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 ON 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1998

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	08873
(Address of principal executive offices)	(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
NONE	

[Cover Page 1 of 2 Pages]

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.

Yes x No

On January 11, 1999, 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 $21,679,653 based upon the average bid and asked price for such Common Stock on said date as reported by Nasdaq Small Cap Market. On such date, there were issued and outstanding 19,356,833 shares of Common Stock of the Registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement for 1999 Annual Meeting of Shareholders Incorporated by Reference into Part II of this Form 10-K

[Cover Page 2 of 2 Pages]

PART I

SAFE HARBOUR STATEMENT

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 of recently consummated acquisitions as well as future acquisitions, effects of competition and technological changes and dependence upon key personnel.

ITEM 1. BUSINESS

INTRODUCTION

Digital Solutions, Inc., a New Jersey Corporation ("DSI") 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 wholly-owned subsidiaries include DSI-Contract Staffing, DSI Staff ConnXions-Northeast, DSI Staff ConnXions-Southwest, and DSI-Staff Rx, Inc (collectively referred to, with DSI as the "Company").

The Company currently provides three types of services related to the employee leasing and payroll service business: (1) professional employer organization ("PEO") services, such as payroll processing, personnel and administration, benefits administration, workers compensation administration and tax filing; (2) employer administrative services, such as payroll processing 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 1,220 client organizations with approximately 4,350 worksite PEO and staffing employees and processing for approximately 30,000 payroll service 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, the Company places temporary help in hospitals and clinics throughout the United States through its Clearwater, Florida and Houston, Texas offices. The Company has three regional offices located 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 has positioned 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 of the human resource administrative functions, 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 assigns these employees to the client to perform their intended functions at the worksite.

Management has determined to emphasize the Company's 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. As part of its effort to expand its PEO business, management has expanded the services of DSI-Staff Rx, Inc., the Company's medical contract staffing subsidiary, to include 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. See "Recent Developments."

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

RECENT DEVELOPMENTS

TEAMSTAFF ACQUISITION

Effective as of October 29, 1998, the Company entered into two separate agreements entitled Plan and Agreement of Merger and Reorganization with the TeamStaff Companies (as defined below) and the shareholders owning all of the shares of the TeamStaff Companies. On December 17, 1998, the Company held a Special Meeting of Shareholders in Somerset, New Jersey at which meeting the acquisition of the TeamStaff Companies was approved by the Company's shareholders.

The acquisition is expected to be consummated in January, 1999 following receipt of financing from the Company's primary lender, FINOVA Capital Corporation in the amount of upwards to $4,500,000.

The TeamStaff Companies are comprised of the following corporations: TeamStaff Holding Company, Inc. ("THC"), The TeamStaff Companies, Inc. ("TSC"), Employer Support Services, Inc, ("ESS"), TeamStaff U.S.A., Inc. ("TUSA"), TeamStaff, Inc. ("TSI"), TeamStaff II, Inc. ("TSI II"), TeamStaff III, Inc. ("TSI III"), TeamStaff IV, Inc. ("TSIV"), TeamStaff V, Inc. ("TSV") and TeamStaff Insurance Service, Inc. ("TIS"). Each of the TeamStaff companies are Florida corporations with its principal address at 1211 N. Westshore Blvd., Suite 806, Tampa, Florida 33607.

Following the acquisition, the combined companies' PEO business will be based in Tampa. Mr. Kirk Scoggins, president and a principal shareholder of TeamStaff, will become president of the combined company's professional employment organization division and will join the Board of Directors of the Company effective on the closing day of the acquisition. TeamStaff has offices in Raleigh/Durham, NC; Dallas, TX; Atlanta, GA; and Jacksonville, FL as well as Tampa. The TeamStaff Companies serve a variety of industries, including golf course management, resort property management, manufacturing, distribution and service industries.

Pursuant to the terms of the acquisition, the Company will issue 8,233,334 million shares of its common stock in exchange for all of the common stock of the TeamStaff companies and $3.1 million in cash for all the preferred stock and for payment of outstanding debt.

The transaction was approved by holders of approximately 60 percent of Digital Solution's common stock, which represents 97 percent of the shares voted at the special meeting. The combined companies will have revenues of approximately $240 million and approximately 11,000 worksite employees, ranking the combined company among the top 15 PEOs in the U.S.

The TeamStaff Companies are privately owned companies engaged in the professional employer services business similar to the business operations of the Company. The Board of Directors believes that the acquisition is in the best interests of the Company because (i) as a result of the acquisition the Company's revenues will be increased by approximately 72% (based upon the Company's fiscal year ended September 30, 1998), (ii) the combined entities will have approximately 11,000 worksite employees (iii) the acquisition will allow the Company to enjoy opportunities for operating efficiencies and synergies from the combined entities and (iv) the acquisition provides the Company with an avenue of expansion into the Southeastern United States.

As a result of the acquisition, the 10 TeamStaff Companies will become wholly-owned subsidiaries of the Company.

NAME CHANGE

At the special meeting, shareholders approved a change in the Company's name to "TeamStaff, Inc." The Company expects to change its name within the next 60-90 days.

CREDIT LINE

On April 28, 1998, the Company was successful in replacing the former credit facility with a new long term credit facility from FINOVA Capital Corporation totaling $4.5 million. The credit facility includes a three year loan for $2.5 million, with a five year amortization, at prime + 3% (11.5% at September 30, 1998) and a $2 million revolving line of credit secured by certain accounts receivable of the Company at prime + 1% (9.5% at September 30, 1998). The balance on the term loan was $2,333,000 and $2,250,000 at September 30, 1998 and November 30, 1998, respectively and the revolving credit line balance was $1,103,000 and $986,000 at September 30, 1998 and November 30, 1998, respectively. The credit facility is also subject to success fees of $200,000, $225,000 and $250,000 due on the anniversary dates of the loan beginning in April, 1999. Taking these fees into consideration and assuming the Company continuously fully utilizes the revolver, the effective rate of interest on the total borrowings is approximately 16.1%.

SERVICES

PROFESSIONAL EMPLOYER ORGANIZATION (PEO)

The Company's core business, and the area management will continue to emphasize, is its PEO services. When a client utilizes the Company's PEO services, the client administratively transfers all or some of its employees to the Company which then provides them to the client. DSI thereby becomes a 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. The client is, however, relieved of reporting and tax filing requirements and other administrative tasks. Moreover, because of economies of scale, the Company 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 then offer its employees the same or similar benefits as larger companies, and successfully compete in recruiting highly qualified personnel, as well as build the morale and loyalty of its staff.

As a PEO service provider, the Company can offer the following benefits to employees:

COMPREHENSIVE MAJOR MEDICAL PLANS - Management of the Company 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 offer the employees assigned to their clients a variety of health coverage plans from traditional indemnity plans to Health Maintenance Organizations (HMO) or Preferred Provider Organizations (PPO).

DENTAL AND VISION COVERAGE - These types of benefits are generally beyond the reach of most small groups. As a result of economies of scale available, a client of the Company can obtain these benefits for the assigned employees.

LIFE INSURANCE -- Affordable basic coverage is available.

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 -- Management believes that most small employers do not provide any significant retirement benefits due to the administrative and regulatory requirements associated with the establishment and maintenance of retirement plans. The Company enables small business owners to offer the assigned employees retirement programs comparable to those of major corporations. Such plans can be used to increase morale, productivity and promote employee loyalty.

CREDIT UNION -- The Company provides 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. The Company's PEO services include all payroll and payroll tax processing.

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

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

WORKERS COMPENSATION PROGRAM - The Company has a national workers compensation policy which can provide the Company with a significant advantage in marketing its services, particularly in jurisdictions where workers compensation policies are difficult to obtain at reasonable costs. The Company 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 assigned employees, a competitive rate in workers' compensation insurance, and savings in time and paperwork previously required in connection with personnel administration.

PAYROLL SERVICES

The Company 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 900 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 timely deposit of taxes, impounding of tax payments, filing of returns, distribution of quarterly and year-end statements and responding to agency inquiries.

TEMPORARY STAFFING SERVICES

DSI provides temporary staffing services through several subsidiaries which have, in the aggregate, more than 28 years of experience in placing permanent and temporary employees with specialized skills and talents with regional, national and international employers. Temporary staffing enables clients to attain management and productivity goals by matching highly trained professionals and technical personnel to specific project requirements. DSI focuses its temporary staffing services in two specific markets where it places people on a temporary long term assignment, or on a permanent basis: (1) radiologists, therapists, nurses with hospitals, clinics and therapy centers throughout the 50 states and (2) technical employees such as engineers, information systems specialists and project managers primarily with Fortune 100 companies for specific projects. 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.

The Company's temporary staffing services provide clients with the ability to "rightsize"; that is, expand or reduce its workforce in response to changing business conditions. Management believes that these services provide 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.

Management believes that it's temporary staffing services provides an employer with an increased pool of qualified applicants, since temporary 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. As discussed above, the Company expects to acquire the TeamStaff Companies. See "Recent Developments - TeamStaff Acquisition." 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; and 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. There can be no assurance, however, that the Company will be able to successfully identify, acquire and integrate into the Company operations compatible PEO companies.

CUSTOMERS

The Company's customer base consists of over 1,220 client companies, representing approximately 34,000 employees (including payroll services) as of September 30, 1998. 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 the customers of the Company's subsidiary Staff-Rx, are employed 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 maintains sales and marketing personnel in all of its locations, which presently include New Jersey, New York, Texas, and Florida.

Sales personnel offer to customers a full array of the Company's 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.

The Company has also implemented several focused marketing activities to increase sales opportunities. The Company has been licensed by the various state Boards of Accountancy to hold continuing professional education seminars for CPAs. In addition, the Company and its management 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 $2 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 have recently 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.

Management of the Company 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. Management 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, the Company is establishing itself as a professional employer organization which will assist companies, small and large, with all of their human resource management challenges.

INDUSTRY/GOVERNMENT 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 "worksite 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; (ii) obligations under FICA; and, (iii) obligations under the Federal Unemployment Tax Act (FUTA).

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, group health plans, dental insurance, 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. For example, the Company's activities in the State of Texas are governed by the Staff Leasing Services Licensing Act (the "Act"), which regulates PEOs in the state of 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 or a subsidiary 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. A DSI subsidiary is currently licensed in Florida and New Mexico as well as Texas.

EMPLOYEES

As of December 21, 1998, the Company employed 122 employees, both full-time and part-time, including executive officers, an increase from 117 during the previous fiscal year. The Company also employs approximately 4,000 leased employees and 350 temporary employees on client assignments. The Company believes its relationship with its employees is satisfactory.

ITEM 2. PROPERTIES

OPERATION AND FACILITIES

The Company currently has processing centers in Somerset, New Jersey; Houston, Texas; and Clearwater, Florida. The Company also has 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 1999-2000, 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 1998, the Company's total lease expenses were $630,000.

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 the Company's facilities:

LOCATION	APPROXIMATE SQUARE FEET	EXPIRATION DATE	TERMS
DSI Staff RX, Inc. (Houston) 2 Northpoint Drive, Suite 110 Houston, TX 77060	5,398 7,396	9/30/99 2/28/00	$13,440 per month
DSI Staff RX, Inc. (Clearwater) 601 Cleveland Street 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	1,890	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 28, 1998. 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's subsidiary, DSI Staff ConnXions-Southwest, Inc., is the defendant in a lawsuit (Frederico Farias v. Thomson Consumer Electronics and DSI Staff Connxions-Southwest, Inc.; 327th Judicial District Case No. 96-3036; District Court of El Paso County, Texas) whereby a former leased employee of a client obtained a judgment against the Company during August, 1998 in the amount of $315,000 including interest. The judgment includes approximately $115,000 in compensatory damages and $200,000 in punitive damages. The Company has posted a bond for the full amount of the judgment and is appealing the judgment. Management of the Company, after consultation with counsel, believes that there is no basis for the awarding of punitive damages, and that the award of compensatory damages was based on insufficient evidence. Although there can be no assurances the Company will be successful in prosecuting the appeal, management of the Company, after consultation with counsel, believes it will obtain a reversal of the judgment. If the Company is not successful with the appeal, the Company would record expense of $315,000.

The Company is also a defendant in a lawsuit (ASI Group, Inc. and Terr Munkirs v. Digital Solutions, Inc., George Eklund and Miriam H. Silverman Superior Court of New Jersey, Law Division, Middlesex Court Docket No. 8906-97) which is currently pending in the Superior Court of New Jersey. This action was brought by a competitor of the Company in connection with the transfer of several former clients of the competitor to the Company. The Company has denied the material allegations of the complaint. Discovery in the case is in the preliminary stages. The plaintiffs have submitted a calculation of damages of $300,000 for the claims identified in the lawsuit which includes damages for clients which never became clients of the Company. Although there can be no assurances the Company will be successful in defending the claim, management of the Company after consultation with counsel, believes it has meritorious defenses against the claim.

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

ITEM 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS

The Company did not submit any matters to its shareholders for approval during the fourth quarter ended September 30, 1998.

On December 17, 1998, the Company held a Special Meeting of Shareholders in Somerset, New Jersey. Shareholders of record at October 30, 1998 were entitled to attend and vote at the meeting. At the record date there were outstanding 19,356,833 shares of Common Stock, of which 12,320,088 (65%) were represented by proxy or in person at the Special Meeting.

At the Special Meeting, shareholders approved the acquisition of the TeamStaff Companies and a proposal to change the Company's name to "TeamStaff, Inc." The Shareholders of the Company voted 12,320,088 shares (98% of those voting) in favor of the proposal to acquire the TeamStaff Companies. Shareholders holding 235,640 shares (2% of those voting) voted against the proposal and shareholders holding 77,240 shares either withheld approval or abstained from voting.

The Shareholders of the Company voted 12,217,552 (97% of those voting) shares in favor of the proposal to change the Company's name to TeamStaff, Inc. Shareholders holding 246,124 shares (2% of those voting) voted against the proposal and shareholders holding 169,292 shares abstained from the vote.

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". In connection with the recently approved proposal to change the Company's name to TeamStaff, Inc., the Company will be submitting a request to Nasdaq to obtain a new symbol for the Common Stock.

B. MARKET INFORMATION

The range of high and low bid prices for the Company's Common Stock for the periods indicated below, are:

COMMON STOCK

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
2nd Quarter	2 17/32	1 3/4
3rd Quarter	2 15/32	1 9/16
4th Quarter	1 13/16	1
FISCAL YEAR 1999	**HIGH**	**LOW**
1st Quarter	1 27/32	15/16

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. On January 11, 1999, the Company's Common Stock had a closing price of $1.09 per share.

C. DIVIDENDS

The payment by the Company of cash dividends is restricted by the Company's debt facility provider, FINOVA. Without FINOVA'S prior written consent, which FINOVA may withhold in its sole discretion, the Company may not declare or pay cash dividends upon any of its stock. 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 11, 1999 was 308. 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 4,000 beneficial holders of the Company's common stock.

ITEM 6. SELECTED FINANCIAL DATA

	1998	1997	1996	1995	1994
Revenues	$139,675,000	$122,695,000	$100,927,000	$73,821,000	$37,998,000
Direct Expenses	129,747,000	113,894,000	92,490,000	68,530,000	34,939,000
Gross Profit	9,928,000	8,801,000	8,437,000	5,291,000	3,059,000
Selling, General & Administrative Expenses (includes Depreciation and Amortization)	8,050,000	11,316,000	8,801,000	7,547,000	2,695,000
Income (Loss) From Operations	1,878,000	(2,515,000)	(364,000)	(2,256,000)	364,000
Net Income (Loss)	$2,703,000	($2,832,000)	($597,000)	($3,316,000)	$720,000
Earnings (Loss) per share (1)					
Basic	$.14	($.15)	($.04)	($.24)	$.06
Diluted	$.14	($.15)	($.04)	($.24)	$.05
Weighted average shares outstanding (1)					
Basic	19,271,897	19,070,349	16,840,371	13,595,382	10,597,537
Diluted	19,403,298	19,070,349	16,840,371	13,595,382	12,867,027
Dividends Paid per Preferred Stock	$0.00	$0.00	$0.00	$0.00	$3.30
BALANCE SHEET DATA:					
Assets	$16,648,000	$14,163,000	$14,800,000	$13,816,000	$7,727,000
Liabilities	8,774,000	9,291,000	7,632,000	10,967,000	2,671,000
Long-Term Debt	2,981,000	89,000	100,000	175,000	107,000
Working Capital (Deficiency)	3,319,000	(1,401,000)	286,000	(4,771,000)	1,146,000
Shareholders' Equity	$7,874,000	$4,872,000	$7,168,000	$2,849,000	$5,056,000

(1) In accordance with SFAS 128, basic and diluted earnings (loss) per share have replaced primary and diluted earnings (loss) per share.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FISCAL YEAR 1998 AS COMPARED TO FISCAL YEAR 1997

The Company's revenues for the fiscal year ended September 30, 1998 were $139,675,000 as compared to fiscal year 1997 of $122,695,000 which represents an increase of $16,980,000 or 13.8%. 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 61% of the growth, while the balance is attributed to the Company's staffing business.

Direct expenses for fiscal year 1998 were $129,747,000 as compared to $113,894,000 for fiscal year 1997 which represents an increase of $15,853,000, or 13.9%. This increase represents the corresponding higher costs associated with higher revenues. As a percentage of revenue, direct expenses for the fiscal year 1998 and 1997 were 92.9% and 92.8%, respectively.

Gross profits were $9,928,000 and $8,801,000 for fiscal 1998 and 1997, respectively, for an increase of 12.8%. Gross profits, as a percentage of revenue, were 7.1% and 7.2% for the fiscal years ended September 30, 1998 and 1997, respectively.

Selling, general and administrative costs ("SG&A") for fiscal 1998 decreased $2,917,000, or 28.3%, from $10,306,000 in fiscal 1997 to $7,389,000. Of this decrease, $1,973,000 pertains to charges recorded in the second quarter of fiscal 1997, $1,002,000 of which was to increase the bad debt reserve, $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 supplies accounting, $93,000 to establish a reserve for severance costs and $271,000 for various other miscellaneous items. Giving effect to these adjustments, SG&A decreased $944,000 which is attributable to the reduction in overhead costs implemented in the fourth fiscal quarter of 1997 as well as a reevaluation by management of the bad debt reserve due to the payments on previously nonperforming accounts.

Depreciation and amortization decreased $349,000 in fiscal 1998 due to several intangible assets that have became fully amortized in the current fiscal year. The decrease was also attributable to the writing off of $261,000 in intangible assets of Digital Insurance Services, Inc. which ceased operations in the fiscal year 1997.

Interest expense for fiscal year 1998 increased $177,000 to $554,000 from $377,000 in fiscal 1997 due to an increase in debt financing and an increase in the effective borrowing rate.

Income taxes for the fiscal year 1998 reflected a net tax benefit of $1,296,000 primarily related to the reduction in the Company's valuation allowance. As of September 30, 1997, the Company had established a deferred tax valuation allowance of $2,680,000. In view of the continued earnings improvement of the Company over the last four quarters and its current financial position and prospects, the management determined in June of 1998 that it is more likely than not that the majority of such valuation allowance will be realized. As of September 30, 1998, the Company's valuation allowance approximated $400,000.

Net income for fiscal 1998 was $2,703,000 versus a net loss of ($2,832,000) in fiscal 1997. This increase is attributed to the $3.1 million in adjustments recorded in fiscal 1997, the net tax benefit of $1,296,000 recorded in fiscal 1998, the growth of all businesses and the overhead reductions implemented in the fourth fiscal quarter of 1997.

FISCAL YEAR 1997 AS COMPARED TO FISCAL YEAR 1996

Operating revenues for the fiscal year ended September 30, 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 a subsidiary, 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, Inc. 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 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.

LIQUIDITY AND CAPITAL RESOURCES

The Company's working capital for fiscal year ended September 30, 1998 was $3,319,000 versus a deficit of ($1,401,000) in fiscal 1997. The improved working capital position is attributable to the continued earnings improvement of the Company and the successful refinancing of the Company's short term borrowings, as discussed below, to a long term credit facility. At September 30, 1998, the Company had cash of $1,530,000 and net accounts receivable of $6,891,000.

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. On September 30, 1997 the total amount outstanding on the Line was $2,697,000. On April 29, 1998, the Company was successful in replacing the former credit facility with a new long term credit facility from FINOVA Capital Corporation totaling $4.5 million. The credit facility includes a three year loan for $2.5 million, with a five year amortization, at prime + 3% (11.5% at September 30, 1998), with a balance of $2,333,000 and $2,250,000 at September 30, 1998 and November 30, 1998, respectively and a $2 million revolving line of credit secured by certain accounts receivable of the Company at prime + 1% (9.5% at September 30, 1998), with a balance of $1,103,000 and $986,000 at September 30, 1998 and November 30, 1998, respectively. The credit facility is also subject to success fees of $200,000, $225,000 and $250,000 due on the anniversary date of the loan beginning in April, 1999. Taking these fees into consideration and assuming the Company continuously fully utilizes the revolver, the effective rate of interest on the total borrowings is approximately 16.1%.

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. In September 1998, the Company negotiated and settled with Liberty Mutual Insurance Company its liability on all workers' compensation claims incurred during the three year period 1995, 1996 and 1997. In return for terminating all future exposure under the Liberty Mutual workers' compensation policy, the Company agreed to make a one-time payment of approximately $919,000. The settlement was funded by allocating $738,000 of the Company's restricted cash, which had been used to collateralize a portion of the letter of credit to Liberty Mutual and by internal funds of $181,000. The $181,000 cash payment was offset somewhat by a recent $50,000 equity investment by a new member of the Company's board of directors and by approximately $45,000 in interest from the restricted cash investments.

The management of the Company believes that its existing cash, available borrowing capacity and anticipated borrowings in connection with the TeamStaff acquisition will be sufficient to support cash needs through September 30, 1999.

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.

YEAR 2000 ISSUE

The year 2000 issue is the programming of computer systems to recognize the values "00" in a date field as the year 2000 and not the year 1900. The Company began steps in 1997 to reasonably ensure that the software it utilizes will be year 2000 compliant. The Company has evaluated the Year 2000 readiness of the hardware and software

products used by the Company. The Company's assessment covered the following phases: (1) identification of all Products, IT Systems, and non-IT Systems, such as building security and voice mail; (2) assessment of repair or replacement requirements; (3) testing and (4) implementation. The assessment and the first phases of testing and implementation were completed in 1998 and based on this, the Company believes that with some modifications to existing software and conversions to new software, the year 2000 issue will not pose significant operational problems. The replacement, final testing and implementation will be complete in February of 1999. The costs of these modifications are not expected to have a material impact on the Company's financial position. However, the assessment of whether a complete system or device will operate correctly depends in large part on the Year 2000 compliance of the product or system's other components, many of which are supplied by parties other than the Company. The supplier of the Company's current financial and accounting software has informed the Company that such software is Year 2000 compliant. Further, the Company relies on various vendors, utility companies, telecommunication service companies, delivery service companies and other service providers who are outside of the Company's control. There is no assurance that such parties will not suffer Year 2000 business disruption, which could impact the Company's financial condition and results of operations.

The Company has discussed the year 2000 compliance issue with the TeamStaff management and reviewed their computer systems. With the exception of one major system, which is currently being updated to comply with this issue, management believes the systems of the TeamStaff Companies are Year 2000 compliant. However, the TeamStaff Companies rely on various vendors, utility companies, telecommunication service companies, delivery service companies and other service providers who are outside of their control. There is no assurance that such parties will not suffer Year 2000 business disruption, which could impact TeamStaff's financial condition and results of operations. In the event the one system of the TeamStaff Companies can not become Year 2000 compliant in a timely manner, the Company has the option of converting this system to the Company's. The cost of this conversion would not be expected to have a material impact on the Company's financial position.

As disclosed, the Company may be acquiring companies from time to time and at the time of acquisition, the Company will evaluate the Year 2000 compliance issue regarding the computer systems of the entity to be acquired. There can be no assurances that the systems of any potential acquisition will be Year 2000 compliant or that the Company may not be required to expend funds to update such systems.

NEW ACCOUNTING PRONOUNCEMENTS

In June 1997, the FASB issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"). SFAS 131 establishes standards for the way public enterprises are to report information about operating segments in interim financial statements and requires the reporting of selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas and major customers. SFAS 131 is effective for fiscal periods beginning after December 15, 1997, at which time the Company will adopt the provisions. The Company does not expect SFAS 131 to have a material effect on reported results.

In March 1998, the AICPA issued Statement of Position 98-1 ("SOP 98-1"), "Accounting for the Costs of Computer Software Developed or Maintained for Internal Use." SOP 98-1 provides guidance on the treatment of costs related to internal use software. SOP 98-1 is effective for fiscal years beginning after December 15, 1998, at which time the Company will adopt the provisions. The Company does not expect SOP 98-1 to have a material effect on reported results.

In April 1998, the AICPA issued Statement of Position 98-5 ("SOP 98-5"), "Reporting on the Cost of Startup Activities". SOP 98-5 provides guidance on the financial reporting of startup costs and organization costs and requires that the cost of startup activities and organization costs be expensed as incurred. SOP 98-5 is effective for fiscal years beginning after December 15, 1998, at which time the Company will adopt the provisions. The Company does not expect SOP 98-5 to have a material effect on reported results.

ITEM 8. FINANCIAL STATEMENTS

See Attached Financial Statements appearing at pages F-1 through F-17.

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	70	Chairman of the Board of Directors
George J. Eklund	55	Director
Donald T. Kelly	49	Vice President, Chief Financial Officer and Corporate Secretary
Senator John H. Ewing	78	Director
William J. Marino	55	Director
Donald W. Kappauf	52	President and Chief Executive Officer
Charles R. Dees, Jr.	58	Director
Martin J. Delaney	55	Director

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.

Charles R. Dees, Jr. joined the Board of Directors in July, 1998. Mr. Dees is a nationally known university administrator and former official of the U. S. Department of Education. He is currently Senior Vice President for Institutional Advancement of Fairleigh Dickinson University.

Martin J. Delaney also joined the Board of Directors in July, 1998. Mr. Delaney is a prominent healthcare executive presently serving as President, CEO and a director of the Winthrop-South Nassau University Health System, Inc., in Long Island, New York.

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. There are no interlocks between the Company's Directors and Directors of other companies.

MEETINGS OF THE BOARD OF DIRECTORS AND COMMITTEES

During the fiscal year ended September 30, 1998, the Board of Directors met on 5 occasions and acted by unanimous written consent on 5 occasions. The Board of Directors is comprised of 8 persons and has 3 committees. Messrs Dieckmann, Ewing and Marino are members of the Board's Compensation committee. Messrs. Dieckmann, Ewing, Ecklund and Marino are members of the Board's Audit Committee. Messrs Dieckmann, Kappauf and Marino are members of the Board's Nominating Committee. The Audit Committee, the Nominating Committee and Compensation Committee of the Board of Directors met on 1, 3 and 2 occasions, respectively, during the fiscal year.

