, INC., AS TENANT

DATED MAY 30, 1997

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LEASE

THIS LEASE AGREEMENT (this "LEASE") is entered into as of May , 1997, between WHATR REAL ESTATE LIMITED PARTNERSHIP, a Delaware limited partnership ("LANDLORD"), and DIGITAL SOLUTIONS, INC., a New Jersey corporation ("TENANT").

1. LEASE GRANT. Subject to the terms of this Lease, Landlord leases to Tenant, and Tenant leases from Landlord, Suite No. 103 (the "PREMISES") as depicted in the plan attached as Exhibit A in the office building (the "BUILDING") located at 300 Atrium Drive, Franklin Township, Somerset County, New Jersey 08873. The land on which the Building is located is described on Exhibit B. The term "BUILDING" includes the related land, driveways, parking facilities, and similar improvements.

2. TERM. The term of this Lease shall be approximately 120 months, commencing on the earlier of (a) the date on which Landlord would have delivered the Premises with the Work (as defined in Exhibit D hereto) substantially completed but for Tenant Delay Days (as defined in Exhibit D hereto), if any, or (b) the date on which Tenant occupies the Premises and begins conducting business therein (such earlier date being referred to herein as the "COMMENCEMENT DATE"), and expiring at 5:00 p.m., Somerset, New Jersey time on the last day of the 120th full calendar month following the Commencement Date (the "TERM", which definition shall include all renewals of the initial Term). If the Premises are not ready for occupancy by Tenant on the Commencement Date, then (b) Tenant's obligation to pay Basic Rent and Additional Rent (as defined in Section 3) shall be waived until Landlord tenders possession of the Premises to Tenant, (c) the Term shall be extended by the time between the scheduled Commencement Date and the date on which Landlord tenders possession of the Premises to Tenant, (d) Landlord shall not be in default hereunder or be liable for damages therefor, and (e) Tenant shall accept possession of the Premises when Landlord tenders possession thereof to Tenant.

3. RENT.

(a) BASIC RENT. "BASIC RENT" (herein so called) shall be the following amounts for the following periods of time:

LEASE MONTH -----	MONTHLY BASIC RENT -----
1 - 60	\$23,818.75
61 - 120	\$26,677.00

As used herein, the term "LEASE MONTH" shall mean each calendar month during the Term (and if the Commencement Date does not occur on the first day of a calendar month, the period from

the Commencement Date to the first day of the next calendar month shall be included in the first Lease Month).

(b) PAYMENT. Tenant shall timely pay to Landlord Basic Rent and all additional sums to be paid by Tenant to Landlord under this Lease (collectively, the "RENT"), without deduction or set off, at Landlord's address provided for in this Lease or as otherwise specified by Landlord. Basic Rent, adjusted as herein provided, shall be payable monthly in advance, and shall be accompanied by all applicable state and local sales or use taxes. The first monthly installment of Basic Rent shall be payable contemporaneously with the execution of this Lease; thereafter, Basic Rent shall be payable on the first day of each month beginning on the first day of the second full calendar month of the Term. The monthly Basic Rent for any partial month at the beginning of the Term shall equal the product of 1/365 of the annual Basic Rent in effect during the partial month and the number of days in the partial month from and after the Commencement Date, and shall be due on the Commencement Date.

(c) CONSUMER PRICE INDEX INCREASES TO BASIC RENT. [Intentionally deleted].

(d) OPERATING COSTS.

(1) Tenant shall pay an amount (per each rentable square foot in the Premises) ("ADDITIONAL RENT") equal to the difference between the Operating Costs (defined below) per rentable square foot in the Building and the actual Operating Costs for the calendar year 1997 (the "EXPENSE STOP"). Landlord may collect such amount in a lump sum, which shall be due within 30 days after Landlord furnishes to Tenant the Operating Costs and Tax Statement (defined below). Alternatively, Landlord may make a good faith estimate of the Additional Rent to be due by Tenant for any calendar year or part thereof during the Term, and Tenant shall pay to Landlord, on the Commencement Date and on the first day of each calendar month thereafter, an amount equal to the estimated Additional Rent for such calendar year or part thereof divided by the number of months therein. From time to time, Landlord may estimate and re-estimate the Additional Rent to be due by Tenant and deliver a copy of the estimate or re-estimate to Tenant. Thereafter, but no sooner than 30 days after Landlord's delivery of Landlord's estimate or re-estimate of the Additional Rent, the monthly installments of Additional Rent payable by Tenant shall be appropriately adjusted in accordance with the estimations so that, by the end of the calendar year in question, Tenant shall have paid all of the Additional Rent as estimated by Landlord. Any amounts paid based on such an estimate shall be subject to adjustment as herein provided when actual Operating Costs are available for each calendar year.

(2) The term "OPERATING COSTS" shall mean all expenses and disbursements (subject to the limitations set forth below) that Landlord incurs in connection with the ownership, operation, and maintenance of the Building, determined in accordance with generally accepted accounting principles applicable to real estate consistently applied, including, but not limited to, the following costs: (A) wages and

salaries (including reasonable management fees) of all employees engaged in the operation, maintenance, and security of the Building, including taxes, insurance and benefits relating thereto; (B) all supplies and materials used in the operation, maintenance, repair, replacement, and security of the Building; (C) costs for improvements made to the Building which, although capital in nature, are expected to reduce the normal operating costs of the Building, as well as capital improvements made in order to comply with any law hereafter promulgated by any governmental authority, as amortized over the useful economic life of such improvements as determined by Landlord in its reasonable discretion; (D) cost of all utilities, except the cost of utilities reimbursable to Landlord by the Building's tenants other than pursuant to a provision similar to this Section 3.(d); (E) insurance expenses; (F) repairs, replacements, and general maintenance of the Building; and (G) service or maintenance contracts with independent contractors for the operation, maintenance, repair, replacement, or security of the Building (including, without limitation, alarm service, window cleaning, and elevator maintenance).

Operating Costs shall not include costs for (i) capital improvements made to the Building, other than capital improvements described in Section 3.(d)(2)(C) and except for items which are generally considered maintenance and repair items, such as painting of common areas, replacement of carpet in elevator lobbies, decorating, redecorating, or special cleaning or other services not provided on a regular basis to tenants of the Building, and the like; (ii) repair, replacements and general maintenance paid by proceeds of insurance or by Tenant or other third parties; (iii) interest, amortization or other payments on loans to Landlord; (iv) legal expenses for services, other than those that benefit the Building tenants generally (e.g., tax disputes); (v) renovating or otherwise improving space for occupants of the Building or vacant space in the Building; (vi) Taxes (defined below), (vii) federal income taxes imposed on or measured by the income of Landlord from the operation of the Building; (viii) any charge for depreciation of the Building or equipment and any interest or other financing charge; (ix) any charge for Landlord's income taxes, excess profit taxes, franchise taxes, or similar taxes on Landlord's business; (x) all costs relating to activities for the solicitation and execution of leases of space in the Building, including leasing commissions; (xi) the cost of correcting defects in the construction of the Building or in the building equipment (except that conditions not occasioned by construction defects resulting from ordinary wear and tear will not be deemed defects for the purpose of this category); (xii) the cost of any repair made by Landlord because of the total or partial destruction of the Building or the condemnation of a portion of the Building; (xiii) the cost of any items for which Landlord is reimbursed by insurance or otherwise compensated by parties other than tenants of the Building pursuant to clauses similar to this Section; (xiv) any operating expense representing an amount paid to a related corporation, entity or person which is in excess of the amount which would be paid in the absence of such relationship; and (xv) the cost of overtime or other expense to Landlord in curing its defaults or performing work expressly provided in this Lease to be borne at Landlord's expense.

(3) Tenant shall also pay its Proportionate Share (defined below) of any increase in Taxes for each year and partial year falling within the Term, which shall be determined by multiplying the difference between (A) the Taxes for the year in question and (B) the Taxes for the year 1997 by Tenant's Proportionate Share. Tenant shall pay its Proportionate Share of Taxes in the same manner as provided above for Additional Rent with regard to Operating Costs. "TAXES" shall mean taxes, assessments, and governmental charges whether federal, state, county or municipal, and whether they be by taxing districts or authorities presently taxing or by others, subsequently created or otherwise, and any other taxes and assessments attributable to the Building (or its operation), excluding, however, penalties and interest thereon and federal and state taxes on income (if the present method of taxation changes so that in lieu of the whole or any part of any Taxes, there is levied on Landlord a capital tax directly on the rents received therefrom or a franchise tax, assessment, or charge based, in whole or in part, upon such rents for the Building, then all such taxes, assessments, or charges, or the part thereof so based, shall be deemed to be included within the term "Taxes" for purposes hereof). Taxes shall include the costs of consultants retained in an effort to lower taxes and all costs incurred in disputing any taxes or in seeking to lower the tax valuation of the Building. If Landlord is successful in lowering the Taxes for the Building, Landlord shall calculate Tenant's Proportionate Share of Taxes based upon the revised tax valuation of the Building.

(4) Tenant shall also pay to Landlord an amount equal to the product of (A) the cost of all electricity used by the Building ("ELECTRICAL COSTS") multiplied by (B) Tenant's Proportionate Share. Tenant shall pay its Proportionate Share of Electrical Costs in the same manner as provided above for Additional Rent with regard to Operating Costs. Tenant's Proportionate Share of Electrical Costs shall be included in the definition of Additional Rent under this Lease.

(5) By April 1 of each calendar year, or as soon thereafter as practicable, but in no event later than June 30th of each calendar year, Landlord shall furnish to Tenant a statement of Operating Costs and Electrical Costs for the previous year, in each case adjusted as provided in Section 3.(d)(7), and of the Taxes for the previous year (the "OPERATING COSTS AND TAX STATEMENT"). If the Operating Costs and Tax Statement reveals that Tenant paid more for Operating Costs than the actual amount for the year for which such statement was prepared, or more than its actual share of Taxes for such year, then Landlord shall promptly credit or reimburse Tenant for such excess; likewise, if Tenant paid less than Tenant's actual Proportionate Share of Additional Rent or share of Taxes due, then Tenant shall promptly pay Landlord such deficiency.

(6) As used herein, Tenant's "PROPORTIONATE SHARE" shall be 10.2063%, which is the percentage obtained by dividing the rentable square feet of area in the Premises, which is stipulated to be 15,244 rentable square feet, by the total number of square feet of area in the Building, which is stipulated to be 149,359 rentable square feet.

(7) With respect to any calendar year or partial calendar year in which the Building is not occupied to the extent of 95% of the rentable area thereof, the Operating Costs and Electrical Costs for such period shall, for the purposes hereof, be increased to the amount which would have been incurred had the Building been occupied to the extent of 95% of the rentable area thereof.

4. DELINQUENT PAYMENT; HANDLING CHARGES. All past due payments required of Tenant hereunder shall bear interest from the date due until paid at the lesser of 18% per annum (the "INTEREST RATE") or the maximum lawful rate of interest; additionally, after Landlord has delivered to Tenant written notice of its failure to pay Rent when due, then Landlord may, without delivering to Tenant notice of such delinquency, charge Tenant a fee equal to 5% of any future delinquent payment during the 12-month period following such delinquency to reimburse Landlord for its cost and inconvenience incurred as a consequence of Tenant's delinquency. In no event, however, shall the charges permitted under this Section 4 or elsewhere in this Lease, to the extent they are considered to be interest under law, exceed the maximum lawful rate of interest.

5. SECURITY DEPOSIT. Contemporaneously with the execution of this Lease, Tenant shall pay to Landlord \$23,818.75 (the "SECURITY DEPOSIT"), which shall be held by Landlord to secure Tenant's performance of its obligations under this Lease. The Security Deposit is not an advance payment of Rent or a measure or limit of Landlord's damages upon an Event of Default (defined in Section 16). Landlord may, from time to time and without prejudice to any other remedy, use all or a part of the Security Deposit to perform any obligation Tenant fails to perform hereunder (after the expiration of any applicable notice and opportunity to cure provisions expressly set forth herein). Following any such application of the Security Deposit, Tenant shall pay to Landlord on demand the amount so applied in order to restore the Security Deposit to its original amount. Provided that Tenant has performed all of its obligations hereunder, Landlord shall, within 30 days after the Term ends, return to Tenant the portion of the Security Deposit which was not applied to satisfy Tenant's obligations. The Security Deposit may be commingled with other funds, and no interest shall be paid thereon. If Landlord transfers its interest in the Premises and the transferee assumes Landlord's obligations under this Lease, then Landlord may assign the Security Deposit to the transferee and Landlord thereafter shall have no further liability for the return of the Security Deposit. So long as no Event of Default has occurred under this Lease, Landlord shall, upon Tenant's written request therefor, apply the Security Deposit toward Tenant's Rent obligations on the 13th full calendar month following the Commencement Date.

6. LANDLORD'S OBLIGATIONS.

(a) SERVICES. Landlord shall furnish to Tenant (1) water at those points of supply provided for general use of tenants of the Building; (2) heated and refrigerated air conditioning as appropriate, at such temperatures and in such amounts as are standard for comparable buildings in the vicinity of the Building; (3) janitorial service to the Premises on

weekdays, other than holidays, for Building-standard installations and such window washing as may from time to time be reasonably required; (4) elevators for ingress and egress to the floor on which the Premises are located, in common with other tenants, provided that Landlord may reasonably limit the number of operating elevators during non-business hours and holidays; and (5) electrical current during normal business hours for equipment that does not require more than 110 volts and whose electrical energy consumption does not exceed normal office usage and for purposes incidental to such normal office usage. Landlord shall maintain the common areas of the Building (including any restrooms not contained within the Premises and the structure of the Building) in reasonably good order and condition, except for damage caused by a Tenant Party. If Tenant desires any of the services specified in Section 6.(a)(2) at any time other than (A) between 8:00 a.m. and 6:00 p.m. on weekdays, (B) between 8:00 a.m. and 1:00 p.m. on Saturday, or (C) on Sunday or holidays, then such services shall be supplied to Tenant upon the written request of Tenant delivered to Landlord before 3:00 p.m. on the business day preceding such extra usage, and Tenant shall pay to Landlord the cost of such services within 30 days after Landlord has delivered to Tenant an invoice therefor. The costs incurred by Landlord in providing after-hour HVAC service to Tenant shall include costs for electricity, water, sewage, water treatment, labor, metering, filtering, and maintenance reasonably allocated by Landlord to providing such service. Landlord's after-normal business hour charges for HVAC for 1997 is \$75.00 per hour per air conditioning zone in the Building; however, Landlord and Tenant agree that such figure shall not be interpreted as a maximum amount which may be charged to Tenant for such services.

(b) EXCESS UTILITY USE. Landlord shall not be required to furnish electrical current for equipment that requires more than 110 volts or other equipment whose electrical energy consumption exceeds normal office usage. If Tenant's requirements for or consumption of electricity exceed the electricity to be provided by Landlord as described in Section 6.(a), Landlord shall, at Tenant's expense, make reasonable efforts to supply such service through the then-existing feeders and risers serving the Building and the Premises, and Tenant shall pay to Landlord the cost of such service within 30 days after Landlord has delivered to Tenant an invoice therefor. Landlord may determine the amount of such additional consumption and potential consumption by any reasonable and verifiable method, including installation of a separate meter in the Premises installed, maintained, and read by Landlord, at Tenant's expense. Tenant shall not install any electrical equipment requiring special wiring or requiring voltage in excess of 110 volts or otherwise exceeding Building capacity unless approved in advance by Landlord, which approval shall not be unreasonably withheld, delayed or conditioned. The use of electricity in the Premises shall not exceed the capacity of existing feeders and risers to or wiring in the Premises. Any risers or wiring required to meet Tenant's excess electrical requirements shall, upon Tenant's written request, be installed by Landlord, at Tenant's cost, if, in Landlord's reasonable judgment, the same are necessary and shall not cause permanent damage to the Building or the Premises, cause or create a dangerous or hazardous condition, entail excessive or unreasonable alterations, repairs, or expenses, or interfere with or disturb other tenants of the Building. If Tenant uses machines or equipment in the Premises which affect the temperature otherwise maintained by the air conditioning system or otherwise overload any utility, Landlord may install supplemental air conditioning units or other supplemental

equipment in the Premises, and the cost thereof, including the cost of installation, operation, use, and maintenance, shall be paid by Tenant to Landlord within 30 days after Landlord has delivered to Tenant an invoice therefor.

(c) RESTORATION OF SERVICES; ABATEMENT. Landlord shall use reasonable efforts to restore any service required of it that becomes unavailable; however, such unavailability shall not render Landlord liable for any damages caused thereby, be a constructive eviction of Tenant, constitute a breach of any implied warranty, or, except as provided in the next sentence, entitle Tenant to any abatement of Tenant's obligations hereunder. If, however, Tenant is prevented from using the Premises for more than 15 consecutive business days because of the unavailability of any such service and such unavailability was not caused by a Tenant Party, then Tenant shall, as its exclusive remedy be entitled to a reasonable abatement of Rent for each consecutive day (after such 15-day period) that Tenant is so prevented from using the Premises.

