SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q/A

Amendment No. 1

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

For the quarterly period ended March 31, 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 Number)
4041 Hadley Road, South Plainfield, NJ	07080
(Address of principal executive offices)	(Zip Code)

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

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

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

Yes X No

19,108,427 shares of Common Stock, par value $.001 per share, were outstanding as of May 12, 1997.

DIGITAL SOLUTIONS, INC. AND SUBSIDIARIES
FORM 10-Q

March 31, 1997

Table of Contents

DIGITAL SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	MARCH 31, 1997 (Unaudited)	SEPTEMBER 30, 1996
ASSETS		
CURRENT ASSETS		
Cash	$ 648,000	$ --
Restricted Cash	738,000	1,155,000
Accounts receivable, net of allowance	6,984,000	6,338,000
Notes due from officers	--	136,000
Other current assets	443,000	189,000
Total current assets	8,813,000	7,818,000
EQUIPMENT AND IMPROVEMENTS		
Equipment	2,958,000	2,883,000
Leasehold improvements	182,000	180,000
	3,140,000	3,063,000
Accumulated depreciation and amortization	2,349,000	2,226,000
	791,000	837,000
DEFERRED TAX ASSET	760,000	760,000
GOODWILL, net of amortization	4,468,000	4,780,000
OTHER ASSETS	421,000	605,000
TOTAL ASSETS	$15,253,000	$14,800,000

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

DIGITAL SOLUTIONS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	MARCH 31, 1997 (Unaudited)	SEPTEMBER 30, 1996
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term borrowings	$ 2,957,000	$ 2,907,000
Current portion of long-term debt	93,000	88,000
Accounts payable	2,121,000	1,620,000
Accrued expenses and other current liabilities	5,380,000	2,917,000
Total current liabilities	10,551,000	7,532,000
LONG-TERM DEBT	56,000	100,000
OTHER LIABILITIES	300,000	--
Total Liabilities	10,907,000	7,632,000
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Common Stock, $.001 par value; authorized 40,000,000 shares; issued and outstanding 19,096,707 and 18,786,609 at March 31, 1997 and September 30, 1996, respectively	19,000	19,000
Additional paid-in capital	13,076,000	12,857,000
Accumulated deficit	(8,749,000)	(5,708,000)
Total shareholders' equity	4,346,000	7,168,000
TOTAL LIABILITIES AND EQUITY	$ 15,253,000	$ 14,800,000

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

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

	FOR THE THREE MONTHS MARCH 31, 1997	1996
OPERATING REVENUES	$ 30,225,000	$ 24,017,000
DIRECT OPERATING EXPENSES	28,633,000	21,864,000
Gross profit	1,592,000	2,153,000
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	4,307,000	1,669,000
DEPRECIATION AND AMORTIZATION	438,000	117,000
Income (loss) from operations	(3,153,000)	367,000
OTHER INCOME (EXPENSE)		
Interest and other income	16,000	7,000
Interest expense	(105,000)	(55,000)
	(89,000)	(48,000)
NET INCOME (LOSS)	$ (3,242,000)	$ 319,000
NET INCOME (LOSS) PER COMMON SHARE	$ (0.17)	$ 0.02
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	19,085,036	15,561,454

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

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

	FOR THE SIX MONTHS MARCH 31, 1997	1996
OPERATING REVENUES	$ 61,110,000	$ 47,107,000
DIRECT OPERATING EXPENSES	57,003,000	42,780,000
Gross profit	4,107,000	4,327,000
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	6,368,000	3,288,000
DEPRECIATION AND AMORTIZATION	617,000	256,000
Income (loss) from operations	(2,878,000)	783,000
OTHER INCOME (EXPENSE)		
Interest and other income	33,000	65,000
Interest expense	(196,000)	(137,000)
	(163,000)	(72,000)
NET INCOME (LOSS)	$ (3,041,000)	$ 711,000
NET INCOME (LOSS) PER COMMON SHARE	$ (0.16)	$ 0.05
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	19,021,425	14,921,114