ITEM 11. EXECUTIVE COMPENSATION

The following provides certain summary information concerning compensation paid or earned by the Company during the years ended September 30, 1998, 1997 and 1996 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 SALARY	BONUS	OTHER	LONG TERM COMPENSATION OPTIONS/SAR'S
George J. Eklund, (1)					
Director	1998	$210,000	$0	$0	0
	1997	$210,000	$0	$0	0
	1996	$207,924	$100,000	$0	300,000
Donald W. Kappauf, (2)					
Chief Executive Officer	1998	$173,308	$89,670	$16,991	200,000
	1997	$121,154	$25,000	$0	0
	1996	$110,000	$20,000	$0	0
Donald T. Kelly, (3)					
Chief Financial Officer	1998	$151,038	$45,000	$0	50,000
	1997	$ 90,865	$20,000	$0	30,000

(1) Mr. Eklund's employment with the Company commenced on September 19, 1994. He assumed the position of Chief Executive Office in March 1996. In December 1997 due to health concerns, his position changed. Mr. Eklund remains a Director.

(2) The 1997 salary 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 was for his position as Division Vice President. Other compensation includes car and car insurance.

(3) Mr. Kelly was granted a sign on bonus of $20,000 at employment, on January 20, 1997.

The Company provides normal and customary life and health insurance benefits to all of its employees including executive officers. The Company 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 $1,000 per board meeting, related travel expenses, and $400 for each committee meeting. 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.

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 and proforms special projects work for compensation. 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 Kappauf	100,000	38%	$1.9375	08/27/2002
Donald Kappauf	100,000	38%	$1.9375	01/02/2003
Donald Kelly	50,000	19%	$1.9375	01/02/2003

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, 1998.

NAME	SHARES ACQUIRED ON EXERCISE	VALUE REALIZED	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS/SARS SEPTEMBER 30, 1998 EXERCISABLE/ UNEXERCISABLE	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AS OF SEPTEMBER 30, 1998 EXERCISABLE/ UNEXERCISABLE(1)
George J. Eklund	0	0	380,000/120,000	$0/$0
Donald W. Kappauf	0	0	175,000/125,000	$0/$0
Donald T. Kelly	0	0	45,000/35,000	$0/$0

(1) Based upon a closing bid price of the Common Stock at $1 1/16 per share on September 30, 1998.

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 lst, 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 lst an option to purchase 5,000 shares of the Company's common stock each September lst. 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 December 31, 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	325,743	1.7%
George J. Eklund(3) c/o Digital Solutions, Inc. 300 Atrium Drive Somerset, NJ 08873	459,545	2.4%
Senator John H. Ewing(4) 76 Claremont Road Barnardsville, NJ 07924	128,125	*
William J. Marino(5) c/o Blue Cross/Blue Shield of New Jersey 3 Penn Plaza East Newark, NJ 07105	93,617	*
Donald W. Kappauf(6) c/o Digital Solutions, Inc. 300 Atrium Drive Somerset, NJ 08873	551,248	2.84%
Donald T. Kelly(7) c/o Digital Solutions, Inc. 300 Atrium Drive Somerset, NJ 08873	53,850	*
Charles R. Dees, Jr. Phd(8) c/o Digital Solutions, Inc. 300 Atrium Drive Somerset, NJ 08873	5,000	*
Martin J. Delaney(9) c/o Digital Solutions, Inc.	116,823	*

300 Atrium Drive Somerset, NJ 08873		
All officers and directors as a group (6)persons (2,3,4,5,6,7,8,9)	1,733,951	8.96%

- ----------

* Less than 1 percent.

(1) Ownership consists of sole voting and investment power except as otherwise noted.

(2) Includes options to purchase 15,000 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 380,000 shares of the Company's common stock, and excludes unvested options to purchase 120,000 shares of common stock.

(4) Includes options to purchase 40,000 shares of the Company's common stock, and warrants to purchase 2,500 shares of common stock, and excludes unvested options to purchase 5,000 shares of common stock.

(5) Includes options to purchase 15,000 shares of the Company's common stock, and excludes unvested options to purchase 5,000 shares of common stock.

(6) Includes options to purchase 175,000 shares of the Company's common stock, and excludes unvested options to purchase 125,000 shares of common stock.

(7) Includes options to purchase 45,000 shares of common stock, and excludes unvested options to purchase 35,000 shares of common stock.

(8) Includes options to purchase 5,000 shares of common stock, and excludes unvested options to purchase 1,250 shares of common stock.

(9) Includes options to purchase 5,000 shares of common stock, and excludes unvested options to purchase 1,250 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". The Directors' Plan 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.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(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-16 and includes page S-1.

2. All other schedules have been omitted since the required information is not applicable 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 NO.		DESCRIPTION
2.1	--	Agreement for purchase of Temp-Staff, Inc. (Exhibit 3 to Form 8-K dated May 17, 1990).
2.2	--	Agreement for purchase of X-L Technical Corp. (Exhibit 2a to Form 8-K dated October 31, 1990).
2.3	--	Plan and Agreement of Merger and Reorganization dated as of October 29, 1998 among the Company, the Merger Corporations, the TeamStaff Entities and certain individuals and trusts as shareholders of the TeamStaff Entities (Exhibit A to Proxy Statement of Digital Solutions, Inc. dated November 12, 1998).
3.1	--	Amended and Restated Certificate of Incorporation of Registrant (Exhibit A to Definitive Proxy Material dated July 20, 1990).
3.1.1	--	Form of Amendment to Amended and Restated Certificate of Incorporation (filed as Exhibit G to the Company's Proxy Statement dated November 12, 1998 as filed with the Securities and Exchange Commission).
3.2	--	By-Laws of Registrant (Exhibit 10.1 to Form 8-K dated March 21, 1990).
10.2	--	Employment Agreement with Donald Kappauf (Exhibit 3 to Form 8-K dated May 17, 1990).
10.4	--	Agreement between Registrant and First Fidelity Bank, N.A. (Exhibit 10.4 to form 10-K for fiscal year ended September 30, 1991).
10.5	--	Agreement between Registrant and Midlantic Banks, Inc. dated October 11, 1991 (Exhibit 10.5 to form 10-K for fiscal year ended September 30, 1991).
10.6	--	Lease dated 10/15/91 for office space at 4041 Hadley Road, South Plainfield, New Jersey (Exhibit 10.6 to form 10-K for fiscal year ended September 30, 1991).
10.7	--	Employment Agreement between Karl Dieckmann and the Company dated November 1, 1991 (Exhibit 10.7 to form 10-K for fiscal year ended September 30, 1991).
10.6.1	--	Lease dated May 30, 1997 for office space at 300 Atrium, Somerset, New Jersey (Exhibit 10.6.1 to Form 10K for the fiscal year ended September 30, 1997).
10.15.1	--	Employment agreement between George J. Eklund and the Company dated March 12, 1996 (Exhibit 10.15.1 to Form 10K for the fiscal year ended September 30, 1997).
10.15.2	--	Amended employment agreement between George J. Eklund and the Company dated December 16, 1997 (Exhibit 10.15.2 to Form 10K for the fiscal year ended September 30, 1997).
10.10	--	Employment Contract between David L. Clark and the Company dated January 1, 1993.
10.11	--	Bridge financing between Katie and Adam Bridge Partners, L.P. and the Company in June 1993.
10.12	--	Sales representation agreement between Sid A. Robinson, III and the Company dated April 14, 1993.
10.13	--	Agreement between Staff Leasing of Mississippi, Inc. and the Company for purchase of business and assets dated November 4, 1993.
10.15	--	Employment agreement between George J. Eklund and the

Company dated September 19, 1994.

10.16.1 -- Seventh Amended Loan Agreement between Registrant and Summit Bank and sixth amended Promissory Note (Exhibit 10.16.1 to Form 10K for the fiscal year ended September 30, 1997).

10.17* -- Loan and Security Agreement dated April 28, 1998 among Digital Solutions, Inc. and Finova Capital Corporation.

10.18* -- Secured Promissory Note in the principal amount of $2,500,000 dated April 28, 1998 in favor of Finova Capital Corporation.

10.19* -- Stock Pledge Agreement (Security Agreement) dated April 28, 1998 between Finova Capital Corporation and Digital Solutions, Inc.

10.20* -- Employment Agreement between Donald Kappauf and the Registrant dated January 1, 1998.

21.* -- Subsidiaries of Registrant.

23.1* -- Consent of Arthur Andersen, LLP to the incorporation of its report on the Company's financial statements for the fiscal year ended 1998 into the Company's previously filed registration Statements on form S-3 file number 33-85526, 33-70928, 33-91700 and 33-09313.

27.* -- Financial Data Schedule.

(b) Reports on Form 8-K.

None

(c) Exhibits. See Item (a)(3) above.

(d) Financial Statement Schedule. 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 11, 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 11, 1998
/s/Karl W. Dieckmann - --- Karl W. Dieckmann	Chairman of the Board	January 11, 1998
/s/John H. Ewing - --- Senator John H. Ewing	Director	January 11, 1998
/s/William J. Marino - --- William J. Marino	Director	January 11, 1998
/s/Charles R. Dees, Jr. Phd - --- Charles R. Dees, Jr. Phd	Director	January 11, 1998
/s/Martin J. Delaney - --- Martin J. Delaney	Director	January 11, 1998
/s/Donald W. Kappauf - --- Donald W. Kappauf	President & Chief Executive Officer	January 11, 1998
/s/Donald T. Kelly - --- Donald T. Kelly	Chief Financial Officer & Corporate Secretary	January 11, 1998

DIGITAL SOLUTIONS, INC. AND SUBSIDIARIES

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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 as of September 30, 1998 and 1997, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended September 30, 1998. 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, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1998 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
November 21, 1998

DIGITAL SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF SEPTEMBER 30, 1998 AND 1997

	1998	1997
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,530,000	$ 841,000
Restricted cash	0	738,000
Accounts receivable, net of allowance for doubtful accounts of $284,000 at September 30, 1998 and $862,000 at September 30, 1997	6,891,000	5,820,000
Other current assets	691,000	402,000
Total current assets	9,112,000	7,801,000
EQUIPMENT AND IMPROVEMENTS:		
Equipment	3,336,000	3,170,000
Leasehold improvements	47,000	47,000
	3,383,000	3,217,000
Less - accumulated depreciation and amortization	2,591,000	2,310,000
	792,000	907,000
DEFERRED TAX ASSET	1,782,000	760,000
GOODWILL, net of accumulated amortization of $1,082,000 in 1998 and $835,000 in 1997	4,096,000	4,344,000
OTHER ASSETS	866,000	351,000
	$16,648,000	$14,163,000

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

DIGITAL SOLUTIONS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF SEPTEMBER 30, 1998 AND 1997

	1998	1997
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term borrowings	$ 0	$ 2,697,000
Current portion of long-term debt	540,000	113,000
Accounts payable	1,792,000	2,254,000
Accrued expenses and other current liabilities	3,461,000	4,138,000
Total current liabilities	5,793,000	9,202,000
LONG-TERM DEBT, net of current portion	2,981,000	89,000
Total liabilities	8,774,000	9,291,000
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY:		
Common stock, $.001 par value; authorized 40,000,000 shares; issued and outstanding 19,356,833 in 1998 and 19,141,760 in 1997	19,000	19,000
Additional paid-in capital	13,692,000	13,393,000
Accumulated deficit	(5,837,000)	(8,540,000)
	7,874,000	4,872,000
	$ 16,648,000	$ 14,163,000

The accompanying notes to 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		
	1998	1997	1996
REVENUES	$ 139,675,000	$ 122,695,000	$ 100,927,000
DIRECT EXPENSES	129,747,000	113,894,000	92,490,000
Gross profit	9,928,000	8,801,000	8,437,000
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	7,389,000	10,306,000	7,972,000
DEPRECIATION AND AMORTIZATION	661,000	1,010,000	829,000
Income (loss) from operations	1,878,000	(2,515,000)	(364,000)
OTHER INCOME (EXPENSE):			
Interest income	83,000	60,000	173,000
Interest expense	(554,000)	(377,000)	(422,000)
Other income	0	0	50,000
	(471,000)	(317,000)	(199,000)
Income (loss) before income taxes	1,407,000	(2,832,000)	(563,000)
INCOME TAX BENEFIT (EXPENSE)	1,296,000	0	(34,000)
Net income (loss)	$ 2,703,000	$ (2,832,000)	$ (597,000)
EARNINGS (LOSS) PER SHARE - BASIC	$ 0.14	$ (0.15)	$ (0.04)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	19,271,897	19,070,349	16,840,371
EARNINGS (LOSS) PER SHARE - DILUTED	$ 0.14	$ (0.15)	$ (0.04)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES AND EQUIVALENTS OUTSTANDING	19,403,298	19,070,349	16,840,371

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, 1998, 1997 AND 1996

	Common Stock		Additional	
	Shares Issued (Retired)	Amount	Paid-In Capital	Accumulated Deficit
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)
Common stock issued in connection with financing	156,250	--	250,000	--
Common stock issued	58,823	--	49,000	--
Net income	--	--	--	2,703,000
BALANCE, September 30, 1998	19,356,833	$ 19,000	$ 13,692,000	$ (5,837,000)

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		
	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 2,703,000	$(2,832,000)	$ (597,000)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities-			
Deferred income taxes	(1,402,000)	0	0
Depreciation and amortization	661,000	1,010,000	829,000
Provision for doubtful accounts	(247,000)	1,120,000	462,000
Stock issued for employee bonus	0	100,000	85,000
Changes in operating assets and liabilities-			
Increase in accounts receivable	(824,000)	(602,000)	(1,871,000)
(Increase) decrease in other current assets	(289,000)	(106,000)	239,000
Increase in other assets	(249,000)	0	0
(Decrease) increase in accounts payable, accrued expenses and other current liabilities	(1,139,000)	1,855,000	(278,000)
Decrease in other liabilities	0	0	(75,000)
Decrease (increase) in restricted cash	738,000	417,000	(1,155,000)
Net cash (used in) provided by operating activities	(48,000)	962,000	(2,361,000)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of equipment and leasehold improvements	(184,000)	(361,000)	(187,000)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from borrowings on line of credit	$ 1,103,000	$ 410,000	$ (225,000)
Proceeds from borrowings on long term debt	2,500,000	0	0
Principal payments on long-term debt	(167,000)	0	(941,000)
Payments on revolving line of credit	(2,697,000)	(620,000)	0
Principal payments on subordinated bridge loan	0	0	(1,887,000)
(Repayments) proceeds on capital leases obligations	(117,000)	14,000	71,000
Net proceeds from issuance of common stock, net of expenses	299,000	0	4,757,000
Net proceeds from the exercise of stock options and warrants	0	234,000	753,000
Proceeds from LNB settlement, net of expenses	0	202,000	0
Net cash provided by financing activities	921,000	240,000	2,528,000
Net increase (decrease) in cash and cash equivalents	689,000	841,000	(20,000)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	841,000	0	20,000
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 1,530,000	$ 841,000	$ 0
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for-			
Interest	$ 439,000	$ 363,000	$ 412,000
Taxes	$ 80,000	$ 31,000	$ 25,000
SUPPLEMENTAL DISCLOSURES OF NONCASH TRANSACTIONS:			
Value of common stock retired in satisfaction of shareholder loans	$ 0	$ 0	$ 679,000

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

DIGITAL SOLUTIONS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) ORGANIZATION AND BUSINESS:

Digital Solutions, Inc. ("DSI" or the "Company"), a New Jersey Corporation, 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. The Company has regional offices in Somerset, New Jersey; Houston, Texas; and Clearwater, Florida and sales service centers in New York, New York; El Paso and Houston, Texas; Clearwater, Florida; and Somerset, New Jersey.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF PRESENTATION-

The accompanying consolidated financial statements include those of DSI 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 within the period reflected 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.

NEW ACCOUNTING PRONOUNCEMENTS-

In June 1997, the FASB issued Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"). SFAS 131 establishes standards for the way public enterprises are to report information about operating segments in interim financial statements and requires the reporting of selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas and major customers. SFAS 131 is effective for fiscal periods beginning after December 15, 1997, at which time the Company will adopt the provisions. The Company does not expect SFAS 131 to have a material effect on reported results.

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 RECOGNITION-

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 expenses. Payroll services, commissions and other fees for administrative services are recognized as revenue as the related service is provided.

CONCENTRATIONS OF CREDIT RISK-

The Company's customer base consists of over 1,220 client companies, representing approximately 34,000 employees (including payroll services) as of September 30, 1998. 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.

CASH EQUIVALENTS-

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.

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. Goodwill amortization expense charged to operations was approximately $247,000 for fiscal year 1998, $434,000 for fiscal year 1997 and $415,000 for fiscal year 1996. Amortization expense for 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 companies acquired experiencing operating cash flow deficits, 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 of additional amortization to depreciation and amortization for the year ended September 30, 1996.

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.

INCOME TAXES-

The Company accounts for income taxes under Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). SFAS 109 requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statement and the tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

RECLASSIFICATIONS-

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation.

EARNINGS PER SHARE-

In February 1997, the FASB issued Statement on Financial Accounting Standards Number 128, "Earnings Per Share" ("SFAS No. 128"), which requires the presentation of basic earnings per share ("Basis EPS") and diluted earnings per share ("Diluted EPS"). Basic EPS is calculated by dividing income available to common shareholders by the weighted average number of shares of common stock outstanding during the period. Diluted EPS is calculated by dividing income available to common shareholders by the weighted average number of common shares outstanding for the period adjusted to reflect potentially dilutive securities.

In accordance with SFAS 128, the following table reconciles net income (loss) and share amounts used to calculate basic earnings per share and diluted earnings per share:

	Fiscal Years Ended September 30, 1998	1997	1996
Numerator:			
Net income (loss)	$ 2,703,000	$ (2,832,000)	$ (597,000)
Denominator:			
Weighted average number of common shares outstanding - Basic	19,271,897	19,070,349	16,840,371
Incremental shares for assumed conversions of stock options/warrants	131,401	0	0
Weighted average number of common and equivalent shares outstanding-Diluted	19,403,298	19,070,349	16,840,371
Earnings (loss) per share - Basic	$ 0.14	$ (0.15)	$ (0.04)
Earnings (loss) per share - Diluted	$ 0.14	$ (0.15)	$ (0.04)

Stock options and warrants outstanding at September 30, 1998 to purchase 925,229 shares of common stock were not included in the computation of Diluted EPS as they were antidilutive.

(3) INCOME TAXES:

At September 30, 1998, the Company had available operating loss carryforwards of approximately $6,538,000 to reduce future periods' taxable income. The carryforwards expire in various years beginning in 2004 and extending through 2012.

The Company has recorded a $2,162,000 and a $760,000 deferred tax asset at September 30, 1998 and 1997, respectively. This represents management's estimate of the income tax benefits to be realized upon utilization of a portion of its net operating losses as well as temporary differences between the financial statement and tax bases of certain assets and liabilities, for which management believes utilization to be more likely than not. In order for the Company to realize a $2,162,000 deferred tax asset, the Company would have to generate approximately $6,000,000 in future taxable income. Management believes the Company's operations can generate sufficient taxable income to realize this deferred 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.

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

	1998	1997
Net operating loss carryforwards	$ 2,350,000	$ 2,976,000
Allowance for doubtful accounts	102,000	310,000
Other items, net	110,000	154,000
Gross deferred income tax asset	2,562,000	3,440,000
Valuation allowance	(400,000)	(2,680,000)
Deferred income tax asset	$ 2,162,000	$ 760,000

As of September 30, 1998 other current assets included $380,000 related to the deferred tax asset.

The components of the income tax (benefit) expense for income taxes are summarized as follows-

	Fiscal Years Ended September 30, 1998	1997	1996
Current expense	$ 106,000	$ 0	$ 34,000
Deferred benefit	(1,402,000)	0	0
Total (benefit) expense	$(1,296,000)	$ 0	$ 34,000

The following table indicates the significant elements contributing to the difference between the Federal statutory rates and the Company's effective tax rate-

	Fiscal Years Ended September 30, 1998	1997	1996
Federal statutory rate	34%	(34)%	(34)%
State taxes net of federal income tax benefit	5%	0%	1%
Valuation allowance	0%	34%	34%
Reversal of valuation allowance	(134)%	0%	0%
Other	3%	0%	0%
	(92%)	0%	1%

(4) DEBT:

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. On September 30, 1997 the total amount outstanding on the Line was $2,697,000. The maximum amount outstanding during 1997 was $3,017,000, the weighted average balance outstanding during 1997 was $2,916,000 and the weighted average interest rate was 11.16%. On April 29, 1998, the Company was successful in replacing the former credit facility with a new long term credit facility from FINOVA Capital Corporation totaling $4,500,000. Substantially all assets of the Company secure the credit facility. The facility includes a three year loan for $2,500,000, with a five year amortization, at prime + 3% (11.5% as of September 30, 1998) and a $2 million revolving line of credit secured by certain accounts receivable of the Company at prime + 1% (9.5% as of September 30, 1998). The credit facility is also subject to success fees of $200,000, $225,000 and $250,000 due on the anniversary date of the loan. Taking these fees into consideration and assuming the Company continuously fully utilizes the revolver, the effective rate of interest on the total borrowings is approximately 16.1%. The credit facility is subject to certain covenants including but not limited to a minimum current ratio, debt to net worth ratio, a minimum net worth and a minimum debt service coverage ratio, as defined.

Long-term debt at September 30, 1998 and 1997 consists of the following-

	1998	1997
Revolving Loan	$ 1,103,000	$ 0
Term Loan	2,333,000	0
Capital leases	85,000	202,000
	3,521,000	202,000
Less- Current portion	(540,000)	(113,000)
	$ 2,981,000	$ 89,000

Maturities of long-term debt as of September 30, 1998 are as follows-

Year Ending September 30	
1999	$ 540,000
2000	535,000
2001	2,446,000
	$3,521,000

(5) ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES:

Accrued expenses and other current liabilities at September 30, 1998 and 1997 consist of the following-

	1998	1997
Payroll and payroll taxes	$2,415,000	$2,271,000
Worker's compensation insurance	403,000	1,321,000
Legal	0	134,000
Other	643,000	412,000
	$3,461,000	$4,138,000

(6) COMMITMENTS AND CONTINGENCIES:

LEASES-

Minimum payments under noncancellable lease obligations at September 30, 1998 are as follows-

Year Ending September 30	
1999	$ 572,000
2000	434,000
2001	353,000
2002	308,000
2003	320,000
Thereafter	1,281,000
	$3,268,000

Rent expense under all operating leases was $630,000 in 1998, $537,000 in 1997 and $627,000 in 1996.

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, this accrual amounted to $818,000. In September 1998, the Company negotiated and settled with Liberty Mutual Insurance Company its liability on all workers' compensation claims incurred during the three year period 1995, 1996 and 1997. In return for terminating all future exposure under the Liberty Mutual workers' compensation policy, the Company agreed to make a one-time payment of approximately $919,000. The settlement was funded by allocating $738,000 of the Company's restricted cash, which had been used to collateralize a portion of the letter of credit to Liberty Mutual and by internal funds of $181,000. 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 is required to fund the anticipated loss reserves on a current basis. During the twelve months ended September 30, 1998 and 1997, the Company recognized approximately $774,000 and $868,000, respectively, as its share of premiums collected from customers covered by these policies in excess of claims and fees paid by the Company.

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 maximum of 7,500,000 shares were pledged as collateral.

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 28, 1998 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.

The Company's subsidiary, DSI Staff Connxions-Southwest, Inc., is the defendant in a lawsuit whereby a former leased employee of a client obtained a judgment against the Company during August, 1998 in the amount of $315,000 including interest. The judgment includes approximately $115,000 in compensatory damages and $200,000 in punitive damages. The Company has posted a bond for the full amount of the judgment and is appealing the judgment. Management of the Company, after consultation with counsel, believes that there is no basis for the awarding of punitive damages, and that the award of compensatory damages was based on insufficient evidence. Although there can be no assurances the Company will be successful in prosecuting the appeal, the management of the Company, after consultation with counsel, believes it will obtain a reversal of the judgment. If the Company is not successful with the appeal, the Company would record expense of $315,000.

The Company is also a defendant in a lawsuit which is currently pending in the Superior Court of New Jersey. This action was brought by a competitor of the Company in connection with the transfer of several former clients of the competitor to the Company. The Company has denied the material allegations of the complaint. Discovery in the case is in the preliminary stages. The plaintiffs have submitted a calculation of damages of $300,000 for the claims identified in the lawsuit which includes damages for clients which never became clients of the Company. Although there can be no assurances the Company will be successful in defending the claim, management of the Company, after consultation with counsel, believes it has meritorious defenses against the claim.

At September 30, 1998 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.

(7) 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. 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 Subordinated Bridge Notes, collateralize letters of credit issued to secure the Company's workers' compensation program 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.

STOCK WARRANTS-

The following is a summary of the outstanding warrants to purchase the Company's common stock at September 30, 1998 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
November 1993	November 1998	1.19	5,000
January 1995	January 2000	1.90	64,350
April 1995	April 2000	2.50	5,000
October 1995	October 2000	2.25	25,000
December 1995	December 2000	1.56	5,000
June 1996	June 2001	2.70	219,879
February 1998	February 2003	2.06	25,000
			449,229

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 not employees of the Company and non-employee 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 non-executive 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 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 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 years ended September 30, 1998, 1997 and 1996:

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE FAIR VALUE
Options outstanding, September 30, 1995	1,708,464	$1.55	
Granted	512,750	$4.63	$2.40
Exercised	(794,157)	$1.06	
Canceled	(129,709)	$2.52	
Options outstanding, September 30, 1996	1,297,348	$2.73	
Granted	105,000	$1.88	$1.12
Exercised	(204,471)	$1.79	
Canceled	(353,502)	$3.41	
Options outstanding, September 30, 1997	844,375	$2.72	
Granted	260,000	$1.95	$1.05
Exercised	--	--	
Canceled	(98,250)	$2.79	
Options outstanding, September 30, 1998	1,006,125	$2.52	

RANGE OF EXERCISE PRICES	NUMBER OUTSTANDING AT 9/30/98	WEIGHTED AVERAGE REMAINING LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE AT 9/30/98	WEIGHTED AVERAGE EXERCISE PRICE
$0.75 - 1.25	121,125	0.1	$1.12	121,125	$1.12
$1.56 - 2.51	332,000	4.2	$1.94	214,000	$1.93
$2.44 - 4.00	525,000	2.0	$3.07	405,000	$2.95
$4.44 - 6.50	28,000	5.2	$5.04	28,000	$5.04

In accordance with Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 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 5.73%, 6.31% and 6.64% in 1998, 1997 and 1996, and expected option life of 4 years. Expected volatility was assumed to be 64%, 73% and 78% in 1998, 1997 and 1996, respectively.