7. IMPROVEMENTS; ALTERATIONS; REPAIRS; MAINTENANCE.

(a) IMPROVEMENTS; ALTERATIONS. Improvements to the Premises shall be installed at Tenant's expense only in accordance with plans and specifications which have been previously submitted to and approved in writing by Landlord. No alterations or physical additions in or to the Premises may be made without Landlord's prior written consent, which shall not be unreasonably withheld or delayed; however, Landlord may withhold its consent to any alteration or addition that would affect the Building's structure or its HVAC, plumbing, electrical, or mechanical systems. Notwithstanding the foregoing, Tenant shall not be required to obtain Landlord's consent for repainting, recarpeting, or other cosmetic alterations totaling less than \$5,000 in any single instance or series of related alterations performed within a six-month period, provided that such alterations do not affect the configuration or location of any exterior or interior walls of the Building, the HVAC system, the Building's structure, or the Building's electrical, plumbing, or other mechanical systems. Tenant shall not paint or install lighting or decorations, signs, window or door lettering, or advertising media of any type on or about the Premises without the prior written consent of Landlord, which shall not be unreasonably withheld or delayed; however, Landlord may withhold its consent to any such painting or installation which would affect the appearance of the exterior of the Building or of any common areas of the Building. For taxation purposes only, any additions or alterations to the Premises will be deemed to be the property of Tenant during the Term of this Lease, and Tenant may claim any tax credits and depreciate such property. All alterations, additions, or improvements made in or upon the Premises shall, at Landlord's option, either be removed by Tenant prior to the end of the Term (and Tenant shall repair all damage caused thereby), or shall remain on the Premises at the end of the Term without compensation to Tenant. All alterations, additions, and improvements shall be constructed, maintained, and used by Tenant, at its risk and expense, in accordance with all Laws; Landlord's approval of the plans and specifications therefor shall not be a representation by Landlord that such alterations, additions, or improvements comply with any Law.

(b) REPAIRS; MAINTENANCE. Tenant shall maintain the Premises in a clean,

safe, and operable condition, ordinary wear and tear and damage by Casualty (defined below) excepted, and shall not permit or allow to remain any waste or damage to any portion of the Premises. Tenant shall repair or replace, subject to Landlord's direction and supervision, any damage to the Building caused by a Tenant Party. If Tenant fails to make such repairs or replacements within 15 days after the occurrence of such damage, or if such damage occurred in a common area, within 15 days of written notice by Landlord of such damage, then Landlord may make the same at Tenant's cost. If any such damage occurs outside of the Premises, then Landlord may elect to repair such damage at Tenant's expense, rather than having Tenant repair such damage. The cost of all repair or replacement work performed by Landlord under this Section 7 shall be paid by Tenant to Landlord within ten days after Landlord has invoiced Tenant therefor.

(c) PERFORMANCE OF WORK. All work described in this Section 7 shall be performed only by Landlord or by contractors and subcontractors approved in writing by Landlord, which approval shall not be unreasonably withheld, delayed or conditioned. Tenant shall cause all contractors and subcontractors to procure and maintain insurance coverage naming Landlord as an additional insured against such risks, in such amounts, and with such companies as Landlord may reasonably require. All such work shall be performed in accordance with all Laws and in a good and workmanlike manner so as not to damage the Premises, the Building, or the components thereof.

(d) MECHANIC'S LIENS. Tenant shall not permit any mechanic's liens to be filed against the Premises or the Building for any work performed, materials furnished, or obligation incurred by or at the request of Tenant. If such a lien is filed, then Tenant shall, within ten days after Landlord has delivered notice of the filing thereof to Tenant, either pay the amount of the lien or diligently contest such lien and deliver to Landlord a bond or other security reasonably satisfactory to Landlord. If Tenant fails to timely take either such action, then Landlord may pay the lien claim, and any amounts so paid, including expenses and interest, shall be paid by Tenant to Landlord within ten days after Landlord has invoiced Tenant therefor.

8. USE. Tenant shall continuously occupy and use the Premises only for general office use and purposes incidental to such general office use (the "PERMITTED USE") and shall comply with all Laws relating to the use, condition, access to, and occupancy of the Premises. The Premises shall not be used for any use which is disreputable, creates extraordinary fire hazards, or results in an increased rate of insurance on the Building or its contents, or for the storage of any hazardous materials or substances. If, because of a Tenant Party's acts, the rate of insurance on the Building or its contents increases, then such acts shall be an Event of Default, Tenant shall pay to Landlord the amount of such increase on demand, and acceptance of such payment shall not waive any of Landlord's other rights. Tenant shall conduct its business and control each other Tenant Party so as not to create any nuisance or unreasonably interfere with other tenants or Landlord in its management of the Building.

9. ASSIGNMENT AND SUBLETTING.

(a) TRANSFERS; CONSENT. Tenant shall not, without the prior written consent of Landlord, (1) assign, transfer, or encumber this Lease or any estate or interest herein, whether directly or by operation of law, (2) permit any other entity to become Tenant hereunder by merger, consolidation, or other reorganization, (3) if Tenant is an entity other than a corporation whose stock is publicly traded, permit the transfer of an ownership interest in Tenant so as to result in a change in the current control of Tenant, (4) sublet any portion of the Premises, (5) grant any license, concession, or other right of occupancy of any portion of the Premises, or (6) permit the use of the Premises by any parties other than Tenant (any of the events listed in Section 9.(a)(1) through 9.(a)(6) being a "TRANSFER"). If Tenant requests Landlord's consent to a Transfer, then Tenant shall provide Landlord with a written description of all terms and conditions of the proposed Transfer, copies of the proposed documentation, and the following information about the proposed transferee: name and address; reasonably satisfactory information about its business and business history; its proposed use of the Premises; banking, financial, and other credit information; and general references sufficient to enable Landlord to determine the proposed transferee's creditworthiness and character. Landlord shall not unreasonably withhold its consent to any assignment or subletting of the Premises, provided that the proposed transferee (A) is creditworthy, (B) has a good reputation in the business community, (C) does not engage in business similar to those of other tenants in the Building, and (D) is not another occupant of the Building or person or entity with whom Landlord is negotiating to lease space in the Building; otherwise, Landlord may withhold its consent in its sole discretion. Concurrently with Tenant's notice of any request for consent to a Transfer, Tenant shall pay to Landlord a fee of \$750 to defray Landlord's expenses in reviewing such request, and Tenant shall also reimburse Landlord immediately upon request for its attorneys' fees incurred in connection with considering any request for consent to a Transfer. If Landlord consents to a proposed Transfer, then the proposed transferee shall deliver to Landlord a written agreement whereby it expressly assumes Tenant's obligations hereunder; however, any transferee of less than all of the space in the Premises shall be liable only for obligations under this Lease that are properly allocable to the space subject to the Transfer for the period of the Transfer. Notwithstanding the foregoing, Tenant may assign its interest in this Lease or sublet the Premises to an affiliate of Tenant without Landlord's prior written consent, provided that Tenant promptly notifies Landlord thereof after such assignment or subletting. No Transfer shall release Tenant from its obligations under this Lease, but rather Tenant and its transferee shall be jointly and severally liable therefor. Landlord's consent to any Transfer shall not waive Landlord's rights as to any subsequent Transfers. If an Event of Default occurs while the Premises or any part thereof are subject to a Transfer, then Landlord, in addition to its other remedies, may collect directly from such transferee all rents becoming due to Tenant and apply such rents against Rent. Tenant authorizes its transferees to make payments of rent directly to Landlord upon receipt of notice from Landlord to do so. Tenant shall pay for the cost of any demising walls or other improvements necessitated by a proposed subletting or assignment.

(b) CANCELLATION. Landlord may, within 30 days after submission of Tenant's written request for Landlord's consent to an assignment or subletting, cancel this Lease as to the portion of the Premises proposed to be sublet or assigned (the "CANCELED SPACE") as of the date the proposed Transfer is to be effective. If Landlord cancels this Lease as to any portion of the

Premises, then this Lease shall cease for such portion of the Premises, Tenant shall pay to Landlord all Rent accrued through the cancellation date relating to the portion of the Premises covered by the proposed Transfer, and thereafter Tenant shall be relieved of all further liabilities arising with respect to the portion of the Premises so cancelled following the cancellation date.

Thereafter, Landlord may lease such portion of the Premises to the prospective transferee (or to any other person) without liability to Tenant. If Landlord cancels this Lease as to less than all of the Premises, after the initial leasing of such Canceled Space to the prospective transferee (or to any other person) following Landlord's termination thereof and at least twenty four full calendar months then remains in the Term of this Lease, Landlord shall first offer (the "OFFER NOTICE") to lease to Tenant the Canceled Space in its then "as-is" condition and otherwise on the terms and conditions contained in this Lease (provided that the Term hereof has not expired or been terminated). Tenant shall notify Landlord in writing whether Tenant elects to lease the entire Canceled Space within five business days after Landlord delivers to Tenant the Offer Notice. If Tenant timely elects to lease such Canceled Space, then Landlord and Tenant shall execute an amendment to this Lease, effective as of the date such Canceled Space is to be included in the Premises, on the same terms as this Lease except that (i) the square feet of the Premises shall be increased by the number of square feet in the Canceled Space (and Tenant's Proportionate Share shall be adjusted accordingly), (ii) the Basic Rent shall be increased taking into consideration the increased number of square feet in the Premises, and (iii) Landlord shall not provide to Tenant any allowances (construction allowance and the like) or other tenant inducements. If Tenant fails or is unable to timely exercise its rights hereunder, then such right shall lapse, time being of the essence with respect to the exercise thereof, and Landlord may lease the Canceled Space to third parties on such terms as Landlord may elect without liability to Tenant. Notwithstanding the foregoing, if prior to Landlord's delivery to Tenant of the Offer Notice, Landlord has received an offer to lease all or part of the Canceled Space from a third party (a "THIRD PARTY OFFER") and such Third Party Offer includes space in excess of the Canceled Space or for a term in excess of the remaining Term of this Lease, Tenant must exercise its rights hereunder, if at all, as to (i) all of the space contained in the Third Party Offer and/or (ii) the extended lease term, as applicable.

(c) ADDITIONAL COMPENSATION. Tenant shall pay to Landlord, immediately upon receipt thereof, the excess of (1) all compensation received by Tenant for a Transfer less the costs reasonably incurred by Tenant with unaffiliated third parties in connection with such Transfer (i.e., brokerage commissions, tenant finish work, and the like) over (2) the Rent allocable to the portion of the Premises covered thereby.

10. INSURANCE; WAIVERS; SUBROGATION; INDEMNITY.

(a) INSURANCE. Tenant shall maintain throughout the Term the following insurance policies: (1) comprehensive general liability insurance in amounts of \$1,000,000 per occurrence with \$2,000,000 in the aggregate or such other amounts as Landlord may from time to time reasonably require, insuring Tenant, Landlord, Landlord's agents and their respective affiliates against all liability for injury to or death of a person or persons or damage to property arising from the use and occupancy of the Premises, (2) insurance covering the full value of Tenant's property and improvements, and other property (including property of others) in the

Premises, (3) contractual liability insurance sufficient to cover Tenant's indemnity obligations hereunder, (4) worker's compensation insurance, containing a waiver of subrogation endorsement acceptable to Landlord, and (5) business interruption insurance or, at Tenant's option, extra expense insurance. Tenant's insurance shall provide primary coverage to Landlord when any policy issued to Landlord provides duplicate or similar coverage, and in such circumstance Landlord's policy will be excess over Tenant's policy. Tenant shall furnish to Landlord certificates of such insurance and such other evidence satisfactory to Landlord of the maintenance of all insurance coverages required hereunder, and Tenant shall obtain a written obligation on the part of each insurance company to notify Landlord at least 30 days before cancellation or a material change of any such insurance policies. All such insurance policies shall be in form, and issued by companies, reasonably satisfactory to Landlord.

(b) WAIVER OF NEGLIGENCE; NO SUBROGATION. Landlord and Tenant each waives any claim it might have against the other for any injury to or death of any person or persons or damage to or theft, destruction, loss, or loss of use of any property (a "LOSS"), to the extent the same is insured against under any insurance policy that covers the Building, the Premises, Landlord's or Tenant's fixtures, personal property, leasehold improvements, or business, or, in the case of Tenant's waiver, is required to be insured against under the terms hereof, REGARDLESS OF WHETHER THE NEGLIGENCE OF THE OTHER PARTY CAUSED SUCH LOSS; however, Landlord's waiver shall not include any deductible amounts on insurance policies carried by Landlord. Each party shall cause its insurance carrier to endorse all applicable policies waiving the carrier's rights of recovery under subrogation or otherwise against the other party.

(c) INDEMNITY. Subject to Section 10.(b), Tenant shall defend, indemnify, and hold harmless Landlord and its representatives and agents from and against all claims, demands, liabilities, causes of action, suits, judgments, damages, and expenses (including attorneys' fees) arising from (1) any Loss arising from any occurrence on the Premises (other than a Loss arising from the sole or gross negligence or willful misconduct of Landlord) or (2) Tenant's failure to perform its obligations under this Lease. Subject to Section 10.(b), Landlord shall defend, indemnify, and hold harmless Tenant and its representatives and agents from and against all claims, demands, liabilities, causes of action, suits, judgments, damages and expenses (including attorneys' fees) arising from any loss, arising from any occurrence in the Building's common areas (other than a Loss arising from the sole or gross negligence or willful misconduct of a Tenant Party). The indemnities set forth in this Section 10.(c) shall survive termination or expiration of this Lease. If any proceeding is filed for which indemnity is required hereunder, the indemnifying party agrees, upon request therefor, to defend the indemnified party in such proceeding at its sole cost utilizing counsel satisfactory to the indemnified party.

11. SUBORDINATION; ATTORNTMENT; NOTICE TO LANDLORD'S MORTGAGEE.

(a) SUBORDINATION. This Lease shall be subordinate to any deed of trust, mortgage, or other security instrument, or any ground lease, master lease, or primary lease, that now or hereafter covers all or any part of the Premises (the mortgagee under any such mortgage

or the lessor under any such lease is referred to herein as a "LANDLORD'S MORTGAGEE"). Any Landlord's Mortgagee may elect, at any time, unilaterally, to make this Lease superior to its mortgage, ground lease, or other interest in the Premises by so notifying Tenant in writing.

(b) ATTORNMENMENT. Tenant shall attorn to any party succeeding to Landlord's interest in the Premises, whether by purchase, foreclosure, deed in lieu of foreclosure, power of sale, termination of lease, or otherwise, upon such party's request, and shall execute such agreements confirming such attornment as such party may reasonably request.

(c) NOTICE TO LANDLORD'S MORTGAGEE. Tenant shall not seek to enforce any remedy it may have for any default on the part of Landlord without first giving written notice by certified mail, return receipt requested, specifying the default in reasonable detail, to any Landlord's Mortgagee whose address has been given to Tenant, and affording such Landlord's Mortgagee a reasonable opportunity to perform Landlord's obligations hereunder.

(d) CURRENT STATUS; FUTURE LANDLORD'S MORTGAGEE. Landlord represents and warrants to Tenant that there is currently no existing Landlord's Mortgagee. Upon written request from Tenant, Landlord shall use reasonable efforts to obtain a Subordination, Non-Disturbance and Attornment Agreement from any future Landlord's Mortgagee in a form reasonably acceptable to Tenant and such Landlord's Mortgagee; however, Landlord's failure to deliver such agreement shall not constitute a default by Landlord hereunder, prohibit the mortgaging of the Building, or otherwise affect the subordination of Tenant's rights hereunder.

12. RULES AND REGULATIONS. Tenant shall comply with the rules and regulations of the Building which are attached hereto as Exhibit C. Landlord may, from time to time, change such rules and regulations for the safety, care, or cleanliness of the Building and related facilities, provided that such changes are applicable to all tenants of the Building and will not unreasonably interfere with Tenant's use of the Premises. Tenant shall be responsible for the compliance with such rules and regulations by each Tenant Party.

13. CONDEMNATION.

(a) TOTAL TAKING. If the entire Building or Premises are taken by right of eminent domain or conveyed in lieu thereof (a "TAKING"), this Lease shall terminate as of the date of the Taking.

(b) PARTIAL TAKING - TENANT'S RIGHTS. If any part of the Building becomes subject to a Taking and such Taking will prevent Tenant from conducting its business in the Premises in a manner reasonably comparable to that conducted immediately before such Taking for a period of more than 180 days, then Tenant may terminate this Lease as of the date of such Taking by giving written notice to Landlord within 30 days after the Taking, and Rent shall be apportioned as of the date of such Taking. If Tenant does not terminate this Lease, then Rent shall be abated on a reasonable basis as to that portion of the Premises rendered untenable by the Taking.

(c) PARTIAL TAKING - LANDLORD'S RIGHTS. If any material portion, but less than all, of the Building becomes subject to a Taking, or if Landlord is required to pay any of the proceeds received for a Taking to a Landlord's Mortgagee, then Landlord may terminate this Lease by delivering written notice thereof to Tenant within 30 days after such Taking, and Rent shall be apportioned as of the date of such Taking. If Landlord does not so terminate this Lease, then this Lease will continue, but if any portion of the Premises has been taken, Rent shall abate as provided in the last sentence of Section 13.(b).

(d) AWARD. If any Taking occurs, then Landlord shall receive the entire award or other compensation for the land on which the Building is situated, the Building, and other improvements taken, and Tenant may separately pursue a claim (to the extent it will not reduce Landlord's award) against the condemnor for the value of Tenant's personal property which Tenant is entitled to remove under this Lease, moving costs, loss of business, and other claims it may have.

14. FIRE OR OTHER CASUALTY.

(a) REPAIR ESTIMATE. If the Premises or the Building are damaged by fire or other casualty (a "CASUALTY"), Landlord shall, within 90 days after such Casualty, deliver to Tenant a good faith estimate (the "DAMAGE NOTICE") of the time needed to repair the damage caused by such Casualty.

