

Digitiliti Inc  
Form 10-12G/A  
May 22, 2008

**U.S. SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10/A-1**

**GENERAL FORM FOR REGISTRATION OF SECURITIES**

**Pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934**

**DIGITILITI, INC.**

**(Exact name of Registrant as specified in its charter)**

**Delaware**  
**(State or other jurisdiction of incorporation)**

**26-1408538**  
**(I.R.S. Employer Identification No.)**

**266 East 7<sup>th</sup> Street, 4<sup>th</sup> Floor**

**St. Paul, Minnesota 55101**

**(Address of Principal Executive Office)**

**Registrant's Telephone Number, including Area Code: (651) 925-3200**

**Securities registered pursuant to Section 12(b) of the Act:**

Title of Each Class to be so Registered	Name of each Exchange on which each Class is to be Registered
None	None

**Securities to be registered pursuant to Section 12(g) of the Act:**

Title of Class  
\$0.001 par value common stock

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one)

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

(Do not check if a smaller reporting company)

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## **Item 1. Business.**

### **Introduction**

Digitiliti, Inc. ( Digitiliti, our Company, we, us, and our or words of similar import) was organized pursuant to the laws of the State of Delaware on March 31, 2006, under the name Cyclone Holdings, Inc. We became a holding company under the Delaware General Corporation Law in 2006; at that time, we had no operations or assets.

Storage Elements, Inc., a Minnesota corporation ( Storage ), acquired a controlling interest in us in January, 2007. We effected a pro rata recapitalization comprised of a reverse split and a dividend in March, 2007, and we completed a reverse merger with Storage, effective August 17, 2007, by which we became a successor to Storage and its business operations.

For additional information regarding these and other historical events about us, see the heading Business Development, Item 1, below.

### **Business Development**

#### **Holding Company Merger**

Our predecessor, Themescapes, Inc., a publicly-held company ( Themescapes ), was incorporated in the State of Delaware on January 5, 1994, under the name Fidelity Distributing Services, Inc., which changed its name to Scotty's Original Brew on February 4, 1997. Pursuant to an Agreement and Plan of Merger effective December 14, 1998, involving us and Digital Interactive Computerized Education, Inc., a California corporation, the name was changed to Themescapes, Inc. Pursuant to an Agreement and Plan of Merger dated as of March 31, 2006, between us, Themescapes and Bulldog Merger, Inc., a Delaware corporation ( Bulldog ), we became a holding company under Section 251 (G) of the Delaware General Corporation Law; Themescapes was merged with and into Bulldog; and shares of our common stock were exchanged for outstanding shares of common stock of Themescapes (the Themescapes Merger ). Themescapes had been inactive for over five (5) years and had no business operations at the time of the closing of the Themescapes Merger. Bulldog was also formed in the State of Delaware on March 31, 2006, as part of the process by which we became a holding company. Following the closing of the Themescapes Merger, our interest in Themescapes was disposed of for nominal consideration, leaving us as a publicly-held company with no assets or business operations.

### **Change in Control**

Effective January 5, 2007, Storage acquired a controlling interest in us for \$225,000 under a Stock Purchase Agreement dated December 15, 2006, for the purpose of effecting a reverse reorganization or merger of Storage, if approved by shareholders, with us and under which Storage would become a publicly-held company.

### **Name Change**

On February 27, 2007, we filed a Certificate of Amendment changing our name to Digitiliti, Inc.

### **Storage Elements, Inc.**

Storage was organized in the State of Minnesota on October 3, 2003, by Brad D. Wenzel, Ronald G. Wenzel and Laura Wenzel, to engage in the business of providing cost effective data protection solutions to enterprises and organizations of all sizes. Brad D. Wenzel and Laura Wenzel are currently directors and executive officers of Digitiliti, and Ronald G. Wenzel is a former director and executive officer of Storage. For detailed information about equity and debt financings of Storage that involved the offer and sale of shares of its common stock, warrants convertible notes and stock option grants, see the heading Recent Sales of Unregistered Securities, Item 10.