As permitted by SFAS 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)	1998	1997	1996
Net income (loss) as reported	$ 2,703	$(2,832)	$ (597)
Estimated fair value of option grants, net of tax	(82)	(76)	(788)
Net income (loss) adjusted	$ 2,621	$(2,908)	$(1,385)
Adjusted net earnings (loss) per share	$ 0.14	$ (0.15)	$ (0.08)

(8) SUBSEQUENT EVENT:

Effective as of October 29, 1998, the Company entered into two separate agreements entitled Plan and Agreement of Merger and Reorganization, dated as of October 29, 1998, with the TeamStaff Companies and the shareholders owning all of the shares of the TeamStaff Companies. On December 17, 1998, the Company held a Special Meeting of Shareholders in Somerset, New Jersey at which meeting the acquisition of the TeamStaff Companies was approved by the Company's shareholders. The acquisition is expected to be consummated in January, 1999 following receipt of financing from the Company's primary lender, FINOVA in the amount of upwards to $4,500,000. Pursuant to the terms of the acquisition, the Company will issue 8,233,334 million shares of its common stock in exchange for all of the common stock of the TeamStaff Companies and $3.1 million in cash for all the preferred stock and for payment of outstanding debt. The acquisition will be accounted for utilizing the purchase method of accounting. The revenue and net loss of the TeamStaff Companies for the twelve months ended December 31, 1997 were $105,246,000 and $352,000, respectively.

SCHEDULE I

DIGITAL SOLUTIONS, INC. AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

FOR THE YEARS ENDED SEPTEMBER 30, 1998, 1997 AND 1996

(a) Description	(b) Balance at Beginning of Year	(c) Additions Charged to (reversed from) Costs and Expenses	(d) Deductions - Net Write-Offs	(e) Balance at End of Year
Allowance for doubtful accounts, year ended-				
September 30, 1998	$ 862,000	$ (247,000)	$ (331,000)	$ 284,000
September 30, 1997	$ 339,000	$ 1,120,000	$ (597,000)	$ 862,000
September 30, 1996	$ 150,000	$ 462,000	$ (273,000)	$ 339,000

EXHIBIT 10.17

LOAN AND SECURITY AGREEMENT

DIGITAL SOLUTIONS, INC.
DSI-CONTRACT STAFFING, INC.
DSI-STAFF CONNXIONS-NORTHEAST, INC.
DSI-STAFF CONNXIONS-SOUTHWEST, INC.
DSI-STAFF RX, INC.
CO-BORROWERS
300 ATRIUM DRIVE, SOMERSET, NEW JERSEY 08873

$4,500,000
CREDIT LIMIT

APRIL 28, 1998

CORPORATE FINANCE

THIS LOAN AND SECURITY AGREEMENT (collectively with the Schedule to Loan Agreement (the "SCHEDULE") attached hereto, the "AGREEMENT") dated the date set forth on the cover page, is entered into by and between the borrowers named on the cover page (each individually, a "Borrower", and, collectively, the "Borrowers"), whose address is set forth on the cover page and FINOVA CAPITAL CORPORATION ("FINOVA"), whose address is 355 South Grand Avenue, Los Angeles, California 90071.

1. DEFINITIONS.

1.1 Defined Terms. As used in this Agreement, the following terms have the definitions set forth below:

"ADA" has the meaning set forth in Section 4.1(aa) hereof.

"Additional Sums" has the meaning set forth in Section 2.9(a) hereof.

"Affiliate" means any Person controlling, controlled by or under common control with any Borrower. For purposes of this definition, "control" means the possession, directly or indirectly, of the power to direct or cause direction of the management and policies of any Person, whether through ownership of common or preferred stock or other equity interests, by contract or otherwise. Without limiting the generality of the foregoing, each of the following shall be an Affiliate: any officer or director of any Borrower, any subsidiary of any Borrower, any other Person with whom or which any Borrower has common officers or directors, any Person that owns more than five percent (5%) of the voting stock of any Borrower (an "affiliate stockholder"), and any Person in which an affiliate stockholder owns more than five percent (5%) of the voting stock.

"Agreement" has the meaning set forth in the preamble.

"Applicable Usury Law" has the meaning set forth in Section 2.9(b) hereof.

"Blocked Account" has the meaning set forth in Section 2.10(c) hereof.

"Business Day" means any day on which commercial banks in both Los Angeles, California and Phoenix, Arizona are open for business.

"Capital Expenditures" means all expenditures made and liabilities incurred for the acquisition of any fixed asset or improvement, replacement, substitution or addition thereto which has a useful life of more than one year and including, without limitation, those arising in connection with Capital Leases.

"Capital Lease" means any lease of property by a Borrower that, in accordance with GAAP, should be capitalized for financial reporting purposes and reflected as a liability on the balance sheet of such Borrower.

"Cash Dominion Event" means (i) with respect to a Blocked Account containing proceeds of Receivables attributable to the PEO Business, the occurrence and continuation of an Event of Default described in Section 7.1(a), 7.1(b) (with respect to a breach of Section 2.10, 3.8, 6.1.13, 6.2.1, 6.2.2, 6.2.3, 6.2.5, 6.2.8, 6.2.11, 6.2.12, or 9.1 (b)), or 7.1(c) through 7.1(j) or (ii) with respect to a Blocked Account not containing proceeds of Receivables attributable to the PEO Business, either (A) the occurrence and continuation of an Event of Default or (B) the passage of five (5) days after FINOVA gives written notice to DSI that FINOVA has determined, in its Permitted Discretion, that the transfer of Receivables collections to FINOVA is advisable to protect FINOVA's rights and remedies and FINOVA intends to instruct the bank maintaining the Blocked Account to transfer funds in the Blocked Account only to FINOVA.

"Change of Control" means (i) a "person" or a "group" (within the meaning of Sections 13(d) and 14(d)(ii) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) becomes the ultimate "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act) of more than 30% of the total voting power of the voting stock of DSI on a fully diluted basis or (ii) a majority of the Board of Directors of DSI then in office shall not consist of individuals who on the Closing Date constitute the Board of Directors of DSI, or new directors whose election, or whose nomination for election by stockholders, was approved by at least two thirds of the members of the Board of Directors then in office who were either members of the Board of Directors on the Closing Date or whose election or nomination was previously so approved.

"Closing Fee" has the meaning set forth in the Schedule.

"Closing Date" means the date of the initial advance made by FINOVA pursuant to this Agreement.

"Code" means the Uniform Commercial Code as adopted and in effect in the State of Arizona from time to time.

"Collateral" has the meaning set forth in Section 3.1 hereof.

"Current Assets" at any date means the amount at which the current assets of DSI and its subsidiaries would be shown on a consolidated balance sheet of DSI and its subsidiaries as at such date, prepared in accordance with

GAAP, provided that amounts due from Affiliates and investments in Affiliates shall be excluded therefrom.

"Current Liabilities" at any date means the amount at which the current liabilities of DSI and its subsidiaries would be shown on a consolidated balance sheet of DSI and its subsidiaries as at such date, prepared in accordance with GAAP.

"Deposit Accounts" has the meaning set forth in Section 9105 of the Code.

"Dominion Account" has the meaning set forth in Section 2.10(c) hereof.

"DSI" means Digital Solutions, Inc., a New Jersey corporation.

"Eligible Receivables" of a Borrower means Receivables of such Borrower arising in the ordinary course of such Borrower's business from the sale of goods or rendition of services, which FINOVA, in its Permitted Discretion, shall deem eligible based on such considerations as FINOVA may from time to time deem appropriate. Without limiting the foregoing, a Receivable shall not be deemed to be an Eligible Receivable if (i) the account debtor has failed to pay the Receivable within a period of sixty (60) days after invoice date, to the extent of any amount remaining unpaid after such period; (ii) the account debtor has failed to pay more than 25% of all outstanding Receivables owed by it to any Borrower within sixty (60) days after invoice date; (iii) the account debtor is an Affiliate of any Borrower; (iv) the services relating thereto are sold on terms pursuant to which payment by the account debtor may be conditional; (v) the account debtor is not located in the United States, unless the Receivable is supported by a letter of credit or other form of guaranty or security, in each case in form and substance satisfactory to FINOVA; (vi) the account debtor is the United States or any department, agency or instrumentality thereof, unless the applicable Borrower has complied with the Federal Assignment of Claims Act with respect to such Receivable, or the account debtor is any state, city or municipality of the United States, or any department, agency, or instrumentability thereof, if any action other than pursuant to the Uniform Commercial Code is required to perfect FINOVA's security interest in such Receivable, unless such action has been taken to the satisfaction of FINOVA; (vii) any Borrower is or may become liable to the account debtor for goods sold or services rendered by the account debtor to any Borrower; (viii) the account debtor's total obligations to any Borrower exceed 15% of all Eligible Receivables of such Borrower, to the extent of such excess; (ix) the account debtor disputes liability or makes any claim with respect thereto (up to the amount of such liability or claim), or is subject to any insolvency or bankruptcy proceeding, or becomes insolvent, fails or goes out of a material portion of its business; (x) the amount thereof consists of late charges or finance charges; (xi) the amount thereof consists of a credit balance more than sixty (60) days past due; (xii) the face amount thereof exceeds $20,000, unless accompanied by evidence of the performance of the services relating thereto satisfactory to FINOVA in its Permitted Discretion; (xiii) the invoice constitutes a progress billing on a project not yet completed, except that the final billing at such time as the matter has been completed may be deemed an Eligible Receivable; (xiv) the amount thereof is not yet represented by an invoice or bill issued in the name of the applicable account debtor; (xv) the Receivable relates to or arises from the PEO Business; or (xiv) the Receivable represents amounts subject to any lien, security interest or other encumbrance (except solely in favor of FINOVA), any trust or fiduciary obligation, or any claim of beneficial right or interest of any third party, to the extent of the amount so subject, as determined by FINOVA in its Permitted Discretion.

"Equipment" means all of a Borrower's present and hereafter acquired machinery, molds, machine tools, motors, furniture, equipment, furnishings, fixtures, trade fixtures, motor vehicles, tools, parts, dyes, jigs, goods and other tangible personal property (other than Inventory) of every kind and description used in such Borrower's operations (to the extent of such Borrower's interest therein) or owned by such Borrower and any interest in any of the foregoing, and all attachments, accessories, accessions, replacements, substitutions, additions or improvements to any of the foregoing, wherever located.

"ERISA" means the Employment Retirement Income Security Act of 1974, as amended, and the regulations thereunder.

"ERISA Affiliate" means each trade or business (whether or not incorporated and whether or not foreign) which is or may hereafter become a member of a group of which any Borrower is a member and which is treated as a single employer under ERISA Section 4001(b)(1), or IRC Section 414.

"Event of Default" means any of the events set forth in Section 7.1 of this Agreement.

"Examination Fee" has the meaning set forth in the Schedule.

"Excess Availability" means, as of the date of determination thereof, the amount by which the average daily total principal balance of the Revolving Credit Loans facility which Borrower would be permitted to have outstanding over the prior 30 days, based on the formulas and reserves set forth in the Schedule, plus cash on hand (determined in a manner acceptable to FINOVA) exceeds the sum of the Revolving Credit Loans then actually outstanding, such excess then being

reduced by an amount necessary to provide for the payment of all accounts payable of Borrower which are more than 30 days past due date and all book overdrafts (excluding overdrafts attributable to the PEO Business which are expected to be funded by customer transfers or payments within three (3) days after such overdraft is created).

"Excess Cash Flow" means Operating Cash Flow/Permitted less Total Contractual Debt Service.

"FINOVA Affiliate" has the meaning set forth in Section 9.22 hereof.

"GAAP" means generally accepted accounting principles in the United States of America as in effect from time to time as set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and the statements and pronouncements of the Financial Accounting Standards Boards which are applicable to the circumstances as of the date of determination consistently applied, except that, for the financial covenants set forth in this Agreement, GAAP shall be determined on the basis of such principles in effect on the date hereof and consistent with those used in the preparation of the audited financial statements delivered to Lender prior to the date hereof.

"General Intangibles" means all general intangibles of a Borrower, whether now owned or hereafter created or acquired by such Borrower, including, without limitation, all choses in action, causes of action, corporate or other business records, Deposit Accounts, inventions, designs, drawings, blueprints, Trademarks, Licenses and Patents, names, trade secrets, goodwill, copyrights, registrations, licenses, franchises, customer lists, security and other deposits, rights in all litigation presently or hereafter pending for any cause or claim (whether in contract, tort or otherwise), and all judgments now or hereafter arising therefrom, all claims of Borrower against FINOVA, rights to purchase or sell real or personal property, rights as a licensor or licensee of any kind, royalties, telephone numbers, proprietary information, purchase orders, and all insurance policies and claims (including without limitation credit, liability, property and other insurance) tax refunds and claims, computer programs, discs, tapes and tape files, claims under guaranties, security interests or other security held by or granted to Borrower to secure payment of any of the Receivables by an account debtor, all rights to indemnification and all other intangible property of every kind and nature (other than Receivables).

"Guarantor(s)" has the meaning set forth in the Schedule.

"Indebtedness for Borrowed Money" means all of a Borrower's present and future obligations, liabilities, debts, claims and indebtedness, contingent, fixed or otherwise, however evidenced, created, incurred, acquired, owing or arising, whether under written or oral agreement, operation of law or otherwise: (i) in respect of borrowed money (including, without limitation, pursuant to the Loan Documents or Capital Leases); (ii) evidenced by a note, debenture, or similar instrument (including, without limitation, all interest on the Obligations); (iii) for the deferred purchase price of property (other than trade payables arising in the ordinary course of business); or (iv) in respect of obligations under conditional sales or other title retention agreements; and all guaranties of any or all of the foregoing; provided, however, that Indebtedness for Borrowed Money shall not include leases that are not Capital Leases.

"Initial Term" has the meaning set forth on the Schedule.

"Inventory" means all of a Borrower's now owned and hereafter acquired goods, merchandise or other personal property, wherever located, to be furnished under any contract of service or held for sale or lease, all raw materials, work in process, finished goods and materials and supplies of any kind, nature or description which are or might be used or consumed in such Borrower's business or used in connection with the manufacture, packing, shipping, advertising, selling or finishing of such goods, merchandise or other personal property, and all documents of title or other documents representing them.

"IRC" means the Internal Revenue Code of 1986, as amended, and the regulations thereunder.

"L/C Fee" has the meaning set forth in Section 2.4 hereof.

"Letters of Credit" has the meaning set forth in Section 2.4. hereof.

"Loans" has the meaning set forth in Section 2.2 hereof.

"Loan Documents" means, collectively, this Agreement, any note or notes executed by any Borrower and payable to FINOVA, and any other present or future agreement entered into in connection with this Agreement, together with all alterations, amendments, changes, extensions, modifications, refinancings, refundings, renewals, replacements, restatements, or supplements, of or to any of the foregoing.

"Loan Party" means each Borrower, each Guarantor, and each other party (other than FINOVA) to any Loan Document.

"Loan Reserves" means, as of any date of determination, such amounts as FINOVA may from time to

time establish and revise in good faith reducing the amount of the facility for Revolving Credit Loans which would otherwise be available to Borrower under the lending formula(s) provided in the Schedule: (a) to reflect events, conditions, contingencies or risks which, as determined by FINOVA in good faith, do or may affect either (i) the Collateral or any other property which is security for the Obligations or its value, (ii) the assets, business or prospects of any Borrower or any Guarantor or (iii) the security interests and other rights of FINOVA in the Collateral (including the enforceability, perfection and priority thereof) or (b) to reflect FINOVA's good faith belief that any collateral report or financial information furnished by or on behalf of any Borrower or any Guarantor to FINOVA is or may have been incomplete, inaccurate or misleading in any material respect or (c) in respect of any state of facts which FINOVA determines in good faith constitutes an Event of Default or may, with notice or passage of time or both, constitute an Event of Default.

"Loan Year" means each twelve month period commencing on the Closing Date.

"Maximum Interest Rate" has the meaning set forth in Section 2.9(c) hereof.

"Multiemployer Plan" means a "multiemployer plan" as defined in ERISA Sections 3(37) or 4001(a)(3) or IRC Section 414(f) which covers employees of any Borrower or any ERISA Affiliate.

"Net Worth" at any date means the net worth of DSI and its subsidiaries as determined on a consolidated basis in accordance with GAAP.

"Obligations" means all present and future loans, advances, debts, liabilities, obligations, covenants, duties and indebtedness at any time owing by any Borrower to FINOVA, whether evidenced by this Agreement, any note or other instrument or document, whether arising from an extension of credit, opening of a letter of credit, banker's acceptance, loan, guaranty, indemnification or otherwise, whether direct or indirect (including, without limitation, those acquired by assignment and any participation by FINOVA in any Borrower's debts owing to others), absolute or contingent, due or to become due, including, without limitation, all interest, charges, expenses, fees, attorney's fees, expert witness fees, Examination Fee, letter of credit fees, Closing Fee, Termination Fee, Success Fee, and any other sums chargeable to Borrower hereunder or under any other agreement with FINOVA.

"Operating Cash Flow/Actual" means, for any period net income or loss of DSI and its subsidiaries (excluding the effect of any gains or losses classified as extraordinary under GAAP), determined on a consolidated basis in accordance with GAAP, plus or minus each of the following items, to the extent deducted from or added to the revenues in the calculation of such net income or loss: (i) depreciation; (ii) amortization and other non-cash charges; (iii) interest expense and financing fees (including, without limitation, the Success Fee, the Unused Line Fee, the L/C Fee, and the Examination Fee) paid or accrued; and (iv) total federal and state income tax expense determined as the accrued liability of DSI and its subsidiaries in respect of such period, regardless of what portion of such expense has actually been paid by any of DSI and its subsidiaries during such period; and after deduction for each of (a) federal and state income taxes, to the extent actually paid during such period; (b) any non-cash income; and (c) all actual Capital Expenditures made during such period.

"Operating Cash Flow/Permitted" means, for any period, net income or loss of DSI and its subsidiaries (excluding the effect of any gains or losses classified as extraordinary under GAAP), determined on a consolidated basis in accordance with GAAP, plus or minus each of the following items, to the extent deducted from or added to the revenues of DSI and its subsidiaries in the calculation of net income or loss: (i) depreciation; (ii) amortization and other non-cash charges; (iii) interest expense and financing fees (including, without limitation, the Success Fee, the Unused Line Fee, the L/C Fee, and the Examination Fee) paid or accrued; and (iv) total federal and state income tax expense determined as the accrued liability of DSI and its subsidiaries in respect of such period, regardless of what portion of such expense has actually been paid by any of DSI and its subsidiaries during such period; and after deduction for each of (a) federal and state income taxes, to the extent actually paid during such period; (b) any non-cash income; and (c) all Capital Expenditures permitted hereunder (without regard to any waiver given by FINOVA with respect to any limitation on such Capital Expenditures) actually made during such period.

"Overadvance" has the meaning set forth in Section 2.3.

"Overline" has the meaning set forth in Section 2.3.

"PBGC" means the Pension Benefit Guarantee Corporation.

"PEO Business" means the professional employer organization, or "employee leasing", line of business of Borrowers pursuant to which Borrowers assume the employer responsibilities and obligations with respect a customer's workforce and provide the services of such workforce to the customer on a contractual basis.

"Permitted Discretion" means FINOVA's judgment exercised in good faith based upon its consideration of any factor which FINOVA believes in good faith: (i) will or could

materially, adversely affect the value of any Collateral, the enforceability or priority of FINOVA's liens thereon or the amount which FINOVA would be likely to receive (after giving consideration to delays in payment and costs of enforcement) in the liquidation of such Collateral; (ii) suggests that any collateral report or financial information delivered to FINOVA by any Person on behalf of any Borrower is incomplete, inaccurate or misleading in any material respect; (iii) materially increases the likelihood of a bankruptcy, reorganization or other insolvency proceeding involving any Borrower, any other Loan Party or any of the Collateral, or (iv) creates or reasonably could be expected to create an Event of Default. In exercising such judgment, FINOVA may consider such factors already included in or tested by the definition of Eligible Receivables as well as any of the following: (i) the financial and business climate of the Borrowers' industry and general macroeconomic conditions, (ii) changes in collection history and dilution with respect to the Receivables, (iii) changes in demand for, and pricing of, Borrowers' services, (iv) changes in any concentration of risk with respect to Receivables, and (v) any other factors that change the credit risk of lending to the Borrowers on the security of the Receivables or on the basis of the Borrowers' cash flow. The burden of establishing lack of good faith hereunder shall be on the Borrowers.

"Permitted Encumbrance" means each of the liens, mortgages and other security interests set forth on the Schedule.

"Person" means any individual, sole proprietorship, partnership, joint venture, trust, unincorporated organization, association, corporation, limited liability company, government, or any agency or political division thereof, or any other entity.

"Plan" means any plan described in ERISA Section 3(2) maintained for employees of any Borrower or any ERISA Affiliate, other than a Multiemployer Plan.

"Prepared Financials" means the consolidated balance sheets of DSI and its subsidiaries of the date set forth in the Schedule in the section entitled 'Reporting Requirements', and as of each subsequent date on which audited balance sheets are delivered to FINOVA from time to time hereunder, and the related statements of operations, changes in stockholder's equity and changes in cash flow for the periods ended on such dates.

"Prime Rate" has the meaning set forth in the Schedule.

"Prohibited Transaction" means any transaction described in Section 406 of ERISA which is not exempt by reason of Section 408 of ERISA, and any transaction described in Section 4975(c) of the IRC which is not exempt by reason of Section 4975(c)(2) of the IRC.

"Receivables" means all of a Borrower's now owned and hereafter acquired accounts (whether or not earned by performance), proceeds of any letters of credit naming such Borrower as beneficiary, contract rights, chattel paper, instruments, documents and all other forms of obligations at any time owing to such Borrower, all guaranties and other security therefor, whether secured or unsecured, all merchandise returned to or repossessed by such Borrower, and all rights of stoppage in transit and all other rights or remedies of an unpaid vendor, lienor or secured party.

"Renewal Term" has the meaning set forth on the Schedule.

"Reportable Event" means a reportable event described in Section 4043 of ERISA or the regulations thereunder, a withdrawal from a Plan described in Section 4063 of ERISA, or a cessation of operations described in Section 4068(f) of ERISA.

"Revolving Credit Loans" has the meaning set forth in the Schedule.

"Revolving Credit Limit" has the meaning set forth in the Schedule.

"Revolving Interest Rate" has the meaning set forth in the Schedule.

"Schedule" has the meaning set forth in the preamble.

"Start Date" has the meaning set forth in the Schedule.

"Success Fee" has the meaning set forth in the Schedule.

"Term Loan" has the meaning set forth in the Schedule.

"Termination Fee" has the meaning set forth in Section 9.2(d) hereof.

"Total Contractual Debt Service" means, for any period, the sum of payments made or required to be made by the Borrowers during such period for (i) interest and scheduled principal payments due on the Term Loan (excluding voluntary prepayment and payments made from Excess Cash Flow, as required pursuant to the Schedule), (ii) interest payments due on the Revolving Credit Loans plus the Unused Line Fee, the Success Fee, the L/C Fee, and the Examination Fee, and any other fees due to FINOVA, and (iii) interest and

scheduled principal payments due or any other Indebtedness for Borrowed Money of Borrower.

"Total Facility" has the meaning set forth in Section 2.1 hereof.

"Trademarks, Copyrights, Licenses and Patents" means all of a Borrower's right, title and interest in and to, whether now owned or hereafter acquired: (i) trademarks, trademark registrations, trade names, trade name registrations, and trademark or trade name applications, including without limitation such as are listed on the Schedule, as the same may be amended from time to time, and (a) renewals thereof, (b) all income, royalties, damages and payments now and hereafter due and/or payable with respect thereto, including without limitation, damages and payments for past or future infringements thereof, (c) the right to sue for past, present and future infringements thereof, (d) all rights corresponding thereto throughout the world, and (e) the goodwill of the businesses operated by any or all of the Borrowers connected with and symbolized by any trademarks or trade names; (ii) copyrights, copyright registrations and copyright applications, including without limitation such as are listed on the Schedule, as the same may be amended from time to time, and (a) renewals thereof, (b) all income, royalties, damages and payments now and hereafter due and/or payable with respect thereto, including without limitation, damages and payments for past or future infringements thereof, (c) the right to sue for past, present and future infringements thereof, and (d) all rights corresponding thereto throughout the world; (iii) license agreements, including without limitation such as are listed on the Schedule, and the right to prepare for sale, sell and advertise for sale any services or any Inventory now or hereafter owned by any Borrower and now or hereafter covered by such licenses; and (iv) patents and patent applications, registered or pending, including without limitation such as are listed on the Schedule, together with all income, royalties, shop rights, damages and payments thereto, the right to sue for infringements thereof, and all rights thereto throughout the world and all reissues, divisions, continuations, renewals, extensions and continuations-in-part thereof.

"Unused Line Fee" has the meaning set forth in the Schedule.

1.2 Other Terms. All accounting terms used in this Agreement, unless otherwise indicated, shall have the meanings given to such terms in accordance with GAAP. All other terms contained in this Agreement, unless otherwise indicated, shall have the meanings provided by the Code, to the extent such terms are defined therein.

2. LOANS; INTEREST RATE AND OTHER CHARGES.

2.1 Total Facility. Upon the terms and conditions set forth herein and provided that no Event of Default or event which, with the giving of notice or the passage of time, or both, would constitute an Event of Default, shall have occurred and be continuing, FINOVA shall, upon DSI's request on behalf of the Borrowers, make advances to Borrowers from time to time in an aggregate outstanding principal amount not to exceed the Total Facility amount (the "TOTAL FACILITY") set forth on the Schedule hereto, subject to deduction of reserves for accrued interest and such other reserves as FINOVA deems proper from time to time, and less amounts FINOVA may be obligated to pay in the future on behalf of any Borrower. The Schedule is an integral part of this Agreement and all references to "herein", "herewith" and words of similar import shall for all purposes be deemed to include the Schedule.

2.2 Loans. Advances under the Total Facility ("LOANS" and individually, a "LOAN") shall be comprised of the amounts shown on the Schedule.

2.3 Overlines; Overadvances. If at any time or for any reason the outstanding amount of advances (including all Letters of Credit) extended or issued pursuant hereto exceeds any of the dollar limitations ("OVERLINE") or percentage limitations ("OVERADVANCE") in the Schedule, then the Borrowers shall, jointly and severally, upon FINOVA's demand, immediately pay to FINOVA, in cash, the full amount of such Overline or Overadvance which, at FINOVA's option, may be applied to reduce the outstanding principal balance of the Loans and/or cash collateralize all or any part of any outstanding Letters of Credit. Without limiting Borrowers' obligation to repay to FINOVA on demand the amount of any Overline or Overadvance, each Borrower jointly and severally agrees to pay FINOVA interest on the outstanding principal amount of any Overline or Overadvance, on demand, at the rate set forth on the Schedule and applicable to the Revolving Credit Loans.