(b) LANDLORD'S AND TENANT'S RIGHTS. If a material portion of the Premises or the Building is damaged by Casualty such that Tenant is prevented from conducting its business in the Premises in a manner reasonably comparable to that conducted immediately before such Casualty and Landlord estimates that the damage caused thereby cannot be repaired within 240 days after the Casualty, then Tenant may terminate this Lease by delivering written notice to Landlord of its election to terminate within 30 days after the Damage Notice has been delivered to Tenant. If Tenant does not so timely terminate this Lease, then (subject to Section 14.(c)) Landlord shall repair the Building or the Premises, as the case may be, as provided below, and Rent for the portion of the Premises rendered untenable and inaccessible by the damage shall be abated on a reasonable basis from the date of damage until the completion of the repair, unless a Tenant Party caused such damage, in which case, Tenant shall continue to pay Rent without abatement.

(c) LANDLORD'S RIGHTS. If a Casualty damages a material portion of the Building, and Landlord makes a good faith determination that restoring the Premises would be uneconomical, or if Landlord is required to pay any insurance proceeds arising out of the Casualty to a Landlord's Mortgagee, then Landlord may terminate this Lease by giving written notice of its election to terminate within 30 days after the Damage Notice has been delivered to Tenant, and Basic Rent and Additional Rent shall be abated as of the date of the Casualty.

(d) REPAIR OBLIGATION. If neither party elects to terminate this Lease

following a Casualty, then Landlord shall, within a reasonable time after such Casualty, begin to repair the Building and the Premises and shall proceed with reasonable diligence to restore the Building and Premises to substantially the same condition as they existed immediately before such Casualty; however, Landlord shall not be required to repair or replace any of the furniture, equipment, fixtures, and other improvements which may have been placed by, or at the request of, Tenant or other occupants in the Building or the Premises, and Landlord's obligation to repair or restore the Building or Premises shall be limited to the extent of the insurance proceeds actually received by Landlord for the Casualty in question.

15. PERSONAL PROPERTY TAXES. Tenant shall be liable for all taxes levied or assessed against personal property, furniture, or fixtures placed by Tenant in the Premises. If any taxes for which Tenant is liable are levied or assessed against Landlord or Landlord's property and Landlord elects to pay the same, or if the assessed value of Landlord's property is increased by inclusion of such personal property, furniture or fixtures and Landlord elects to pay the taxes based on such increase, then Tenant shall pay to Landlord, upon demand, the part of such taxes for which Tenant is primarily liable hereunder; however, Landlord shall not pay such amount if Tenant notifies Landlord that it will contest the validity or amount of such taxes before Landlord makes such payment, and thereafter diligently proceeds with such contest in accordance with law and if the non-payment thereof does not pose a threat of loss or seizure of the Building or interest of Landlord therein or impose any fee or penalty against Landlord.

16. EVENTS OF DEFAULT. Each of the following occurrences shall be an "EVENT OF DEFAULT":

(a) Tenant's failure to pay Rent within five days after Landlord has delivered written notice to Tenant that the same is due; however, an Event of Default shall occur hereunder without any obligation of Landlord to give any notice if Landlord has given Tenant written notice under this Section 16.(a) on more than two occasions during the twelve (12) month interval preceding such failure by Tenant;

(b) Tenant (1) abandons or vacates the Premises or any substantial portion thereof or (2) fails to continuously operate its business in the Premises for the Permitted Use set forth herein;

(c) Tenant fails to provide any estoppel certificate as called for in this Lease and such failure shall continue for 5 days after written notice thereof from Landlord to Tenant;

(d) Tenant's failure to perform, comply with, or observe any other agreement or obligation of Tenant under this Lease and the continuance of such failure for a period of more than 30 days after Landlord has delivered to Tenant written notice thereof; and

(e) The filing of a petition by or against Tenant (the term "TENANT" shall include, for the purpose of this Section 16.(e), any guarantor of Tenant's obligations hereunder) (1) in any bankruptcy or other insolvency proceeding; (2) seeking any relief under any state or

federal debtor relief law; (3) for the appointment of a liquidator or receiver for all or substantially all of Tenant's property or for Tenant's interest in this Lease; or (4) for the reorganization or modification of Tenant's capital structure; however, if such a petition is filed against Tenant, then such filing shall not be an Event of Default unless Tenant fails to have the proceedings initiated by such petition dismissed within 90 days after the filing thereof.

17. REMEDIES. Upon any Event of Default, Landlord may, in addition to all other rights and remedies afforded Landlord hereunder or by law or equity, take any of the following actions:

(a) Terminate this Lease by giving Tenant written notice thereof, in which event Tenant shall pay to Landlord the sum of (1) all Rent accrued hereunder through the date of termination, (2) all amounts due under Section 18.(a), and (3) an amount equal to the total Rent that Tenant would have been required to pay for the remainder of the Term;

(b) Terminate Tenant's right to possess the Premises without terminating this Lease by giving written notice thereof to Tenant, in which event Tenant shall pay to Landlord (1) all Rent and other amounts accrued hereunder to the date of termination of possession, (2) all amounts due from time to time under Section 18.(a), and (3) all Rent and other net sums required hereunder to be paid by Tenant during the remainder of the Term, diminished by any net sums thereafter received by Landlord through reletting the Premises during such period, after deducting all costs incurred by Landlord in reletting the Premises. Landlord shall use reasonable efforts to relet the Premises on such terms as Landlord in its sole discretion may determine (including a term different from the Term, rental concessions, and alterations to, and improvement of, the Premises); however, Landlord shall not be obligated to relet the Premises before leasing other portions of the Building. Landlord shall not be liable for, nor shall Tenant's obligations hereunder be diminished because of, Landlord's failure to relet the Premises or to collect rent due for such reletting. Tenant shall not be entitled to the excess of any consideration obtained by reletting over the Rent due hereunder. Reentry by Landlord in the Premises shall not affect Tenant's obligations hereunder for the unexpired Term; rather, Landlord may, from time to time, bring an action against Tenant to collect amounts due by Tenant, without the necessity of Landlord's waiting until the expiration of the Term. Unless Landlord delivers written notice to Tenant expressly stating that it has elected to terminate this Lease, all actions taken by Landlord to dispossess or exclude Tenant from the Premises shall be deemed to be taken under this Section 17.(b). If Landlord elects to proceed under this Section 17.(b), it may at any time elect to terminate this Lease under Section 17.(a); or

(c) Additionally, without notice, Landlord may alter locks or other security devices at the Premises to deprive Tenant of access thereto, and Landlord shall not be required to provide a new key or right of access to Tenant.

18. PAYMENT BY TENANT; NON-WAIVER.

(a) PAYMENT BY TENANT. Upon any Event of Default, Tenant shall pay to

Landlord all costs incurred by Landlord (including court costs and reasonable attorneys' fees and expenses) in (1) obtaining possession of the Premises, (2) removing and storing Tenant's or any other occupant's property, (3) repairing, restoring, altering, remodeling, or otherwise putting the Premises into condition acceptable to a new tenant, (4) if Tenant is dispossessed of the Premises and this Lease is not terminated, reletting all or any part of the Premises (including brokerage commissions, cost of tenant finish work, and other costs incidental to such reletting), (5) performing Tenant's obligations which Tenant failed to perform, and (6) enforcing, or advising Landlord of, its rights, remedies, and recourses arising out of the Event of Default. To the full extent permitted by law, Landlord and Tenant agree the federal and state courts of New Jersey shall have exclusive jurisdiction over any matter relating to or arising from this Lease and the parties' rights and obligations under this Lease.

(b) NO WAIVER. Landlord's acceptance of Rent following an Event of Default shall not waive Landlord's rights regarding such Event of Default. No waiver by Landlord of any violation or breach of any of the terms contained herein shall waive Landlord's rights regarding any future violation of such term. Landlord's acceptance of any partial payment of Rent shall not waive Landlord's rights with regard to the remaining portion of the Rent that is due, regardless of any endorsement or other statement on any instrument delivered in payment of Rent or any writing delivered in connection therewith; accordingly, Landlord's acceptance of a partial payment of Rent shall not constitute an accord and satisfaction of the full amount of the Rent that is due.

19. LANDLORD'S LIEN. In addition to the statutory landlord's lien, Tenant grants to Landlord, to secure performance of Tenant's obligations hereunder, a security interest in all goods (including equipment and inventory), fixtures, and other personal property of Tenant situated on the Premises, and all proceeds thereof (the "COLLATERAL"), and the Collateral shall not be removed from the Premises without the prior written consent of Landlord (other than in Tenant's ordinary course of business) until all obligations of Tenant have been fully performed. Upon the occurrence of an Event of Default, Landlord may, in addition to all other remedies, without notice or demand except as provided below, exercise the rights afforded to a secured party under the New Jersey Uniform Commercial Code (the "UCC"). To the extent the UCC requires Landlord to give to Tenant notice of any act or event and such notice cannot be validly waived before a default occurs, then five-days' prior written notice thereof shall be reasonable notice of the act or event. Tenant grants to Landlord a power of attorney to execute and file any financing statement or other instrument necessary to perfect Landlord's security interest under this Section 19, which power is coupled with an interest and is irrevocable during the Term. Landlord may also file a copy of this Lease as a financing statement to perfect its security interest in the Collateral.

20. SURRENDER OF PREMISES. No act by Landlord shall be deemed an acceptance of a surrender of the Premises, and no agreement to accept a surrender of the Premises shall be valid unless it is in writing and signed by Landlord. At the expiration or termination of this Lease, Tenant shall deliver to Landlord the Premises with all improvements located therein in good repair and condition, broom-clean, reasonable wear and tear (and condemnation and Casualty

damage not caused by Tenant, as to which Sections 13 and 14 shall control) excepted, and shall deliver to Landlord all keys to the Premises. Provided that Tenant has performed all of its obligations hereunder, Tenant may remove all unattached trade fixtures, furniture, and personal property placed in the Premises by Tenant, and shall remove such alterations, additions, improvements, trade fixtures, personal property, equipment, wiring, and furniture as Landlord may request. Tenant shall repair all damage caused by such removal. All items not so removed shall be deemed to have been abandoned by Tenant and may be appropriated, sold, stored, destroyed, or otherwise disposed of by Landlord without notice to Tenant and without any obligation to account for such items. The provisions of this Section 20 shall survive the end of the Term.

21. HOLDING OVER. If Tenant fails to vacate the Premises at the end of the Term, then Tenant shall be a tenant at will and, in addition to all other damages and remedies to which Landlord may be entitled for such holding over, Tenant shall pay, in addition to the other Rent, a daily Basic Rent equal to the greater of (a) 150% of the daily Basic Rent payable during the last month of the Term, or (b) 125% of the prevailing rental rate paid by other tenants under recent, comparable leases in the Building for similar space. The provisions of this Section 21 shall not be deemed to limit or constitute a waiver of any other rights or remedies of Landlord provided herein or at law. If Tenant fails to surrender the Premises upon the termination or expiration of this Lease, in addition to any other liabilities to Landlord accruing therefrom, Tenant shall protect, defend, indemnify and hold Landlord harmless from all loss, costs (including reasonable attorneys' fees) and liability resulting from such failure, including, without limiting the generality of the foregoing, any claims made by any succeeding tenant founded upon such failure to surrender, and any lost profits to Landlord resulting therefrom.

22. CERTAIN RIGHTS RESERVED BY LANDLORD. Provided that the exercise of such rights does not unreasonably interfere with Tenant's occupancy of the Premises, Landlord shall have the following rights:

(a) To decorate and to make inspections, repairs, alterations, additions, changes, or improvements, whether structural or otherwise, in and about the Building, or any part thereof; to enter upon the Premises and, during the continuance of any such work, to temporarily close doors, entryways, public space, and corridors in the Building; to interrupt or temporarily suspend for a commercially reasonable time period Building services and facilities; to change the name of the Building; and to change the arrangement and location of entrances or passageways, doors, and doorways, corridors, elevators, stairs, restrooms, or other public parts of the Building;

(b) To take such reasonable measures as Landlord deems advisable for the security of the Building and its occupants; evacuating the Building for cause, suspected cause, or for drill purposes; temporarily denying access to the Building; and closing the Building after normal business hours and on Sundays and holidays, subject, however, to Tenant's right to enter when the Building is closed after normal business hours under such reasonable regulations as Landlord may prescribe from time to time; and

(c) To enter the Premises at reasonable hours to show the Premises to prospective purchasers, lenders, or, during the last 12 months of the Term, tenants.

23. SUBSTITUTION SPACE. [Intentionally Deleted.]

24. MISCELLANEOUS.

(a) LANDLORD TRANSFER. Landlord may transfer any portion of the Building and any of its rights under this Lease. If Landlord assigns its rights under this Lease, then Landlord shall thereby be released from any further obligations hereunder, provided that the assignee assumes Landlord's obligations hereunder in writing.

(b) LANDLORD'S LIABILITY. The liability of Landlord to Tenant for any default by Landlord under the terms of this Lease shall be limited to Tenant's actual direct, but not consequential, damages therefor and shall be recoverable only from the interest of Landlord in the Building, and Landlord shall not be personally liable for any deficiency. This Section shall not limit any remedies which Tenant may have for Landlord's defaults which do not involve the personal liability of Landlord.

(c) FORCE MAJEURE. Other than for Tenant's obligations under this Lease that can be performed by the payment of money (e.g., payment of Rent and maintenance of insurance), whenever a period of time is herein prescribed for action to be taken by either party hereto, such party shall not be liable or responsible for, and there shall be excluded from the computation of any such period of time, any delays due to strikes, riots, acts of God, shortages of labor or materials, war, governmental laws, regulations, or restrictions, or any other causes of any kind whatsoever which are beyond the control of such party.

(d) BROKERAGE. Neither Landlord nor Tenant has dealt with any broker or agent in connection with the negotiation or execution of this Lease, other than Insignia/Edward S. Gordon Company, Inc. and Koll Management Services, Inc., whose commissions shall be paid by Landlord. Tenant and Landlord shall each indemnify the other against all costs, expenses, attorneys' fees, and other liability for commissions or other compensation claimed by any broker or agent claiming the same by, through, or under the indemnifying party.

(e) ESTOPPEL CERTIFICATES. From time to time, Tenant shall furnish to any party designated by Landlord, within ten days after Landlord has made a written request therefor, a certificate signed by Tenant confirming and containing such factual certifications and representations as to this Lease as Landlord may reasonably request.

(f) NOTICES. All notices and other communications given pursuant to this Lease shall be in writing and shall be (1) mailed by first class, United States Mail, postage prepaid, certified, with return receipt requested, and addressed to the parties hereto at the address specified next to their signature block, (2) hand delivered to the intended address, or (3) sent by prepaid telegram, cable, facsimile transmission, or telex followed by a confirmatory letter. All notices shall be effective upon delivery to the address of the addressee. The parties hereto may

change their addresses by giving notice thereof to the other in conformity with this provision.

(g) SEPARABILITY. If any clause or provision of this Lease is illegal, invalid, or unenforceable under present or future laws, then the remainder of this Lease shall not be affected thereby and in lieu of such clause or provision, there shall be added as a part of this Lease a clause or provision as similar in terms to such illegal, invalid, or unenforceable clause or provision as may be possible and be legal, valid, and enforceable.

(h) AMENDMENTS; AND BINDING EFFECT. This Lease may not be amended except by instrument in writing signed by Landlord and Tenant. No provision of this Lease shall be deemed to have been waived by Landlord unless such waiver is in writing signed by Landlord, and no custom or practice which may evolve between the parties in the administration of the terms hereof shall waive or diminish the right of Landlord to insist upon the performance by Tenant in strict accordance with the terms hereof. The terms and conditions contained in this Lease shall inure to the benefit of and be binding upon the parties hereto, and upon their respective successors in interest and legal representatives, except as otherwise herein expressly provided. This Lease is for the sole benefit of Landlord and Tenant, and, other than Landlord's Mortgagee, no third party shall be deemed a third party beneficiary hereof.

(i) QUIET ENJOYMENT. Provided Tenant has performed all of its obligations hereunder, Tenant shall peaceably and quietly hold and enjoy the Premises for the Term, without hindrance from Landlord or any party claiming by, through, or under Landlord, but not otherwise, subject to the terms and conditions of this Lease.

(j) NO MERGER. There shall be no merger of the leasehold estate hereby created with the fee estate in the Premises or any part thereof if the same person acquires or holds, directly or indirectly, this Lease or any interest in this Lease and the fee estate in the leasehold Premises or any interest in such fee estate.

(k) NO OFFER. The submission of this Lease to Tenant shall not be construed as an offer, and Tenant shall not have any rights under this Lease unless Landlord executes a copy of this Lease and delivers it to Tenant.

(l) ENTIRE AGREEMENT. This Lease constitutes the entire agreement between Landlord and Tenant regarding the subject matter hereof and supersedes all oral statements and prior writings relating thereto. Except for those set forth in this Lease, no representations, warranties, or agreements have been made by Landlord or Tenant to the other with respect to this Lease or the obligations of Landlord or Tenant in connection therewith. The normal rule of construction that any ambiguities be resolved against the drafting party shall not apply to the interpretation of this Lease or any exhibits or amendments hereto.

(m) WAIVER OF JURY TRIAL. To the maximum extent permitted by law, Landlord and Tenant each waive right to trial by jury in any litigation arising out of or with respect to this Lease.

(n) GOVERNING LAW. This Lease shall be governed by and construed in accordance with the laws of the State in which the Premises are located.

(o) JOINT AND SEVERAL LIABILITY. If Tenant is comprised of more than one party, each such party shall be jointly and severally liable for Tenant's obligations under this Lease.