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

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

	FOR THE SIX MONTHS ENDED MARCH 31, 1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$(3,041,000)	$ 711,000
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	617,000	256,000
Provision for doubtful accounts	1,052,000	86,000
Amortization of rent deferral	--	(42,000)
Other non cash items	1,147,000	
Changes in operating assets and liabilities:		
Accounts receivable	(1,698,000)	(712,000)
Other current assets	(254,000)	(46,000)
Notes due from officers	136,000	--
Accounts payable, accrued expenses and other current liabilities	2,142,000	(959,000)
Net cash used in operating activities	(101,000)	(706,000)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment and improvements	(105,000)	(57,000)
Net cash used in investing activities	(105,000)	(57,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
(Repayments) proceeds from borrowings on revolving line of credit - net	50,000	(93,000)
Repayments of long-term debt	(44,000)	(372,000)
Repayments of subordinated bridge loan	--	(1,888,000)
Proceeds from reduction of required Letters of Credit	417,000	--
Proceeds from issuance of common stock	--	4,498,000
Proceeds from issuance of common stock and exercise of common stock options and warrants - net	229,000	402,000
Net cash provided by financing activities	652,000	2,547,000
Net increase in cash and cash equivalents	648,000	1,784,000
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	--	20,000
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 648,000	$ 1,804,000

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the period for interest	$ 183,135	$ 137,000

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

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

(1) ORGANIZATION AND BUSINESS

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

Revenue Policy

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

Equipment and Improvements

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

Goodwill

Goodwill represents the excess of the cost of companies acquired over the fair value of their net assets at dates of acquisition and is being amortized on a straight line basis over 20 years for substantially all of the Company's acquisitions.

Earnings/(Loss) Per Common Share

Earnings/(Loss) per common share are based upon the weighted average number of shares outstanding. 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 three and six months ended March 31, 1997 there would have been no effect on earnings per share.

Statements of Cash Flows

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

(3) COMMITMENTS AND CONTINGENCIES

In connection with the Company's workers' compensation insurance policy, the insurance company develops reserve factors on each claim that may or may not materialize after the claim is fully investigated. Generally Accepted Accounting 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 March 31, 1997 and September 30, 1996, this accrual amounted to $1,200,000 and $630,000, respectively.

During the six months ended March 31, 1997 and 1996, the Company recognized approximately $517,000 and $541,000, respectively, as its share of premiums collected in excess of claims and fees paid and established reserves.

The Company has outstanding letters of credit amounting to $1,193,000 as of March 31, 1997. The letters of credit are required to collateralize unpaid claims in connection with the workers'

compensation insurance policy and can only be drawn upon by the beneficiary if the Company does not perform according to the terms of the related agreement. 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.

(4) SHAREHOLDERS' EQUITY

During the second quarter of fiscal 1997, $15,000 was raised from the exercise of stock options and warrants.

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

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"). Digital Solutions, Inc. (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 Memorandum 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.

The Company's operating revenues for the three months ended March 31, 1997 and 1996 were $30,225,000 and $24,017,000, respectively, which represents an increase of $6,208,000 or 25.9%. For the six months ended March 31, 1997 and 1996, the Company's operating revenue were $61,110,000 and $47,107,000, respectively, which represents an increase of $14,003,000 or 29.7%. This increase is due to the efforts of the internal sale force to continually bring in new business which accounted for all of the increase. PEO services accounted for 85% of the growth while the balance is attributed to the Company's staffing business.