2.4 Letters of Credit. At the request of DSI on behalf of Borrowers, FINOVA may, in its Permitted Discretion, arrange for the issuance of letter of credit for the account of Borrowers and guarantees of payment of such letters of credit, in each case in form and substance satisfactory to FINOVA in its sole discretion (collectively, "LETTERS OF CREDIT"). The aggregate face amount of all outstanding Letters of Credit from time to time shall not exceed the amount shown on the Schedule, and shall be reserved against the availability of Revolving Credit Loans. Borrowers shall jointly and severally pay all bank charges for the issuance of Letters of Credit, together with an additional fee to FINOVA equal to the percentage set forth on the Schedule of the aggregate face amount of each Letter of Credit outstanding from time to time during the term of this Agreement (the "L/C FEE"). The L/C Fee shall be deemed to be fully earned upon the issuance of each Letter of Credit and

shall be due and payable on the first Business Day of each month following a month during which any Letter of Credit is outstanding. Any advance by FINOVA under or in connection with a Letter of Credit shall constitute an Obligation hereunder. Each Letter of Credit shall have an expiry date no later than thirty (30) days prior to the last day of the Initial Term or, if issued during any Renewal Term no later than thirty (30) days prior to the last day of such Renewal Term. Immediately upon any termination of this Agreement, Borrowers shall either: (i) provide cash collateral to FINOVA in an amount equal to 105% of the maximum amount of FINOVA's obligations under or in connection with all then outstanding Letters of Credit, or (ii) cause to be delivered to FINOVA releases of all FINOVA's obligations under outstanding Letters of Credit. At FINOVA's discretion, any proceeds of Collateral received by FINOVA may be held as the cash collateral required by this Section 2.4. Each Borrower hereby agrees jointly and severally to indemnify, save, and hold FINOVA harmless from any loss, cost, expense, or liability, including payments made by FINOVA, expenses, and reasonable attorneys' fees incurred by FINOVA arising out of or in connection with any Letters of Credit. Each Borrower agrees to be bound by the issuing bank's regulations and interpretations of any Letters of Credit guarantied by FINOVA and opened for a Borrower's account or by FINOVA's interpretations of any Letter of Credit issued by FINOVA for a Borrower's account, and each Borrower understands and agrees that FINOVA shall not be liable for any error, negligence, or mistake, whether of omission or commission, in following any Borrower's instructions or those contained in the Letters of Credit or any modifications, amendments, or supplements thereto. Each Borrower understands that FINOVA may indemnify the bank issuing a Letter of Credit for certain costs or liabilities arising out of claims by a Borrower against such issuing bank. Each Borrower hereby agrees jointly and severally to indemnify and hold FINOVA harmless with respect to any loss, cost, expense, or liability incurred by FINOVA under any such indemnification by FINOVA to any issuing bank.

2.5 Loan Account. All advances made hereunder (including without limitation all advances made by FINOVA under or in connection with any Letter of Credit) shall be added to and deemed part of the Obligations when made. FINOVA may from time to time charge all Obligations of Borrower to such Borrower's loan account with FINOVA.

2.6 Interest; Fees. Borrower shall jointly and severally pay FINOVA interest on the daily outstanding balance of the Obligations at the per annum rates set forth on the Schedule. Borrowers shall also jointly and severally pay FINOVA the fees set forth on the Schedule.

2.7 Default Interest Rate. Upon the occurrence and during the continuation of an Event of Default, Borrowers shall jointly and severally pay FINOVA interest on the daily outstanding balance of the Obligations and any L/C Fee at a rate per annum which is two percent (2%) in excess of the rate which would otherwise be applicable thereto pursuant to the Schedule.

2.8 Examination Fee. Borrowers agrees to pay jointly and severally to FINOVA the Examination Fee in the amount set forth on the Schedule in connection with each audit or examination of Borrowers performed by FINOVA prior to or after the date hereof. Without limiting the generality of the foregoing, Borrowers shall jointly and severally pay to FINOVA an initial Examination Fee in an amount equal to the amount set forth on the Schedule. Such initial Examination Fee shall be deemed fully earned at the time of payment and due and payable upon the closing of this transaction, and shall be deducted from any good faith deposit paid by Borrowers to FINOVA prior to the date of this Agreement.

2.9 Excess Interest.

(a) The contracted for rates of interest of the loans contemplated hereby, without limitation, shall consist of the following: (i) the interest rates set forth on the Schedule, calculated and applied to the principal balance of the Obligations in accordance with the provisions of this Agreement; (ii) interest after an Event of Default, calculated and applied to the amount of the Obligations in accordance with the provisions hereof; and (iii) all Additional Sums (as herein defined), if any. Each Borrower agrees to pay an effective contracted for rate of interest which is the sum of the above-referenced elements. The Examination Fee, attorneys fees, expert witness fees, letter of credit fees, Closing Fee, Termination Fee, Success Fee, other charges, goods, things in action or any other sums or things of value paid or payable by Borrower (collectively, the "ADDITIONAL SUMS"), whether pursuant to this Agreement or any other documents or instruments in any way pertaining to this lending transaction, or otherwise with respect to this lending transaction, that under any applicable law may be deemed to be interest with respect to this lending transaction, for the purpose of any applicable law that may limit the maximum amount of interest to be charged with respect to this lending transaction, shall be payable by Borrowers as, and shall be deemed to be, additional interest and for such purposes only, the agreed upon and "contracted for rate of interest" of this lending transaction shall be deemed to be increased by the rate of interest resulting from the inclusion of the Additional Sums.

(b) It is the intent of the parties to comply with the usury laws of the State of Arizona (the "APPLICABLE USURY LAW"). Accordingly, it is agreed that notwithstanding any provisions to the contrary in this Agreement, or in any of the documents securing payment hereof or otherwise relating hereto, in no event shall this Agreement or such documents require the payment or permit the collection of interest in

excess of the maximum contract rate permitted by the Applicable Usury Law (the "MAXIMUM INTEREST RATE"). In the event (a) any such excess of interest otherwise would be contracted for, charged or received from Borrowers or otherwise in connection with the loans evidenced hereby, or (b) the maturity of the Obligations is accelerated in whole or in part, or (c) all or part of the Obligations shall be prepaid, so that under any of such circumstances the amount of interest contracted for, charged or received in connection with the loans evidenced hereby, would exceed the Maximum Interest Rate, then in any such event (1) the provisions of this paragraph shall govern and control, (2) neither the Borrowers nor any other Person now or hereafter liable for the payment of the Obligations shall be obligated to pay the amount of such interest to the extent that it is in excess of the Maximum Interest Rate, (3) any such excess which may have been collected shall be either applied as a credit against the then unpaid principal amount of the Obligations or refunded to Borrowers, at FINOVA's option, and (4) the effective rate of interest shall be automatically reduced to the Maximum Interest Rate. It is further agreed, without limiting the generality of the foregoing, that to the extent permitted by the Applicable Usury Law; (x) all calculations of interest which are made for the purpose of determining whether such rate would exceed the Maximum Interest Rate shall be made by amortizing, prorating, allocating and spreading during the period of the full stated term of the loans evidenced hereby, all interest at any time contracted for, charged or received from Borrowers or otherwise in connection with such loan; and (y) in the event that the effective rate of interest on the loan should at any time exceed the Maximum Interest Rate, such excess interest that would otherwise have been collected had there been no ceiling imposed by the Applicable Usury Law shall be paid to FINOVA from time to time, if and when the effective interest rate on the loan otherwise falls below the Maximum Interest Rate, to the extent that interest paid to the date of calculation does not exceed the Maximum Interest Rate, until the entire amount of interest which would otherwise have been collected had there been no ceiling imposed by the Applicable Usury Law has been paid in full. Each Borrower further agrees that should the Maximum Interest Rate be increased at any time hereafter because of a change in the Applicable Usury Law, then to the extent not prohibited by the Applicable Usury Law, such increases shall apply to all indebtedness evidenced hereby regardless of when incurred; but, again to the extent not prohibited by the Applicable Usury Law, should the Maximum Interest Rate be decreased because of a change in the Applicable Usury Law, such decreases shall not apply to the indebtedness evidenced hereby regardless of when incurred.

2.10 Principal Payments; Proceeds of Collateral.

(a) Principal Payments. Except where evidenced by notes or other instruments issued or made by a Borrower to FINOVA specifically containing payment provisions which are in conflict with this Section 2.10 (in which event the conflicting provisions of said notes or other instruments shall govern and control), that portion of the Obligations consisting of principal payable on account of Loans shall be payable jointly and severally by Borrowers to FINOVA immediately upon the earliest of (i) the receipt by FINOVA or Borrowers of any proceeds of any of the Collateral, to the extent of said proceeds during any period when funds in a Blocked Account or Dominion Account are being transferred to FINOVA in accordance with subsections (b) and (c) below, (ii) the occurrence of an Event of Default in consequence of which FINOVA elects to accelerate the maturity and payment of such loans, or (iii) any termination of this Agreement pursuant to Section 9.2 hereof; provided, however, that any Overadvance or Overline shall be payable on demand pursuant to the provisions of Section 2.3 hereof.

(b) Collections. Until FINOVA notifies Borrowers to the contrary, Borrowers may make collection of all Receivables for FINOVA and shall receive all such payments or sums as trustee of FINOVA and immediately cause all such payments or sums to be deposited into a Blocked Account. No borrower shall commingle collections of Receivables attributable to the PEO Business with collections of any other Collateral. Whenever an Event of Default has occurred and is continuing, FINOVA or its designee may, at any time, notify account debtors that the Receivables have been assigned to FINOVA and of FINOVA's security interest therein, and may collect the Receivables directly and charge the collection costs and expenses to Borrowers' loan accounts. Each Borrower agrees that, in computing the charges under this Agreement, all items of payment shall be deemed applied by FINOVA on account of the Obligations on the Business Day of receipt by FINOVA of good funds which have been finally credited to FINOVA's account, whether such funds are received directly from a Borrower or from the Blocked Account bank, pursuant to Section 2.10(c) hereof, and this provision shall apply regardless of the amount of the Obligations outstanding or whether any Obligations are outstanding; provided, that if any such good funds are received after 12:00 p.m. noon (Los Angeles time) on any Business Day or at any time on any day not constituting a Business Day, such funds shall be deemed received on the immediately following Business Day. FINOVA is not, however, required to credit any Borrower's account for the amount of any item of payment which is unsatisfactory to FINOVA in its Permitted Discretion and FINOVA may charge the applicable Borrower's loan account for the amount of any item of payment which is returned to FINOVA unpaid.

(c) Establishment of a Blocked Account or Dominion Account. Unless each Borrower shall be otherwise directed by FINOVA in writing, each Borrower shall cause all proceeds of Collateral to be deposited into or such "blocked accounts" as FINOVA may require (each, a "BLOCKED ACCOUNT") pursuant to an arrangement with such bank as may

be selected by Borrowers and be acceptable to FINOVA. Unless otherwise provided herein, all proceeds in the Blocked Accounts shall be available to Borrowers in accordance with the regulations of such bank for use in the ordinary course of business. If a Cash Dominion Event has occurred and is continuing, then upon written notice from FINOVA to the bank maintaining a Blocked Account all proceeds in such Blocked Account shall be transferred on a regular basis in immediately available funds only to FINOVA or for its account as FINOVA may direct, and applied in payment of the Obligations in such order as FINOVA determines in its sole discretion. Each Borrower shall issue to any such bank an irrevocable letter of instruction directing said bank to make available or transfer such funds so deposited as provided in the immediately preceding sentence. All funds deposited in a Blocked Account shall be at all times subject to FINOVA's security interest and Borrowers shall obtain the agreement by such bank to waive any offset rights against the funds so deposited. FINOVA assumes no responsibility for any Blocked Account arrangement, including without limitation, any claim of accord and satisfaction or release with respect to deposits accepted by any bank thereunder. Alternatively, if a Cash Dominion Event described in clause (i) or (ii) (A) of the definition thereof has occurred and is continuing, FINOVA may establish depository accounts in the name of FINOVA at a bank or banks for the deposit of such funds (each, a "DOMINION ACCOUNT") and each Borrower shall deposit all proceeds of Receivables and all cash proceeds of any sale, to the extent permitted herein, of Equipment or cause same to be deposited, in kind, in such Dominion Accounts of FINOVA in lieu of depositing same to Blocked Accounts, and, unless otherwise provided herein, all such funds shall be applied by FINOVA to the Obligations in such order as FINOVA determines in its sole discretion.

(d) Payments Without Deductions. Each Borrower shall pay principal, interest, and all other amounts payable hereunder, or under any other Loan Document, without any deduction whatsoever, including, but not limited to, any deduction for any setoff or counterclaim.

(e) Collection Days Upon Repayment. In the event any Borrower repays the Obligations in full at any time hereafter, such payment in full shall be credited (conditioned upon final collection) to such Borrower's loan account on the Business Day of FINOVA's receipt thereof, determined in accordance with Section 2.10(b).

(f) Monthly Accountings. FINOVA shall provide Borrowers monthly with an account of advances, charges, expenses and payments made pursuant to this Agreement. Such account shall be deemed correct, accurate and binding on Borrowers and an account stated (except for reverses and reapplications of payments made and corrections of errors discovered by FINOVA), unless DSI notifies FINOVA in writing to the contrary within thirty (30) days after each account is rendered, describing the nature of any alleged errors or admissions.

2.11 Application of Collateral. Except as otherwise provided herein, FINOVA shall have the continuing and exclusive right to apply or reverse and re-apply any and all payments to any portion of the Obligations in such order and manner as FINOVA shall determine in its sole discretion; provided, however, that so long as no Event of Default has occurred and is continuing, any payment designated by Borrowers as being made in respect of principal of or interest on the Term Loan shall be applied as designated by Borrowers. To the extent that a Borrower makes a payment or FINOVA receives any payment or proceeds of the Collateral for any Borrower's benefit which is subsequently invalidated, declared to be fraudulent or preferential, set aside or required to be repaid to a trustee, debtor in possession, receiver or any other party under any bankruptcy law, common law or equitable cause, or otherwise, then, to such extent, all Obligations or part thereof intended to be satisfied shall be revived and continue as if such payment or proceeds had not been received by FINOVA.

2.12 Application of Payments. The amount of all payments or amounts received by FINOVA with respect to the Loans shall be applied to the extent applicable under this Agreement: (i) first, to accrued interest through the date of such payment, including any Default Interest; (ii) then, to any late fees, overdue risk assessments, Examination Fee and expenses, collection fees and expenses and any other fees and expenses due to FINOVA hereunder; and (iii) last, the remaining balance, if any, to the unpaid principal balance of the Loans; provided however, while an Event of Default exists under this Agreement, or under any other Loan Document, each payment hereunder shall be (x) held as cash collateral to secure Obligations relating to any Letters of Credit or other contingent obligations arising under the Loan Documents and/or (y) applied to amounts owed to FINOVA by Borrowers as FINOVA in its sole discretion may determine. In calculating interest and applying payments as set forth above: (a) interest shall be calculated and collected through the date a payment is actually applied by FINOVA under the terms of this Agreement; (b) interest on the outstanding balance shall be charged during any grace period permitted hereunder; (c) at the end of each month, all accrued and unpaid interest and other charges provided for hereunder shall be added to the principal balance of the Loan; and (d) to the extent that any Borrower makes a payment or FINOVA receives any payment or proceeds of the Collateral for such Borrower's benefit that is subsequently invalidated, set aside or required to be repaid to any other Person, then, to such extent, all Obligations to which such payment or proceeds were applied or intended to be applied shall be revived and continue as if such payment or proceeds had not been received by FINOVA, and FINOVA may adjust the Loan balances as FINOVA, in its reasonable

judgment, deems appropriate under the circumstances to reverse the effect of such application.

2.13 Notification of Closing. DSI shall provide FINOVA with at least forty-eight (48) hours prior written notice of the Closing Date, to enable FINOVA to arrange for the availability of funds. In the event the closing does not take place on the date specified in DSI's notice to FINOVA, other than through the fault of FINOVA, each Borrower agrees jointly and severally to reimburse FINOVA for FINOVA's costs to maintain the necessary funds available for the closing, at the Term Interest Rate with respect to the amount of the Term Loan, and at the Revolving Interest Rate with respect to an amount equal to the initial advance under the Revolving Credit Loans facility which is to be made on the Closing Date, for the number of days which elapse between the date specified in DSI's notice and the date upon which the closing actually occurs (which number of days shall not include the date specified in DSI's notice, but shall include the Closing Date).

3. SECURITY.

3.1 Security Interest in the Collateral. To secure the payment and performance of the Obligations when due, each Borrower hereby grants to FINOVA a first priority security interest (subject only to Permitted Encumbrances) in all of such Borrower's now owned or hereafter acquired or arising Inventory, Equipment, Receivables, life insurance policies and the proceeds thereof, Trademarks, Copyrights, Licenses and Patents, Investment Property (as defined in Section 9-115 of the Code) and General Intangibles, including, without limitation, all of such Borrower's Deposit Accounts, money, any and all property now or at any time hereafter in FINOVA's possession (including claims and credit balances), and all proceeds (including proceeds of any insurance policies, proceeds of proceeds and claims against third parties), all products and all books and records and computer data related to any of the foregoing (all of the foregoing, together with all other property in which FINOVA may be granted a lien or security interest, is referred to herein, collectively, as the "COLLATERAL").

3.2 Perfection and Protection of Security Interest. Each Borrower shall, at its expense, take all actions requested by FINOVA at any time to perfect, maintain, protect and enforce FINOVA's first priority security interest and other rights in the Collateral and the priority thereof from time to time, including, without limitation, (i) executing and filing financing or continuation statements and amendments thereof and executing and delivering such documents and titles in connection with motor vehicles as FINOVA shall require, all in form and substance satisfactory to FINOVA, (ii) maintaining a perpetual inventory and complete and accurate stock records, (iii) delivering to FINOVA warehouse receipts covering any portion of the Collateral located in warehouses and for which warehouse receipts are issued, and transferring Inventory to warehouses designated by FINOVA, (iv) placing notations on such Borrower's books of account to disclose FINOVA's security interest therein and (v) delivering to FINOVA all letters of credit on which such Borrower is named beneficiary. FINOVA may file, without any Borrower's signature, one or more financing statements disclosing FINOVA's security interest under this Agreement. Each Borrower agrees that a carbon, photographic, photostatic or other reproduction of this Agreement or of a financing statement is sufficient as a financing statement. If any Collateral is at any time in the possession or control of any warehouseman, bailee or any of a Borrower's agents or processors, the applicable Borrower shall notify such Person of FINOVA's security interest in such Collateral and, upon FINOVA's request, instruct them to hold all such Collateral for FINOVA's account subject to FINOVA's instructions. From time to time, each Borrower shall, upon FINOVA's request, execute and deliver confirmatory written instruments pledging the Collateral to FINOVA, but any Borrower's failure to do so shall not affect or limit FINOVA's security interest or other rights in and to the Collateral. Until the Obligations have been fully satisfied and FINOVA's obligation to make further advances hereunder has terminated, FINOVA's security interest in the Collateral shall continue in full force and effect.

3.3 Preservation of Collateral. FINOVA may, in its Permitted Discretion, at any time discharge any lien or encumbrance on the Collateral or bond the same, pay any insurance, maintain guards, pay any service bureau, obtain any record or take any other action to preserve the Collateral and charge the cost thereof to the applicable Borrower's loan account as an Obligation.

3.4 Insurance. Each Borrower will maintain and deliver evidence to FINOVA of such insurance as is required by FINOVA, written by insurers, in amounts, and with lender's loss payee, additional insured, and other endorsements, satisfactory to FINOVA. All premiums with respect to such insurance shall be paid by each Borrowers as and when due. Accurate and certified copies of the policies shall be delivered by each Borrower to FINOVA. If a Borrower fails to comply with this Section, FINOVA may (but shall not be required to) procure such insurance and endorsements at the Borrowers' expense and charge the cost thereof to the Borrowers' loan accounts as an Obligation.

3.5 Collateral Reporting; Inventory.

(a) Invoices. No Borrower shall re-date any invoice or sale from the original date thereof or make sales on extended terms beyond those customary in Borrowers' industry, or otherwise extend or modify the term of any Receivable. If a Borrower becomes aware of any matter materially affecting any Receivable, including information

affecting the credit of the account debtor thereon, such Borrower shall promptly notify FINOVA in writing.

(b) Instruments. In the event any Receivable is or becomes evidenced by a promissory note, trade acceptance or any other instrument for the payment of money, the applicable Borrower shall immediately deliver such instrument to FINOVA appropriately endorsed to FINOVA and, regardless of the form of any presentment, demand, notice of dishonor, protest and notice of protest with respect thereto, such Borrower shall remain liable thereon until such instrument is paid in full.

3.6 Receivables.

(a) Eligibility. (i) Each Borrower represents and warrants that each of its Receivables covers and shall cover a bona fide sale or lease and delivery by it of goods or the rendition by it of services in the ordinary course of its business, and shall be for a liquidated amount and FINOVA's security interest shall not be subject to any offset, deduction, counterclaim, rights of return or cancellation, lien or other condition. If any representation or warranty herein is breached as to any Receivable or any Receivable ceases to be an Eligible Receivable for any reason other than payment thereof, then FINOVA may, in addition to its other rights hereunder, designate any and all Receivables owing by that account debtor as not Eligible Receivables; provided, that FINOVA shall in any such event retain its security interest in all Receivables, whether or not Eligible Receivables, until the Obligations have been fully satisfied and FINOVA's obligation to provide loans hereunder has terminated.

(ii) FINOVA at any time shall be entitled to (i) establish and increase or decrease reserves against Eligible Receivables, (ii) reduce the advance rates in the Schedule or restore such advance rates to any level equal to or below the advance rates set forth in the Schedule or (iii) impose additional restrictions (or eliminate the same) to the standards of eligibility set forth in the definitions of "Eligible Receivables", in the exercise of its Permitted Discretion. FINOVA may but shall not be required to rely on the schedules and/or reports delivered to FINOVA in connection herewith in determining the then eligibility of Receivables. Reliance thereon by FINOVA from time to time shall not be deemed to limit the right of FINOVA to revise advance rates or standards of eligibility as provided above.

(b) Disputes. Each Borrower shall notify FINOVA promptly of all material disputes or claims and settle or adjust such disputes or claims at no expense to FINOVA, but no discount, credit or allowance shall be granted to any account debtor without FINOVA's consent, except for discounts, credits and allowances made or given in the ordinary course of a Borrower's business. FINOVA may, at any time after the occurrence of an Event of Default, settle or adjust disputes or claims directly with account debtors for amounts and upon terms which FINOVA considers advisable in its reasonable credit judgment and, in all cases, FINOVA shall credit Borrowers' loan accounts with only the net amounts received by FINOVA in payment of any Receivables.

3.7 Equipment. Each Borrower shall keep and maintain the Equipment in good operating condition and repair and make all necessary replacements thereto to maintain and preserve the value and operating efficiency thereof at all times consistent with Borrowers' past practice, ordinary wear and tear excepted. No Borrower shall permit any item of Equipment to become a fixture (other than a trade fixture) to real estate or an accession to other property.

3.8 Other Liens; No Disposition of Collateral. Each Borrower represents, warrants and covenants that except for FINOVA's security interest, Permitted Encumbrances, and such other liens, claims and encumbrances as may be permitted by FINOVA in its sole discretion from time to time in writing, (a) all Collateral is and shall continue to be owned by it free and clear of all liens, claims and encumbrances whatsoever and (b) no Borrower shall, without FINOVA's prior written approval, sell, encumber or dispose of or permit the sale, encumbrance or disposal of any Collateral or all or any substantial part of any of its other assets (or any interest of a Borrower therein). In the event FINOVA gives any such prior written approval with respect to any such sale of Collateral, the same may be conditioned on the sale price being equal to, or greater than, an amount acceptable to FINOVA. The proceeds of any such sales of Collateral shall be remitted to FINOVA pursuant to this Agreement for application to the Obligations.

3.9 Collateral Security. The Obligations shall constitute one loan secured by the Collateral. FINOVA may, in its sole discretion, in accordance with the Loan Documents and applicable law, (i) exchange, enforce, waive or release any of the Collateral, (ii) apply Collateral and direct the order or manner of sale thereof as it may determine, and (iii) settle, compromise, collect or otherwise liquidate any Collateral in any manner without affecting its right to take any other action with respect to any other Collateral.

4. CONDITIONS OF CLOSING.

4.1 Initial Advance. The obligation of FINOVA to make the initial advance hereunder or to issue or arrange for the issuance of the initial Letter of Credit hereunder is subject to the fulfillment, to the satisfaction of FINOVA and its counsel, of each of the following conditions on or prior to the date set forth on the Schedule:

(a) Loan Documents. FINOVA shall have received each of the following Loan Documents: (i) the

Agreement fully and properly executed by Borrower; (ii) a promissory note in such amounts and on such terms and conditions as FINOVA shall specify, executed by Borrower; (iii) Guaranties executed by each of the Guarantors and Support Agreement executed by the applicable parties; (iv) such security agreements, intellectual property assignments, pledge agreements, mortgages and deeds of trust as FINOVA may require with respect to this Agreement and any Guaranties, executed by each of the parties thereto and, if applicable, duly acknowledged for recording or filing in the appropriate governmental offices; (v) such Blocked Account agreements as it shall reasonably determine; and (vi) such other documents, instruments and agreements in connection herewith as FINOVA shall require, executed, certified and/or acknowledged by such parties as FINOVA shall designate;

(b) Minimum Excess Availability. Borrowers shall have Excess Availability under the Revolving Credit Loans facility of not less than the amount specified in the Schedule, after giving effect to the initial advance and the initial Letter of Credit hereunder and after giving effect to any applicable Loan Reserves against borrowing availability under the Revolving Credit Loans.

(c) Terminations by Existing Lender. Borrowers' existing lender shall have executed and delivered UCC termination statements and other documentation evidencing the termination of its liens and security interests in the assets of Borrowers;

(d) Charter Documents. FINOVA shall have received copies of each Borrower's By-laws and Articles or Certificate of Incorporation, as amended, modified, or supplemented to the Closing Date, certified by the Secretary of the applicable Borrower;

(e) Good Standing. FINOVA shall have received a certificate of corporate status with respect to each Borrower, dated within ten (10) days of the Closing Date, by the Secretary of State of the state of incorporation of such Borrower, which certificate shall indicate that such Borrower is in good standing in such state;

(f) Foreign Qualification. FINOVA shall have received certificates of corporate status with respect to each Borrower and each other Loan Party, each dated within ten (10) days of the Closing Date, issued by the Secretary of State of each state in which such party's failure to be duly qualified or licensed would have a material adverse effect on its financial condition or assets, indicating that such party is in good standing;

(g) Authorizing Resolutions and Incumbency. FINOVA shall have received a certificate from the Secretary of each Borrower attesting to (i) the adoption of resolutions of such Borrower's Board of Directors, and shareholders or members if necessary, authorizing the borrowing of money from FINOVA and execution and delivery of this Agreement and the other Loan Documents to which such Borrower is a party, and authorizing specific officers of such Borrower to execute same, and (ii) the authenticity of original specimen signatures of such officers;

(h) Insurance. FINOVA shall have received the insurance certificates and certified copies of policies required by Section 3.4 hereof, in form and substance satisfactory to FINOVA and its counsel, together with an additional insured endorsement in favor of FINOVA with respect to all liability policies and a lender's loss payable endorsement in favor of FINOVA with respect to all casualty and business interruption policies, each in form and substance acceptable to FINOVA and its counsel;

(i) Searches; Certificates of Title. FINOVA shall have received searches reflecting the filing of its financing statements and fixture filings in such jurisdictions as it shall determine, and shall have received certificates of title with respect to the Collateral which shall have been duly executed in a manner sufficient to perfect all of the security interests granted to FINOVA;

(j) Landlord, Bailee and Mortgagee Waivers. FINOVA shall have received landlord, bailee and/or mortgagee waivers from the lessors, bailees and/or mortgagees of all locations where any Collateral is located;

(k) Fees. Borrowers shall have paid all fees payable by them on the Closing Date pursuant to this Agreement;

(l) Opinion of Counsel. FINOVA shall have received an opinion of Borrowers' counsel covering such matters as FINOVA shall determine in its sole discretion;

(m) Officer Certificate. FINOVA shall have received a certificate of the President and the Chief Financial Officer or similar officer of DSI, attesting to the accuracy of each of the representations and warranties of Borrowers set forth in this Agreement and the fulfillment of all conditions precedent to the initial advance hereunder;

(n) Solvency Certificate. If requested, FINOVA shall have received a signed certificate of the DSI's duly elected Chief Financial Officer concerning the solvency and financial condition of Borrowers, on FINOVA's standard form;

(o) Blocked Account. The Blocked Accounts referred to in Section 2.10(c) hereof shall have been established to the satisfaction of FINOVA in its sole discretion;

(p) [Intentionally Omitted]

(q) Environmental Certificate. FINOVA shall have received an Environmental Certificate from Borrowers, in form and substance satisfactory to FINOVA in its discretion, with respect to all locations of Collateral;

(r) Search and References. FINOVA shall have received and approved the results of UCC, tax lien, litigation, judgment, and bankruptcy searches regarding Borrowers, and members of the senior management of Borrowers, and shall have received satisfactory customer, vendor and credit reference checks on Borrowers.