## Company Recapitalization

Effective February 27, 2007, we completed a recapitalization whereby we effected a 40,000 for one reverse split of our outstanding common stock, with all fractional shares being rounded up to the nearest whole share, followed by an immediate 200 for one pro rata stock dividend that required a mandatory exchange of stock certificates resulting in the dividend having the same effect as a 200 for one forward stock split, which became effective on March 5, 2007 (the Recapitalization). Depository Trust Company ( DTC ) participants and the beneficial holders of our common stock held by DTC were deemed to be holders of record for all purposes of the Recapitalization, provided that we received advice of these respective positions from DTC participants within 30 days of the effective date of the Recapitalization; a number of extensions to that date were granted to reasonably ensure that all shareholders entitled to participate in the Recapitalization and to receive the dividend were accounted for; these extensions have all passed, and no further adjustments will be made as a result of the Recapitalization. All common stock computations regarding our outstanding securities in this Registration Statement take in account this Recapitalization.

## Storage Elements, Inc. Merger

Effective August 17, 2007, Cyclone Acquisition Corp., a Minnesota corporation formed by us and our wholly-owned subsidiary ( Cyclone Acquisition ), merged with and into Storage (the Storage Merger). The Storage Merger was approved by persons owning a majority of the outstanding voting securities of Storage on August 16, 2007; by us as the sole stockholder of Cyclone Acquisition; and by the respective Boards of Directors of all of the parties. There were no dissenting stockholders. All outstanding shares of common stock of Storage were exchanged on a one for one basis for shares of our common stock; and all outstanding convertible debt and common stock equivalents of Storage such as options, warrants or convertible notes remained outstanding and were assumed by us, with our common stock to be issued on exercise or conversion of these convertible securities. All of these securities, including our shares of common stock that may be issued on exercise or conversion of these securities, are restricted securities as defined in Rule 144 of the Securities and Exchange Commission. Storage's name was also changed to Digitiliti, Inc., and Storage remains our wholly-owned Minnesota subsidiary. We have used Storage for purposes of clarity, where deemed necessary, throughout this Registration Statement. For information about the securities issued and exchanged in the Storage Merger, see the heading Recent Sales of Unregistered Securities, Item 10. The following table reflects the outstanding securities of Digitiliti and Storage on a pre-Merger and combined post-Merger basis:

Digitiliti Pre-Merger	Storage Pre-Merger	Storage Pre-Merger Outstanding Convertible Securities (2)	Digitiliti Post-Merger Outstanding Shares (3)	Digitiliti Post-Merger Outstanding Convertible Securities (2)
369,211 Shares	21,320,216 Shares	12,415,014 Shares	21,439,427 Shares	12,415,014 Shares

(1)



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Includes 10,571 shares issued by us to Storage's Chief Accounting Officer that were required to have been issued before closing; 4,000 shares issued by us to Storage's public relations firm pursuant to a Letter Agreement executed prior to the closing of the Storage Merger that were required to have been issued before closing; 20,614 shares issued at \$0.35 per share to four stockholders who had pre-emptive rights to acquire additional shares of common stock of Storage at the closing of the Storage Merger; and 3,051 shares issued pursuant to rounding in connection with the Recapitalization.

(2)

We assumed (i) 4,118,364 outstanding Storage warrants to acquire 4,118,364 shares of common stock at \$0.35 - \$0.50 per share; (ii) \$1,618,550 in 12% convertible notes which are convertible into shares of our common stock at a conversion price of \$0.50 per share (3,237,100 shares), and one (1) warrant for each \$1.00 invested (1,618,550 warrants), half at an exercise price of \$1.50 per share and half at exercise price \$2.25 per share; and (iii) 3,441,000 options to purchase shares of our common stock for shares underlying stock options granted by Storage pursuant to its 2007 Stock Option Plan, with the latter being subject to vesting requirements of the respective stock option grants.