(p) FINANCIAL REPORTS. Within 15 days after Landlord's written request, Tenant will furnish Tenant's most recent audited financial statements (including any notes to them) to Landlord, or, if no such audited statements have been prepared, such other financial statements (and notes to them) as may have been prepared by an independent certified public accountant or, failing those, Tenant's internally prepared financial statements. Tenant will discuss its financial statements with Landlord and will give Landlord access to Tenant's books and records in order to enable Landlord to verify the financial statements. Landlord will not disclose any aspect of Tenant's financial statements that Tenant designates to Landlord as confidential except (1) to Landlord's lenders or prospective purchasers of the Building, (2) in litigation between Landlord and Tenant, and (3) if required by court order.

(q) LANDLORD'S FEES. Whenever Tenant requests Landlord to take any action or give any consent required or permitted under this Lease, Tenant will reimburse Landlord for Landlord's reasonable costs incurred in reviewing the proposed action or consent, including without limitation reasonable attorneys', engineers' or architects' fees, within 30 days after Landlord's delivery to Tenant of a statement of such costs. Tenant will be obligated to make such reimbursement without regard to whether Landlord consents to any such proposed action.

(r) TELECOMMUNICATIONS. Tenant and its telecommunications companies, including but not limited to local exchange telecommunications companies and alternative access vendor services companies shall have no right of access to and within the Building, for the installation and operation of telecommunications systems including but not limited to voice, video, data, and any other telecommunications services provided over wire, fiber optic, microwave, wireless, and any other transmission systems, for part or all of Tenant's telecommunications within the Building and from the Building to any other location without Landlord's prior written consent, which shall not be unreasonably withheld, delayed or conditioned.

(s) GENERAL DEFINITIONS. The following terms shall have the following meanings: "LAWS" means all federal, state, and local laws, rules and regulations, all court orders, all governmental directives and governmental orders, and all restrictive covenants affecting the Property, and "LAW" means any of the foregoing; "AFFILIATE" means any person or entity which, directly or indirectly, controls, is controlled by, or is under common control with the party in question; "TENANT PARTY" shall include Tenant, any assignees claiming by, through, or under Tenant, any subtenants claiming by, through, or under Tenant, and any agents, contractors, employees, invitees of the foregoing parties; and "INCLUDING" means including, without

limitation.

(t) CONFIDENTIALITY. Tenant acknowledges that the terms and conditions of this Lease are to remain confidential for Landlord's benefit, and may not be disclosed by Tenant to anyone, by any manner or means, directly or indirectly, without Landlord's prior written consent. The consent by Landlord to any disclosures shall not be deemed to be a waiver on the part of Landlord of any prohibition against any future disclosure.

(u) LIST OF EXHIBITS. All exhibits and attachments attached hereto are incorporated herein by this reference.

Exhibit A - Outline of Premises
Exhibit B - Legal Description of Building
Exhibit C - Building Rules and Regulations
Exhibit D - Tenant Finish-Work: Allowance
Exhibit E - Parking
Exhibit F - Renewal Option

(v) ATTORNEYS' FEES. In the event of any action or proceeding brought by either party against the other under this Lease, the prevailing party shall be entitled to recover its actual out-of-pocket attorneys' fees in such action or proceeding.

25. OTHER PROVISIONS.

(a) HAZARDOUS SUBSTANCES. Neither Tenant nor any Tenant Party shall cause or permit any Hazardous Substance to be used, stored, generated, or disposed of on, in or about the Property by Tenant or any Tenant Party without first obtaining Landlord's written consent. If Hazardous Substances are used, stored, generated, or disposed of on, in or about the Property by Tenant or any Tenant Party or if the Premises becomes contaminated in any manner by Tenant or any Tenant Party, Tenant shall indemnify, defend and hold harmless the Landlord (and its agents and employees) for any and all claims, damages, fines, judgments, penalties, costs, liabilities, or losses (including, without limitation, a decrease in value of the Premises or the Land or Building of which they are a part, damages caused by loss or restriction of rentable or usable space, or any damages cause by adverse impact on marketing of the space, and any and all sums paid for settlement of claims, attorney's fees, consultant, and expert fees) arising during or after the Term and arising as a result of any use, storage, generation or disposal of any Hazardous Substance or any such contamination by Tenant or any Tenant Party. This indemnification includes, without limitation, any and all costs incurred because of any investigation in connection with Tenant or any Tenant Party of the site or any cleanup, removal, or restoration mandated by a federal, state, or local agency or political subdivision. If Tenant or any Tenant Party causes or permits the present of any Hazardous Substance on the Property that results in contamination, Tenant shall promptly, at its sole expense, take any and all necessary actions to return the Property to the condition existing prior to the presence of any such Hazardous Substance on the Property. Tenant shall first obtain Landlord's approval for any such remedial action, which approval shall

not be unreasonably withheld, delayed or conditioned. As used herein, "HAZARDOUS SUBSTANCE" means any substance that is toxic, ignitable, reactive, or corrosive regardless whether same is regulated by any local government, the State of New Jersey, or the United States Government, other than normal cleaning materials customarily used in cleaning office buildings so long as such materials are stored and used in compliance with all Laws. "HAZARDOUS SUBSTANCE" includes, but is not limited to any toxic or hazardous substance and any and all material or substances that are defined as "hazardous waste," "extremely hazardous waste", or a "hazardous substance" pursuant to state, federal, or local governmental law including but not limited to the Spill and Compensation and Control Act, N.J.S.A. 58:10-23.11 et seq. "HAZARDOUS SUBSTANCE" includes but is not restricted to asbestos, polychlorobiphenyls ("PCBS"), petroleum and petroleum products. Tenant may use toners in copying operations and ammonium in blue printing, provided such use and the storage and disposal of same are in compliance with Law.

(b) ISRA OBLIGATIONS. Tenant will not engage in any activity which would subject Tenant to the provisions of the Industrial Site Recovery Act N.J.S.A. 13-1K-6 et and the regulations promulgated thereunder (collectively, "ISRA") if applicable to the occupancy of the Premises by Tenant pursuant to this Lease or otherwise. If, for any reason, Tenant is hereafter subjected to the provisions of ISRA, Tenant shall, at its sole cost and expense, comply therewith. Tenant will not engage in any activity which would subject the Tenant to the provisions of the Federal Comprehensive Environmental Response, Liability and Clean-Up Act, 42 U.S.C.A. Section 9601 et seq, the Resource Conservation and Recovery Act, 42 U.S.C.A. Section 6901 et seq, the Toxic Substances Control Act, 7 U.S.C.A. Section 136 et seq, the Occupations Safety and Health Act of 1970, 29 U.S.C.A. Section 651 et seq, the Emergency Planning and Community Right to Know Act of 1986, 42 U.S.C.A. Section 11001 et seq, the Safe Drinking Water Act 42 U.S.C.A. Section 300f et seq, the Hazardous and Solid Waste Amendments of 1984, P.I. 86-616, the Hazardous Materials Transportation Act, 49 U.S.C.A. Section 1801 et seq, the Federal Clean Air Act, 42 U.S.C.A. Section 7401 et seq, the Federal Water Pollution Control Act, 33 U.S.C.A. Section 1151 et seq, the Clean Water Act of 1977, 33 U.S.C.A., 1251 et seq, the Underground Storage of Hazardous Substances Act, N.J.S.A. Section 58:10A-21 et seq, the Spill Compensation and Control Act, N.J.S.A. Section 58:10A-23.11 et seq, the Water Pollution Control Act N.J.S.A. Section 58:10A-1 et seq, or any other federal, state or local environmental law, regulation, or ordinance.

(c) INDEMNITY. Tenant shall indemnify, defend and save harmless Landlord from and against all fines, suits, procedures, claims, actions, damages, liabilities, judgments, costs and expenses (including, without limitation reasonable attorneys' fees) of any kind arising out of or in any way connected with Tenant's any other Tenant Party whose actions or omissions or failure to maintain the Premises results in any spills or discharges of Hazardous Substances, hazardous wastes or pollutants at or within the Premises, the Building, or the property which occur during the term of this Lease; and from all fines, suites, procedures, claims, actions, damages, liabilities, judgements, costs and expense (including but not limited to reasonable attorney's fees) of any kind arising out of Tenant's failure to provide all information, make all submissions, and take all actions necessary to comply with all of the provisions of all applicable federal, state, and local environmental laws, regulations, rules, and ordinances, whether or not

specifically described in this Section 25.(c) Tenant's obligations and liabilities under this Section 25.(c) shall continue after expiration of the term of this Lease, including any extensions thereof for so long as Landlord remains liable or responsible for any spills or discharges of Hazardous Substances or wastes or other pollutants at the Premises or the Building of the property which occur during the term of this Lease.

(d) ENVIRONMENTAL REPORT. Landlord has provided to Tenant a copy of a Phase I Environmental Site Assessment (Fugro Job No. 16-90-1469), ("REPORT") with respect to the Land, dated February 19, 1997, prepared by Fugro East, Inc. ("CONSULTANT"). Tenant agrees not to release the Report, or a copy of it, or any part of it, or disclose any of the information contained in the Report to any third party (other than Tenant's counsel) without the express prior written consent of Landlord. Such consent shall not be unreasonably withheld as long as the proposed party to whom the report is given executes a letter agreement containing covenants similar to this Section 25.(d). Tenant releases Landlord for any inaccuracies, omissions, or errors contained in the Report. Tenant agrees that it will not rely on the Report and it will make whatever independent investigation it feels is necessary to investigate the environmental and other conditions of the Land. Tenant agrees that Landlord has no duty to provide it with the Report, to correct any inaccuracies, errors, or omission in the Report, to supplement the Report with any additional information, or to provide Tenant with any information concerning the environmental conditions of the Land. Tenant agrees that Landlord considers the Report to be confidential proprietary information and Tenant agrees to maintain the confidentiality and security of the Report information in accordance with the highest standards of confidentiality and security associated with the protection of "trade secrets." Landlord hereby expressly disclaims responsibility for the investigation of the Land by Tenant and further disclaims any responsibility for the contents of the Report. Tenant's obligations pursuant to this Section 25.(d) shall survive the expiration or termination of this Lease.

(e) LANDLORD'S ENVIRONMENTAL REPRESENTATION. Landlord represents and warrants to Tenant that to the best of Landlord's actual knowledge, Landlord has not received written notice of any Hazardous Substance on the Land or the Premises in violation of any Environmental Law except as may be disclosed in the Report. Landlord and Tenant each specifically acknowledge and agree that all references in this Lease to the phrase "to the best of Landlord's actual knowledge" (or other similar phrase) (1) shall mean the actual (not constructive) personal knowledge of Wm. David Lawson of Archon Group, L.P. ("LANDLORD'S PERSONNEL"), without any duty of inquiry; (2) shall in no case mean or refer to the actual or constructive knowledge of any other employee, trustee, partner, agent or partner of a partner, officer, director or other representative of Landlord, Archon Group, L.P. or any investment advisor, attorney, contractor or representative of Landlord (together with Landlord's Personnel, "LANDLORD'S REPRESENTATIVES"); and (3) shall in no event or circumstance impose upon Landlord or any of Landlord's Representatives any duty or obligation to verify, inquire or make any independent inquiry or investigation of any such representation, warranty or statement, or to otherwise investigate the facts or circumstances relating or otherwise pertinent thereto. Tenant further acknowledges and agrees that none of Landlord's Representatives shall be personally liable, or otherwise have any personal liability, under or in connection with this Lease, including

without limitation, in connection with any of the representations, warranties or statements made in connection with, or pursuant to, this Lease.

(f) VENDING MACHINE AREA. Prior to August 1, 1997, Landlord shall install a vending machine area in the common areas of the Building for the common use of tenants in the Building.

(g) LANDLORD'S WORK. Contemporaneously with the performance of the Work (as defined in Exhibit D hereto), Landlord shall remove, at its sole cost and expense, (1) the existing internal stairway affecting the Premises, and (2) the existing Liebert units in the Premises and the raised flooring, together with any piping or wiring equipment associated with such Liebert units.

(h) SIGNAGE RIGHTS. Landlord shall provide Tenant directory signage in the lobby area of the Building and any other additional signage rights similarly given to all of the tenants in the Building.

LANDLORD AND TENANT EXPRESSLY DISCLAIM ANY IMPLIED WARRANTY THAT THE PREMISES ARE SUITABLE FOR TENANT'S INTENDED COMMERCIAL PURPOSE, AND TENANT'S OBLIGATION TO PAY RENT HEREUNDER IS NOT DEPENDENT UPON THE CONDITION OF THE PREMISES OR THE PERFORMANCE BY LANDLORD OF ITS OBLIGATIONS HEREUNDER, AND, EXCEPT AS OTHERWISE EXPRESSLY PROVIDED HEREIN, TENANT SHALL CONTINUE TO PAY THE RENT, WITHOUT ABATEMENT, SETOFF OR DEDUCTION, NOTWITHSTANDING ANY BREACH BY LANDLORD OF ITS DUTIES OR OBLIGATIONS HEREUNDER, WHETHER EXPRESS OR IMPLIED. NOTHING IN THIS PARAGRAPH SHALL BE CONSTRUED TO DIMINISH THE OBLIGATIONS OF LANDLORD THAT ARE EXPRESSLY SET FORTH ELSEWHERE IN THIS LEASE.

Dated as of the date first above written.

TENANT:

DIGITAL SOLUTIONS, INC.

By:

George J. Eklund
President and CEO

Prior to Commencement Date:

Digital Solutions, Inc.

4041 F Hadley Road
South Plainfield, New Jersey 07080
Attention: Stuart Rosen, Project Manager

Telecopy: 908-561-5327

After Commencement Date:

Digital Solutions, Inc.

300 Atrium Drive, Suite 103
Franklin Township, New Jersey 08873
Attention: Stuart Rosen, Project Manager

Telecopy: -----

LANDLORD:

WHATR REAL ESTATE LIMITED PARTNERSHIP, a Delaware limited partnership

By: WHATR Gen-Par, Inc., a Delaware
corporation, General Partner

By:
Name:
Title:

Address: WHATR Real Estate Limited
Partnership
c/o Koll Management Services, Inc.
One Mack Centre Drive
Paramus, New Jersey 07652

Telecopy: (201) 967-1500
Telecopy: (201) 967-8685 (fax)

With a copy to:

Archon Group, L.P.
600 Las Colinas Boulevard,
Suite 1900
Irving, Texas 75039
Attention: Asset Manager
Telecopy: 972-831-2507

EXHIBIT A

[OUTLINE OF PREMISES]

A-1

[LEGAL DESCRIPTION OF BUILDING]

All that certain tract, parcel and lot of land lying and being situate in the Township of Franklin, County of Somerset, State of New Jersey, being more particularly described as follows:

Being known as Block 468.01, Lot 21.06 as shown on a map entitled "amended Section Two of the Atrium at Somerset, Township of Franklin, Somerset County, New Jersey" filed in the Somerset County Clerk's office December 14, 1983 as Map Number 2067. Being further described as beginning at a point in the most southeasterly line of the whole tract of which this is a part being distant 1050.23 feet along said outside line on a course of North 48 degrees 54 minutes 40 seconds East from the most southerly corner of the whole tract of which this is a part and corner of the lands of Worlds Fair Associates and running; thence

1. Along the northeasterly line of Lot 21.08 as shown on said map on a course of North 40 degrees 51 minutes 00 seconds West a distance of 308.94 feet to a point; thence
2. Still along said line of Lot 21.08 in a northwesterly direction along a curve to the right having a radius of 60.00 feet an arc distance of 79.54 feet to a point; thence
3. Along the southeasterly line of Lot 21.07 as shown on said map on a course of North 48 degrees 44 minutes 36 seconds East a distance of 115.14 feet to a point; thence
4. Along the northeasterly line of lot 21.07 as shown on said map in a northwesterly direction along a curve to the left having a radius of 60.00 feet an arc distance of 30.17 feet to a point; thence
5. Still along said line of Lot 21.07 in a northwesterly direction along a curve to the right having a radius of 40.00 feet an arc distance of 31.82 feet to a point; thence
6. Still along said line of Lot 21.07 on a course of North 40 degrees 51 minutes 00 seconds West a distance of 319.66 feet to a point; thence
7. On a course of North 48 degrees 49 minutes 16 seconds East a distance of 58.43 feet to a point; thence
8. Still along the southeasterly line of Lot 21.03 as shown on a map entitled "amended section one of the atrium at Somerset" filed in the Somerset County Clerk's office June 4, 1982 as Map Number 1963, on a course of North 48 degrees 35 minutes 40 seconds East a distance of 324.59 feet to a point; thence

9. Still along said line of Lot 21.03 in a northerly direction along a curve to the left having a radius of 195.00 feet an arc distance of 192.08 feet to a point; thence
10. Still along said line of Lot 21.03 on a course of North 7 degrees 50 minutes 38 seconds West a distance of 7.40 feet to a point; thence
11. Still along said line of Lot 21.03 in a northwesterly direction along a curve to the left having a radius of 35.00 feet an arc distance of 48.34 feet to a point; thence
12. Still along a line of Lot 21.03 on a course of North 3 degrees 00 minutes 57 seconds East a distance of 60.00 feet; thence
13. Along the southerly line of Lot 21.04 as shown on said map of Section One in an easterly direction along a curve to the left having a radius of 250.00 feet an arc distance of 193.82 feet to a point; thence
14. Still along said line of Lot 21.04 on a course of North 48 degrees 35 minutes 40 seconds East a distance of 175.00 feet to a point; thence
15. Along the southwesterly line of Lot 21.05 as shown on said map of Section Two in an easterly direction along a curve to the right having a radius of 110.00 feet an arc distance of 172.79 feet to a point; thence
16. Still along said line of Lot 21.05 on a course of South 41 degrees 24 minutes 20 seconds East a distance of 250.00 feet to a point; thence
17. Still along said line of Lot 21.05 and the southwesterly line of Lot 21.09 in a southeasterly direction along a curve to the left having a radius of 40.00 feet an arc distance of 31.82 feet to a point; thence
18. Still along said line of Lot 21.09 in a southeasterly direction along a curve to the right having a radius of 60.00 feet an arc distance of 99.02 feet to a point; thence
19. Still along said line of Lot 21.09 South 55 degrees 57 minutes 41 seconds East a distance of 290.11 feet to a point; thence
20. Along an outside line of the whole tract of which this is a part on a course of South 15 degrees 35 minutes 50 seconds East a distance of 97.02 feet to a point; thence
21. Still along an outside line of the whole tract on a course of South 48 degrees 37 minutes 00 seconds West a distance of 904.26 feet to a point; thence
22. Still along an outside line of the whole tract on a course of South 39 degrees 47 minutes 00 seconds East a distance of 17.16 feet to a point; thence

23. Still along an outside line of the whole tract on a course of South 48 degrees 54 minutes 40 seconds West a distance of 249.51 feet to a point being the point or place of beginning.