(s) No Material Adverse Changes. Prior to the Closing Date, there shall have occurred no material adverse change in the financial condition of any Borrower, or in the condition of the assets of any Borrower, from that shown on the Prepared Financials. At the closing, Borrowers shall deliver to FINOVA an officer's certification confirming that Borrowers are unaware of the existence of any such material adverse change.

(t) Material Agreements. FINOVA shall have received, reviewed and approved all material agreements to which any Borrower shall be a party.

(u) Projections. Borrowers shall submit cash flow projections and pro forma balance sheet with adjusting entries (i) showing that the proposed financing will provide sufficient funds for the Borrowers' projected working capital needs, and (ii) showing: (1) that the Borrowers will have reasonably sufficient capital for the conduct of business following the initial funding, and (2) that no Borrower will incur debts beyond its ability to pay such debts as they mature.

(v) Opinions. To the extent any Person other than Borrowers shall be parties to the Loan Documents, FINOVA reserves the right to require satisfactory opinions of counsel for each such Person concerning the proper organization of such Person and the due authorization, execution, delivery, enforceability, validity and binding effect of the Loan Documents to which such Person is a party. Each such opinion of counsel shall confirm, to the satisfaction of FINOVA, that the opinion is being delivered to FINOVA at the instruction of the party represented by such counsel, that FINOVA is entitled to rely on such opinion and that for purposes of such reliance, FINOVA is deemed to be in privity with the opining counsel.

(w) ADA Compliance. If necessary, as of the Closing Date, each Borrower shall be in compliance with the Americans with Disabilities Act of 1990 ("ADA"), or, if any renovations of a Borrower's facilities or modifications of a Borrower's employment practices shall be required to bring them into compliance with the ADA, review and approval by FINOVA of such Borrower's proposed plan to come into such compliance. Each Borrower shall deliver representations and warranties to FINOVA concerning such Borrower's compliance with the ADA, and no evidence shall have come to the attention of FINOVA indicating that any Borrower is not in compliance with the ADA (except to the extent that FINOVA has reviewed and approved such Borrower's plan to come into compliance).

(x) Transaction Costs. Borrowers shall provide to FINOVA a complete, itemized summary of all transaction costs paid or incurred by any Person in connection with the making of the Loans, which transaction costs shall not exceed the amount set forth in the Schedule, as well as appropriate documentation evidencing such costs and the payment thereof. All such information must be acceptable to FINOVA, in FINOVA's sole discretion, exercised in good faith.

(y) Schedule Conditions. Borrowers shall have complied with all additional conditions precedent as set forth in the Schedule attached hereto.

(z) Other Matters. All other documents and legal matters in connection with the transactions contemplated by this Agreement shall have been delivered, executed and recorded and shall be in form and substance reasonably satisfactory to FINOVA and its counsel including, without limitation, each of the items listed on the Closing Checklist attached as EXHIBIT A hereto.

4.2 Subsequent Advances. The obligation of FINOVA to make any advance or issue or cause any Letter of Credit to be issued hereunder (including the initial advance or Letter of Credit) shall be subject to the further conditions precedent that, on and as of the date of such advance or Letter of Credit issuance: (a) the representations and warranties of Borrowers set forth in this Agreement shall be accurate, before and after giving effect to such advance or issuance and to the application of any proceeds thereof; (b) no Event of Default and no event which, with notice or passage of time or both, would constitute an Event of Default has occurred and is continuing, or would result from such advance or issuance or from the application of any proceeds thereof; (c) no material adverse change has occurred in any Borrower's business, operations, financial condition, in the condition of the Collateral or other assets of any Borrower or in the prospect of repayment of the Obligations; and (d) FINOVA shall have received such other approvals, opinions or documents as FINOVA shall reasonably request.

5. REPRESENTATIONS AND WARRANTIES.

Each Borrower represents and warrants that:

5.1 Due Organization. It is a corporation duly organized, validly existing and in good standing under the

laws of the State set forth on the Schedule, is qualified and authorized to do business and is in good standing in all states in which such qualification and good standing are necessary in order for it to conduct its business and own its property, and has all requisite power and authority to conduct its business as presently conducted, to own its property and to execute and deliver each of the Loan Documents to which it is a party and perform all of its Obligations thereunder, and has not taken any steps to wind-up, dissolve or otherwise liquidate its assets;

5.2 Other Names. Except as set forth on the Schedule, it has not, during the preceding five (5) years, been known by or used any other corporate or fictitious name except as set forth on the Schedule, nor has it been the surviving corporation of a merger or consolidation or acquired all or substantially all of the assets of any Person during such time;

5.3 Due Authorization. The execution, delivery and performance by it of the Loan Documents to which it is a party have been authorized by all necessary corporate action and do not and shall not constitute a violation of any applicable law or of its Articles or Certificate of Incorporation or By-Laws or, after giving effect to the application of the proceeds of the initial Loans, any other document, agreement or instrument to which any Borrower is a party or by which any Borrower or its assets are bound;

5.4 Binding Obligation. Each of the Loan Documents to which it is a party is its legal, valid and binding obligation, enforceable against it in accordance with its terms;

5.5 Intangible Property. It possesses adequate assets, licenses, patents, patent applications, copyrights, trademarks, trademark applications and trade names for the present and planned future conduct of its business without any known conflict with the rights of others;

5.6 Capital. It has capital sufficient to conduct its business, is able to pay its debts as they mature, and owns property having a fair salable value greater than the amount required to pay all of its debts (including contingent debts);

5.7 Material Litigation. It has no pending or overtly threatened litigation, actions or proceedings which would materially and adversely affect its business, assets, operations, prospects or condition, financial or otherwise, or the Collateral or any of FINOVA's interests therein;

5.8 Title; Security Interests of FINOVA. It has good, indefeasible and merchantable title to the Collateral and, upon the execution and delivery of the Loan Documents, the filing of UCC-1 Financing Statements, delivery of the certificate(s) evidencing any pledged securities, the filing of any collateral assignments or security agreements regarding Trademarks, Copyrights, Licenses and Patents, if any, with the appropriate governmental offices, in each case in the appropriate offices, this Agreement and such documents shall create valid and perfected first priority liens in the Collateral, subject only to Permitted Encumbrances;

5.9 Restrictive Agreements; Labor Contracts. It is not a party or subject to any contract or subject to any charge, corporate restriction, judgment, decree or order materially and adversely affecting its business, assets, operations, prospects or condition, financial or otherwise, or which restricts its right or ability to incur Indebtedness, and it is not party to any labor dispute. In addition, no labor contract is scheduled to expire during the Initial Term of this Agreement, except as disclosed to FINOVA in writing prior to the date hereof;

5.10 Laws. It is not in violation of any applicable statute, regulation, ordinance or any order of any court, tribunal or governmental agency, in any respect materially and adversely affecting the Collateral or its business, assets, operations, prospects or condition, financial or otherwise. It has all licenses, permits, registrations, and governmental approvals necessary to conduct its business, and a complete and accurate list thereof is set forth on the Schedule;

5.11 Consents. It has obtained or caused to be obtained or issued any required consent of a governmental agency or other Person in connection with the financing contemplated hereby;

5.12 Defaults. It is not in default with respect to any note, indenture, loan agreement, mortgage, lease, deed or other agreement to which it is a party or by which it or its assets are bound, nor has any event occurred which, with the giving of notice or the lapse of time, or both, would cause such a default;

5.13 Financial Condition. The Prepared Financials fairly present the financial condition and results of operations of DSI and its subsidiaries as of the date and for the periods thereof in accordance with GAAP; there are no material omissions from the Prepared Financials or other facts or circumstances not reflected in the Prepared Financials; and there has been no material and adverse change in such financial condition or operations since the date of the initial Prepared Financials delivered to FINOVA hereunder;

5.14 ERISA. None of Borrowers, any ERISA Affiliate, or any Plan is or has been in violation of any of the provisions of ERISA, any of the qualification requirements of IRC Section 401(a) or any of the published interpretations thereunder, nor has any Borrower or any ERISA Affiliate received any notice to such effect. No notice of intent to terminate a Plan has been

filed under Section 4041 of ERISA, nor has any Plan been terminated under ERISA. The PBGC has not instituted proceedings to terminate, or appointed a trustee to administer, a Plan. No lien upon the assets of any

Borrower has arisen with respect to a Plan. No prohibited transaction or Reportable Event has occurred with respect to a Plan. Neither any Borrower nor any ERISA Affiliate has incurred any withdrawal liability with respect to any Multiemployer Plan. Each Borrower and each ERISA Affiliate have made all contributions required to be made by them to any Plan or Multiemployer Plan when due. There is no accumulated funding deficiency in any Plan, whether or not waived;

5.15 Taxes. It has filed all tax returns and such other reports as it is required by law to file and has paid or made adequate provision for the payment on or prior to the date when due of all taxes, assessments and similar charges that are due and payable;

5.16 Locations; Federal Tax ID No. Its chief executive office and the offices and locations where it keeps the Collateral (except for Inventory in transit) are at the locations set forth on the Schedule, except to the extent that such locations may have been changed after notice to FINOVA in accordance with Section 6.4 hereof. Its federal tax identification number is as shown on the Schedule;

5.17 Business Relationships. There exists no actual or threatened termination, cancellation or limitation of, or any modification or change in, the business relationship between it and any customer or any group of customers whose purchases individually or in the aggregate are material to the business of Borrowers, or with any material supplier, and there exists no present condition or state of facts or circumstances which would materially and adversely affect it or prevent it from conducting such business after the consummation of the transactions contemplated by this Agreement in substantially the same manner in which it has heretofore been conducted; and

5.18 Reaffirmations. Each request for a loan made by a Borrower pursuant to this Agreement shall constitute (i) an automatic representation and warranty by each Borrower to FINOVA that there does not then exist any Event of Default and (ii) a reaffirmation as of the date of said request of all of the representations and warranties of each Borrower contained in this Agreement and the other Loan Documents.

6. COVENANTS.

6.1 AFFIRMATIVE COVENANTS. Each Borrower covenants that, so long as any Obligation remains outstanding and this Agreement is in effect, it shall:

6.1.1 Taxes. File all tax returns and pay or make adequate provision for the payment of all taxes, assessments and other charges on or prior to the date when due;

6.1.2 Notice of Litigation. Promptly notify FINOVA in writing of any litigation, suit or administrative proceeding which may materially and adversely affect the Collateral or its business, assets, operations, prospects or condition, financial or otherwise, whether or not the claim is covered by insurance;

6.1.3 ERISA. Notify FINOVA in writing (i) promptly upon the occurrence of any event described in Paragraph 4043 of ERISA, other than a termination, partial termination or merger of a Plan or a transfer of a Plan's assets and (ii) prior to any termination, partial termination or merger of a Plan or a transfer of a Plan's assets;

6.1.4 Change in Location. Notify FINOVA in writing forty-five (45) days prior to any change in the location of its chief executive office or the location of any Collateral, or its opening or closing of any other place of business;

6.1.5 Corporate Existence. Maintain its corporate existence and its qualification to do business and good standing in all states necessary for the conduct of its business and the ownership of its property and maintain adequate assets, licenses, permits, registrations, governmental approvals, patents, copyrights, trademarks and trade names for the conduct of its business;

6.1.6 Labor Disputes. Promptly notify FINOVA in writing of any material labor dispute to which it is or may become subject and the expiration of any labor contract to which it is a party or bound;

6.1.7 Violations of Law. Promptly notify FINOVA in writing of any violation of any law, statute, regulation or ordinance of any governmental entity, or of any agency thereof, applicable to it which may materially and adversely affect the Collateral or its business, assets, prospects, operations or condition, financial or otherwise;

6.1.8 Defaults. Notify FINOVA in writing within five (5) Business Days of its default under any note, indenture, loan agreement, or mortgage, or under any lease or other agreement material to its business, to which it is a party or by which it is bound, or of any other default under any of its Indebtedness;

6.1.9 Capital Expenditures. Promptly notify FINOVA in writing of the making of any Capital Expenditure materially affecting its business, assets, prospects, operations or condition, financial or otherwise, except to the extent permitted in the Schedule;

6.1.10 Books and Records. Keep adequate records and books of account with respect to its business activities in which proper entries are made

in accordance with GAAP, reflecting all of its financial transactions;

6.1.11 Leases; Warehouse Agreements. Provide FINOVA with (i) copies of all agreements between it and any landlord, warehouseman or bailee which owns any premises at which any Collateral may, from time to time, be located (whether for processing, storage or otherwise), and (ii) without limiting the landlord, bailee and/or mortgagee waivers to be provided pursuant to Section 4.1(j) hereof, additional landlord, bailee and/or mortgagee waivers in form acceptable to FINOVA with respect to all locations where any Collateral is hereafter located;

6.1.12 Employment Agreement. Within 60 days after the Closing Date, Borrowers shall enter into an Employment Agreement with Donald W. Kappauf substantially in the form reviewed by FINOVA on or prior to the Closing Date.

6.1.13 Additional Documents. At FINOVA's request, promptly execute or cause to be executed and delivered to FINOVA any and all documents, instruments or agreements deemed necessary by FINOVA to facilitate the collection of the Obligations or the Collateral or otherwise to give effect to or carry out the terms or intent of this Agreement or any of the other Loan Documents. Without limiting the generality of the foregoing, if any of the Receivables with a face value in excess of $10,000 arises out of a contract with the United States of America or any department, agency, subdivision or instrumentality thereof, it shall promptly notify FINOVA of such fact in writing and shall execute any instruments and take any other action required or requested by FINOVA to comply with the provisions of the Federal Assignment of Claims Act; and

6.1.14 Financial Covenants. Comply with the financial covenants set forth on the Schedule.

6.2 Negative Covenants. Without FINOVA's prior written consent, which consent FINOVA may withhold in its sole discretion, so long as any Obligation remains outstanding and this Agreement is in effect, it shall not:

6.2.1 Mergers. Merge or consolidate with or acquire any other Person, or make any other material change in its capital structure or in its business or operations which might adversely affect the repayment of the Obligations;

6.2.2 Loans. Make advances, loans or extensions of credit to, or invest in, any Person, except for loans or cash advances to employees which are permitted in the Schedule;

6.2.3 Dividends. Declare or pay cash dividends upon any of its stock or distribute any of its property or redeem, retire, purchase or acquire directly or indirectly any of its stock;

6.2.4 Adverse Transactions. Enter into any transaction which materially and adversely affects the Collateral or its ability to repay the Obligations in full as and when due;

6.2.5 Indebtedness of Others. Guarantee or become directly or continently liable for the Indebtedness of any Person, except by endorsement of instruments for deposit and except for the existing guarantees made by it prior to the date hereof, if any, which are set forth in the Schedule;

6.2.6 Repurchase. Make a sale to any customer on a bill-and-hold, guaranteed sale, sale and return, sale on approval, consignment, or any other repurchase or return basis;

6.2.7 Name. Use any corporate or fictitious name other than its corporate name as set forth in its Articles or Certificate of Incorporation on the date hereof or as set forth on the Schedule;

6.2.8 Prepayment. Prepay any Indebtedness other than trade payables and other than the Obligations;

6.2.9 Capital Expenditure. Make or incur any Capital Expenditure if, after giving effect thereto, the aggregate amount of all Capital Expenditures by all Borrowers in any fiscal year would exceed the amount set forth on the Schedule;

6.2.10 [Intentionally Omitted]

6.2.11 Indebtedness. Create, incur, assume or permit to exist any Indebtedness for Borrowed Money, (including in connection with Capital Leases) in excess of the amount set forth on the Schedule, other than (i) the Obligations, (ii) trade payables and other contractual obligations to suppliers and customers incurred in the ordinary course of business, and (iii) other Indebtedness for Borrowed Money existing on the date of this Agreement and reflected in the Schedule;

6.2.12 Affiliate Transactions. Except as set forth below, sell, transfer, distribute or pay any money or property to any Affiliate, or invest in (by capital contribution or otherwise) or purchase or repurchase any stock or Indebtedness, or any property, of any Affiliate, or become liable on any guaranty of the indebtedness, dividends or other obligations of any Affiliate. Notwithstanding the foregoing, it may pay compensation permitted by Section 6.23 to employees who are Affiliates and, if no Event of Default has occurred, it may engage in transactions with Affiliates in the normal course of business, in amounts and upon terms which are fully disclosed to FINOVA and which are no less favorable to it than would be obtainable in a comparable arm's length transaction with a Person who is not an Affiliate;

6.2.13 Nature of Business. Enter into any new business or make any material change in any of its business objectives, purposes or operations;

6.2.14 FINOVA's Name. Use the name of FINOVA in connection with any of its business or activities, except in connection with internal business matters or as required in dealings with governmental agencies and financial institutions or with its trade creditors, solely for credit reference purposes;

6.2.15 Margin Security. It will not (and has not in the past) engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation G or Regulation U issued by the Board of Governors of the Federal Reserve System), and no proceeds of any Loan or other advance will be used to purchase or carry any margin stock or to extend credit to others for the purpose of purchasing or carrying any margin stock, or in any manner which might cause such Loan or other advance or the application of such proceeds to violate (or require any regulatory filing under) Regulation G, Regulation T, Regulation U, Regulation X or any other regulation of the Board of Governors of the Federal Reserve System, in each case as in effect on the date or dates of such Loan or other advance and such use of proceeds. Further, no proceeds of any Loan or other advance will be used to acquire any security of a class which is registered pursuant to Section 12 of the Securities Exchange Act of 1934;

6.2.16 Real Property. Purchase or acquire any real property without FINOVA's prior written consent, a condition of which consent shall include delivery of appropriate environmental reports and analysis, in form and substance satisfactory to FINOVA and its counsel; or

6.2.17 Business Activities of Subsidiaries. Permit any Guarantor to engage in any business activity or own any material assets unless (i) it gives FINOVA at least 30 days prior written notice thereof and (ii) causes such Guarantor to execute and deliver such security agreement and other agreements and instruments as FINOVA may reasonably request to create and perfect in favor of FINOVA a security interest in the assets of such Guarantor of the type constituting Collateral hereunder.

7. DEFAULT AND REMEDIES.

7.1 Events of Default. Any one or more of the following events shall constitute an Event of Default under this Agreement:

(a) Any Borrower fails to pay when due and payable any portion of the Obligations at stated maturity, upon acceleration or otherwise;

(b) (i) any Borrower or any other Loan Party fails to perform any of the covenants contained in Section 6.1.1, 6.1.2, 6.1.3, 6.1.6, 6.1.7, 6.1.9, 6.1.10, 6.1.11, and 6.1.13 of this Agreement and such failure shall continue for ten (10) days; provided, however, that such ten (10) day period shall not apply in the case of: (A) any failure to observe any such covenant which is not capable of being cured at all or within such ten (10) day period or which has been the subject of a prior failure within a six (6) month period or (B) an intentional breach of a Borrower or any other Loan Party of any such covenant; or (ii) any Borrower or any other Loan Party fails or neglects to perform, keep, or observe any Obligation including, but not limited to, any term, provision, condition, covenant or agreement contained in any Loan Document to which Borrower or such other Loan Party is a party, other than those described in Section 7.1(a) or 7.1(b)(i);

(c) Any material adverse change occurs in any Borrower's business, assets, operations, prospects or condition, financial or otherwise;

(d) The prospect of repayment of any portion of the Obligations or the value or priority of FINOVA's security interest in the Collateral is materially impaired;

(e) Any portion of any Borrower's assets is seized, attached, subjected to a writ or distress warrant, is levied upon or comes into the possession of any judicial officer;

(f) Any Borrower shall generally not pay its debts as they become due or shall enter into any agreement (whether written or oral), or offer to enter into any agreement, with all or a significant number of its creditors regarding any moratorium or other indulgence with respect to its debts or the participation of such creditors or their representatives in the supervision, management or control of its business;

(g) Any bankruptcy or other insolvency proceeding is commenced by any Borrower, or any such proceeding is commenced against any Borrower and remains undischarged or unstayed for forty-five (45) days;

(h) Any notice of lien, levy or assessment is filed of record with respect to any of any Borrower's assets and is not discharged or bonded to FINOVA's satisfaction within five (5) days after the filing thereof and prior to any action to enforce or collect such lien, levy or assessment;

(i) Any judgments are entered against any Borrower in an aggregate amount exceeding $100,000 in any

fiscal year and are not vacated or discharged within 30 days after entry or execution thereon is not effectively stayed;

(j) Any default shall occur under (i) any material agreement between any Borrower and any third party including, without limitation, any default which would result in a right by such third party to accelerate the maturity of any Indebtedness of any Borrower to such third party, or (ii) any Subordinated Debt;

(k) Any representation or warranty made or deemed to be made by any Borrower, any Affiliate or any other Loan Party in any Loan Document or any other statement, document or report made or delivered to FINOVA in connection therewith shall prove to have been misleading in any material respect;

(l) Any Guarantor terminates or attempts to terminate its Guaranty or any security therefor or becomes subject to any bankruptcy or other insolvency proceeding;

(m) Any Prohibited Transaction or Reportable Event shall occur with respect to a Plan which could have a material adverse effect on the financial condition of any Borrower; any lien upon the assets of any Borrower in connection with any Plan shall arise; any Borrower or any of its ERISA Affiliates shall fail to make full payment when due of all amounts which any Borrower or any of its ERISA Affiliates may be required to pay to any Plan or any Multiemployer Plan as one or more contributions thereto; any Borrower or any of its ERISA Affiliates creates or permits the creation of any accumulated funding deficiency, whether or not waived

(n) Borrowers fails to satisfy any undertaking in the Conditions Subsequent Agreement, if any, executed and delivered on the Closing Date;

(o) Donald T. Kelly shall cease to be employed by Borrowers, and his successor, within thirty (30) days after being employed by Borrowers, shall not have entered into a Support Agreement substantially identical to the Support Agreement executed by Donald T. Kelly on the Closing Date; or

(p) Any Change of Control occurs; or any transfer occurs of any percentage of shares of common stock or other evidence of ownership of any Borrower other than DSI.

NOTWITHSTANDING ANYTHING TO THE CONTRARY HEREIN, FINOVA RESERVES THE RIGHT TO CEASE MAKING ANY LOANS DURING ANY CURE PERIOD STATED ABOVE, AND THEREAFTER IF AN EVENT OF DEFAULT HAS OCCURRED.

7.2 Remedies. Upon the occurrence of an Event of Default, FINOVA may, at its option and in its sole discretion and in addition to all of its other rights under the Loan Documents, cease making Loans, terminate this Agreement and/or declare all of the Obligations to be immediately payable in full. Each Borrower agrees that FINOVA shall also have all of its rights and remedies under applicable law, including, without limitation, the default rights and remedies of a secured party under the Code, and upon the occurrence of an Event of Default each Borrower hereby consents to the appointment of a receiver by FINOVA in any action initiated by FINOVA pursuant to this Agreement and to the jurisdiction and venue set forth in Section 9.25 hereof, and each Borrower waives notice and posting of a bond in connection therewith. Further, FINOVA may, at any time, take possession of the Collateral and keep it on each Borrower's premises, at no cost to FINOVA, or remove any part of it to such other place(s) as FINOVA may desire, or each Borrower shall, upon FINOVA's demand, at Borrowers' sole cost, assemble the Collateral and make it available to FINOVA at a place reasonably convenient to FINOVA. FINOVA may sell and deliver any Collateral at public or private sales, for cash, upon credit or otherwise, at such prices and upon such terms as FINOVA deems advisable, at FINOVA's discretion, and may, if FINOVA deems it reasonable, postpone or adjourn any sale of the Collateral by an announcement at the time and place of sale or of such postponed or adjourned sale without giving a new notice of sale. Each Borrower agrees that FINOVA has no obligation to preserve rights to the Collateral or marshall any Collateral for the benefit of any Person. FINOVA is hereby granted a license or other right to use, without charge, each Borrower's labels, patents, copyrights, name, trade secrets, trade names, trademarks and advertising matter, or any similar property, in completing production, advertising or selling any Collateral and each Borrower's rights under all licenses and all franchise agreements shall inure to FINOVA's benefit. Any requirement of reasonable notice shall be met if such notice is mailed postage prepaid to DSI at its address set forth in the heading to this Agreement at least ten (10) days before sale or other disposition. The proceeds of sale shall be applied, first, to all attorneys fees and other expenses of sale, and second, to the Obligations in such order as FINOVA shall elect, in its sole discretion. FINOVA shall return any excess to the applicable Borrower and each Borrower shall remain jointly and severally liable for any deficiency to the fullest extent permitted by law.

7.3 Standards for Determining Commercial Reasonableness. Each Borrower and FINOVA agree that the following conduct by FINOVA with respect to any disposition of Collateral shall conclusively be deemed commercially reasonable (but other conduct by FINOVA, including, but not limited to, FINOVA's use in its sole discretion of other or different times, places and manners of noticing and conducting any disposition of Collateral shall not be deemed

unreasonable): Any public or private disposition: (i) as to which on no later than the tenth calendar day prior thereto written notice thereof is mailed or personally delivered to DSI and, with respect to any public disposition, on no later than the tenth calendar day prior thereto notice thereof describing in general non-specific terms, the Collateral to be disposed of is published once in a newspaper of general circulation in the county where the sale is to be conducted (provided that no notice of any public or private disposition need be given to any Borrower or published if the Collateral is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market); (ii) which is conducted at any place designated by FINOVA, with or without the Collateral being present; and (iii) which commences at any time between 8:00 a.m. and 5:00 p.m. Without limiting the generality of the foregoing, each Borrower expressly agrees that, with respect to any disposition of accounts, instruments and general intangibles, it shall be commercially reasonable for FINOVA to direct any prospective purchaser thereof to ascertain directly from the applicable Borrower any and all information concerning the same, including, but not limited to, the terms of payment, aging and delinquency, if any, the financial condition of any obligor or account debtor thereon or guarantor thereof, and any collateral therefor.