(3)

Takes into account the one for one exchange of our shares of common stock for outstanding

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shares of common stock of Storage under the Storage Merger and the cancellation of 250,000 post-Recapitalization shares of our common stock owned and acquired by Storage on January 5, 2007, which were cancelled under the Storage Merger.

### **Digitiliti and Successor References**

Under the Storage Merger, Storage became our wholly-owned subsidiary through which all of our business operations are currently conducted, and we succeeded to the business operations of Storage. Therefore, unless specifically stated otherwise, all further references to Digitiliti, we, our, us and words of similar import refer to Digitiliti, Inc., a Delaware corporation and the registrant hereunder (the Registrant). Where deemed appropriate for a clearer understanding of the information presented in this Registration Statement, information or data is described under certain captions or headings separately under Digitiliti or Storage and combined under Digitiliti.

The consolidated financial statements that are filed with this Registration Statement account for the Storage Merger as a capital transaction in substance (and not a business combination of two operating entities) that would be equivalent to Storage issuing securities to Digitiliti in exchange for the net monetary liabilities of Digitiliti, accompanied by a recapitalization, and, as a result, no goodwill relating to the Storage Merger was recorded. See Items 13 and 15.

### **Recent Events in 2008**

#### **Recent Technology Acquisition**

On March 13, 2008, we acquired a commercially-proven technology from StorageSwitch, LLC, a Colorado limited liability company ( StorageSwitch ). This technology compliments our current business model that is discussed below and also provides a base layer that we will build upon to develop enhanced storage service offerings. These offerings will be positioned for the rapidly growing small to medium business, small to medium enterprise and the software as a service market spaces. Due to the inherent simplicity of this technology, we believe will be able to deploy our next digitiliti storage offering through larger, less technical sales partners, thereby enabling faster growth. See the heading Patents, Trademarks, Licenses, Franchises, Concessions, Royalty Agreements or Labor Contracts, including Duration, Item 1.

On May 13, 2008 (the date of the last signature received), our Board of Directors and certain persons who owned an aggregate of 50.66% of our outstanding voting securities adopted the following actions by written consent, as applicable, effective April 17, 2008:

**Amended and Restated Certificate of Incorporation**

Voted to amend and restate our Certificate of Incorporation to add the following provisions: (i) a class of preferred stock consisting of 10,000,000 shares, par value \$0.001 per share, reserving to the Board of Directors the right to set the series, classes, rights, privileges and preferences of the preferred stock or any class or series thereof, by amendment to the Certificate of Incorporation, without shareholder approval; and (ii) allow the Board of Directors to adopt, amend or repeal the Bylaws of the Company, change the name of the Company under certain circumstances and to effect recapitalizations of the Company by way of forward or reverse splits that do not require amendments to the Certificate of Incorporation. The Amended and Restated Certificate of Incorporation that contains all provisions of the initial Certificate of Incorporation and all prior and present amendments was filed with the State of Delaware on May 13, 2008. The preferred stock was added to the authorized shares to other future funding possibilities, though no current use of the preferred stock for this or any other purpose has been proposed. The amendments regarding potential name changes in certain circumstances and certain recapitalizations were added as a time and cost saving feature for the future, if required or necessary, as deemed by the Board of Directors; and the amendment regarding Board Bylaw adoption, amendment or repeal was deemed important for the same reasons and because it was believed that the Board of Directors should have this authority since it is its responsibility to manage our affairs; this authority could not be exercised unless it was specifically contained in the

Certificate of Incorporation, according to Section 109 of the Delaware General Corporation Law. Regardless, such an amendment does not divest shareholders of the right to adopt, amend or repeal Bylaws under Section 109.