Together with an easement being identified as follows:

Together with an subject to all of the right title and interest of S/A Associates In, to and under that certain Declaration of Easements dated April 15, 1982 by S/A Associates recorded in Deed Book 1457 Page 828 on April 20, 1982, as amended by Amendment to Declaration of Easements dated April 15, 1983 by S/A Associates and recorded in Deed Book 1488 Page 315 on September 16, 1983

The above description is in accordance with a survey prepared by Joseph D. Greenaway, P.L.S. dated July 30, 1996 and last revised to August 22, 1996.

Lot 21.06, Block 468.1, on the Official Tax Map of Franklin Township

BUILDING RULES AND REGULATIONS

The following rules and regulations shall apply to the Premises, the Building, the parking garage associated therewith, and the appurtenances thereto:

1. Sidewalks, doorways, vestibules, halls, stairways, and other similar areas shall not be obstructed by tenants or used by any tenant for purposes other than ingress and egress to and from their respective leased premises and for going from one to another part of the Building.
2. Plumbing, fixtures and appliances shall be used only for the purposes for which designed, and no sweepings, rubbish, rags or other unsuitable material shall be thrown or deposited therein. Damage resulting to any such fixtures or appliances from misuse by a tenant or its agents, employees or invitees, shall be paid by such tenant.
3. No signs, advertisements or notices shall be painted or affixed on or to any windows or doors or other part of the Building without the prior written consent of Landlord. No nails, hooks or screws shall be driven or inserted in any part of the Building except by Building maintenance personnel. No curtains or other window treatments shall be placed between the glass and the Building standard window treatments.
4. Landlord shall provide and maintain an alphabetical directory for all tenants in the main lobby of the Building.
5. Landlord shall provide all door locks in each tenant's leased premises, at the cost of such tenant, and no tenant shall place any additional door locks in its leased premises without Landlord's prior written consent, which consent shall not be unreasonably withheld, delayed or conditioned. Landlord shall furnish to each tenant a reasonable number of keys to such tenant's leased premises, at such tenant's cost, and no tenant shall make a duplicate thereof.
6. Movement in or out of the Building of furniture or office equipment, or dispatch or receipt by tenants of any bulky material, merchandise or materials which require use of elevators or stairways, or movement through the Building entrances or lobby shall be conducted under Landlord's supervision at such times and in such a manner as Landlord may reasonably require. Each tenant assumes all risks of and shall be liable for all damage to articles moved and injury to persons or public engaged or not engaged in such movement, including equipment, property and personnel of Landlord if damaged or injured as a result of acts in connection with carrying out this service for such tenant.
7. Landlord may prescribe weight limitations and determine the locations for safes and other heavy equipment or items, which shall in all cases be placed in the Building so as to distribute weight in a manner acceptable to Landlord which may include the use of such

supporting devices as Landlord may require. All damages to the Building caused by the installation or removal of any property of a tenant, or done by a tenant's property while in the Building, shall be repaired at the expense of such tenant.

8. Corridor doors, when not in use, shall be kept closed. Nothing shall be swept or thrown into the corridors, halls, elevator shafts or stairways. No birds or animals shall be brought into or kept in, on or about any tenant's leased premises. No portion of any tenant's leased premises shall at any time be used or occupied as sleeping or lodging quarters.

9. Tenant shall cooperate with Landlord's employees in keeping its leased premises neat and clean. Tenants shall not employ any person for the purpose of such cleaning other than the Building's cleaning and maintenance personnel.

10. To ensure orderly operation of the Building, no ice, mineral or other water, towels, newspapers, etc. shall be delivered to any leased area except by persons approved by Landlord.

11. Tenant shall not make or permit any vibration or improper, objectionable or unpleasant noises or odors in the Building or otherwise interfere in any way with other tenants or persons having business with them.

12. No machinery of any kind (other than normal office equipment) shall be operated by any tenant on its leased area without Landlord's prior written consent, which consent shall not be unreasonable withheld, delayed or conditioned, nor shall any tenant use or keep in the Building any flammable or explosive fluid or substance.

13. Landlord will not be responsible for lost or stolen personal property, money or jewelry from tenant's leased premises or public or common areas regardless of whether such loss occurs when the area is locked against entry or not.

14. No vending or dispensing machines of any kind may be maintained in any leased premises without the prior written permission of Landlord.

15. Tenant shall not conduct any activity on or about the Premises or Building which will draw pickets, demonstrators, or the like.

16. All vehicles are to be currently licensed, in good operating condition, parked for business purposes having to do with Tenant's business operated in the Premises, parked within designated parking spaces, one vehicle to each space. No vehicle shall be parked as a "billboard" vehicle in the parking lot. Any vehicle parked improperly may be towed away. Tenant, Tenant's agents, employees, vendors and customers who do not operate or park their vehicles as required shall subject the vehicle to being towed at the expense of the owner or driver. Landlord may place a "boot" on the vehicle to immobilize it and may levy a charge of \$50.00 to remove the "boot." Tenant shall indemnify, hold and save harmless Landlord of any liability arising from

the towing or booting of any vehicles belonging to a Tenant Party.

TENANT FINISH-WORK: ALLOWANCE

1. Except as set forth in this Exhibit, Tenant accepts the Premises in their "AS-IS" condition on the date that this lease is entered into.

2. On or before _____, 1997, Tenant shall provide to Landlord for its approval final working drawings, prepared by an architect that has been approved by Landlord (which approval shall not unreasonably be withheld), of all improvements that Tenant proposes to install in the Premises; such working drawings shall include the partition layout, ceiling plan, electrical outlets and switches, telephone outlets, drawings for any modifications to the mechanical and plumbing systems of the Building, and detailed plans and specifications for the construction of the improvements called for under this Exhibit in accordance with all applicable governmental laws, codes, rules, and regulations. If Tenant fails to timely deliver such drawings, then each day after _____, 1997, that such drawings are not delivered to Landlord shall be a Tenant Delay Day (defined below). Further, if any of Tenant's proposed construction work will affect the Building's HVAC, electrical, mechanical, or plumbing systems, then the working drawings pertaining thereto must be approved by the Building's engineer of record. Landlord's approval of such working drawings shall not be unreasonably withheld, provided that (a) they comply with all laws, rules, and regulations, (b) such working drawings are sufficiently detailed to allow construction of the improvements in a good and workmanlike manner, and (c) the improvements depicted thereon conform to the rules and regulations promulgated from time to time by Landlord for the construction of tenant improvements (a copy of which has been delivered to Tenant). As used herein, "WORKING DRAWINGS" shall mean the final working drawings approved by Landlord, as amended from time to time by any approved changes thereto, and "WORK" shall mean all improvements to be constructed in accordance with and as indicated on the Working Drawings. Landlord's approval of the Working Drawings shall not be a representation or warranty of Landlord that such drawings are adequate for any use or comply with any law, but shall merely be the consent of Landlord thereto. Tenant shall, at Landlord's request, sign the Working Drawings to evidence its review and approval thereof. All changes in the Work must receive the prior written approval of Landlord, and in the event of any such approved change Tenant shall, upon completion of the Work, furnish Landlord with an accurate, reproducible "as-built" plan of the improvements as constructed.

3. The Work shall be performed only by contractors and subcontractors approved in writing by Landlord, which approval shall not be unreasonably withheld. All contractors and subcontractors shall be required to procure and maintain insurance against such risks, in such amounts, and with such companies as Landlord may reasonably require. Certificates of such insurance, with paid receipts therefor, must be received by Landlord before the Work is commenced. The Work shall be performed in a good and workmanlike manner free of defects, shall conform strictly with the Working Drawings, and shall be performed in such a manner and at such times as and not to interfere with or delay Landlord's other contractors, the operation of

the Building, and the occupancy thereof by other tenants. All contractors and subcontractors shall contact Landlord and schedule time periods during which they may use Building facilities in connection with the Work (e.g., elevators, excess electricity, etc.).

4. If a delay in the performance of the Work occurs (a) because of any change by Tenant to the Space Plans or the Working Drawings, (b) because of any specification by Tenant of materials or installations in addition to or other than Landlord's standard finish-out materials, or (c) if Tenant or Tenant's agents otherwise delays completion of the Work, then, notwithstanding any provision to the contrary in this Lease, Tenant's obligation to pay Rent hereunder shall commence on the scheduled Commencement Date (each day of delay caused by any such event shall be a "TENANT DELAY DAY"). If the Premises are not ready for occupancy and the Work is not substantially completed (as reasonably determined by Landlord, but in no event earlier than the date on which Landlord obtains a preliminary or permanent certificate of occupancy for the Premises) on the scheduled Commencement Date for any reason other than the reasons specified in the immediately preceding sentence, then the obligations of Landlord and Tenant shall continue in full force and Rent shall be abated until the date the Work is substantially completed less the number of Tenant Delay Days, which date shall be the Commencement Date.

5. The entire cost of performing the Work (including, without limitation, design of the Work and preparation of the Working Drawings, costs of construction labor and materials, electrical usage during construction, additional janitorial services, general tenant signage, related taxes and insurance costs, all of which costs are herein collectively called the "TOTAL CONSTRUCTION COSTS") in excess of the Construction Allowance (hereinafter defined) shall be paid by Tenant. Upon approval of the Working Drawings and selection of a contractor, Tenant shall promptly (a) execute a work order agreement prepared by Landlord which identifies such drawings and itemizes the Total Construction Costs and sets forth the Construction Allowance, and (b) pay to Landlord 50% of the amount by which Total Construction Costs exceed the Construction Allowance. Upon substantial completion of the Work, Tenant shall pay to Landlord an amount equal to the Total Construction Costs (as adjusted for any approved changes to the Work), less (1) the amount of the advance payment already made by Tenant, (2) the amount of the Construction Allowance, and (3) the cost reasonably estimated by Landlord for completing all "punch list" items. Tenant shall pay to Landlord the costs incurred in completing the punch list items upon completion thereof.

6. Landlord shall provide to Tenant a construction allowance (the "CONSTRUCTION ALLOWANCE") equal to the lesser of (a) \$26.00 per rentable square foot in the Premises or (b) the Total Construction Costs, as adjusted for any approved changes to the Work.

7. To the extent not inconsistent with this Exhibit, Section 7.(a) of this Lease shall govern the performance of the Work and Landlord's and Tenant's respective rights and obligations regarding the improvements installed pursuant thereto.

EXHIBIT E

PARKING

Tenant may use fifty-one (51) undesignated parking spaces in the parking area associated with the Building (the "PARKING AREA") during the initial Term at no cost to Tenant and subject to such terms, conditions and regulations as are from time to time charged or applicable to patrons of the Parking Area.

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EXHIBIT F

RENEWAL OPTION

Provided no Event of Default exists and Tenant is occupying the entire Premises at the time of such election, Tenant may renew this Lease for two (2) additional periods of five (5) years each, by delivering written notice of the exercise thereof to Landlord not later than nine (9) months before the expiration of the initial Term. On or before the commencement date of the extended Term in question, Landlord and Tenant shall execute an amendment to this Lease extending the Term on the same terms provided in this Lease, except as follows:

(a) The Basic Rent payable for each month during the first extended Term shall be ninety-five percent (95%) of the prevailing rental rate, at the commencement of such extended Term, for space of equivalent quality, size, utility and location, with the length of the extended Term and the credit standing of Tenant to be taken into account;

(b) The Basic Rent payable for each month during the second extended Term shall be one hundred percent (100%) of the prevailing rental rate, at the commencement of such extended Term, for space of equivalent quality, size, utility and location, with the length of the extended Term and the credit standing of Tenant to be taken into account;

(c) Tenant shall have no further renewal options unless expressly granted by Landlord in writing; and

(d) Landlord shall lease to Tenant the Premises in their then-current condition, and Landlord shall not provide to Tenant any allowances (e.g., moving allowance, construction allowance, and the like) or other tenant inducements.

Tenant's rights under this Exhibit shall terminate if (1) this Lease or Tenant's right to possession of the Premises is terminated, (2) Tenant assigns any of its interest in this Lease or sublets any portion of the Premises or (3) Tenant fails to timely exercise its option under this Exhibit, time being of the essence with respect to Tenant's exercise thereof.

EMPLOYMENT AGREEMENT

AGREEMENT made as of this 16th day of December, 1997 by and between Digital Solutions Inc. (the "Company"), a New Jersey corporation, with principal offices at 300 Atrium Drive, Somerset, New Jersey 08873, and George J. Eklund ("Eklund"), an individual residing at 5 Green Hills Road, Mendham, New Jersey 07945.

W I T N E S S E T H :

WHEREAS, the Company and Eklund entered into an employment Agreement as of the 12th day of March, 1996 (the "Employment Agreement"), pursuant to which Eklund was employed as President and Chief Executive Officer of the Company; and

WHEREAS, Eklund was diagnosed with a malignant brain tumor in June 1997 and has undergone, and continues to undergo, treatment for this condition; and

WHEREAS, Eklund's current condition renders him unable to perform all of his usual duties and will continue to prevent him from performing such duties for at least the immediate future within the contemplation of paragraph VIII of the Employment Agreement; and

WHEREAS, the Company and Eklund desire to relieve Eklund of his responsibilities as President and Chief Executive Officer on the ground of Eklund's disability, and assign new responsibilities to Eklund, and amend and supersede the terms of the Employment Agreement with the terms set forth

IT IS NOW AGREED:

Subject to the terms and conditions set forth below, Eklund and the Company hereby agree to change Eklund's position with the Company and amend the Employment Agreement effective as of the date first set forth above due to Eklund's disability (the "Effective Date").

Eklund and the Company hereby agree to change Eklund's position, as of the Effective Date, from President and Chief Executive Officer of the Company to special assistant on particular projects as reasonably specified by the Company. Eklund shall remain as a member of the Board of Directors until the end of his current term.

In settlement of any and all compensation and reimbursement for expenses due Eklund under the terms of the Employment Agreement or otherwise from the Company, the Company agrees to pay to Eklund the following amounts on the terms set forth below:

An amount equal to the cost during the period from the date hereof through a date ending 18 months from the expiration of the original term of the Employment Agreement (March 11, 1999), less the amount of such cost currently paid by Eklund, for medical, dental and life insurance currently provided to Eklund to be paid directly to the insurer on behalf of Eklund by the Company in payment of the continuation of such benefits and Eklund's COBRA

responsibility; provided, that the Company's obligation under this subparagraph 3(a) is contingent upon Eklund continuing to timely pay to the Company the amount of such insurance costs currently paid by Eklund either by deduction from Eklund's compensation paid hereunder and/or direct payment by Eklund to the Company;

b. Eklund shall continue to receive his Base Salary as defined in the Employment Agreement payable in accordance with the Company's normal pay periods until the expiration of the original term of the Employment Agreement; provided, however, the Company shall receive a credit for all disability insurance payments paid directly to Eklund by any disability insurance policy maintained by the Company on Eklund. Eklund further agrees that he will cooperate with the Company in the Company's efforts to process any claim for benefits under such policies, including, if requested by the carrier, to furnish medical records and/or submit to a physical examination.

Eklund's employee stock options shall continue to vest and be exercisable in accordance with their original terms. The original terms of such options were for a period of five years; however, upon termination of employment, the options which were exercisable on the date of termination are only exercisable for a period of 90 days from such date of termination, not to exceed the original term of the option; and upon death of the employee, all options exercisable upon the date of death are exercisable by the estate of the employee for a period of one year from the date of death.

The Company will indemnify and hold Eklund harmless from any

and all claims, liabilities, expenses or responsibilities arising out of the actions commenced by any party arising out of Eklund's employment with the Company, including costs of collection and reasonable attorneys' fees; provided, however, that Eklund shall not engage independent counsel unless the Company consents to same or the representation of Eklund in the matter for which Eklund intends to engage counsel would constitute a conflict of interest if Eklund was represented by counsel engaged by the Company.

6. Article V of the Employment Agreement (Non-Disclosure) shall be deemed to remain in full force and effect.

7. Article VI of the Employment Agreement (Restrictive Covenant) shall continue in full force and effect and Eklund shall be deemed as if he had voluntarily resigned for the purposes of such Article on March 11, 1999.

8. This Agreement is the entire agreement and supersedes any previous agreement, understanding or representations between Eklund and the Company with respect to the subject matter. This Agreement may not be modified in any respect except by a written agreement signed by both parties.