8. EXPENSES AND INDEMNITIES

8.1 Expenses. Each Borrower covenants that, so long as any Obligation remains outstanding and this Agreement remains in effect, it shall promptly reimburse FINOVA jointly and severally for all costs, fees and expenses incurred by FINOVA in connection with the negotiation, preparation, execution, delivery, administration and enforcement of each of the Loan Documents, including, but not limited to, the reasonable attorneys' and paralegals' fees of in-house and outside counsel, expert witness fees, lien, title search and insurance fees, appraisal fees, all charges and expenses incurred in connection with any and all environmental reports and environmental remediation activities, and all other costs, expenses, taxes and filing or recording fees payable in connection with the transactions contemplated by this Agreement, including without limitation all such costs, fees and expenses as FINOVA shall incur or for which FINOVA shall become obligated in connection with (i) any inspection or verification of the Collateral, (ii) any proceeding relating to the Loan Documents or the Collateral, (iii) actions taken with respect to the Collateral and FINOVA's security interest therein, including, without limitation, the defense or prosecution of any action involving FINOVA and any Borrower or any third party, (iv) enforcement of any of FINOVA's rights and remedies with respect to the Obligations or Collateral and (v) consultation with FINOVA's attorneys and participation in any workout, bankruptcy or other insolvency or other proceeding involving any Loan Party or any Affiliate, whether or not suit is filed or the issues are peculiar to federal bankruptcy or state insolvency laws. Each Borrower shall also jointly and severally pay all FINOVA charges in connection with bank wire transfers, forwarding of loan proceeds, deposits of checks and other items of payment, returned checks, establishment and maintenance of lockboxes and other Blocked Accounts, and all other bank and administrative matters, in accordance with FINOVA's schedule of bank and administrative fees and charges in effect from time to time.

8.2 Environmental Matters. The Environmental Certificate dated on or about the date of this Agreement is incorporated herein for all purposes as if fully stated in this Agreement.

9. MISCELLANEOUS.

9.1 Examination of Records; Financial Reporting.

(a) Examinations. FINOVA shall at all reasonable times have full access to and the right to examine, audit, make abstracts and copies from and inspect each Borrower's records, files, books of account and all other documents, instruments and agreements relating to the Collateral and the right to check, test and appraise the Collateral. Each Borrower shall deliver to FINOVA any instrument necessary for FINOVA to obtain records from any service bureau maintaining records for any Borrower. All instruments and certificates prepared by any Borrower showing the value of any of the Collateral shall be accompanied, upon FINOVA's request, by copies of related purchase orders and invoices. FINOVA may, at any time after the occurrence of an Event of Default, remove from each Borrower's premises such Borrower's books and records (or copies thereof) or require such Borrower to deliver such books and records or copies to FINOVA. FINOVA may, without expense to FINOVA, use such of each Borrower's personnel, supplies and premises as may be reasonably necessary for maintaining or enforcing FINOVA's security interest.

(b) Reporting Requirements. Each Borrower shall furnish FINOVA, upon request, such information and statements as FINOVA shall reasonably request from time to time regarding such Borrower's business affairs, financial condition and the results of its operations. Without limiting the generality of the foregoing, DSI on behalf of all Borrowers shall provide FINOVA with: (i) FINOVA's standard form collateral and loan report for all Borrowers, weekly, and upon FINOVA's request, copies of sales journals, cash receipt journals, and deposit slips; (ii) upon FINOVA's request, copies of sales invoices, customer statements and credit memoranda issued, remittance advices and reports; (iii) copies of shipping and delivery documents, upon request; (iv) on or prior to the date set forth on the Schedule, monthly agings (aged from invoice date) and reconciliations of all Borrowers' Receivables (with listings of concentrated accounts), payables

reports, compliance certificates and unaudited financial statements with respect to the prior month prepared on a basis consistent with such statements prepared in prior months and otherwise in accordance with GAAP; (v) on or prior to the date set forth in the Schedule, audited annual consolidated financial statements of DSI and its subsidiaries, prepared in accordance with GAAP applied on a basis consistent with the most recent Prepared Financials provided to FINOVA by Borrowers, including balance sheets, income and cash flow statements, accompanied by the unqualified report thereon of independent certified public accountants acceptable to FINOVA; and (vi) such certificates relating to the foregoing as FINOVA may request, including, without limitation, a monthly certificate from the president and the chief financial officer of DSI in the form of EXHIBIT B hereto, showing Borrowers' compliance with each of the financial covenants set forth in this Agreement, and stating whether any Event of Default has occurred or event which, with giving of notice or the passage of time, or both, would constitute an Event of Default, and if so, the steps being taken to prevent or cure such Event of Default. All reports or financial statements submitted by Borrowers shall be in reasonable detail and shall be certified by the principal financial officer of DSI or the applicable Borrower as being complete and correct.

9.2 Term; Termination.

(a) Term. The Initial Term of the Revolving Credit Loans facility and the obligation of FINOVA to made advances with respect thereto in accordance with this Agreement shall be as set forth on the Schedule, and the Revolving Credit Loans facility and this Agreement shall be renewed for one or more Renewal Term(s) as set forth in the Schedule, unless earlier terminated as provided herein.

(b) Prior Notice. Each party shall have the right to terminate this Agreement effective at the end of the Initial Term or at the end of any Renewal Term by giving the other party written notice not less than sixty (60) days prior to the effective date of such termination, by registered or certified mail.

(c) Payment in Full. Upon the effective date of termination, the Obligations shall become immediately due and payable in full in cash.

(d) Early Termination; Termination Fee. In addition to the procedure set forth in Section 9.2(b), Borrowers may terminate this Agreement as to all of the Borrowers (and not less than all of the Borrowers) at any time but only upon thirty (30) days' prior written notice and prepayment of the Obligations (including, without limitation, the Term Loan). Upon any such early termination by Borrowers or any termination of this Agreement by FINOVA upon the occurrence of an Event of Default, then, and in any such event, Borrowers shall jointly and severally pay to FINOVA upon the effective date of such termination the Success Fee and a fee (the "TERMINATION FEE") in an amount equal to the amount shown on the Schedule.

9.3 Recourse to Security; Certain Waivers. All Obligations shall be payable by Borrowers as provided for herein and, in full, at the termination of this Agreement; recourse to security shall not be required at any time. Each Borrower waives presentment and protest of any instrument and notice thereof, notice of default and, to the extent permitted by applicable law, all other notices to which any Borrower might otherwise be entitled.

9.4 No Waiver by FINOVA. Neither FINOVA's failure to exercise any right, remedy or option under this Agreement, any supplement, the Loan Documents or other agreement between FINOVA and any Borrower nor any delay by FINOVA in exercising the same shall operate as a waiver. No waiver by FINOVA shall be effective unless in writing and then only to the extent stated. No waiver by FINOVA shall affect its right to require strict performance of this Agreement. FINOVA's rights and remedies shall be cumulative and not exclusive.

9.5 Binding on Successor and Assigns. All terms, conditions, promises, covenants, provisions and warranties shall inure to the benefit of and bind FINOVA's and each Borrower's respective representatives, successors and assigns.

9.6 Severability. If any provision of this Agreement shall be prohibited or invalid under applicable law, it shall be ineffective only to such extent, without invalidating the remainder of this Agreement.

9.7 Amendments; Assignments. This Agreement may not be modified, altered or amended, except by an agreement in writing signed by each Borrower and FINOVA. No Borrower may sell, assign or transfer any interest in this Agreement or any other Loan Document, or any portion thereof, including, without limitation, any of a Borrower's rights, title, interests, remedies, powers and duties hereunder or thereunder. Each Borrower hereby consents to FINOVA's participation, sale, assignment, transfer or other disposition, at any time or times hereafter, of this Agreement and any of the other Loan Documents, or of any portion hereof or thereof, including, without limitation, FINOVA's rights, title, interests, remedies, powers and duties hereunder or thereunder. In connection therewith, FINOVA may disclose all documents and information which FINOVA now or hereafter may have relating to any Borrower or any Borrower's business. To the extent that FINOVA assigns its rights and obligations hereunder to a third party, FINOVA shall thereafter be released from such assigned obligations to Borrowers and such assignment shall effect a novation between Borrowers and such third party.

9.8 Integration. This Agreement, together with the Schedule (which is a part hereof) and the other Loan Documents, reflect the entire understanding of the parties with respect to the transactions contemplated hereby.

9.9 Survival. All of the representations and warranties of each Borrower contained in this Agreement shall survive the execution, delivery and acceptance of this Agreement by the parties. No termination of this Agreement or of any guaranty of the Obligations shall affect or impair the powers, obligations, duties, rights, representations, warranties or liabilities of the parties hereto and all shall survive such termination.

9.10 Evidence of Obligations. Each Obligation may, in FINOVA's discretion, be evidenced by notes or other instruments issued or made by one or more Borrowers to FINOVA. If not so evidenced, such Obligation shall be evidenced solely by entries upon FINOVA's books and records.

9.11 Loan Requests. Each oral or written request for a Loan by any Person who purports to be any employee, officer or authorized agent of DSI shall be made to FINOVA on or prior to 11:00 a.m., Eastern time on the Business Day on which the proceeds thereof are requested to be paid to any Borrower and shall be conclusively presumed to be made by a Person authorized by each Borrower to do so and the crediting of a loan to a Borrower's operating account shall conclusively establish each Borrower's obligation to repay such loan. Unless and until DSI otherwise directs FINOVA in writing, all loans shall be wired to the applicable Borrower's operating account set forth on the Schedule.

9.12 Notices. Any notice required hereunder shall be in writing and addressed to the applicable Borrower and FINOVA at their addresses set forth at the beginning of this Agreement. A copy of any notice to a Borrower shall be sent to Goldstein & DiGioia LLP, 369 Lexington Avenue, New York, New York 10017, Attn: Victor J. DiGioia. Notices hereunder shall be deemed received on the earlier of receipt, whether by mail, personal delivery, facsimile, or otherwise, or upon deposit in the United States mail, postage prepaid.

9.13 Brokerage Fees. Each Borrower represents and warrants to FINOVA that, with respect to the financing transaction herein contemplated, no Person, other than EJ Advisors, is entitled to any brokerage fee or other commission, and Borrower agrees to indemnify and hold FINOVA harmless against any and all such claims.

9.14 Disclosure. No representation or warranty made a Borrower in this Agreement, or in any financial statement, report, certificate or any other document furnished in connection herewith contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements herein or therein not misleading. There is no fact known to any Borrower or which reasonably should be known to any Borrower which Borrowers has not disclosed to FINOVA in writing with respect to the transactions contemplated by this Agreement which materially and adversely affects the business, assets, operations, prospects or condition (financial or otherwise), of any Borrower.

9.15 Publicity. FINOVA is hereby authorized to issue appropriate press releases and to cause a tombstone to be published announcing the consummation of this transaction and the aggregate amount thereof.

9.16 Captions. The Section titles contained in this Agreement are without substantive meaning and are not part of this Agreement.

9.17 Injunctive Relief. Each Borrower recognizes that, in the event a Borrower fails to perform, observe or discharge any of its Obligations under this Agreement, any remedy at law may prove to be inadequate relief to FINOVA. Therefore, FINOVA, if it so requests, shall be entitled to temporary and permanent injunctive relief in any such case without the necessity of proving actual damages.

9.18 Counterparts; Facsimile Execution. This Agreement may be executed in one or more counterparts, each of which taken together shall constitute one and the same instrument, admissible into evidence. Delivery of an executed counterpart of this Agreement by telefacsimile shall be equally as effective as delivery of a manually executed counterpart of this Agreement. Any party delivering an executed counterpart of this Agreement by telefacsimile shall also deliver a manually executed counterpart of this Agreement, but the failure to deliver a manually executed counterpart shall not affect the validity, enforceability, and binding effect of this Agreement.

9.19 Construction. The parties acknowledge that each party and its counsel have reviewed this Agreement and that the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement or any amendments or exhibits hereto.

9.20 Time of Essence. Time is of the essence for the performance by each Borrower of the Obligations set forth in this Agreement.

9.21 Limitation of Actions. Each Borrower agrees that any claim or cause of action by such Borrower against FINOVA, or any of FINOVA's directors, officers, employees, agents, accountants or attorneys, based upon, arising from, or relating to this Agreement, or any other present or future agreement, or any other transaction contemplated hereby or thereby or relating hereto or thereto, or any other matter, cause

or thing whatsoever, whether or not relating hereto or thereto, occurred, done, omitted or suffered to be done by FINOVA, or by FINOVA's directors, officers, employees, agents, accountants or attorneys, whether sounding in contract or in tort or otherwise, shall be barred unless asserted by such Borrower by the commencement of an action or proceeding in a court of competent jurisdiction by the filing of a complaint within one year after any Borrower has knowledge, or with the exercise of reasonable diligence should have had knowledge, of the first act, occurrence or omission upon which such claim or cause of action, or any part thereof, is based and service of a summons and complaint on an officer of FINOVA or any other Person authorized to accept service of process on behalf of FINOVA, within 30 days thereafter. Each Borrower agrees that such one-year period of time is a reasonable and sufficient time for Borrowers to investigate and act upon any such claim or cause of action. The one-year period provided herein shall not be waived, tolled, or extended except by a specific written agreement of FINOVA. This provision shall survive any termination of this Loan Agreement or any other agreement.

9.22 Liability. Neither FINOVA nor any FINOVA Affiliate shall be liable for any indirect, special, incidental or consequential damages in connection with any breach of contract, tort or other wrong relating to this Agreement or the Obligations or the establishment, administration or collection thereof (including without limitation damages for loss of profits, business interruption, or the like), whether such damages are foreseeable or unforeseeable, even if FINOVA has been advised of the possibility of such damages. Neither FINOVA, nor any FINOVA Affiliate shall be liable for any claims, demands, losses or damages, of any kind whatsoever, made, claimed, incurred or suffered by a Borrower through the ordinary negligence of FINOVA, or any FINOVA Affiliate. "FINOVA AFFILIATE" shall mean FINOVA's directors, officers, employees, agents, attorneys or any other Person or entity affiliated with or representing FINOVA.

9.23 Notice of Breach by FINOVA. Each Borrower agrees to give FINOVA written notice of (i) any action or inaction by FINOVA or any attorney of FINOVA in connection with any Loan Documents that may be actionable against FINOVA or any attorney of FINOVA or (ii) any defense to the payment of the Obligations for any reason, including, but not limited to, commission of a tort or violation of any contractual duty or duty implied by law. Each Borrower agrees that unless such notice is fully given as promptly as possible (and in any event within thirty (30) days) after any Borrower has knowledge, or with the exercise of reasonable diligence should have had knowledge, of any such action, inaction or defense, no Borrower shall assert, and each Borrower shall be deemed to have waived, any claim or defense arising therefrom.

9.24 Application of Insurance Proceeds. The net proceeds of any casualty insurance insuring the Collateral, after deducting all costs and expenses (including attorneys' fees) of collection, shall be applied, at FINOVA's option, either toward replacing or restoring the Collateral, in a manner and on terms satisfactory to FINOVA, or toward payment of the Obligations. Any proceeds applied to the payment of Obligations shall be applied in such manner as FINOVA may elect. In no event shall such application relieve any Borrower from payment in full of all installments of principal and interest which thereafter become due in the order of maturity thereof.

9.25 Power of Attorney. Each Borrower appoints FINOVA and its designees as such Borrower's attorney, with the power to endorse such Borrower's name on any checks, notes, acceptances, money orders or other forms of payment or security that come into FINOVA's possession; to sign such Borrower's name on any invoice or bill of lading relating to any Receivable, on drafts against customers, on assignments of Receivables, on notices of assignment, financing statements and other public records, on verifications of accounts and on notices to customers or account debtors; to send requests for verification of Receivables to customers or account debtors; after the occurrence of any Event of Default, to notify the post office authorities to change the address for delivery of such Borrower's mail to an address designated by FINOVA and to open and dispose of all mail addressed to such Borrower; and to do all other things FINOVA deems necessary or desirable to carry out the terms of this Agreement. Each Borrower hereby ratifies and approves all acts of such attorney. Neither FINOVA nor any of its designees shall be liable for any acts or omissions nor for any error of judgment or mistake of fact or law while acting as such Borrower's attorney. This power, being coupled with an interest, is irrevocable until the Obligations have been fully satisfied and FINOVA's obligation to provide loans hereunder shall have terminated.

9.26 GOVERNING LAW; WAIVERS. THIS AGREEMENT, INCLUDING WITHOUT LIMITATION ENFORCEMENT OF THE OBLIGATIONS, SHALL BE INTERPRETED IN ACCORDANCE WITH THE INTERNAL LAWS (AND NOT THE CONFLICT OF LAWS RULES) OF THE STATE OF ARIZONA GOVERNING CONTRACTS TO BE PERFORMED ENTIRELY WITHIN SUCH STATE. EACH BORROWER HEREBY CONSENTS TO THE EXCLUSIVE JURISDICTION OF ANY STATE OR FEDERAL COURT LOCATED WITHIN THE COUNTY OF MARICOPA IN THE STATE OF ARIZONA OR, AT THE SOLE OPTION OF FINOVA, IN ANY OTHER COURT IN WHICH FINOVA SHALL INITIATE LEGAL OR EQUITABLE PROCEEDINGS AND WHICH HAS SUBJECT MATTER JURISDICTION OVER THE MATTER IN CONTROVERSY. EACH BORROWER WAIVES ANY OBJECTION OF FORUM

NON CONVENIENS AND VENUE. EACH BORROWER FURTHER WAIVES PERSONAL SERVICE OF ANY AND ALL PROCESS UPON IT, AND CONSENTS THAT ALL SUCH SERVICE OF PROCESS BE MADE IN THE MANNER SET FORTH IN SECTION 9.12 HEREOF FOR THE GIVING OF NOTICE. EACH BORROWER FURTHER WAIVES ANY RIGHT IT MAY OTHERWISE HAVE TO COLLATERALLY ATTACK ANY JUDGMENT ENTERED AGAINST IT.

9.27 MUTUAL WAIVER OF RIGHT TO JURY TRIAL. FINOVA AND EACH BORROWER HEREBY WAIVES THE RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED UPON, ARISING OUT OF, OR IN ANY WAY RELATING TO: (I) THIS AGREEMENT; (II) ANY OTHER PRESENT OR FUTURE INSTRUMENT OR AGREEMENT BETWEEN FINOVA AND ANY BORROWER; OR (III) ANY CONDUCT, ACTS OR OMISSIONS OF FINOVA OR ANY BORROWER OR ANY OF THEIR DIRECTORS, OFFICERS, EMPLOYEES, AGENTS, ATTORNEYS OR ANY OTHER PERSONS AFFILIATED WITH FINOVA OR ANY BORROWER; IN EACH OF THE FOREGOING CASES, WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE.

9.28 Nonpublic Information. FINOVA agrees that if, in the course of the transactions contemplated by this Agreement, it comes into possession of any material non-public information regarding DSI and its subsidiaries, it will use all reasonable efforts to maintain the confidentiality of such information and will not disclose any of such information to any person except to its employees, advisors, and agents as necessary or advisable in connection with the negotiation, administration, and enforcement of the Loan Documents. The foregoing undertaking will not apply to any such information after such time as it becomes generally available to the public.

[SIGNATURES FOLLOW]

BORROWERS:

DIGITAL SOLUTIONS, INC., a New Jersey corporation
Fed. Tax ID #: 22-1899798

By: _____
Name:
Title:

DSI-CONTRACT STAFFING, INC., a New York corporation
Fed. Tax ID #: 13-2878077

By: _____
Name:
Title:

DSI-STAFF CONNXIONS-NORTHEAST, INC., a New Jersey corporation
Fed. Tax ID #: 22-3405060

By: _____
Name:
Title:

DSI-STAFF Rx, INC., a Texas corporation
Fed. Tax ID #: 76-0451040

By: _____
Name:
Title:

DSI- STAFF CONNXIONS-SOUTHWEST, INC., a Texas corporation
Fed. Tax ID #: 76-0422152

By: _____
Name:
Title:

LENDER:

FINOVA CAPITAL CORPORATION

By: _____
Name: Ilene Gerber
Title: Vice President

EXHIBIT A

(CLOSING CHECKLIST - SECTION4.1(z))

EXHIBIT B

(COMPLIANCE CERTIFICATE - SECTION 9.19(b))

EXHIBIT 10.18

SECURED PROMISSORY NOTE

$2,500,000 Phoenix, Arizona
April 28, 1998

FOR VALUE RECEIVED, DIGITAL SOLUTIONS, INC., a New Jersey Corporation, DSI-CONTRACT STAFFING, INC., a New York corporation, DSI-STAFF CONNXIONS-NORTHEAST, INC., a New Jersey corporation, DSI-STAFF CONNXIONS-SOUTHWEST, INC., a Texas corporation, and DSI-STAFF Rx, INC., a Texas corporation (collectively, "Borrower"), jointly and severally promise to pay to the order of FINOVA CAPITAL CORPORATION, a Delaware corporation ("FINOVA"), at its offices at 355 South Grand Avenue, Suite 2400, Los Angeles, California 90071, or at such other place or places as FINOVA may from time to time designate in writing, the principal sum of TWO MILLION FIVE HUNDRED THOUSAND Dollars ($2,500,000), plus interest in the manner and upon the terms and conditions set forth below. This Secured Promissory Note ("Note") is made pursuant to that certain Loan and Security Agreement of even date between FINOVA and Borrower (the "Loan Agreement"), the provisions of which are incorporated herein by this reference. Capitalized terms herein, unless otherwise noted, shall have the meaning set forth in the Loan Agreement.

1.0 SCHEDULE OF PAYMENTS; RATE AND PAYMENT OF INTEREST; PREPAYMENT.

1.1 The principal balance of this Note shall be payable as follows:

a. thirty-five (35) equal successive monthly installments of principal of Forty-One Thousand Six Hundred Sixty-Seven Dollars ($41,667.00) each on the first day of each month, beginning June 1, 1998, and continuing through and including April 1, 2001; and

b. A final installment equal to the then unpaid principal balance hereof on the last Business Day of April, 2001.

1.2 Prepayment may be made under this Note in whole or in part, subject to, in the case of prepayment in whole, the Termination Fee and Success Fee set forth in the Loan Agreement, provided that such prepayment is preceded by not less than five (5) business days prior written notice to FINOVA and accompanied by all accrued but unpaid interest and the full amount of the applicable Termination Fee, if any, and Success Fee. Notwithstanding anything herein to the contrary, in the event the Loan Agreement is terminated by Borrower, by FINOVA or by any other person at any time in accordance with its terms, or the Revolving Credit Loans facility is otherwise terminated for any reason, then the entire unpaid principal balance of this Note, together with all accrued and unpaid interest hereon and the full amount of the applicable Termination Fee and Success Fee, shall become immediately due and payable in full on the effective date of such termination, without presentment, notice or demand of any kind.

1.3 Interest shall be computed on the basis of a 360-day year for the actual number of days elapsed, and shall be at the rate of three (3%) percentage points above the Prime Rate (as hereinafter defined), computed on the basis of a 360-day year; provided, however, upon

the occurrence and during the continuance of an event of default (as hereinafter defined), interest shall accrue on the outstanding principal balance of this Note at a default rate (the "Default Rate") of five (5%) percentage points above the Prime Rate, and shall be payable on demand. "Prime Rate" means, for any day, the rate of interest per annum (over a year of 360 days) announced by Citibank, N.A. (the "Bank"), from time to time, as its "base rate" (or any successor thereto) in effect on such day. The Prime Rate is not necessarily the lowest rate charged by the Bank. As of the date of this Note, the Prime Rate is _____ percent (__%) per annum. The applicable rate of interest assessed hereunder will be increased or decreased from time to time hereafter in an amount equal to any increase or decrease hereafter made by the Bank in the Prime Rate. A change in the Prime Rate shall be effective on the first day following such change. Accrued interest shall be payable monthly in arrears on the first day of each month, commencing June 1, 1998, and upon the final payment in full of the principal balance hereof.

2.0 EVENTS OF DEFAULTS; REMEDIES.

2.1 Upon the occurrence of any Event of Default under and as defined in the Loan Agreement, in addition to FINOVA's right to charge interest on the Obligations at the Default Rate: (a) at the option of FINOVA, the entire unpaid amount of this Note and all of the other Obligations, including without limitation the Termination Fee, shall become immediately due and payable without demand, notice or legal process of any kind; (b) FINOVA may, at its option, without demand, notice or legal process of any kind, exercise any and all rights and remedies granted to it by the Loan Agreement or by any other agreement now or hereafter existing between FINOVA and Borrower or between FINOVA and any guarantor of part or all of Borrower's liabilities to FINOVA; and (c) FINOVA may at its option exercise from time to time any other rights and remedies available to it under the Uniform Commercial Code or other law of the State of Arizona.

2.2 The remedies of FINOVA as provided herein and in the Loan Agreement shall be cumulative and concurrent, and may be pursued singularly, successively, or together, at the sole discretion of FINOVA. No act of omission or commission of FINOVA, including specifically any failure to exercise any right, remedy or recourse, shall be deemed to be a waiver or release of the same, such waiver or release to be effected only through a written document executed by FINOVA and then only to the extent specifically recited therein. A waiver or release with reference to any one event shall not be construed as continuing, as a bar to, or as a waiver or release of, any subsequent right, remedy or recourse as to a subsequent event.

3.0 GENERAL PROVISIONS.

3.1 Borrower warrants and represents to FINOVA that Borrower has used and will continue to use the loans and advances represented by this Note solely for proper business purposes, and consistent with all applicable laws and statutes.

3.2 This Note is secured by the Collateral described in the Loan Agreement.

3.3 Borrower waives presentment, demand and protest, notice of protest, notice of presentment and all other notices and demands in connection with the enforcement of

FINOVA's rights hereunder, except as specifically provided and called for by this Note, and hereby consents to, and waives notice of, the release, addition, or substitution, with or without consideration, of any collateral or of any person liable for payment of this Note. Any failure of FINOVA to exercise any right available hereunder or otherwise shall not be construed as a waiver of the right to exercise the same or as a waiver of any other right at any other time.

3.4 If this Note is not paid when due or upon the occurrence of an Event of Default, Borrower further promises to pay all costs of collection, foreclosure fees, reasonable attorneys fees and expert witness fees incurred by FINOVA, whether or not suit is filed hereon, and the fees, costs and expenses as provided in the Loan Agreement.

3.5 The contracted for rate of interest of the loan contemplated hereby, without limitation, shall consist of the following: (i) the interest rate set forth on the Schedule, calculated and applied to the principal balance of this Note in accordance with the provisions of this Note: (ii) interest after an Event of Default, calculated and applied to the amounts due under this Note in accordance with the provisions hereof; and (iii) all Additional Sums (as herein defined), if any. Borrower agrees to pay an effective contracted for rate of interest which is the sum of the above-referenced elements. All examination fees, attorneys fees, expert witness fees, letter of credit fees, collateral monitoring fees, closing fees, facility fees, Termination Fees, Minimum Interest Charges, other charges, goods, things in action or any other sums or things of value paid or payable by Borrower (collectively, the "Additional Sums"), whether pursuant to this Note, the Loan Agreement or any other documents or instruments in any way pertaining to this lending transaction, or otherwise with respect to this lending transaction, that under any applicable law may be deemed to be interest with respect to this lending transaction, for the purpose of any applicable law that may limit the maximum amount of interest to be charged with respect to this lending transaction, shall be payable by Borrower as, and shall be deemed to be, additional interest and for such purposes only, the agreed upon and "contracted for rate of interest" of this lending transaction shall be deemed to be increased by the rate of interest resulting from the inclusion of the Additional Sums.