## **New Bylaws**

The Board of Directors and these persons also adopted new Bylaws of the Company that set the current number of members of the Board of Directors at six. Other changes in the new Bylaws were: (i) allowing 24 hours notice of special meetings by telegraphing, telexing, facsimile, email or similar electronic transmission; (ii) adding a Chairman, Chief Executive Officer, Chief Financial Officer and Chief Operating Officer to the designation of positions of officers; (iii) allowing us by Board resolution to take action as may be necessary to make our shares eligible for trading via a direct registration system operation by a securities depository, including, without limitation, by authorizing uncertificated or electronic shares, subject to the Delaware General Corporation Law; (iv) allowing facsimile, emailed or electronic signatures of Board members or officers to be relied upon whenever provided after authorization of action by the Board of Directors; (v) indicating that our record books shall not be closed so long as we are authorized for trading on any National Securities Exchange (as defined in the Exchange Act); (vi) setting time tables for indemnitee demands for payment based upon indemnification prior to the institution of any actions against us for indemnification; (vii) allowing us to maintain insurance for all purposes to protect us and our directors, officers and agents, among others, where no provision previously existed; and (viii) allowing our Board determine the number of directors that will constitute our Board. This summary is modified in its entirety to the actual copy of our new Bylaws that is filed as an Exhibit to this Registration Statement. See Item 15.

## **Increase and Additional Grants in Shares under 2007 Stock Plan**

Resolutions were also adopted that changed the name of our 2007 Stock Plan to the Digitiliti, Inc. Stock Option Plan and increased the shares available for grant thereunder from 4,000,000 shares to 9,000,000 shares. In April, 2008, an additional 3,900,000 grants were made at prices between \$0.35 (persons who were non-directors and executive officers) and \$0.385 (persons who were directors and executive officers). Director and executive officer grants included the following persons with these grants: William McDonald, CFO, 150,000, vesting pro rata over 36 months; Mark Savage, a director, 250,000, vesting pro rata over 24 months; and 2,850,000, 1,425,000 each to Messrs. Ingwersen (CEO, President and a director) and Johnson (COO), for services rendered through 5X Partners, vesting pro rata over 24 months. These option grants were recommended by the Board of Directors of our wholly-owned subsidiary, Storage, on April 17, 2008, and as part of our adopting these option grants effective on April 17, 2008, we required that none of these stock options could be exercised for a period of six months from April 17, 2008. Also, see the heading Securities Authorized for Issuance under Equity Compensation Plans, Item 9; the heading Digitiliti, Inc. Stock Option Plan, Item 10; and note 16 of our consolidated financial statements that accompany this Registration Statement. See Items 13 and 15. Our Board of Directors considered, at April 17, 2008, and May 13, 2008, the following, among other factors, in valuing the exercise price of these option grants: (i) since January 1, 2008, approximately 3,500 shares of our common stock have been publicly traded of the approximate amount of 105,462 shares that are believed to be presently publicly tradable, at prices ranging from \$1.05 to \$1.68 per share; (ii) all shares issued, according to the new Rule 144(i) and current Securities and Exchange Commission position set forth in its adopting Securities Act Release No. 33-8899, effective February 15, 2008, that amended Rule 144, cannot be sold

under Rule 144 until the earliest of 12 months from the filing of our Registration Statement, assuming it is granted an effective date; (iii) in a few recent private sales by individuals, including some principals, shares of our common stock have been sold at \$0.35 per share; (iv) the going concern qualification of our auditors in our consolidated financial statements; (v) our net stockholders deficit of approximately \$819,630; (vi) our need for between \$5 to \$7 million for our operations during the next 12 months, and the difficulty we may have in raising these funds with the current limited trading market for our shares of common stock and the resale limitations on our shares under Rule 144(i); and (vii) our substantial current liabilities that are far in excess of our 2007 revenue. Storage's Board used these same factors at April 17, 2008, in recommending the value of these option grants, but about 1,000 less shares of our common stock had traded on that date. Regardless of this valuation method

and process, we may be required to recognize additional expense for these grants, based upon the trading prices in the limited market for our shares of common stock under the Black Scholes method of valuation; that recognition could have a substantial adverse impact on our income (loss).