9. The provisions of this Agreement shall be binding upon the parties and their respective agents, employees, directors, officers, shareholders, heirs, executors, administrators, legal representatives, successors and assigns. Specifically, and without limitation, in the event of Eklund's death, Eklund's heirs shall receive all the benefits set forth in paragraphs 3(b) and 4 herein through March 11, 1999.

10. In the event this Agreement, or any portion thereof, is held invalid, illegal or unenforceable, the validity, legality or enforceability of the remainder of

this Agreement shall not in any way be affected or impaired thereby.

11. This Agreement shall not be transferred or assigned without the written consent of both parties.

12. All notices and other communications permitted or required under this Agreement shall be in writing and shall be sufficiently given if and when hand delivered to the persons set forth below, or if sent by registered or certified mail, postage prepaid, return receipt requested, or by facsimile, addressed as set forth below or to such other person or persons and/or at such other address or addresses as shall be furnished in writing by any party to the others or by personal delivery thereof. Any such notice or communication which is mailed or faxed shall be deemed to have been given as of the date received or delivery was attempted, as evidenced by the return receipt with respect to a letter or the official notation of time and date of delivery of a facsimile.

If to Eklund: George J. Eklund
 5 Green Hills Road
 Mendham, New Jersey 07945

If to The Company: Digital Solutions, Inc.
 300 Atrium Drive
 Somerset, New Jersey 08873

with a copy to: Goldstein & DiGioia, LLP
 369 Lexington Avenue
 New York, NY 10017
 Attention: Victor J. DiGioia, Esq.

13. This Agreement shall be binding, governed by, and construed and enforced under the Federal Arbitration Act and the laws of New Jersey, excluding those laws of New Jersey related to conflict of laws.

14. All disputes arising between the Company and Eklund, or their

respective agents, employees, directors, officers, shareholders, heirs, executors, administrators, legal representatives, successors and assigns, shall be settled exclusively through arbitration administered by the American Arbitration Association under its Commercial Arbitration Rules and under the Federal Arbitration Act. Judgment on the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. The arbitrator(s) shall be bound by applicable federal law and the substantive law of the State of New Jersey, other than conflicts of law rules which shall not apply. Any claim or demand exceeding twenty five thousand dollars (\$25,000.00) shall be heard by a panel of three arbitrators. The demand for arbitration must be filed with the American Arbitration Association within the applicable statute of limitations. This agreement to arbitrate shall survive the expiration, breach or

termination of this Agreement.

Digital Solutions, Inc.

By:

Karl Dieckmann
Chairman of the Board

George J. Eklund

SEVENTH AMENDMENT TO

AMENDED AND RESTATED LOAN AND SECURITY AGREEMENT AND NOTE

BY AND BETWEEN

SUMMIT BANK, FORMERLY UNITED JERSEY BANK

AND

DIGITAL SOLUTIONS, INC.
AND ITS SUBSIDIARIES

DATED: AS OF OCTOBER 31, 1997

SEVENTH AMENDMENT TO AMENDED AND RESTATED
LOAN AND SECURITY AGREEMENT AND NOTE

THIS SEVENTH AMENDMENT TO AMENDED AND RESTATED LOAN AND SECURITY
AGREEMENT AND NOTE (this "Amendment") is made as of October 31, 1997,

BY AND
AMONG

SUMMIT BANK, formerly UNITED JERSEY BANK, a New Jersey
banking corporation having a place of business at 210 Main
Street, Hackensack, New Jersey 07602 ("UJB" or the "Bank"),

AND

DIGITAL SOLUTIONS, INC., a New Jersey corporation, having
its principal place of business at 300 Atrium Drive,
Somerset, New Jersey 08873, (together with its successors
and assigns, hereafter referred to as "DIGITAL");

DSI STAFF CONNXIONS OF MISSISSIPPI, INC., a Mississippi
corporation, having its principal place of business at 2
Northpoint Drive, Suite 110, Houston, Texas 77060 (together
with its successors and assigns, hereafter referred to as
"DSI-MISSISSIPPI");

DSI STAFF CONNXIONS-SOUTHWEST, INC., a Texas corporation,
having its principal place of business at 2 Northpoint
Drive, Suite 110, Houston, Texas 77060, (together with its
successors and assigns, hereafter referred to as
"DSI-SOUTHWEST");

RAM TECHNICAL SERVICES, INC., a Texas corporation, having
its principal place of business at 2 Northpoint Drive,
Suite 110, Houston, Texas 77060, (together with its
successors and assigns, hereafter referred to as "RAM");

MLB MEDICAL STAFFING, INC., a Texas corporation, having its
principal place of business at 2 Northpoint Drive, Suite
110, Houston, Texas 77060, (together with its successors
and assigns, hereafter referred to as "MLB");

DIGITAL INSURANCE SERVICES, INC., a New Jersey corporation, having its principal place of business at 300 Atrium Drive, Somerset, New Jersey 08873, (together with its successors and assigns, hereafter referred to as "DIGITAL INSURANCE");

STAFF CONNXIONS, INC., a New Jersey corporation, having its principal place of business at 300 Atrium Drive, Somerset, New Jersey 08873, (together with its successors and assigns, hereafter referred to as "STAFF CONNXIONS");

DSI-CONTRACT STAFFING, INC., a New Jersey corporation, having its principal place of business at 300 Atrium Drive, Somerset, New Jersey 08873, (together with its successors and assigns, hereafter referred to as "DSI-CONTRACT");

DSI STAFF RX, INC., a Texas corporation, having its principal place of business at 2 Northpoint Drive, Suite 110, Houston, Texas 77060, (together with its successors and assigns, hereafter referred to as "STAFF RX"); and

DSI STAFF CONNXIONS NORTHEAST, INC., a New Jersey corporation, having its principal place of business at 300 Atrium Drive, Somerset, New Jersey 08873, (together with its successors and assigns, hereafter referred to as "DSI NORTHEAST");

The corporations listed above (except the Bank) shall hereinafter be collectively referred to as the "Co-Borrowers".

RECITALS

A. Co-Borrowers and the Bank are parties to a certain Amended and Restated Loan and Security Agreement, dated as of February 27, 1995 (as amended, restated or modified up to the date hereof, the "Loan Agreement"). Capitalized terms used herein and not defined shall have the meanings ascribed to them

in the Loan Agreement.

B. Pursuant to the terms of the Loan Agreement, the Bank made to the Co-Borrowers a certain revolving loan in the original principal amount of up to \$3,500,000, as evidenced by a certain letter of credit in the present amount of \$455,301.00 and a note in the present principal amount of \$2,657,030.00 (as modified, increased or extended, the "Loan").

C. To evidence the Loan, Co-Borrowers executed and delivered to the Bank the Replacement Line of Credit Note, dated as of February 27, 1995, (the "Note") in the original principal amount of up to \$3,500,000.

D. As security for the repayment of the "Obligations" (as that term is defined in the Loan Agreement), the Co-Borrowers executed and delivered certain UCC-1 Financing Statements (the "UCC-1's") in favor of the Bank, which UCC-1's were recorded in the appropriate county and state offices and which UCC-1's were represented by Co-Borrowers to constitute valid and legally binding priority security interests in and to the "Collateral" (as that term is defined in the Loan Agreement).

E. At times and from time to time, the Bank and the Co-Borrowers have amended the Loan Agreement, and the other documents executed in connection therewith.

F. Pursuant to the terms of a certain amendment to the Amended and Restated Loan and Security Agreement, dated as of September 29, 1995, the Bank and the Co-Borrowers modified the terms of the Loan Agreement to include a covenant that the Co-Borrowers shall maintain a ratio of total maximum liabilities less subordinated debt to net worth plus subordinated debt of not greater than 0.90 to 1.0 and to amend the definition of "Tangible Capital Funds" (as that term is defined in the Loan Agreement).

G. Pursuant to the terms of a certain second amendment to the Amended and Restated Loan and Security Agreement, dated as of April 29, 1996, the Bank and the Co-Borrowers modified the terms of the Loan Agreement to (i) extend the maturity date of the Loan Agreement and Note; (ii) confirm all security interests heretofore granted by the Co-Borrowers to the Bank; (iii) add to or revise certain covenants in the Loan Agreement; (iv) add to or

revise certain terms and conditions of the Loan; (v) fix the amount of the existing Letter of Credit at \$455,301.00; (vi) reduce the accounts receivables advance rate of the Loan to seventy-five percent (75%); (vii) require the payment by Co-Borrowers under the Loan of a principal reduction in the minimum amount of \$1.1 million on or before May 30, 1996; and (viii) waive the applicability of a certain financial covenant of Co-Borrowers under the Loan Agreement to maintain minimum "Tangible Capital Funds" (as that term is defined in the Loan Agreement) of \$3,395,000.00 for the Fiscal Quarters commencing 10/1/95 through 3/31/96.

H. To evidence the above, Co-Borrowers executed and delivered to the Bank the Amended Replacement Line of Credit Note, dated as of April 29, 1996, in the original principal amount of up to \$3,500,000.

I. Pursuant to the terms of a certain third amendment to the Amended and Restated Loan and Security Agreement, dated as of August 31, 1996, the Bank and the Co-Borrowers modified the terms of the Loan Agreement to extend the maturity date of the Loan Agreement and Note, as amended, to October 31, 1996.

J. To evidence the above, Co-Borrowers executed and delivered to the Bank the Second Amended Replacement Line of Credit Note, dated as of August 31, 1996, in the original principal amount of up to \$3,500,000.

K. Pursuant to the terms of a certain fourth amendment to the Amended and Restated Loan and Security Agreement, dated as of October 31, 1996, the Bank and the Co-Borrowers modified the terms of the Loan Agreement to: (i) extend the maturity date to December 31, 1996; (ii) increase the interest rate of the Loan from one and one-half (1.5%) percent above the Bank's Floating Base Rate to two and one-half (2.5%) percent above the Bank's Floating Base Rate; and (iii) alter certain other provisions of the Loan Documents as more particularly set forth therein.

L. To evidence the above, Co-Borrowers executed and delivered to the Bank the Third Amended Replacement Line of Credit Note, dated as of October 31, 1996, in the original principal amount of up to \$3,500,000.

M. Pursuant to the terms of a certain fifth amendment to the Amended and Restated Loan and Security Agreement, dated as of December 31, 1996, the Bank and the Co-Borrowers modified the terms of the Loan Agreement to: (i) extend the maturity dates of the Loan Agreement and Note to April 30, 1997; (ii) provide for the payment of weekly principal reductions and a term-out of the Loan; and (iii) alter certain other provisions of the Loan Documents as more particularly set forth therein.

N. To evidence the above, Co-Borrowers executed and delivered to the Bank the Fourth Amended Replacement Line of Credit Note, dated as of December 31, 1996, in the original principal amount of up to \$3,500,000.

O. Pursuant to the terms of a certain sixth amendment to the Amended and Restated Loan and Security Agreement, dated as of April 30, 1997, the Bank and the Co-Borrowers modified the terms of the Loan Agreement to: (i) extend the maturity dates of the Loan Agreement and Note to October 31, 1997; (ii) provide for an audit of the Co-Borrowers; (iii) continue weekly principal reductions and a term-out of the Loan; (iv) increase the interest rate of the Loan from two and one-half (2.5%) percent above the Bank's Floating Base Rate to three (3.0%) percent above the Bank's Floating Base Rate; and (v) alter certain other provisions of the Loan Documents as more particularly set forth therein.

P. To evidence the above, Co-Borrowers executed and delivered to the Bank the Fifth Amended Replacement Line of Credit Note, dated as of April 30, 1997, in the original principal amount of up to \$3,500,000.

Q. The Fifth Amended Note and the Sixth Amended and Restated Loan Agreement matured on October 31, 1997. The Co-Borrowers agree, admit and acknowledge that the Fifth Amended Note and the Sixth Amended and Restated Loan Agreement have matured and that they have no defense, counterclaim, offset or right of recoupment to the aforesaid maturity. Notwithstanding the above, the Co-Borrowers are attempting to repay the Loan and otherwise meet their obligations under the Fifth Amended Note and the Sixth Amended and Restated Loan Agreement. The Co-Borrowers have asked the Bank to temporarily forbear from the exercise of any rights and remedies under the Fifth Amended Note and the Sixth Amended and Restated Loan Agreement and the Bank has agreed

subject to the terms and conditions of this Agreement.

R. This Amendment is intended to alter certain terms of the Loan Agreement and Note in order to: (i) extend the maturity dates of the Loan Agreement and Note to October 31, 1998; (ii) provide for an infusion capital of \$250,000.00 by the Co-Borrowers; (iii) continue weekly principal reductions and a term-out of the Loan; (iv) continue interest at the rate of three (3.0%) percent above the Bank's Floating Base Rate; (v) provide for the grant to Bank of certain warrants to purchase stock of the Co-Borrowers; and (vi) alter certain other provisions of the Loan Documents as more particularly set forth herein.

S. The Bank and the Co-Borrowers have agreed to execute this Amendment and to enter into the transactions, and execute and deliver the documents provided for herein, all on and subject to the terms hereof.

NOW, THEREFORE, IN CONSIDERATION OF THE LOAN, THE NOTE, THE LOAN AGREEMENT AND THE OTHER MUTUAL PROMISES SET FORTH HEREIN, THE BANK AND THE CO-BORROWERS DO HEREBY AGREE AS FOLLOWS:

1. INCORPORATION OF RECITALS: The Recitals set forth above are hereby incorporated by reference in the Loan Agreement and this Amendment.

2. AMENDMENTS TO LOAN AGREEMENT AND NOTE:

(a) The Bank and the Co-Borrowers hereby agree that as of October 31, 1997, the outstanding principal balance of the Note is Two Million, Six Hundred Thirty-Seven Thousand, Thirty Dollars and 00/100 Dollars (\$2,657,030.00), plus interest and the outstanding principal balance of the Letter of Credit is Four Hundred Fifty-Five Thousand, Three Hundred and One Dollars and No Cents (\$455,301.00), plus interest, if any, and that the Co-Borrowers admit and acknowledge that these sums are due and owing to the Bank in full, without defense, counterclaim, offset and right of recoupment and that Co-Borrowers hereby irrevocably waive any right to raise such defense, offset, counterclaim and right of recoupment.

(b) The maturity dates of the Loan Agreement and the Note, as each of the same have been previously amended and modified and

are modified hereby, are hereby extended to October 31, 1998. There shall be no further extensions of the Loan Documents.

(c) The definition of "Note" contained in Article I, Section 1.1, subparagraph 26 of the Loan Agreement shall mean the Sixth Amended Replacement/Term Line of Credit Note attached hereto as Exhibit "A" and made a part hereof.

(d) Article I, Section 1.1 of the Loan Agreement is amended to include as a defined term "Maturity Date." The definition of "Maturity Date" shall be October 31, 1998.

(e) Article II, Section 2.1, subparagraphs A-H of the Loan Agreement is amended to reflect the new "Maturity Date" of October 31, 1998 in the place and stead of October 31, 1997.

(f) Article V of the Loan Agreement is amended to reflect that the Co-Borrowers are required to pay the amounts due and owing under the Note, as amended herewith, in full on or before October 31, 1998. It is also be amended to reflect that commencing on November 1, 1997, and on a weekly basis thereafter until maturity, Co-Borrowers are required to make principal payments in the amount of \$10,000. Such payments shall be made by way of an automatic charge by the Bank to the DDA account of Co-Borrowers, number 967703980. Any and all principal payments shall not be reborrowed by Co-Borrowers. All principal and accrued interest shall be paid in full on the Maturity Date.

(g) Article VII, Section 7.3 of the Loan Agreement is amended to reflect that the Co-Borrowers individually, jointly and severally covenant and agree that, from the date hereof until payment in full of the principal of and interest on the Sixth Amended Replacement/Term Line of Credit Note, they shall provide to the Bank:

1. Monthly management prepared financial statements;

2. Quarterly management prepared 10K and 10Q Securities and Exchange Commission filings, together with all exhibits, addenda and attachments thereto and materials and information filed therewith;

3. Monthly Borrowing Base Certificates on the Bank's form.

Moreover, upon written request by the Bank, Co-Borrowers shall provide a detailed accounts receivable aging report setting forth the amount due and owing on Receivables for the preceding week, together with a reconciliation report reasonably satisfactory to the Bank showing all sales, collections, payments and adjustments to receivables on their respective books as of the last business day of the preceding week.

(h) On the date of the execution of this Amendment, the Co-Borrowers shall execute and deliver to the Bank the Sixth Amended Replacement/Term Note in the form attached hereto as Exhibit "A" and made a part hereof. All sums due and owing under the Sixth Amended Replacement/Term Note shall be paid in accordance with the terms of that Note and this Amendment.

(i) The Note shall bear interest at the fluctuating rate of three percent (3.0%) in excess of the Bank's Floating Base Rate. All accrued and unpaid interest shall be paid by Co-Borrowers in accordance with the terms of the Note, i.e., beginning on November 1, 1997 and on the first day of each month thereafter. All principal and accrued and unpaid interest shall be paid in full on the earlier of an Event of Default (as defined in the Loan Agreement, as amended) or on the Maturity Date.

(j) On the date of the execution of this Amendment, the Co-Borrowers shall execute and deliver to the Bank Warrants to Purchase 500,000 shares of Digital's stock in the form attached hereto as Exhibit "C" and made a part hereof. The Exercise Price of the Warrants shall be \$2.4375 per share. If Co-Borrowers' obligations to the Bank hereunder are indefeasibly repaid in full on or before April 30, 1998 and all commitments and letter of credit obligations terminated on or before such date, all of the warrants shall expire. If the Co-Borrowers' obligations hereunder to the Bank are not indefeasibly paid in full and/or terminated on or before April 30, 1998 and all commitments and letter of credit obligations terminated on or before such date, then 200,000 warrants shall immediately, and without further action, vest. If, thereafter, the Co-Borrowers' obligations hereunder to the Bank are indefeasibly paid in full on or before October 31, 1998 and all commitments and letter of credit obligations terminated on or before such date, the remaining 300,000 warrants shall expire. If, however, the Co-Borrowers'

obligations hereunder are not indefeasibly paid in full and/or terminated on or before October 31, 1998, the remaining 300,000 warrants shall vest. The warrants shall be exercisable for a period of three years from May 1, 1998.