3.6 It is the intent of the parties to comply with the usury law of the State of Arizona (the "Applicable Usury Law"). Accordingly, it is agreed that notwithstanding any provisions to the contrary in this Note, or in any of the documents securing payment hereof or otherwise relating hereto, in no event shall this Note or such documents require the payment or permit the collection of interest in excess of the maximum Interest Rate, then in any such event (1) the provisions of the paragraph shall govern and control, (2) neither Borrower nor any other person or entity now or hereafter liable for the payment hereof shall be obligated to pay the amount of such interest to the extent that it is in excess of the Maximum Interest Rate, (3) any such excess which may have been collected shall be either applied as a credit against the then unpaid principal amount hereof or refunded to Borrower, at FINOVA's option, and (4) the effective rate of interest shall be automatically reduced to the Maximum Interest Rate. It is further agreed, without limiting the generality of the foregoing, that to the extent permitted by the Applicable Usury Law; (x) all calculations of interest which are made for the purpose of determining whether such rate would exceed the Maximum Interest Rate shall be made by amortizing, prorating, allocating and spreading during the period of the full stated term of the loan evidenced hereby, all interest at any time contracted for, charged or received from Borrower

or otherwise in connection with such loan; and (y) in the event that the effective rate of interest on the loan should at any time exceed the Maximum Interest Rate, such excess interest that would otherwise have been collected had there been no ceiling imposed by the Applicable Usury Law shall be paid to FINOVA from time to time, if and when the effective interest rate on the loan otherwise fall below the Maximum Interest Rate, until the entire amount of interest which would otherwise have been collected had there been no ceiling imposed by the Applicable Usury Law has been paid in full. Borrower further agrees that should the Maximum Interest Rate be increased at any time hereafter because of a change in the Applicable Usury Law, then to the extent not prohibited by the Applicable Usury Law, such increases shall apply to all indebtedness evidenced hereby regardless of when incurred; but, again to the extent not prohibited by the Applicable Usury Law, should the maximum Interest Rate be decreased because of a change in the Applicable Usury Law, such decreases shall not apply to the indebtedness evidenced hereby regardless of when incurred.

3.7 FINOVA may at any time transfer this Note and FINOVA's rights in any or all collateral securing this Note, and FINOVA thereafter shall be relieved from all liability with respect to such collateral arising after the date of such transfer.

3.8 This Note shall be binding upon Borrower and its legal representatives, successors and assigns. Wherever possible, each provision of this Note shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of the Note shall be prohibited by or invalid under such law, such provision shall be severable, and be ineffective to the extent of such prohibition or invalidity, without invalidating the remaining provision of this Note.

THIS NOTE HAS BEEN DELIVERED FOR ACCEPTANCE BY FINOVA IN PHOENIX, ARIZONA AND SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS (AS OPPOSED TO THE CONFLICTS OF LAW PROVISIONS) OF THE STATE OF ARIZONA, AS THE SAME MAY FROM TIME TO TIME BE IN EFFECT, INCLUDING, WITHOUT LIMITATION, THE UNIFORM COMMERCIAL CODE AS ADOPTED IN ARIZONA. BORROWER HEREBY (i) IRREVOCABLY SUBMITS TO THE JURISDICTION OF ANY STATE OR FEDERAL COURT LOCATED IN MARICOPA COUNTY, ARIZONA OVER ANY ACTION OR PROCEEDING TO ENFORCE OR DEFEND ANY MATTER ARISING FROM OR RELATED TO THIS NOTE; (ii) WAIVES PERSONAL SERVICE OF ANY AND ALL PROCESS UPON BORROWER, AND CONSENTS THAT ALL SUCH SERVICE OF PROCESS BE MADE BY MESSENGER, CERTIFIED MAIL OR REGISTERED MAIL DIRECTED TO BORROWER AT THE ADDRESS SET FORTH BELOW AND SERVICE SO MADE SHALL BE DEEMED TO BE COMPLETED UPON THE EARLIER OF ACTUAL RECEIPT OR THREE (3) DAYS AFTER THE SAME SHALL HAVE BEEN POSTED TO BORROWER'S ADDRESS; (iii) IRREVOCABLY WAIVES, TO THE FULLEST EXTENT BORROWER MAY EFFECTIVELY DO SO, THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF ANY SUCH ACTION OR PROCEEDING; (iv) AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN ANY OTHER JURISDICTION BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW; (v) AGREES

NOT TO INSTITUTE ANY LEGAL ACTION OR PROCEEDING AGAINST FINOVA OR ANY OF FINOVA'S DIRECTORS, OFFICERS, EMPLOYEES, AGENTS OR PROPERTY, CONCERNING ANY MATTER ARISING OUT OF OR RELATING TO THIS NOTE IN ANY COURT OTHER THAN ONE LOCATED IN MARICOPA COUNTY, ARIZONA; AND (vi) IRREVOCABLY WAIVES ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION ARISING UNDER OR IN CONNECTION WITH THIS NOTE. NOTHING IN THIS PARAGRAPH SHALL AFFECT OR IMPAIR FINOVA'S RIGHT TO SERVE LEGAL PROCESS IN ANY MANNER PERMITTED BY LAW OR FINOVA'S RIGHT TO BRING ANY ACTION OR PROCEEDING AGAINST BORROWER OR BORROWER'S PROPERTY IN THE COURTS OF ANY OTHER JURISDICTION.

[Signatures Follow]

DIGITAL SOLUTIONS, INC., a New Jersey corporation
Fed. Tax ID #: 22-1899798

By: _____
Name:
Title:

Address: 300 Atrium Drive, Somerset, New Jersey 08773

DSI-CONTRACT STAFFING, INC., a New York corporation
Fed. Tax ID #: 13-2878077

By: _____
Name:
Title:

Address: 245 Fifth Avenue, Suite 1003, New York, New York 10016

DSI-STAFF CONNXIONS-NORTHEAST, INC., a New Jersey corporation
Fed. Tax ID #: 22-3405060

By: _____
Name:
Title:

Address: 300 Atrium Drive, Somerset, New Jersey 08773

DSI-STAFF RX, INC., a Texas corporation
Fed. Tax ID #: 76-0451040

By: _____
Name:
Title:

Address: 2 Northpoint Drive, Suite 110, Houston, Texas 77060

DSI-STAFF CONNXIONS-SOUTHWEST, INC., a Texas corporation
Fed. Tax ID #: 76-0422152

By: _____
Name:
Title:

Address: 2 Northpoint Drive, Suite 110, Houston, Texas 77060

Exhibit 10.19

STOCK PLEDGE AGREEMENT
(SECURITY AGREEMENT)

STOCK PLEDGE AGREEMENT (SECURITY AGREEMENT), dated April 28, 1998, between FINOVA CAPITAL CORPORATION, a Delaware corporation, with an office at 355 South Grand Avenue, Suite 2400, Los Angeles, California 90071 ("Pledgee"), and DIGITAL SOLUTIONS, INC., a New Jersey corporation with an office at 300 Atrium Drive, Somerset, New Jersey 08873 ("Pledgor").

Pledgor and Pledgee are entering into a Loan and Security Agreement, dated as of the date hereof (the "Loan Agreement"), pursuant to which Pledgee will make revolving and term loans and provide other financial accommodations to Borrower (collectively, the "Loans") on the terms and conditions set forth in the Loan Agreement. It is a condition precedent to Pledgee's obligation to make the Loans that Pledgor pledge to Pledgee and grant Pledgee a security interest in all of the outstanding voting stock of each of Pledgor's subsidiaries now owned or hereafter acquired by Pledgor, and certain related rights and property, as more fully described below.

Accordingly, Pledgor hereby agrees with Pledgee as follows:

1. Security Interest. In consideration of any loan, advance, or other extension of credit heretofore or hereafter made by Pledgee under the Loan Agreement or otherwise to, or for the account or benefit of Borrower, and as security for the Obligations (as hereinafter defined), Pledgor hereby pledges, transfers and assigns to Pledgee and grants to Pledgee a security interest (the "Security Interest") in the following:

(a) all of the currently owned and hereafter acquired shares of the stock of each Subsidiary (as hereinafter defined) of the Borrower, now existing or hereafter created or acquired (the "Pledged Stock"), including, without limitation, the shares of stock described on EXHIBIT A hereto and all shares of capital stock of each Subsidiary which Pledgor receives by reason of any stock split, bonus, dividend, distribution, or other form of issue;

(b) all warrants, rights, or options to acquire, or securities convertible into, any capital stock of any Subsidiary, now or hereafter issued to or acquired by Pledgor;

(c) all dividends declared or paid upon the Pledged Stock or any of the other stock or securities described above;

(d) all increases and profits from the foregoing and all replacements and substitutions for the foregoing; and

(e) all proceeds of the foregoing including, without limitation, all securities or other property acquired with any proceeds.

The property described in subsections (a) through (e) above is referred to hereinafter collectively as the "Collateral". When used herein, "Subsidiary" means any corporation, limited liability company, or other entity of which at least a majority of the securities or other ownership interests having ordinary voting power for the election of directors is owned or controlled by the Pledgor or one or more Subsidiaries or by Pledgor and one or more Subsidiaries. Pledgor is delivering to Pledgee herewith physical possession of the Pledged Stock listed on Exhibit A, accompanied by appropriate instruments of transfer executed in blank, and Pledgee herewith acknowledges receipt of the Pledged Stock.

2. Obligations Secured. The Collateral secures payment and performance by Pledgor of all of the Obligations as defined in the Loan Agreement, including, without limitation, all current and future debts, liabilities, agreements, covenants, and obligations of Pledgor to Pledgee under or pursuant to this Agreement (all of the foregoing referred to collectively herein as the "Obligations").

3. Representations and Warranties of Pledgor. Pledgor represents and warrants that: (a) each Instrument and document constituting Collateral is genuine and in all respects what it purports to be; (b) Pledgor is the legal and beneficial owner of the Collateral free of all pledges, security interests, charges, liens, or other encumbrances, except under this Agreement, and has the power and authority to convey any or all of its rights and interests in the Collateral; (c) the Pledged Stock constitutes all of the issued and outstanding capital stock of Pledgor's Subsidiaries; (d) there are no options, warrants, calls, or other rights or commitments of any character giving any person the right to purchase any of the Pledged Stock or other Collateral from Pledgor; (e) the Pledged Stock has been duly authorized and validly issued, is fully paid and non-assessable, and was not issued in violation of the preemptive or other rights of any person; (f) there are no restrictions on the voting rights or upon the transfer of any of the Collateral other than those contained in this Agreement or appearing on the certificates evidencing the Collateral; (g) the instruments of transfer delivered with the Pledged Stock herewith are duly executed and give Pledgee the power they purport to confer; (h) Pledgor has no Subsidiary on the date hereof that is not listed on Exhibit A; and (i) the execution, delivery and performance by Pledgor of this Agreement does not and will not result in any violation of or conflict with the terms of any agreement, indenture, instrument, license, judgment, decree, order, law, statute, ordinance or other governmental rule or regulation applicable to or binding upon Pledgor.

4. Covenants of Pledgor. So long as this Agreement is in effect, Pledgor: (a) will defend the Collateral against the claims and demands of all other parties; will keep the Collateral free from all security interests or other encumbrances, except under this Agreement; and will not sell, transfer, assign, deliver or otherwise dispose of any Collateral or any interest therein or right thereunder or grant to any person any option, warrant, or other rights to acquire any of the Collateral or any interest therein or right thereunder, without the prior written consent of Pledgee; (b) in connection herewith, will execute and deliver to Pledgee such financing statements, assignments, registrations, and other documents and do such other things relating to the Collateral and the Security Interest as Pledgee may reasonably request, and pay all costs of lien searches and filing financing statements, assignments and other documents in all

public offices reasonably requested by Pledgee; (c) will notify Pledgee promptly in writing of any change in Pledgor's address; (d) if Pledgor organizes or acquires any Subsidiary after the date hereof, or if Pledgor receives any additional Instrument or document constituting or evidencing any Collateral, Pledgor will immediately notify Pledgee thereof and immediately deliver such Instrument or document to Pledgee, duly endorsed as Pledgee requests or accompanied by an appropriate instrument of transfer executed in blank; and (e) will pay or reimburse Pledgee for all taxes, assessments and other charges of every nature which may be imposed, levied or assessed on Pledgee in respect of the Collateral.

5. Voting Rights; Irrevocable Proxy. So long as no Event of Default (as hereinafter defined) has occurred and is continuing, Pledgor shall be entitled to exercise any and all voting and other consensual rights pertaining to the Collateral or any part thereof for any purpose not inconsistent with the terms of this Agreement and the Loan Agreement; provided, however, that (i) Pledgor shall notify Pledgee in writing of each instance when Pledgor is entitled to exercise such voting or consensual rights and of the action Pledgor proposes to take and (ii) Pledgor shall not exercise or refrain from exercising any such right if, in Pledgee's judgment reasonably exercised, such action would have a material adverse effect on the value of the Collateral or any part thereof. Pledgee shall execute and deliver (or cause to be executed and delivered) to Pledgor all such proxies and other instruments as Pledgor may reasonably request for the purpose of enabling Pledgor to exercise its voting and other rights as provided in the preceding sentence. If an Event of Default occurs, and so long as it continues, then, at Pledgee's election in its sole discretion indicated by written notice to Pledgor, all of Pledgor's rights to exercise any voting or other consensual rights pertaining to the Collateral or any part thereof shall cease, and all such rights shall thereupon become vested in Pledgee, which shall thereupon have the sole right to exercise such voting and other consensual rights. In furtherance of the immediately preceding sentence, Pledgor irrevocably constitutes and appoints Pledgee, effective upon Pledgee's giving of the foregoing notice after the occurrence and during the continuance of any Event of Default, as Pledgor's proxy with full power, in the same manner, to the same extent and with the same effect as if Pledgor were to do the same, and whether or not the Collateral has been transferred into the name of Pledgee or its nominee: (a) to attend all meetings of stockholders of any Subsidiary and to vote the Collateral at such meetings in such manner as Pledgee shall, in its sole discretion, deem appropriate, including, without limitation, in favor of the liquidation of any Subsidiary; (b) to consent, in the sole discretion of Pledgee, to any and all action by or with respect to any Subsidiary for which the consent of the stockholders of any Subsidiary is or may be necessary or appropriate; and (c) without limitation, to do all things which Pledgor can or could do as a stockholder of any Subsidiary, giving to Pledgee full power of substitution and revocation. The foregoing proxy shall terminate when this Agreement is no longer in full force and effect as hereinafter provided. Pledgor hereby revokes any proxy or proxies heretofore given by Pledgor to any person or persons whatsoever and agrees not to give any other proxies in derogation hereof until this Agreement is no longer in full force and effect as hereinafter provided.

6. Notice to and Acknowledgment by Borrower; Registered Holder of Collateral.

(a) Contemporaneously herewith, as an additional condition precedent to Pledgee's obligation to make the Loans, and upon the creation or acquisition of any Subsidiary on or after the date hereof, Pledgor shall execute and deliver, and cause each Subsidiary to execute and deliver, Notice and Acknowledgment in the form of EXHIBIT B attached hereto.

(b) At any time, either before or after an Event of Default has occurred and is continuing, Pledgee is authorized to transfer the Collateral or any part thereof into its own name or that of its nominee so that Pledgee or its nominee may appear of record as the sole owner thereof.

7. Dividends and Other Income from Collateral; Additional Shares.

(a) So long as no Event of Default hereunder has occurred and is continuing, Pledgor shall be entitled to receive any and all dividends or other income paid in respect of the Collateral. If an Event of Default has occurred and is continuing, then Pledgor's entitlement to receive dividends or other income in respect of the Collateral shall cease, and, until such Event of Default has been cured or the Obligations are fully and finally paid, any and all such dividends and other income shall be paid directly to Pledgee without deduction, credit, or setoff for any reason; Pledgee shall, at its sole election, either hold them as Collateral or apply the same to the Obligations in such order and manner as Pledgee determines.

(b) Any and all dividends paid or payable other than in cash in respect of, and instruments, stock and other property received, receivable or otherwise distributed in respect of, upon the subdivision or combination of, or in exchange for, any Collateral, shall constitute Collateral, and shall forthwith be paid or delivered directly to Pledgee to hold as Collateral.

(c) Any and all dividends and other distributions paid or payable in cash in respect of any Collateral in connection with a partial or total liquidation or dissolution, and any and all cash paid, payable or otherwise distributed in respect to redemption of, or in exchange for, any Collateral, shall be paid or delivered directly to Pledgee, which, at Pledgee's sole election, shall be held as Collateral or applied to the Obligations in such order and manner as Pledgee determines.

(d) If Pledgor receives, or becomes entitled to receive, any additional shares of Pledged Stock or any other property, other than as contemplated in subsections (a), (b), and (c) of this Section 7 (whether by reclassification, readjustment, stock split or other change in the capital structure of any Subsidiary, or in any other manner), such shares or other property shall constitute Collateral, and Pledgor shall direct the applicable Subsidiary to deliver certificates representing such shares and all such other property directly to Pledgee to be held as Collateral, and Pledgor shall deliver to Pledgee appropriate instruments of transfer executed in blank with respect thereto.

(e) If, notwithstanding the foregoing, Pledgor receives any dividend or other property payable or deliverable directly to Pledgee in accordance with the foregoing subsections, Pledgor shall receive it in trust for the benefit of Pledgee, segregate it

from the other property or funds of Pledgor, and deliver it immediately to Pledgee in the form received (with any necessary endorsement).

8. Increases, Profits, Payments or Distributions.

(a) Whether or not an Event of Default has occurred, Pledgor authorizes Pledgee: (i) to receive any increase in or profits on the Collateral (which, for the purposes hereof, shall not include cash dividends) and to hold the same as part of the Collateral; and (ii) to receive any payment or distribution on the Collateral upon redemption by, or dissolution and liquidation of, any Subsidiary; to surrender the Collateral or any part thereof in exchange therefor; and, at Pledgee's sole election, to hold the net cash receipts from any such payment or distribution as part of the Collateral, or to apply them to the Obligations in such order and manner as Pledgee determines.

(b) If Pledgor receives any such increase, profits, payments or distributions, Pledgor will receive and deliver the same promptly to Pledgee on the same terms and conditions set forth in Section 7(e).

9. Events of Default. It shall be an Event of Default hereunder if any Event of Default under the Loan Agreement occurs.

10. Remedies.

(a) Whenever an Event of Default occurs (after taking into account the applicable cure period, if any) and so long as it continues, Pledgee shall have, and may exercise with respect to the Collateral, in such order and manner as it determines, all rights and remedies of a secured party under the Uniform Commercial Code and under any other applicable law, as the same may from time to time be in effect, as well as those rights granted herein, under the Loan Agreement, and in any other agreement now or hereafter in effect between Pledgor and Pledgee. Without limiting the generality of the foregoing, whenever an Event of Default exists, Pledgee may sell or otherwise dispose of all or any part of the Collateral by public or private sale, in one or more transactions, and in such order as Pledgee determines. Proceeds realized from such sales and dispositions shall be applied first to Pledgee's costs and expenses in connection therewith and then to the Obligations in such order as Pledgee determines. Pledgor recognizes that Pledgee may be unable to effect a public sale of all or a part of the Collateral by reason of certain provisions contained in the Securities Act of 1933, as amended (the "Securities Act") and the securities laws of various states, and may be compelled to resort to one or more private sales to a restricted group of purchasers who will be obliged to agree, among other things, to acquire the Collateral for their own account, for investment and without a view to the distribution or resale thereof. Pledgor understands that private sales so made may be at prices and other terms less favorable than if the Collateral were sold at public sales, and agrees that Pledgee has no obligation to delay the sale of the Collateral for the period of time necessary to permit Pledgee to register the Collateral for sale under the Securities Act or such state laws. Pledgor agrees that private sales under the foregoing circumstances shall be deemed to have been made in a commercially reasonable manner.

(b) Without in any way requiring notice to be given in the following time and manner, Pledgor agrees that any notice by Pledgee of a sale, disposition or other intended action hereunder or in connection herewith, whether required by the Uniform Commercial Code or otherwise, shall constitute reasonable notice to Pledgor if such notice is mailed by registered or certified mail, return receipt requested, postage prepaid, or delivered personally against receipt, or sent by a recognized overnight delivery service, at least ten (10) days prior to such action, to Pledgor's address set forth in the caption of this Agreement or to such other address as is specified in writing to Pledgee as the address to which notices shall be given to Pledgor.

(c) Pledgor shall pay on demand all costs and expenses incurred by Pledgee in enforcing this Agreement, in realizing upon or protecting any Collateral and in enforcing and collecting any Obligations or any guaranty thereof, including, without limitation, if Pledgee retains counsel for advice, suit, appeal, insolvency or other proceedings under the federal Bankruptcy Code or otherwise, or for any of the above purposes, the reasonable attorneys' and paralegals' fees incurred by Pledgee, and all such costs and expenses are secured by the Collateral, as well as by all other property serving as security for the Obligations.

11. Miscellaneous.

(a) Pledgor hereby expressly waives: (i) notice of the acceptance by Pledgee of this Agreement; (ii) notice of the existence, creation, payment, nonpayment, performance or nonperformance of all or any of the Obligations; (iii) presentment, demand, notice of dishonor, protest, notice of protest and all other notices whatsoever with respect to the payment or performance of the Obligations or the amount hereof or any payment or performance by Pledgor hereunder, except as otherwise expressly provided in the Loan Agreement; (iv) all diligence in collection or protection of or realization upon the Obligations or any thereof, any obligation hereunder or any security for or guaranty of any of the foregoing; (v) any right to direct or affect the manner or timing of Pledgee's enforcement of its rights or remedies; (vi) any and all defenses which would otherwise arise upon the occurrence of any event or contingency or upon the taking of any action by Pledgee permitted hereunder; (vii) any defense, right of set-off, claim or counterclaim whatsoever and any and all other rights, benefits, protections and other defenses available to Pledgor now or at any time hereafter; and (viii) all other principles or provisions of law, if any, that conflict with the terms of this Agreement, including, without limitation, the effect of any circumstances that may or might constitute a legal or equitable discharge of a guarantor or surety. Pledgor hereby further waives all rights to revoke this Agreement at any time, and all rights to revoke any agreement executed by Pledgor at any time to secure further the payment and performance of the Obligations. Pledgor waives all rights and defenses arising out of an election of remedies by Pledgee, even though that election of remedies, such as a nonjudicial foreclosure with respect to security for a guaranteed obligation, has destroyed Pledgor's rights of subrogation and reimbursement against Borrower by the operation of any applicable law or otherwise.

(b) Pledgor hereby appoints Pledgee as Pledgor's attorney-in-fact (without requiring Pledgee) to perform all acts which Pledgee deems appropriate in accordance with this Agreement to perfect and continue its interests hereunder in the

Collateral and to protect, preserve and realize upon the Collateral. Pledgor further appoints Pledgee as its attorney-in-fact to execute such orders and receipts for payment of the Collateral in accordance with this Agreement as Pledgee deems appropriate in its sole discretion. These powers of attorney are coupled with an interest and shall be irrevocable and are given to secure performance by Pledgor of the Obligations and are irrevocable. Pledgor ratifies and approves all acts of such attorney, and Pledgee shall not be liable for any acts or omissions or any error of judgment or mistake of fact or law other than resulting from Pledgee's bad faith or willful misconduct. Subject to the terms of this Agreement, Pledgee may demand, collect, and sue on the Collateral (in either its or Pledgor's name, at Pledgee's sole option), and enforce, compromise, settle, or discharge the Collateral, without discharging the Obligations or any part thereof and whether or not any such action results in the imposition of any penalty. Pledgor authorizes and directs Borrower to make any payments in respect of the Collateral as Pledgee may direct and hereby releases Borrower from any liability to Pledgor for making such payments.

(c) Upon Pledgor's failure to perform any of its duties hereunder, Pledgee may, but shall not be obligated to, perform any or all such duties, and Pledgor shall pay an amount equal to the cost thereof to Pledgee on demand. Payment of such amount shall be secured by the Collateral, as well as by all other property serving as security for the Obligations.

(d) No course of dealing between Pledgor and Pledgee and no delay or omission by Pledgee in exercising any right or remedy hereunder or with respect to any Obligations shall operate as a waiver thereof or of any other right or remedy, and no single or partial exercise thereof shall preclude any other or further exercise thereof or the exercise of any other right or remedy. Pledgee may remedy any default by Pledgor hereunder or with respect to any Obligations in any manner without waiving the default remedied and without waiving any other prior or subsequent default by Pledgor. All rights and remedies of Pledgee hereunder are cumulative.

(e) Pledgee shall be deemed to have exercised reasonable care in the custody and preservation of the Collateral in its possession if such Collateral is accorded treatment substantially equal to that which Pledgee accords its own property, it being understood that Pledgee shall not have responsibility for (i) ascertaining or taking action with respect to any matters relative to any Collateral, whether or not Pledgee has or is deemed to have knowledge of such matters, or (ii) taking any necessary steps to preserve rights against any parties with respect to any Collateral. Pledgor shall have the sole responsibility for taking any and all steps to preserve rights against any and all parties to any Collateral, whether or not in Pledgee's possession. Pledgee shall not be responsible for loss or damage resulting from Pledgee's failure to enforce or collect any Collateral or to collect any moneys due or to become due thereunder. Pledgor waives protest of any Instrument constituting Collateral at any time held by Pledgee on which Pledgor is in any way liable and waives notice of any other action taken by Pledgee.

(f) If any provision of this Agreement shall be prohibited or invalid under applicable law, it shall be ineffective only to such extent, without invalidating the remainder of this Agreement.

(g) Upon any assignment by Pledgee of its rights and obligations, or any part thereof, in accordance with the Loan Agreement, such assignee shall become vested with Pledgee's rights and benefits hereunder to the extent of such assignment.

(h) If after receipt of any payment of, or proceeds of Collateral applied to the payment of, any of the Obligations, Pledgee is required to surrender or return such payment or proceeds to any person for any reason, then the Obligations intended to be satisfied by such payment or proceeds shall be reinstated and continue and this Agreement shall continue in full force and effect as if such payment or proceeds had not been received by Pledgee. Pledgor shall be liable to pay to Pledgee, and does indemnify and hold Pledgee harmless for the amount of any payments or proceeds surrendered or returned. This subsection shall remain effective notwithstanding any contrary action which may be taken by Pledgee in reliance upon such payment or proceeds. This subsection shall survive the termination or revocation of this Agreement.

(i) Neither this Agreement nor any provision hereof shall be amended, modified, waived or discharged orally or by course of conduct, but only by a written agreement signed by an authorized officer of Pledgee. Pledgee shall not, by any act, delay, omission or otherwise be deemed to have expressly or impliedly waived any of its rights, powers or remedies unless such waiver shall be in writing and signed by an authorized officer of Pledgee. Any such waiver shall be enforceable only to the extent specifically set forth therein. A waiver by Pledgee of any right, power or remedy on any one occasion shall not be construed as a bar to or waiver of any such right, power or remedy which Pledgee would otherwise have on any future occasion, whether similar in kind or otherwise.