## **Director and Officer Changes**

Mark Savage resigned as our President, retaining his position as a director; Brad D. Wenzel resigned as our Chief Executive Officer and was elected Chairman of the Board of Directors; Laura Wenzel resigned as our Chief Financial Officer and Treasurer, retaining her positions as Vice President, Secretary and a director; Larry D. Ingwersen was elected our Chief Executive Officer, our President and a director; Roderick D. Johnson was elected as our Chief Operating Officer; and William McDonald was elected as our Chief Financial Officer.

## **Other Information About Us**

We were listed in the March 17, 2008, edition of Standard & Poor's Daily News Section of Corporation Records, with our audited financial statements for the years ended December 31, 2006, and 2005, and our reviewed financial statements for the nine months ended September 30, 2007, along with other information about us; and just prior to the filing of this Registration Statement, we have provided Standard and Poor's with our audited financial statements for the years ended December 31, 2007, and 2006, along with certain other updated information. All of this information, including our press releases disseminated since March, 2007, along with the information required by Rule 15c2-11(a)(5) of the Securities and Exchange Commission, is also listed in our web site, [www.digitiliti.com](http://www.digitiliti.com), under Shareholder Information, and in the web site of the Pink Sheets, that can be accessed by inserting our trading symbol, DIGI, in the Get Quote box and then clicking on the Filings link.

## **Material Business Development Exhibits**

Copies of the following documents are filed as Exhibits to this Registration Statement. See Item 15:

Initial Certificate of Incorporation, filed March 31, 2006.

Bylaws.

.  
Certificate of Amendment regarding our name change to digitiliti, inc. and the Recapitalization, filed February 27, 2007.

.  
Certificate Correction regarding our name change to Digitiliti, Inc., filed March 12, 2007.

.  
Stock Purchase Agreement dated December 15, 2006, between Storage and our former principal shareholders, under which Storage acquired a controlling interest in us.

.  
Agreement and Plan of Merger between us, Themescapes and Bulldog under which we became a holding company, filed February 27, 2006.

.  
Agreement and Plan of Merger between us, Cyclone Acquisition and Storage under which Storage became our wholly-owned subsidiary, filed August 17, 2007.

.  
Amended and Restated Certificate of Incorporation.

.  
StorageSwitch Technology Purchase Agreement.

### **Issuers Involved in Bankruptcy Proceedings During the Past Five Years**

We have not been involved in any bankruptcy, receivership or any similar proceeding, and have not had or been party to any material reclassifications, mergers or consolidations during the previous five years that are not outlined above under the heading Business Development.

### **Voluntary Filing of Registration Statement**

We are voluntarily filing this Registration Statement so that we can become a reporting issuer under the Securities Exchange Act of 1934, as amended (the Exchange Act ); that will allow us to seek to have our common stock publicly quoted on the OTC Bulletin Board of the Financial Industry Regulatory Authority ( FINRA ). Our

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common stock is currently quoted in the Pink OTC Markets Inc. (the Pink Sheets ) under the trading symbol ( DIGI ). We cannot ensure that we will be successful in obtaining quotations of our common stock on the OTC Bulletin Board even if this Registration Statement becomes effective; however, our management believes that being a reporting issuer will facilitate this process for us. Presently, FINRA requires companies seeking quotations on the OTC Bulletin Board to be reporting issuers, and management also believes that in the present corporate regulatory climate, being a reporting issuer will soon become a requirement for every nationally recognized medium on which securities of companies are publicly traded. The information required to be filed by us with the Securities and Exchange Commission as a reporting issuer may also provide us with additional credibility that may be advantageous in the conduct of our business operations and shareholder and customer relations.