(k) On or before December 1, 1997, the Co-Borrowers shall obtain from their shareholders an investment of equity or subordinated debt in the amount of \$250,000.00.

(l) Article X of the Loan Agreement is amended to reflect that upon an Event of Default hereunder and/or as defined in the Loan Agreement, in addition to all of the rights and remedies available to the Bank under the Loan Agreement, all 500,000 Warrants discussed in subsection (j) above shall be immediately vested.

(m) Article VII, Section 7.9 ("Financial Covenants"), as amended from time to time, is deleted in its entirety.

3. REAFFIRMATION AND CONFIRMATION OF TERMS OF THE LOAN AGREEMENT, THE AMENDED AND RESTATED LOAN AGREEMENT, THE SECOND AMENDED AND RESTATED LOAN AGREEMENT, THE THIRD AMENDED AND RESTATED LOAN AGREEMENT, THE FOURTH AMENDED AND RESTATED LOAN AGREEMENT, THE FIFTH AMENDED AND RESTATED LOAN AGREEMENT AND THE SIXTH AMENDED AND RESTATED LOAN AGREEMENT: The Co-Borrowers hereby confirm and reaffirm all unaltered by previous amendment or amendment hereof terms, representations, interests, conditions and warranties contained in the Loan Agreement, as amended, and the other Loan Documents (as that term is defined in the Loan Agreement).

4. REAFFIRMATION OF NEGATIVE COVENANTS: The Co-Borrowers hereby reaffirm the Negative Covenants contained in the Loan Agreement (Sections 8.1 - 8.12), as amended, and hereby agree to be bound by and to abide by the terms and obligations contained therein, particularly that the provision that they shall obtain Bank approval prior to undertaking any activities identified in Sections 8.1 - 8.12. Bank understands that Co-Borrowers have relocated their business. Bank consents to the relocation of Co-Borrowers and to an increase in the capitalized lease provisions of the Loan Documents up to the amount of \$400,000. Co-Borrowers affirm and represent that they will obtain from their Landlord a subordination agreement as to Landlord's security interests under

the lease. Co-Borrowers further affirm and represent that any security interest of Landlord under the lease shall be and is subordinate to the priority security interest of the Bank.

5. SIXTH AMENDED REPLACEMENT/TERM NOTE: The Loan, as modified and amended pursuant to the terms of this Amendment, shall be evidenced by the Sixth Amended Replacement/Term Note. The Sixth Amended Replacement Note replaces, amends, restates, and continues (but does not constitute a repayment or novation of) the Note. Amounts due and owing under the Note shall be deemed to be owing under the Sixth Amended Replacement Note.

6. CONDITIONS PRECEDENT: As conditions precedent to the effectiveness of this Amendment and the provisions set forth herein, the Bank shall have received from the Co-Borrowers the following items, in form and substance acceptable to the Bank and its counsel:

- (a) This Amendment, duly executed by all parties hereto, except for the certificates of good standing for the companies as set forth in Exhibit "B" attached hereto, which certificates shall be delivered as soon as is reasonably practical, but in any event not later than March 1, 1998;
- (b) The Sixth Amended Replacement/Term Note, duly executed by the Co-Borrowers;
- (c) The Warrants to Purchase the Stock of the Co-Borrowers, duly executed by the Co-Borrowers;
- (d) A confirmation from the Co-Borrowers, dated the date of this Amendment, stating that (i) the representations and warranties contained in the Loan Agreement and the other Loan Documents (as that term is defined in the Loan Agreement) are correct as of the date of this Amendment; (ii) no Event of Default or an event which with the passage of time or the giving of notice or both would constitute an Event of Default, has occurred or is continuing; and (iii) none of the Co-Borrowers have any defenses, offsets or claims against the Bank in connection with the Loan, the Note, the Loan Agreement, the Loan Documents (as that term is defined

in the Loan Agreement) and their respective obligations to the Bank under the Sixth Amended Replacement Note, this Amendment and any other Loan Documents (as that term is defined in the Loan Agreement). By executing this Amendment, the Co-Borrowers hereby confirm the matters described in this paragraph (c) and certify to the Bank that the matters contained in this paragraph (c) are true and correct on the date hereof;

- (e) Certified copies of the resolutions of the Boards of Directors of the Co-Borrowers approving this Amendment, the Sixth Amended Replacement/Term Note and all documents evidencing other necessary corporate action and governmental approvals, if any, with respect to this Amendment, the Sixth Amended Replacement/Term Note and any documents incident hereto within three days of the date of execution of the Amendment;
- (f) Certificates of the Secretaries or Assistant Secretaries of the Co-Borrowers certifying the names and true signatures of the officers of the Co-Borrowers authorized to sign this Amendment, the Sixth Amended Replacement/Term Note and any documents incident hereto within thirty days of the date of execution of this Amendment.
- (g) On the date hereof, Co-Borrowers shall pay an extension fee of \$20,000.00. In addition, Co-Borrowers shall pay any and all fees and expenses of counsel to the Bank incurred in connection with the extension of the maturity of the Loan Documents and any audit fees to date. These fees and expenses shall be paid from the equity infusion referred to in Section 2 above. However, the Co-Borrowers agree that they will attempt to pay at least one half of the attorney and auditor fees within seven(7) days of the execution of this Amendment. In addition, during the term of the extension, Co-Borrowers shall pay any and all costs and fees incurred by the Bank in connection with the Indebtedness in the Bank's sole and absolute discretion. These fees shall include, but not be limited to, additional attorney and/or auditor fees;

- (h) Receipt on or before December 18, 1997 of a certification from Co-Borrowers' Chief Financial Officer that all county, state and/or federal withholding taxes are current and have been paid in full through the date of the execution of this Amendment;
- (i) Such other approvals, opinions of counsel or documents as the Bank may reasonably request.

In the event that any of the above items are not received by the Bank in accordance with time-frames set forth above, such failure shall constitute an Event of Default as defined in Article X of the Loan Agreement and the Bank shall have available to it all rights and remedies thereunder.

7. SECURITY INTERESTS: (a) The Co-Borrowers do hereby confirm the security interests which they have granted to the Bank under the Loan Agreement, as amended, and do hereby confirm and agree that the same continue to secure the repayment and performance of all Obligations, including, without limitation, under the Note, and the Loan Agreement, as amended, and the other Loan Documents (as that term is defined in the Loan Agreement), as each of the same have been amended and modified hereby.

(b) In addition to the foregoing, the Co-Borrowers do hereby grant to the Bank a lien upon and a security interest in and to any and all of their now owned or hereafter acquired assets (including, without limitation, all Collateral), to secure the repayment and performance of all Obligations, including, without limitation, under the Sixth Amended Replacement/Term Line of Credit Note (the "Sixth Amended Replacement/Term Note"), attached hereto as Exhibit "A" and made a part hereof, the Loan Agreement, as amended, this Amendment and the other Loan Documents (as that term is defined in the Loan Agreement), as each of the same have been amended and modified hereby. Such lien and security interests shall be deemed to be "Liens" for all purposes of the Loan Agreement and the other Loan Documents (as that term is defined in the Loan Agreement).

8. REAFFIRMATION OF JOINT AND SEVERAL LIABILITY: Each of the Co-Borrowers, jointly and severally, hereby agree and

reaffirm their agreements to make full and prompt payment when due, and to fully, promptly and unconditionally perform each and every term and condition of all Obligations including all indebtedness of any Obligor arising in the future. The Obligations are a primary obligation of each of the Co-Borrowers, regardless of whether such Co-Borrowers receive the proceeds of any Loan under the Loan Agreement, and shall continue without limitation of amount or duration until all Obligations shall have been paid in full.

9. RELEASE: Effective on the date hereof, each of the Co-Borrowers (collectively, the "Releasers") do hereby release, acquit, and forever discharge the Bank and the Bank's subsidiaries, affiliates, officers, directors, agents, employees, servants, attorneys, and representatives, as well as the respective heirs, personal representatives, predecessors, successors, and assigns of any and all of them (hereafter collectively called the "Released Lender Parties") from any and all claims, demands, debts, actions, causes of action, suits, contracts, agreements, obligations, accounts, defenses, offsets against all amounts due and owing to the Bank and liabilities of any kind or character whatsoever, known or unknown, suspected or unsuspected, in contract or in tort, at law or in equity, including without implied limitations, such claims and defenses as fraud, mistake, duress, and usury, which any of the Co-Borrowers ever had, now has, or might hereafter have against any of the Released Lender Parties, jointly or severally, for or by reason of any matter, cause, or thing whatsoever occurring before and up to the date hereof, any including, without limitation, and all claims, demands, debts, actions, causes of action, suits, contracts, agreements, obligations, accounts, defenses, offsets including arising in connection with: (a) the Loan; (b) the Loan Documents; or (c) any Collateral. In addition, the Releasers agree not to commence, join in, prosecute, or participate in any suit or other proceeding in a position that is adverse to any of the Released Lender Parties arising directly or indirectly from any of the foregoing matters. This Release shall bind the Releasers and their respective heirs, personal representatives, successors and assigns, and shall inure to the benefit of the Bank, its successors and assigns. The terms of this Section 9 shall survive the execution and delivery of this Amendment and the other Loan Documents (as that term is defined in the Loan Agreement).

10. PUNITIVE DAMAGES: The Co-Borrowers hereby waive any rights that they or it may have to claim or recover in any suit, action or proceeding whatsoever any special, exemplary or punitive damages.

11. REPRESENTATION: The Co-Borrowers and the Bank hereby represent and warrant to each other that it or he has been represented by counsel of his or its choice in connection with its or his execution of (as applicable) this Amendment, the Sixth Amended Replacement Note, and the other documents executed in connection therewith, and his or its performance hereunder and thereunder.

12. THIRD PARTIES: This Amendment shall not be construed to create any rights against the Bank in favor of any third parties.

13. MISCELLANEOUS:

(a) INCORPORATION BY REFERENCE. This Amendment is incorporated by reference into the Loan Agreement, as amended, and the other Loan Documents (as that term is defined in the Loan Agreement). Except as otherwise provided herein, all other provisions of the Loan Agreement, as amended, and the other Loan Documents (as that term is defined in the Loan Agreement) are hereby affirmed and ratified and shall remain in full force and effect as of the date of this Amendment.

(b) APPLICABLE LAW. This Amendment, the Loan Agreement, as amended, and any other loan documents executed in connection herewith shall be governed by and construed in accordance with the laws of the State of New Jersey.

(c) JURISDICTION. In any litigation relating to any loan document, including this Amendment, Co-Borrowers and each Obligor hereby consent to the personal jurisdiction of the state and federal courts of the State of New Jersey.

(d) SUCCESSORS AND ASSIGNS. All of the terms and conditions contained herein, in the Loan Agreement, as amended, and in the other loan documents executed and delivered in connection herewith, shall be for and shall inure to the benefit

of and shall bind the respective parties hereto and thereto and their respective successors and assigns and heirs, personal representatives, administrators and executors, as the case may be.

(e) SEVERABILITY. In the event any provision of this Amendment or any other loan document executed and delivered in connection herewith shall be held invalid or unenforceable by a court of competent jurisdiction, such holdings shall not invalidate or render unenforceable any other provision hereof or thereof.

14. COUNTERPARTS. This Amendment may be executed in one or more counterparts, each of which shall be an original and all of which together shall constitute one and the same instrument.

15. WAIVER OF JURY TRIAL. EACH OF THE PARTIES HERETO DOES HEREBY WAIVE ANY RIGHT TO A JURY TRIAL IN CONNECTION WITH THIS AMENDMENT, THE LOAN AGREEMENT, AS AMENDED, THE THIRD AMENDED REPLACEMENT NOTE, THE OTHER LOAN DOCUMENTS AND DOES HEREBY ACKNOWLEDGE AND AGREE THAT HE OR IT HAS CONSULTED WITH COUNSEL OF HIS OR ITS CHOICE IN CONNECTION WITH THE MATTERS DESCRIBED HEREIN AND SPECIFICALLY AS TO THIS WAIVER OF JURY TRIAL.

IN WITNESS WHEREOF, this Seventh Amendment to the Amended and Restated Loan and Security Agreement and Note has been executed as of the date first written above.

ATTEST/WITNESS: DIGITAL SOLUTIONS, INC.,
a New Jersey Corporation

Name: _____
Title: _____
By: _____
Name: _____
Title: _____

[SEAL]

ATTEST/WITNESS

DSI STAFF CONNXIONS OF MISSISSIPPI,
INC., a Mississippi Corporation

Name: _____
Title: _____

By: _____
Name: _____
Title: _____

[SEAL]

ATTEST/WITNESS:

DSI STAFF CONNXIONS-SOUTHWEST,
INC., a Texas Corporation

Name: _____
Title: _____

By: _____
Name: _____
Title: _____

[SEAL]

ATTEST/WITNESS:

RAM TECHNICAL SERVICES, INC.,
a Texas Corporation

Name: _____
Title: _____

By: _____
Name: _____
Title: _____

[SEAL]

ATTEST/WITNESS:

MLB MEDICAL STAFFING, INC.
a Texas Corporation

Name: _____
Title: _____

By: _____
Name: _____
Title: _____

[SEAL]

ATTEST/WITNESS:

DIGITAL INSURANCE SERVICES, INC.,
a New Jersey Corporation

Name: _____
Title: _____

By: _____
Name: _____
Title: _____

[SEAL]

ATTEST/WITNESS:

STAFF CONNXIONS, INC.,
a New Jersey Corporation

Name: _____
Title: _____

By: _____
Name: _____
Title: _____

[SEAL]

ATTEST/WITNESS:

DSI-CONTRACT STAFFING, INC.,
a New Jersey Corporation

Name: _____
Title: _____

By: _____
Name: _____
Title: _____

[SEAL]

ATTEST/WITNESS:

DSI STAFF RX, INC.,
a Texas Corporation

Name: _____
Title: _____

By: _____
Name: _____
Title: _____

ATTEST/WITNESS:

DSI STAFF CONNCTIONS NORTHEAST, INC.,
a New Jersey Corporation

Name: _____
Title: _____

By: _____
Name: _____
Title: _____

[SEAL]

SUMMIT BANK, formerly UNITED JERSEY
BANK
a New Jersey Banking Corporation

By: _____
Name: _____
Title: _____

STATE OF _____)
) SS.:
COUNTY OF _____)

I CERTIFY that on October , 1997, _____ personally came before me and acknowledged under oath, to my satisfaction that:

(a) he signed, sealed and delivered the attached document as _____ of DSI STAFF RX, INC., the corporation named in this document;

(b) the proper corporate seal was affixed; and

(c) this document was signed and made by the corporation as its voluntary act and deed by virtue of authority from its Board of Directors.

NOTARY PUBLIC

STATE OF _____)
) SS.:
COUNTY OF _____)

I CERTIFY that on October , 1997, _____ personally came before me and acknowledged under oath, to my satisfaction that:

(a) he signed, sealed and delivered the attached document as _____ of DSI STAFF CONNXIONS NORTHEAST, INC., the corporation named in this document;

(b) the proper corporate seal was affixed; and

(c) this document was signed and made by the corporation as its voluntary act and deed by virtue of authority from its Board of Directors.