Direct Operating Expenses were $28,633,000 for the three months ended March 31, 1997 and $21,864,000 for the comparable period last year, representing an increase of $6,769,000 or 31%. Profits from the Company's workers' compensation program for the first four months of Fiscal 1996 were recorded as a reduction in Selling, General and Administrative ("SG&A") expenses while subsequent to that they were recorded as a reduction in Direct Costs. In the second quarter of Fiscal 1996, $113,000 of workers' compensation profit was recorded as a credit to SG&A. In addition, the second quarter of fiscal 1997 included one-time charges amounting to $678,000 primarily related to a revised methodology in evaluating workers' compensation reserves. The quarter ending March 31, 1997 also included an expense for underbilled/excess charges for medical expenses in the amount of $206,000, $142,000 of which pertained to Fiscal 1996. After adjusting for these changes, direct costs increased $5,998,000 or 27.6%. As a percentage of revenue, and on a restated basis, direct costs for the three months ending March 31, 1997, and 1996 were 91.8% and 90.6%, respectively. These increases represent the corresponding higher costs associated with the increase in revenue and a greater mix of PEO business. For the six months ending March 31, 1997 and 1996, direct costs increased $14,223,000 or 33.2%, from $42,780,000 to $57,003,000, respectively. The workers' compensation profit recorded as a reduction of SG&A in the first six months of fiscal 1996 was $493,000 while the first six months of fiscal 1997 Direct Costs included $284,000 in underbilled/excess charges for medical expenses. After adjusting for the treatment of the workers' compensation profit, one-time charges, and medical expenses, direct costs increased $13,754,000 or 32.5%. As a percentage of revenue, and on a restated basis, direct costs for the six months ending March 31, 1997 and 1996 were 91.7% and 90%, respectively. These increases were attributed to the increase in the PEO business.

Gross profits were $1,592,000 and $2,153,000 for the quarters ended March 31, 1997 and 1996, respectively, or a decrease of $561,000. After adjusting for the one-time charges and medical expenses in the quarter ended March 31, 1997, and for the workers' compensation profit in the quarter ended March 31, 1996, gross profits for both periods were $2,476,000 and $2,266,000, respectively. In light of the adjustments made in the fourth quarter of 1996 and the application of conservative accounting controls taken in the second quarter of 1997, management believes the gross profit of the second quarter of 1997 represents a larger improvement over the second quarter of 1996 as reported. Restated gross profits, as a percentage of revenue, were 8.2% and 9.4% for the quarters ended March 31, 1997 and 1996, respectively. For the six months ended March 31, 1997 and 1996, gross profits decreased to $4,107,000 from $4,327,000, respectively. After considering the previously discussed adjustments, gross profits for the six months ended March 31, 1997 and 1996 were $5,069,000 and $4,820,000, respectively (See management's statement above). As a percentage of revenue, restated gross profits for the six months ended March 31, 1997 and 1996 were 8.3% and 10.2% respectively.

SG&A costs for the quarters ended March 31, 1997 and 1996 were $4,307,000 and $1,669,000, respectively, for an increase of $2,638,000 or 158%. Included in the second quarter 1997 SG&A costs were $1,973,000 of adjustments resulting from a review of the Company's current business and the application of the Company's conservative accounting controls as follows:

- $1,002,000 to increase the Company's bad debt reserve. The Company has intensified its campaign to recover all past due accounts. While the Company has met with success and has collected over $1,200,000 in past due accounts to date, and continues to vigorously pursue them, it has decided to increase its reserve to avoid future exposure in certain accounts.
- $300,000 to absorb miscellaneous charges.
- $124,000 to correct unrecorded 1996 expenses.
- $102,000 to establish a vacation pay accrual.
- $81,000 to change method of accounting for supplies.
- $93,000 to establish a reserve for anticipated severance costs.
- $271,000 various other miscellaneous items.