## **Business**

### **Introduction**

We presently focus on providing a cost effective data protection solution to the small to medium business ( SMB ) and small to medium enterprise ( SME ) markets. This data protection solution is geared specifically to help organizations properly manage and protect their entire network from one centralized location, with offsite redundancy. Our solution can backup and restore data on every machine in a network, including desktops, laptops, file and print servers.

We are dedicated to developing and delivering superior storage technologies and methodologies that will enable our customers to manage and protect massive data growth with ease.

We combine a powerful, agent-less backup software with our remote Fortress Storage Center to deliver to our customers a powerful and effective online-offsite data backup and restore solution. We provide storage from a utility based computing philosophy, whereby customers pay only for the gigabytes of data they store in our Fortress Storage Center.

Our facilities allow us to provide offsite disaster recovery with an emphasis on intraday protection and restore for all our customers primary data centers and geographically dispersed offices or campus settings. Our Fortress Storage Center is located in the base of the former Minneapolis Federal Reserve Bank. It is a one of a kind facility that provides our web based on-demand backup/restore service ( digitiliti ) with all the benefits of direct fiber access to a Level 5 data center. The Fortress Storage Center has 24/7 onsite physical security, including security guards, motion detectors, security cameras, card-key access, separate cages with individual locking cabinets and ladder racking. It also has battery generator back up power, temperature and humidity controls and fire suppression systems. Geographically, we are located at the center point of the Metropolitan area network. Being centrally located at the focal point of the Twin Cities Fiber Channel and Gig loop, the pipeline for data and load capabilities are immense. This allows us to send data back and forth in real time.

The Fortress Storage Center houses all the hardware and software needed for the digitiliti solution to work. At the customer site, digitiliti administrator software is loaded on as many or as few workstations as desired and will require a valid logon code, ensuring no unauthorized access. At the customer site, the administrator software console acts as the interface with digitiliti in the Fortress Storage Center and enables the configuration of all backups and restores. The digitiliti backup software is totally agent-less, requiring no additional software to be installed on any machines. From the customer administration console, the customer sets retention policies, schedules automatic backups and initiates restores. The customer decides what files to backup: emails, Windows, Linux, Mac, Lotus, AS400 or many more. Customers typically start backing up one system and then add more systems to their backup sets as they continue to see how easily our digitiliti works.

For large data volumes, the initial data backup may be downloaded to a portable disk unit at the customer site. When the full backup of data is complete, the disks are transported to the Fortress Storage Center where the data is loaded onto the equipment in the Fortress Storage Center. From then on, all data is backed up in incremental changes over the Internet. All data is encrypted at all times before it leaves the customer site and when stored offsite. The encryption key is known only to the customer. The data can be unencrypted only by the customer, who would do so upon the need of a restore. If a customer loses data, they simply enter commands to restore it via the administration

console. At that time, the data would flow from the Fortress Storage Center back to the customer site. If the customer loses all their data, digitiliti can restore the latest data to a location of their choosing using a portable disk unit. In addition to being encrypted, the data is also highly compressed, making it extremely safe and impenetrable from viruses. We maintain two copies of the customer data at all times.

We have contracted with XO Communications for our data center and communications. We lease our Fortress Storage Center space from them, and they own the Internet lines we use. This relationship helps keep capital expenditures at a minimum, while maintaining the flexibility to set up a new data center in any one of 80 geographically dispersed locations throughout the world, thereby reducing any geographic concerns about our digitiliti. XO Communications provides voice, data and IP services to businesses and other telecommunications companies in 75 metropolitan markets across the United States.

Our operations facilities currently include:

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14 full time employees.

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Fortress Storage Center in Minneapolis, MN, the former home of the Federal Reserve Bank.

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Leased administration offices in St. Paul, MN.

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Various servers, workstations, RAID systems that protect against data loss, networking gear, operating systems, storage area networks ( SAN ) and network attached storage ( NAS ) hardware.

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In-house website development.