NOTARY PUBLIC

EXHIBIT A

Sixth Amended Replacement/Term Note

EXHIBIT B

List of Companies/Good Standing Status

EXHIBIT C

Warrants to Bank for Purchase of Stock

SIXTH AMENDED PROMISSORY/TERM GRID NOTE
(THE "SIXTH AMENDED REPLACEMENT/TERM LINE OF CREDIT NOTE")

Up To \$3,500,000.00

Dated as of: October 31, 1997

FOR VALUE RECEIVED, DIGITAL SOLUTIONS, INC., a corporation duly organized and validly existing under the laws of the State of New Jersey, having its principal office at 300 Atrium Drive, Somerset, New Jersey 08873 (together with its successors and assigns, hereinafter referred to as "Digital"), DSI STAFF CONNXIONS OF MISSISSIPPI, INC., a corporation duly organized and validly existing under the laws of the State of Mississippi, having its principal office at 2 Northpoint Drive, Suite 110, Houston, Texas 77060 (together with its successors and assigns, hereinafter referred to as "DSI-Mississippi"), DSI STAFF CONNXIONS-SOUTHWEST INC., a corporation duly organized and validly existing under the laws of the State of Texas, having its principal office at 2 Northpoint Drive, Suite 110, Houston, Texas 77060 (together with its successors and assigns, hereinafter referred to as "DSI-Southwest"), RAM TECHNICAL SERVICES, INC., a corporation duly organized and validly existing under the laws of the State of Texas, having its principal office at 2 Northpoint Drive, Suite 110, Houston, Texas 77060 (together with its successors and assigns, hereinafter referred to as "RAM"), MLB MEDICAL STAFFING, INC., a corporation duly organized and validly existing under the laws of the State of Texas having its principal office at 2 Northpoint Drive, Suite 110, Houston, Texas 77060 (together with its successors and assigns, hereinafter referred to as "MLB"), DIGITAL INSURANCE SERVICES, INC., a corporation duly organized and validly existing under the laws of the State of New Jersey, having its principal office at 300 Atrium Drive, Somerset, New Jersey 08873 (together with its successors and assigns, hereinafter referred to as "Digital Insurance"), STAFF CONNXIONS, INC., a corporation duly organized and validly existing under the laws of the State of New Jersey, having its principal office at 300 Atrium Drive, Somerset, New Jersey 08873 (together with its successors and assigns, hereinafter referred to as "Staff Connxions"), DSI-CONTRACT STAFFING, INC., a corporation duly organized and validly existing under the laws of the State of New Jersey, having its principal office at 300 Atrium Drive, Somerset, New Jersey 08873 (together

with its successors and assigns sometimes hereinafter referred to as "Staffing"), DSI STAFF RX, INC., a corporation duly organized and validly existing under the laws of the State of Texas, having its principal office at 2 Northpoint Drive, Suite 110, Houston, Texas 77060 (together with its successors and assigns, hereinafter referred to as "Staff RX") and DSI STAFF CONNXIONS NORTHEAST, INC., a corporation duly organized and validly existing under the laws of the State of New Jersey, having its principal office at 300 Atrium Drive, Somerset, New Jersey 08873 (together with its successors and assigns sometimes hereinafter referred to as "DSI-Northeast") (Digital, DSI-Mississippi, DSI-Southwest, Staffing, RAM, MLB, Digital Insurance, Staff Connxions, Staff RX and DSI-Northeast are hereinafter referred to collectively as the "Co-Borrowers"), hereby individually, jointly, severally and unconditionally promise to pay to the order of SUMMIT BANK, formerly known as UNITED JERSEY BANK, a banking corporation duly organized and validly existing under the laws of the State of New Jersey, having its principal office at 210 Main Street, Hackensack, New Jersey 07601 (together with its successors and assigns, hereinafter the "Bank") on the earlier of (i) October 31, 1998, or the date of an event of default (as such term is defined in the Amended and Restated Loan and Security Agreement, dated as of February 27, 1995, as amended by the Second Amendment to the Amended and Restated Loan and Security Agreement, the Third Amendment to the Amended and Restated Loan and Security Agreement, the Fourth Amendment to the Amended and Restated Loan and Security Agreement, the Fifth Amendment to the Amended and Restated Loan and Security Agreement, the Sixth Amendment to the Amended and Restated Loan and Security Agreement and the Seventh Amendment to the Amended and Restated Loan and Security Agreement), the sum of THREE MILLION FIVE HUNDRED THOUSAND DOLLARS (\$3,500,000.00), or, if less, then the aggregate unpaid principal amount of all Advances made by the Bank to the Co-Borrowers pursuant to Section 2.1 of the Amended and Restated Loan and Security Agreement, as amended by the Second Amendment to the Amended and Restated Loan and Security Agreement, the Third Amendment to the Amended and Restated Loan and Security Agreement, the Fourth Amendment to the Amended and Restated Loan and Security Agreement, the Fifth Amendment to the Amended and Restated Loan and Security Agreement, the Sixth Amendment to the Amended and Restated Loan and Security Agreement and the Seventh Amendment to the Amended and Restated Loan and Security Agreement, in lawful money of the United States of America, in

immediately available funds, and to pay interest thereon at a fluctuating rate equal to the sum of Three Percent (3.0%) in excess of the Bank's Floating Base Rate.

Capitalized terms in this Sixth Amended Replacement Note shall have the meanings ascribed to them in that certain amended and restated loan and security agreement, dated as of February 27, 1995 (the "Loan Agreement"), as amended by the Second Amendment to the Loan Agreement (the "Amendment"), dated as of April 29, 1996, the Third Amendment to the Loan Agreement (the "Second Amendment"), dated as of August 31, 1996, the Fourth Amendment to the Loan Agreement (the "Third Amendment"), dated as of October 31, 1996, the Fifth Amendment to the Amended and Restated Loan and Security Agreement (the "Fourth Amendment"), dated as of December 31, 1996, the Sixth Amendment to the Amended and Restated Loan and Security Agreement (the "Fifth Amendment"), dated April 30, 1997 and the Seventh Amendment to Loan and Security Agreement dated even date, by and among the Bank and the Co-Borrowers, which are hereby incorporated verbatim herein in their entireties and made a part hereof, unless a different meaning clearly appears from the context hereof. This Sixth Amended Replacement Note is the "Note" defined in and referred to in the Seventh Amendment. This Sixth Amended Replacement Note substitutes for and is now the "Note" dated as of February 27, 1995, as amended (the "Note") in the original principal amount of up to \$3,500,000.00, referred to in the Loan Agreement and is subject to all its terms and conditions. This Sixth Amended Replacement Note is not, and shall not be construed to be, a repayment or novation of the Note, as amended. Any and all amounts due and owing under the Note, as amended, shall be deemed to be owing hereunder. All accrued and unpaid interest under the Note, as amended, shall be due and payable in full at the time that the first payment of interest hereunder is due and payable.

Interest on the unpaid principal, at the rate described hereinabove, shall accrue from the last date of the last payment of interest through maturity. Interest only on the aggregate amount of the principal shall be payable monthly, in arrears, on the first day each calendar month, commencing November 1, 1997, and continuing thereafter on the first day of each succeeding calendar month, through and including October 1, 1998. Thereafter, on October 31, 1998, or, if sooner, on the date of an event of default, all unpaid principal and accrued and unpaid

interest hereon shall be due and payable in full. Interest hereon shall be computed on the basis of the actual number of days elapsed over a year consisting of 360 days.

Principal payments hereunder in the amount of \$10,000 on a weekly basis shall be due and payable commencing on November 1, 1997 and continuing throughout until maturity. The principal payments due hereunder shall be made by way of an automatic charge to the DDA account of Co-Borrowers, bearing account number 967703980, located at the Bank. All principal sums repaid hereunder shall not be reborrowed by Co-Borrowers. Thereafter, all unpaid principal and accrued interest shall be due and payable in full on October 31, 1998, or, if sooner, on the date of an event of default.

The Co-Borrowers hereby jointly, severally, and irrevocably authorize and direct the Bank, on the due date of any payment, to charge any account which shall then be maintained by any of the Co-Borrowers at the Bank, for the full amount thereof provided, however, that in the event there shall be insufficient or no funds remaining in any of said accounts on said due date, the Co-Borrowers shall nevertheless be irrevocably and fully obligated to make payment to the Bank of such amounts as are then due hereunder in accordance with the terms hereof.

The Bank shall maintain an account record of the amount of principal owed by the Co-Borrowers and payments of principal and interest made by the Co-Borrowers in connection herewith, which account record shall serve as prima facie evidence of the aggregate amount of outstanding money under the Line of Credit and accrued and unpaid interest thereon from time to time. The failure of the Bank to maintain such an account record, however, shall not alter or impair the rights and remedies of the Bank nor shall the failure of the Bank to maintain such an account record alter the right of the Co-Borrowers to receive credit for the payment of principal or interest made in accordance with the provisions of this Sixth Amended Replacement Note and the Loan Agreement, as amended.

In the event that any payment required hereunder shall not be received by the Bank within ten (10) days of the due date thereof, the Co-Borrowers shall, to the extent permitted by law, pay Bank a late charge of Five Percent (5%) of the overdue

payment (but in no event to be less than \$25.00 nor more than \$2,500.00). Any such late charge shall be immediately due and payable.

Payment of the principal of and accrued interest on this Sixth Amended Replacement Note is secured by a first priority security interest in the lien upon certain of the Collateral granted by the Co-Borrowers to the Bank pursuant to the Amended and Restated Loan and Security Agreement, as amended. Reference is hereby made to the Amended and Restated Loan and Security Agreement, as amended, for a more complete description of the security for the Obligations of the Co-Borrowers including, without limitation, repayment of principal and interest on this Note, the rights and Obligations of the Co-Borrowers in connection therewith and other matters affecting the Indebtedness evidenced by this Note.

Upon the occurrence of an event of default, as defined in the Amended and Restated Loan and Security Agreement, in addition to any and all other remedies available hereunder, under any of the Loan Documents or by statute, at law, in equity or otherwise, the principal amount hereof, together with accrued interest thereon, may become, or may be declared to be, immediately due and payable in the manner, upon the conditions and with the effect provided herein and/or the Amended and Restated Loan and Security Agreement, as amended.

Each Co-Borrower acknowledges that the Bank does not intend for the aggregate principal amount of the Outstanding Advances under Section 2.1 of the Amended and Restated Loan and Security Agreement, as amended by the Second, Third, Fourth, Fifth, Sixth and Seventh Amendments to the Loan Agreement, to exceed, at any time, the Advances Limit (including the Letter of Credit Sublimit), which is specifically defined in Section 2.1(A) of the Amended and Restated Loan and Security Agreement, as amended by the Second, Third, Fourth, Fifth, Sixth and Seventh Amendments to the Loan Agreement.

This Sixth Amended Replacement Note shall be governed by and construed in accordance with the laws of the State of New Jersey.

Upon the occurrence of an Event of Default, with

respect to the payment of any installment of principal, interest or principal and interest hereunder and until such Event of Default shall be cured, the Bank shall be entitled to collect interest on the then outstanding principal amount of the Loan, at a rate equal to Five Percent (5%) above the then applicable rate set forth in this Note; provided, however, that such rate of interest shall never exceed the maximum rate of interest permissible under the laws of the State of New Jersey.

Each of the Co-Borrowers and all guarantors and/or endorsers of this Note hereby waive presentment, demand for payment, protest and notice of protest and all other demands and notices in connection with the payment and enforcement of this Note and consent to extensions of time in the payment of any moneys payable under this Note, or forbearance of their indulgence, without notice.

WAIVER OF JURY TRIAL. EACH CO-BORROWER WAIVES TRIAL BY JURY AND CONSENTS TO AND CONFERS PERSONAL JURISDICTION ON COURTS OF THE STATE OF NEW JERSEY OR OF THE FEDERAL GOVERNMENT, AND EXPRESSLY WAIVES ANY OBJECTIONS AS TO VENUE IN ANY OF SUCH COURTS AND AGREES THAT SERVICE OF PROCESS MAY BE MADE UPON IT BY MAILING A COPY OF THE SUMMONS BY UNITED STATES CERTIFIED MAIL, RETURN RECEIPT REQUESTED, TO ITS ADDRESS. THE BANK LIKewise WAIVES TRIAL BY JURY.

IN WITNESS WHEREOF, each of the undersigned have caused this Note to be duly executed on the day and year first above written.

ATTEST: DIGITAL SOLUTIONS, INC.
A New Jersey Corporation
Co-Borrower

Name: _____
Title: _____
By: _____
Name: _____
Title: _____

[SEAL]

ATTEST: DIGITAL INSURANCE SERVICES, INC.
A New Jersey Corporation
Co-Borrower

Name: _____
Title: _____

By: _____
Name: _____
Title: _____

[SEAL]

ATTEST: STAFF CONNXIONS, INC.
A New Jersey Corporation
Co-Borrower

Name: _____
Title: _____

By: _____
Name: _____
Title: _____

[SEAL]

ATTEST: MLB MEDICAL STAFFING, INC.
A Texas Corporation
Co-Borrower

Name: _____
Title: _____

By: _____
Name: _____
Title: _____

[SEAL]

ATTEST: DSI STAFF CONNXIONS-MISSISSIPPI
A Mississippi Corporation
Co-Borrower

Name: _____
Title: _____

By: _____
Name: _____
Title: _____

[SEAL]

ATTEST: DSI STAFF CONNXIONS-SOUTHWEST
A Texas Corporation
Co-Borrower

Name: _____
Title: _____

By: _____
Name: _____
Title: _____

[SEAL]

ATTEST: RAM TECHNICAL SERVICES, INC.
A Texas Corporation
Co-Borrower

Name: _____
Title: _____

By: _____
Name: _____
Title: _____

[SEAL]

ATTEST: DSI-CONTACT STAFFING, INC.
A Texas Corporation
Co-Borrower

Name: _____
Title: _____

By: _____
Name: _____
Title: _____

[SEAL]

ATTEST: DSI STAFF RX, INC.
A Texas Corporation

Co-Borrower

Name: _____
Title: _____

By: _____
Name: _____
Title: _____

[SEAL]

ATTEST:

DSI STAFF CONNXIONS NORTHEAST, INC.
A New Jersey Corporation
Co-Borrower

Name: _____
Title: _____

By: _____
Name: _____
Title: _____

[SEAL]

STATE OF _____)
) SS.:
COUNTY OF _____)

I CERTIFY that on October __, 1997, _____
personally came before me and acknowledged under oath, to my satisfaction that:

(a) he signed, sealed and delivered the attached document
as _____ of DIGITAL SOLUTIONS, INC., the corporation named in
this document;

(b) the proper corporate seal was affixed; and

(c) this document was signed and made by the corporation as
its voluntary act and deed by virtue of authority from its Board of Directors.

NOTARY PUBLIC

STATE OF _____)
) SS.:
COUNTY OF _____)

I CERTIFY that on October __, 1997, _____
personally came before me and acknowledged under oath, to my satisfaction that:

(a) he signed, sealed and delivered the attached document
as _____ of DIGITAL INSURANCE SERVICES, INC., the corporation
named in this document;

(b) the proper corporate seal was affixed; and

(c) this document was signed and made by the corporation as
its voluntary act and deed by virtue of authority from its Board of Directors.

NOTARY PUBLIC

STATE OF _____)
) SS.:
COUNTY OF _____)

I CERTIFY that on October __, 1997, _____
personally came before me and acknowledged under oath, to my satisfaction that:

(a) he signed, sealed and delivered the attached document
as _____ of STAFF CONNCTIONS, INC., the corporation named in
this document;

(b) the proper corporate seal was affixed; and

(c) this document was signed and made by the corporation as
its voluntary act and deed by virtue of authority from its Board of Directors.

NOTARY PUBLIC

STATE OF _____)
) SS.:
COUNTY OF _____)

I CERTIFY that on October __, 1997, _____
personally came before me and acknowledged under oath, to my satisfaction that:

(a) he signed, sealed and delivered the attached document
as _____ of MLB MEDICAL STAFFING, INC., the corporation named
in this document;

(b) the proper corporate seal was affixed; and

(c) this document was signed and made by the corporation as
its voluntary act and deed by virtue of authority from its Board of Directors.

NOTARY PUBLIC

STATE OF _____)
) SS.:
COUNTY OF _____)

I CERTIFY that on October __, 1997, _____
personally came before me and acknowledged under oath, to my satisfaction that:

(a) he signed, sealed and delivered the attached document
as _____ of DSI STAFF CONNXIONS-MISSISSIPPI, the corporation
named in this document;

(b) the proper corporate seal was affixed; and

(c) this document was signed and made by the corporation as
its voluntary act and deed by virtue of authority from its Board of Directors.

NOTARY PUBLIC

STATE OF _____)
) SS.:
COUNTY OF _____)

I CERTIFY that on October __, 1997, _____
personally came before me and acknowledged under oath, to my satisfaction that:

(a) he signed, sealed and delivered the attached document
as _____ of RAM TECHNICAL SERVICES, INC., the corporation named
in this document;

(b) the proper corporate seal was affixed; and

(c) this document was signed and made by the corporation as
its voluntary act and deed by virtue of authority from its Board of Directors.

NOTARY PUBLIC

STATE OF _____)
) SS.:
COUNTY OF _____)

I CERTIFY that on October __, 1997, _____
personally came before me and acknowledged under oath, to my satisfaction that:

(a) he signed, sealed and delivered the attached document
as _____ of DSI-CONTACT STAFFING, INC., the corporation named
in this document;

(b) the proper corporate seal was affixed; and

(c) this document was signed and made by the corporation as
its voluntary act and deed by virtue of authority from its Board of Directors.

NOTARY PUBLIC

STATE OF _____)
) SS.:
COUNTY OF _____)

I CERTIFY that on October __, 1997, _____
personally came before me and acknowledged under oath, to my satisfaction that:

(a) he signed, sealed and delivered the attached document
as _____ of DSI STAFF RX, INC., the corporation named in this
document;

(b) the proper corporate seal was affixed; and

(c) this document was signed and made by the corporation as
its voluntary act and deed by virtue of authority from its Board of Directors.

NOTARY PUBLIC

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports included in this Form 10-K, into the Company's previously filed Registration Statement on Form S-3 (File No. 33-85526).

Arthur Andersen LLP

Roseland, New Jersey
January 13, 1998

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports included in this Form 10-K, into the Company's previously filed Registration Statement on Form S-3 (File No. 33-70928).

Arthur Andersen LLP

Roseland, New Jersey
January 13, 1998

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports included in this Form 10-K, into the Company's previously filed Registration Statement on Form S-3 (File No. 33-91700).

Arthur Andersen LLP

Roseland, New Jersey
January 13, 1998

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our reports included in this Form 10-K, into the Company's previously filed Registration Statement on Form S-3 (File No. 33-09313).

Arthur Andersen LLP

Roseland, New Jersey
January 13, 1998

YEAR			
	SEP-30-1997		
	OCT-01-1996		
	SEP-30-1997		
		841,000	
		0	
	6,682,000		
	(862,000)		
		0	
	7,801,000		
		3,217,000	
	(2,310,000)		
	14,163,000		
9,202,000			0
	0		
		0	
		(19,000)	
	(4,853,000)		
14,163,000			0
	122,695,000		
			0
	113,894,000		
	0		
	(1,120,000)		
	(377,000)		
	(2,832,000)		
		0	
(2,832,000)			
	0		
	0		
		0	
	(2,832,000)		
	(.15)		
	0		