(j) Pledgee shall not have liability to Pledgor (whether in tort, contract, equity or otherwise) for losses suffered by Pledgor in connection with, arising out of, or in any way related to the transactions or relationships contemplated by this Agreement, or any act, omission or event occurring in connection herewith, unless it is determined by a final and non-appealable judgment or court order binding on Pledgee that the losses were the result of acts or omissions constituting gross negligence or willful misconduct. In any such litigation, Pledgee shall be entitled to the benefit of the rebuttable presumption that it acted in good faith and with the exercise of ordinary care in the performance by it of the terms of the Loan Agreement and the other agreements entered into in connection therewith.

(k) This Agreement represents the entire agreement and understanding of the parties concerning the subject matter hereof, and supersedes all other prior agreements, understandings, negotiations and discussions, representations, warranties, commitments, proposals, offers and contracts concerning the subject matter hereof, whether oral or written.

(l) This Agreement shall be binding upon Pledgor and its representatives, successors and assigns and shall inure to the benefit of Pledgee and its successors, endorsees, transferees and assigns.

(m) THIS AGREEMENT SHALL BE INTERPRETED IN ACCORDANCE WITH THE INTERNAL LAWS (AND NOT THE CONFLICT OF LAWS RULES) OF THE STATE OF ARIZONA GOVERNING CONTRACTS TO BE PERFORMED ENTIRELY WITHIN SUCH STATE. PLEDGOR HEREBY CONSENTS TO THE EXCLUSIVE JURISDICTION OF ANY STATE OR FEDERAL COURT LOCATED WITHIN THE COUNTY OF LOS ANGELES IN THE STATE OF CALIFORNIA, THE COUNTY OF MARICOPA IN THE STATE OF ARIZONA, THE COUNTY OF NEW YORK IN THE STATE OF NEW YORK OR, AT THE SOLE OPTION OF PLEDGEE, IN ANY OTHER COURT IN WHICH PLEDGEE SHALL INITIATE LEGAL OR EQUITABLE PROCEEDINGS AND WHICH HAS SUBJECT MATTER JURISDICTION OVER THE MATTER IN CONTROVERSY. PLEDGOR WAIVES ANY OBJECTION OF FORUM NON CONVENIENS AND VENUE. PLEDGOR FURTHER WAIVES PERSONAL SERVICE OF ANY AND ALL PROCESS UPON HIM, AND CONSENTS THAT ALL SUCH SERVICE OF PROCESS BE MADE IN THE MANNER SET FORTH IN SECTION 11(o) HEREOF FOR THE GIVING OF NOTICE.

(n) PLEDGEE AND PLEDGOR EACH HEREBY WAIVES THE RIGHT TO TRIAL BY JURY IN ANY ACTION OR PROCEEDING BASED UPON, ARISING OUT OF, OR IN ANY WAY RELATING TO: (i) THIS AGREEMENT; (ii) ANY OTHER PRESENT OR FUTURE INSTRUMENT OR AGREEMENT BETWEEN PLEDGEE AND PLEDGOR; OR (iii) ANY CONDUCT, ACTS OR OMISSIONS OF PLEDGEE OR PLEDGOR OR ANY OF THEIR DIRECTORS, OFFICERS, EMPLOYEES, AGENTS, ATTORNEYS OR ANY OTHER PERSONS AFFILIATED WITH PLEDGEE OR PLEDGOR; IN EACH OF THE FOREGOING CASES, WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE.

(o) Any notice required hereunder shall be in writing and addressed to Pledgor and to Pledgee (to the attention of John Bonano) at their addresses set forth at the beginning of this Agreement with simultaneous copies sent to FINOVA Capital Corporation, 1850 N. Central Avenue, P.O. Box 2209, Phoenix, Arizona 85002-2209, Attention: Joseph R. D'Amore, Esq. and 1060 First Avenue, King of Prussia, Pennsylvania 19406, Attention: Beth Egan. Notices hereunder shall be deemed received on the earlier of receipt, whether by mail, personal delivery, facsimile, or otherwise, or two (2) days after deposit in the United States mail, postage prepaid. A copy of any notice to Pledgor shall be sent to Goldstein & DiGioia, LLP, 369 Lexington Avenue, New York, New York 10017, Attn: Victor J. DiGioia, Esq.

(p) All defined terms, unless otherwise defined in this Agreement, shall have the definitions set forth in the Uniform Commercial Code adopted in Arizona, as the same may from time to time be in effect.

(q) This Agreement may be executed in one or more counterparts, each of which taken together shall constitute one and the same instrument.

(r) This Agreement shall remain in full force and effect until all of the Obligations have been indefeasibly paid and performed in full and the Loan Agreement

and all other agreements, documents and instruments referred to therein or at any time executed and/or delivered in connection therewith or related thereto, including, but not limited to, this Agreement, have been terminated, at which time Pledgee shall release and return the Pledged Stock then being held by it to Pledgor.

[Signatures Follow]

IN WITNESS WHEREOF, Pledgor has executed and delivered this Agreement on April 28, 1998.

PLEDGOR

DIGITAL SOLUTIONS, INC.

By: _____
Name:
Title:

PLEDGEE

Accepted at _____, _____
this 28th day of April, 1998

FINOVA CAPITAL CORPORATION

By: _____
Name: Ilene Gerber
Title: Vice President

EXHIBIT A

Shares Pledged of Each Subsidiary

EXHIBIT B

Digital Solutions, Inc.
300 Atrium Drive
Somerset, New Jersey 08873

RE: PLEDGE OF COMMON STOCK

Ladies and Gentlemen:

You have advised us that, pursuant to a Stock Pledge Agreement (Security Agreement) dated April , 1998 with FINOVA Capital Corporation ("Pledgee"), a copy of which is attached hereto (the "Pledge Agreement"), you have pledged to Pledgee and granted Pledgee a security interest in shares of the common stock of (the "Shares"), and in certain other property described therein. In connection therewith, we hereby acknowledge and agree, for your benefit and for the benefit of Pledgee, as follows:

1. We hereby acknowledge notice that you have pledged to Pledgee and granted to Pledgee a security interest in the Shares and the other Collateral (as defined in the Pledge Agreement). We agree to mark our books and records accordingly to reflect such pledge and security interest.

2. Until Pledgee notifies us in writing to the contrary, we agree to: (i) pay directly to Pledgor when due and payable all dividends on the Shares; (ii) pay directly to Pledgee when due and payable (a) all payments in respect of the redemption of all or any part of the Shares, (b) all payments in respect of the Shares upon our liquidation, dissolution, or winding-up, and (c) all other sums at any time due in respect of the Collateral; and (ii) deliver directly to Pledgee any certificate, instrument, or other tangible evidence of any other Collateral, including, without limitation, any additional shares of our capital stock, or any warrant, right or option to acquire, or any security convertible into, any of our capital stock, to the extent at any time issued or issuable to you.

3. We agree that, upon the sole written instructions of Pledgee at any time, when an Event of Default (as defined in the Pledge Agreement) has occurred and is continuing, we shall register the Shares and other Collateral, or any part thereof, in the name of Pledgee or Pledgee's designee or transferee, either for the purposes of further perfecting Pledgee's security interest or enforcing the same, and shall accord to Pledgee or such designee or transferee all of the rights and benefits of ownership of such Shares or other Collateral.

4. We shall not, without Pledgee's prior written consent, register on our books or otherwise give effect to any transfer of the Shares or other Collateral or any pledge thereof, security interest therein, or other encumbrance thereon.

5. We will send to Pledgee a copy of each notice, report, or other communication that we send or are required to send to you in connection with any of the

Collateral, at the same time that we send or are required to send such notice, report, or other communication to you.

6. We agree that none of the terms of this letter may be modified in any respect without the prior written consent of Pledgee, and we further agree that such terms shall continue in full force and effect until Pledgee notifies us in writing that the pledge and security interest under the Pledge Agreement has terminated.

7. You hereby agree that we may comply with the terms of this letter without any obligation to inquire into the propriety or validity of any action taken or omitted by Pledgee and without any liability to you whatsoever for any action or inaction hereunder on our part.

8. This letter shall be governed by and construed and enforced in accordance with the internal laws of the State of Arizona. This letter may be signed in one or more counterparts and by each party in separate counterparts, each of which shall be an original and all of which together constitute one agreement.

Very truly yours,

_____
By:
Name:
Title:

Accepted and Agreed:

DIGITAL SOLUTIONS, INC.

By: _____
Name:
Title:

FINOVA CAPITAL CORPORATION

By: _____
Name:
Title:

Exhibit 10.20

EMPLOYMENT AGREEMENT

AGREEMENT made as of the 1st day of January, 1998, by and between Donald W. Kappauf, residing at 10044 Tullo Farm Road, Bridgewater, NJ 08807 (hereinafter referred to as the "Employee") and DIGITAL SOLUTIONS, INC., a New Jersey corporation with principal offices located at 300 Atrium Drive, Somerset, NJ 08873 (hereinafter referred to as the "Company").

W I T N E S S E T H :

WHEREAS, the Company and its subsidiaries are engaged in the business of providing Human Resource Administrative Services; and

WHEREAS, the Company employs and desires to continue the employment of the Employee for the purpose of securing for the Company the experience, ability and services of the Employee; and

WHEREAS, the Employee desires to continue employment with the Company, pursuant to the terms and conditions herein set forth, superseding all prior agreements between the Company, its subsidiaries and/or predecessors and Employee;

NOW, THEREFORE, it is mutually agreed by and between the parties hereto as follows:

ARTICLE I
EMPLOYMENT

Subject to and upon the terms and conditions of this Agreement, the Company hereby employs and agrees to continue the

employment of the Employee, and the Employee hereby accepts such continued employment in his capacity as President and Chief Executive Officer.

ARTICLE II

DUTIES

(A) The Employee shall, during the term of his employment with the Company, and subject to the direction and control of the Company's Board of Directors, perform such duties and functions as he may be called upon to perform by the Company's Board of Directors during the term of this Agreement.

(B) The Employee agrees to devote full business time and his best efforts in the performance of his duties for the Company and any subsidiary corporation of the Company.

(C) The Employee shall perform, in conjunction with the Company's Executive Management, to the best of his ability the following services and duties for the Company and its subsidiary corporations (by way of example, and not by way of limitation):

(i) Those duties attendant to the position with the Company for which he is hired;

(ii) Establish and implement current and long range objectives, plans, and policies, subject to the approval of the Board of Directors;

(iii) Financial planning including the development of, liaison with, financing sources and investment bankers;

(iv) Managerial oversight of the Company's business;

(v) Shareholder's relations;

(vi) Ensure that all Company activities and operations are carried out in compliance with local, state and federal regulations and laws governing business operations.

(vii) Business expansion of the Company including acquisitions, joint ventures, and other opportunities; and

(viii) Promotion of the relationships of the Company and its subsidiaries with their respective employees, customers, suppliers and others in the business community.

(D) Employee shall be based in the New Jersey area, and shall undertake such occasional travel, within or without the United States as is or may be reasonably necessary in the interests of the Company.

ARTICLE III

COMPENSATION

(A) Commencing the date hereof and during the term hereof, Employee shall be compensated initially at the rate of $165,000 per annum subject to such increases as the Board of Directors shall determine as of each August 27 during the term of this Agreement (the "Base Salary") which shall be paid to Employee as in accordance with the Company's regular payroll periods.

(B) Employee shall be entitled to receive a bonus (the "Bonus") in accordance with the Company's Senior Management Incentive Program to be determined at the commencement of each fiscal year; provided, however, for the fiscal year ended September 30, 1998, Employee shall be entitled to be paid as a Bonus 6%

percent of the net pre-tax profit of the Company as determined by the Company's independent auditors no later than 90 days following the end of the Company's fiscal year without giving effect to tax loss carry forwards or the payment of a bonus under this agreement (the "EBT") up to $2,500,000 of EBT, plus 8% of the EBT over $2,500,000; provided that in the event the EBT is less than $1,500,000, no bonus shall be paid by the Company to the Employee pursuant to this subparagraph (B). Such determination, for Bonus purposes only, shall be made in accordance with generally accepted accounting principles, as modified by these resolutions.

(C) Employee may receive such other additional compensation as may be determined from time to time by the Board of Directors. Nothing herein shall be deemed or construed to require the Board to award any bonus or additional compensation.

(D) The Company shall deduct from Employee's compensation all federal, state and local taxes which it may now or may hereafter be required to deduct.

ARTICLE IV

BENEFITS

(A) During the term hereof, the Company shall (i) provide Employee with group health care and insurance benefits as generally made available to the Company's senior management; (ii) provide such other insurance benefits obtained by the Company, and made generally available to the Company's senior management; (iii) reimburse Employee for expenses associated with an annual physical

examination; (iv) reimburse the Employee, upon presentation of appropriate vouchers, for all reasonable business expenses incurred by the Employee on behalf of the Company upon presentation of suitable documentation; and (v) pay to Employee the sum of $800 per month as and for an automobile allowance.

(B) In the event the Company wishes to obtain Key Man life insurance on the life of Employee, Employee agrees to cooperate with the Company in completing any applications necessary to obtain such insurance and promptly submit to such physical examinations and furnish such information as any proposed insurance carrier may request.

(C) For each year of the term hereof, Employee shall be initially entitled to four weeks paid vacation increasing to five weeks for the second year of this agreement.

ARTICLE V
NON-DISCLOSURE

The Employee shall not, at any time during or after the termination of his employment hereunder except when acting on behalf of and with the authorization of the Company, make use of or disclose to any person, corporation, or other entity, for any purpose whatsoever, any trade secret or other confidential information concerning the Company's business, finances, marketing, computerized payroll, accounting and information business, personnel and/or employee leasing business of the Company and its subsidiaries including information relating to any customer

of the Company or pool of temporary employees, or any other nonpublic business information of the Company and/or its subsidiaries learned as a consequence of Employee's employment with the Company (collectively referred to as the "Proprietary Information"). For the purposes of this Agreement, trade secrets and confidential information shall mean information disclosed to the Employee or known by him as a consequence of his employment by the Company, whether or not pursuant to this Agreement, and not generally known in the industry. The Employee acknowledges that trade secrets and other items of confidential information, as they may exist from time to time, are valuable and unique assets of the Company, and that disclosure of any such information would cause substantial injury to the Company.

ARTICLE VI
RESTRICTIVE COVENANT

(A) In the event of the voluntary termination of employment with the Company prior to the expiration of the term hereof, or Employee's discharge in accordance with Article IX, or the expiration of the term hereof, Employee agrees that he will not, for a period of one year following such termination (or expiration, as the case may be) directly or indirectly enter into or become associated with or engage in any other business (whether as a partner, officer, director, shareholder, employee, consultant, or otherwise), which business is located in the states of New Jersey, New York and Texas and is involved in the professional

employer organization business, or is otherwise engaged in the same or similar business as the Company shall be engaged and is in direct competition with the Company, or which the Company is in the process of developing, during the tenure of Employee's employment by the Company. Notwithstanding the foregoing, the ownership by Employee of less than 5% of the shares of any publically held corporation shall not violate the provisions of this Article VI.

(B) In furtherance of the foregoing, Employee shall not during the aforesaid period of non-competition, directly or indirectly, in connection with any computerized payroll, employee leasing, or permanent or temporary personnel business, or any business similar to the business in which the Company was engaged, or in the process of developing during Employee's tenure with the Company, solicit any customer or employee of the Company who was a customer or employee of the Company during the tenure of his employment.

(C) If any court shall hold that the duration of non-competition or any other restriction contained in this paragraph is unenforceable, it is our intention that same shall not thereby be terminated but shall be deemed amended to delete therefrom such provision or portion adjudicated to be invalid or unenforceable or in the alternative such judicially substituted term may be substituted therefor.

ARTICLE VII

TERM

(A) This Agreement shall be for a term of two (2) years commencing January 1, 1998 and terminating on December 31, 1999 unless sooner terminated as provided for herein (the "Expiration Date".

(B) Unless this Agreement is earlier terminated pursuant to the terms hereof, the Company agrees to notify Employee in writing whether it intends to negotiate a renewal of this Agreement by notice three months prior to the Expiration Date (the "Three Month Notice"). In the event the Company fails to so notify the Employee, the term of this Agreement shall be extended for an additional one year.

(C) If the Company elects not to seek to renegotiate a renewal as provided in paragraph (B) above, or if the Company fails to reach agreement with Employee as to the terms of renewal, upon the termination of Employee's employment with the Company for any reason after the Expiration Date, the Company shall pay to Employee, in addition to any other payments due hereunder, a severance payment equal to twelve months of Employee's Base Salary ("Severance Payments") payable in twelve equal monthly installments commencing on the first day of the first month following the date of such termination; provided, however, if Employee secures alternate employment within such twelve month period, the Company will be responsible only for the negative difference between payments, will continue only through the month in which such new employment begins.

ARTICLE VIII
DISABILITY DURING TERM

In the event Employee becomes totally disabled so that he is unable or prevented from performing any one or all of his usual duties hereunder for a period of four (4) consecutive months, and the Company elects to terminate this agreement in accordance with Article IX, paragraph (B) then, and in that event, Employee shall receive his Base Salary as provided under Article III of this Agreement for a period of twelve (12) months commencing from the date of such total disability. The obligation of the Company to make the aforesaid payments shall be modified and reduced and the Company shall receive a credit for all disability insurance payments which Employee may receive from insurance policies provided by the Company.

ARTICLE IX

TERMINATION

The Company may terminate this Agreement:

(A) Upon the death of Employee during the term hereof, except that the Employee's legal representatives, successors, assigns and heirs shall have those rights and interests as otherwise provided in this Agreement, including the right to receive accrued but unpaid incentive compensation and special bonus compensation on a pro rata basis.

(B) Subject to the terms of Article VIII herein, upon written notice from the Company to the Employee, if Employee

becomes totally disabled and as a result of such total disability, has been prevented from and unable to perform all of his duties hereunder for a consecutive period of four (4) months.

(C) Upon written notice from the Company to the Employee, at any time for "Cause". For purposes of this Agreement "Cause" shall be defined as: (i) willful disobedience by the Employee of a material and lawful instruction of the Chairman of the Board or the Board of Directors of the Company; or (ii) conviction of the Employee of any misdemeanor involving fraud or embezzlement or similar crime, or any felony; (iii) breach by the Employee of any material provision of this Agreement; or (iv) conduct amounting to fraud, dishonesty, negligence, willful misconduct, recurring insubordination, inattention to or unsatisfactory performance of duties which adversely affects operations of the Company, or excessive absences from work; provided that the Company shall not have the right to terminate the employment of Employee pursuant to the foregoing clause (i) or clause (iii) unless written notice specifying such breach shall have been given to the Employee and, in the case of breach which is capable of being cured, the Employee shall have failed to cure such breach within thirty (30) days after his receipt of such notice.

(D) In the event the Company demotes, substantially reduces the duties of or reduces the salary or benefits of the employee, the employee may elect to treat this Agreement as terminated for "good reason." In the event of termination of this Agreement for good reason, the employee shall be entitled to

payment of the greater of all salary, benefits and stock grants or options due for the remaining term of the Agreement or the severance payments as defined in Article VII(C) herein, in addition to any rights or remedies available to the employee at law or in equity.

(E) In the event of the termination of this Agreement and the discharge of Employee by the Company in breach and violation of this Agreement, Employee shall not be obligated to mitigate damages by seeking or obtaining alternate employment.

ARTICLE X
STOCK OPTIONS

As an inducement to Employee to enter into this Agreement the Company hereby grants to Employee options to purchase shares of the Company's Common Stock, $.001 par value, upon and subject to the following conditions:

(a) Subject to the terms and conditions of the Company's Senior Management Incentive Plan (the "Plan"), and the terms and conditions set forth in the Stock Option Certificate which are incorporated herein by reference, the Employee is hereby granted options to purchase 100,000 shares of the Company's Common Stock of which options to purchase 50,000 shares shall be vested on the first anniversary hereof, and the remaining options to purchase 50,000 shares shall be vested on the second anniversary hereof. The option shall contain such other terms and conditions as set forth in the stock option agreement. The exercise price of the

options shall be $1.9375. The foregoing options are not qualified as incentive stock options. The Options provided for herein are not transferable by Employee and shall be exercised only by Employee, or by his legal representative or executor, as provided in the Plan. Such Option shall terminate as provided in the Plan.

ARTICLE XI
EXTRAORDINARY TRANSACTIONS

The Company's Board of Directors has determined that it is appropriate to reinforce and encourage the continued attention and dedication of members of the Company's management, including the Employee, to their assigned duties without distraction in potentially disturbing circumstances arising from the possibility of a change in control of the Company. A "Change in Control" of the Company shall be deemed to have occurred if there shall be consummated (i)(x) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of the Company's Common Stock would be converted into cash, securities or other property, other than a merger of the Company in which the holders of the Company's Common Stock immediately prior to the merger have the same proportionate ownership of common stock of the surviving corporation immediately after the merger, or (y) any sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company, or (ii) the stockholders of the Company approved any plan or proposal for

the liquidation or dissolution of the Company, or (iii) any person (as such term is used in Sections 13(d) and l3(d)(2) of the Securities Exchange Act of l934, as amended (the "Exchange Act")), shall become the beneficial owner (within the meaning of Rule l3d-3 under the Exchange Act) of 20% or more of the Company's outstanding Common Stock, or (iv) during any period of two consecutive years, individuals who at the beginning of such period constituted the entire Board of Directors shall cease for any reason to constitute a majority thereof unless the election, or the nomination for election by the Company's stockholders, of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period.

The Company agrees that, if during the term hereof, or during such time as the Employee is otherwise employed by the Company, a Change in Control shall occur, all options to purchase Common Stock of the Company held by Employee, either pursuant to this Agreement or otherwise, shall immediately vest and become exercisable on the first day following a Change in Control. Further, the options shall be deemed amended to provide that in the event of termination after an event enumerated in this Article X, the options shall remain exercisable for the duration of their term; and further, at the Employee's option, an amount equal to three times the aggregate annual compensation paid to the Employee during the calendar year preceding the Change in Control shall be credited against the exercise price of any options held by Employee at the time Employee elects to exercise such options; provided, however, that if the

lump sum severance payment under this Article XI, either alone or together with other payments which the Employee has the right to receive from the Company, would constitute a "parachute payment" (as defined in Section 280G of the Internal Revenue Code of l954, as amended (the "Code")), such credit shall be reduced to the largest amount as will result in no portion of the credit under this Article XI being subject to the excise tax imposed by Section 4999 of the Code.

ARTICLE XII
TERMINATION OF PRIOR AGREEMENTS

This Agreement sets forth the entire agreement between the parties and supersedes all prior agreements between the parties, whether oral or written, without prejudice to Employee's right to all accrued compensation prior to the effective date of this Agreement.

ARTICLE XIII
ARBITRATION AND INDEMNIFICATION

(a) Any dispute arising out of the interpretation, application and/or performance of this Agreement with the sole exception of any claim, breach or violation arising under Articles V or VI hereof shall be settled through final and binding arbitration before a single arbitrator in the State of New Jersey in accordance with the rules of the American Arbitration Association. The arbitrator shall be selected by the Association

and shall be an attorney at law experienced in the field of corporate law. Any judgment upon any arbitration award may be entered in any court, federal or state, having competent jurisdiction of the parties.

(b) The Company hereby agrees to indemnify, defend and hold harmless the employee for any and all claims arising from or related to his employment by the Company at any time asserted, at any place asserted and to the fullest extent permitted by law. The Company shall maintain such insurance as is necessary and reasonable to protect the employee from any and all claims arising from or in connection with his employment by the Company; provided such insurance can be obtained without unreasonable effort and expense.

ARTICLE XIV

SEVERABILITY

If any provision of this Agreement shall be held invalid and unenforceable, the remainder of this Agreement shall remain in full force and effect. If any provision is held invalid or unenforceable with respect to particular circumstances, it shall remain in full force and effect in all other circumstances.

ARTICLE XV

NOTICE

All notices required to be given under the terms of this Agreement shall be in writing and shall be deemed to have been duly given only if delivered to the addressee in person, with written

acknowledgment received, or mailed by certified mail, return receipt requested, as follows:

IF TO THE COMPANY: Digital Solutions, Inc.
300 Atrium Drive
Somerset, NJ 08873

IF TO THE EMPLOYEE: Donald W. Kappauf
10044 Tullo Farm Road
Bridgewater, NJ 08807

or to any such other address as the party to receive the notice shall advise by due notice given in accordance with this paragraph. Notice shall be effective three (3) days after delivery or mailing.

ARTICLE XVI

BENEFIT

This Agreement shall inure to, and shall be binding upon, the parties hereto, the successors and assigns of the Company, and the heirs and personal representatives of the Employee.

ARTICLE XVII

WAIVER

The waiver by either party of any breach or violation of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach of construction and validity.

ARTICLE XVIII

GOVERNING LAW

This Agreement has been negotiated and executed in the State of New Jersey, and New Jersey law shall govern its

construction and validity.

ARTICLE XIX

JURISDICTION

Any or all actions or proceedings which may be brought by the Company or Employee under this Agreement shall be brought in courts having a situs within either the State of New Jersey, and Employee and the Company each hereby consent to the jurisdiction of any local, state or federal court located within the State of New Jersey.

ARTICLE XX
ENTIRE AGREEMENT

This Agreement contains the entire agreement between the parties hereto. No change, addition or amendment shall be made hereto, except by written agreement signed by the parties hereto.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement and affixed their hands and seals the day and year first above written.
(Corporate Seal)

DIGITAL SOLUTIONS, INC.

By

Karl W. Dieckmann

Chairman of the Board

Donald W. Kappauf (Employee)

EXHIBIT 21

DIGITAL SOLLUTIONS, INC.
SUBSIDIARIES OF THE REGISTRANT

DSI-Contract Staffing, Inc.

DSI-Staff Connxions-Northeast, Inc.

DSI-Staff Connxions-Southwest, Inc.

DSI-Staff Rx, Inc.

DSI-Staff Connxions, Inc.

DSI-Insurance Services, Inc.

Digital Solutions of New York

EXHIBIT 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report included in this Form 10-K for the year ended September 30, 1998, into Digital Solutions, Inc.'s previously filed Registration Statements on Form S-3 File No. 33-85526, 33-70928, 33-91700, and 33-09313.

ARTHUR ANDERSEN LLP

Roseland, New Jersey
January 6, 1999

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YEAR	
	SEP-30-1998
	OCT-01-1997
	SEP-30-1998
	1,530,000
	0
	6,607,000
	(284,000)
	0
	9,112,000
	3,383,000
	(2,591,000)
	16,648,000
	5,793,000
	0
	0
	0
	(19,000)
	(7,855,000)
	16,648,000
	0
	139,675,000
	0
	129,747,000
	0
	247,000
	(554,000)
	1,407,000
	(1,296,000)
	0
	0
	0
	0
	2,703,000
	.14
	.14

Amount reflects EPS-Basic not EPS-Primary