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Strategic partnerships with Network Engines, Inc. ( Network Engines ), a developer and manufacturer of server and appliance solutions that deliver software applications on server appliances; Asigra, Inc. ( Asigra ), a provider of comprehensive software solutions and IT expertise to back up data to customers secure vaults; XO Communications, ( XO Communications ), a United States telecommunications firm and one of the largest Competitive Local Exchange Carriers ( CLEC ) in the country that provides voice, data and IP services to businesses and other telecommunications companies in 75 metropolitan markets across the United States; and Exanet, Inc. ( Exanet ), which delivers a new data storage paradigm to address the trends that are driving the future of data centers: virtualization, standardized hardware, and applications demanding the most extreme standards of performance, availability and scalability.

Our digitiliti Fortress Storage Center is made up of the following:

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XO Communications Level 5 RAID System Data Center.

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High performance fiber channel and iSCSI RAID Systems or Arrays ( RAID Systems ).

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Foundry Networks Fast Iron Gigabit Ethernet Switches.

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Qlogic fiber channel switches and iSCSI adapters.

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Dell Power Edge servers.

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N+1 Grid Architecture for backup.

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Diesel powered generators to protect against power outages.

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Unlimited bandwidth for digitiliti to grow into.

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Exanet Global Files System and IBM DS4100 RAID Systems.

**Products, Software, Services and Related Technologies Utilized**

The following describe various products, services, software and other amenities utilized at our Fortress Storage Center. Alternative providers of these products, services, software and other amenities are reasonably available.

**ISCSI** or a methodology for computers to communicate without being in close proximity.

**RAID Systems** or a series of disks that hold the data and are considered fault-tolerant because they are automatically backed up, short for Redundant Array of Independent (or Inexpensive) Disks, a category of disk drives that employ two or more drives in combination for fault tolerance and performance and are configured in such a way that if one disk fails, the virtual volume that has the data will still remain intact. It is more reliable than having all of your data on one spinning disk; if that disk fails, you have lost everything; RAID helps mitigate that loss. RAID disk

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drives are used frequently on servers; they are not generally used on personal computers.

**Level 5** or Block Interleaved Distributed Parity, provides data striping at the byte level and also stripe error correction information. This results in excellent performance and good fault tolerance. Level 5 is one of the most popular implementations of RAID.

A **high performance fiber channel** that is presently one of fastest transport mechanisms to move data from one system to another, or from a disk to a computer processor. It still relies on a protocol like SCSI, to communicate with hardware from completely different vendors. A fiber channel is simply the railroad car in a super fast train.

**SCSI** is a common format for the packing slips to be able to do something meaningful with the payload. iSCSI is a language that allows the same SCSI protocol to be used over simple copper networks instead of expensive fiber-optic wires, and it is easier to manage and deploy and ultimately less expensive to own.

**Foundry Networks Fast Iron Gigabit Ethernet Switches** are simple network switches that can run at a gigabit line speed, which are able to move packets of data at one gigabit per second. Foundry is the brand name. Gig-E (Gigabit Ethernet) is the fast standardized networking line speed. There are faster systems available, but the cost of those systems simply makes them un-usable for our business purposes. The switches are like traffic cops at a busy intersection. They ensure that the flow of traffic is clean and consistent and that there are no collisions. The faster the switch is able to perform this function, the greater/faster the amount of traffic that can pass through the intersection.

**Ologic fiber channel switches and iSCSI adapters** create network switches that can handle traffic over fiber-optic wires; iSCSI adapters are used on the computers that need to talk over the network using the iSCSI protocol. Ologic is a brand name.

**Dell Power Edge servers**, one of Dell Computer's brand names, are simply workhorse type computers.

**N+1 Grid Architecture for backup** describes a computing term that is made up of a series of computers. All of the computers, as a collective, perform a specific task. They rely on each other to perform this task and need each other around in order to perform the task. N+1 means that the collective of computers need at least  $1/2 + 1$  of the computers to be working in order to complete the task. If the number of computers is less than that amount, the entire collective stops working on its task. As an example, if 10 computers were needed to perform a task working in an N+1 setup, four of the computers could crash, and the task would still be processed. This is used for redundancy and processing power. It is better than one computer performing the task or a series of computers performing individual tasks; and it is a very reliable configuration. In our case, the task is performing backups of other computers.