The SG&A for the quarter ended March 31, 1996 included $333,000 in credits due to the reversal of prior period reserves as well as $113,000 in workers' compensation profit that are now recorded as a reduction in direct costs. After accounting for these adjustments, SG&A for the quarters ended March 31, 1997 and 1996 were $2,334,000 and $2,115,000 or an increase of 10.4%. For the six months ended March 31, 1997 and 1996, SG&A increased to $6,368,000 from $3,288,000, respectively. After reflecting the previously discussed adjustments, adjusting for an additional $380,000 of workers' compensation profit recorded in the first quarter of 1996 as a reduction of SG&A, and adjusting for $51,000 of severance pay previously recorded in the first quarter of Fiscal 1997, SG&A for the six months ended March 31, 1997 and 1996 were $4,344,000 and $4,114,000, respectively, or an increase of 5.6%

Depreciation and amortization for the quarters ended March 31, 1997 and 1996 increased to $438,000 from $117,000, respectively, or $321,000. Of this increase, $261,000 was due to the writing off of all intangible assets of Digital Insurance Services Inc. while the balance was due to increased levels of depreciable assets. Although the intangible assets of Digital Insurance Inc. were still considered to have value, the management of the Company elected to abandon these assets since it was decided not to remain in the insurance business. For the six month period ended March 31, 1997 and 1996, depreciation and amortization increased to $617,000 from $256,000, respectively, or $361,000, for similar reasons.

Net loss for the quarter ended March 31, 1997 was ($3,242,000) versus net income of $319,000 for the similar period in 1996. This decrease of $3,561,000 is attributed to the following:

- $3,100,000 of adjustments booked in the second quarter of fiscal 1997 of which $2,208,000 were non-cash charges as discussed above.
- $333,000 of reserve reversals recorded in the second quarter of 1996.
- $128,000 of negative miscellaneous items.

For the six months ended March 31, 1997 the Company reported a loss of $3,041,000 versus a profit of $711,000 in the similar period of 1996. This decrease in earnings of $3,752,000 is attributed to the same reasons discussed for the second quarter.

Liquidity and Capital Resources

The Company's working capital as of March 31, 1997 decreased to ($1,738,000) versus $286,000 as of September 30, 1996. The decrease reflects a review of the Company's current business and the application of the Company's conservative accounting control.

In February 1995, the Company entered into a one year revolving line facility (the "Line") with a bank which was subsequently extended on five occasions and modified. Each loan extension has been for limited periods of time. Under the terms of the current agreement, the Company may not borrow any additional funds available on the line and must make weekly principal payments of $10,000. The Company is obligated to make monthly payments of interest on the outstanding amounts at the bank's floating base rate plus two and one-half percent (11% at March 31, 1997).

The Line is collateralized by substantially all of the Company's accounts receivable. However, the line has matured as of April 30, 1997. The Company has negotiated a six month extension of the line with the bank at the same terms, with the exception of interest which will be based upon the bank's floating base rate plus three percent (11.5% at May 1, 1997).

In addressing the capital needs of the Company, management is presently in negotiation with a potential lender to provide a line of credit to replace the line. As currently being discussed, this facility will be secured by substantially all assets of the Company and will be available based on a percentage of eligible receivables. There can be no assurance that the company will be successful in its efforts to obtain a new line of credit.

In December 1996, due to favorable trends in losses in its workers' compensation program, the Company's carrier reduced its letter of credit requirement from $1,610,000 to $1,193,000 which resulted in $417,000 of 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.

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

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

The Company issued 1,783,334 shares 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 portion of 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. The Company seeks to recover 525,000 shares which were not returned and damages against all of the defendants. The Company is currently engaged in discovery proceedings in the action.

At March 31, 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.

Item 5. Other Events

The Company had previously addressed a Letter of Intent to acquire a PEO business located in Texas. The Company has terminated such discussions.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits - None

(b) Reports on Form 8-K

none filed during the quarter ended March 31, 1997.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Amendment No. 1 to Report on Form 10-Q to be signed on its behalf by the undersigned thereunto duly authorized.

DIGITAL SOLUTIONS, INC.
(Registrant)

/s/ Louis J. Monari

Louis J. Monari
Vice President

/s/ Donald T. Kelly

Donald T. Kelly
Chief Financial Officer

Date: July 1, 1997