**Bandwidth** is important because as we continue to add customers on to our service, there is a linear curve to the amount of networking capacity that the collection of our customers consume. One customer may only consume a small percentage of our networking capacity, but if you add 10 or 50 or 100 customers, the network consumption

climbs in a very linear curve. In the case of our digitiliti, the building and facilities that our digitiliti relies on for our network capacity is capable of growing at a linear curve as well and its technology ceiling is very high, which means that we will be able to sustain linear customer growth for a very long time; and by the time that we hit any style of ceiling from a technology level, the technology will have also improved, again, allowing us to grow further.

**Exanet Global Files System and IBM DS4100 RAID Systems** take each computer's storage and allows it to be accessed as if it were one large computer, creating a global namespace. Each disk in a computer has a certain size. A modern computer system is only able to count so high, and ultimately is only able to use or consume a certain amount of storage. This means that a single computer has a limit to the amount of storage that it realistically can use and work with. If you place a number of computers together, collectively you will have more storage capacity than one server alone, but each computer can only consume the storage that it is able to see. Each would not be able to use the storage that other computers are consuming. In a global file system, a virtual layer is placed on top of the physical systems and each system is actually responsible for figuring out where its data is, but the virtual layer placed on top of the file system knows about each individual computer's file system without regard to each of the

other computers. This allows our digitiliti to expand past a single computer's capacity and allows our digitiliti to grow almost infinitely.

## **Principal Products or Services and their Markets**

### **Markets**

The market for storage solutions can be divided into three basic tiers, Primary, Secondary and Archival. A description of each as follows.

**Primary** - This is where data is created and stored. Solutions for primary storage consist of disk drives, disk arrays, Storage Area Networks ( SAN ), Network Attached Storage ( NAS ), Direct Attached Storage ( DAS ) and any other product in which primary data is stored and managed. The best products for primary storage are those that offer the fastest read and write speed, scalability and fault tolerance. The Primary is sometimes described as data accessibility, data availability and is the first part of the data management lifecycle where files are created, reside and accessed frequently.

**Secondary** - Secondary storage consists of solutions that protect the Primary data stored. These technologies include tape drives and libraries, backup software, mirroring, replication, snapshot, less expensive disk arrays and continuous data protection ( CDP ). This tier of storage products is to protect the Primary.

**Archival** - Archival solutions consist of high quality tape, Magneto-Optical, CD-R, DVD-R and inexpensive disk technologies ( MAID ). The goal for these products is to be durable and have a long shelf life. More sophisticated solutions, like Hierarchical Storage Management ( HSM ), will automatically migrate and archive data to these long term inexpensive solutions. Archiving is often confused with backup. They actually differ in that an archive is the only copy of the data whereas a backup is not the only copy of data; it is the protection of the Primary. Eventually, depending on specific retention policies, the data is destroyed as it is no longer needed.

The remote online backup market is still in its infancy so we will be aggressively pricing our products to achieve significant market penetration to attempt to become an industry leader. We will continue to manage our overhead and leverage our partnerships for software development, storage infrastructure, data center facilities, connectivity and referrals. Our goal is to concentrate on business development and refining/improving our sales methods to attract additional customers more rapidly. In terms of marketing strategy, we are focusing on No hardware and no software, and on our data reduction technology, where customers backup less data than ever before.

The SMB/SME markets have been labeled fragmented and underserved by the storage industry. These are markets that have not reached critical mass. The regulatory compliance pressures that exist in these markets is a principal reason why customers and potential customers are beginning to outsource their data protection requirements more than ever before.



## **Products**

Our core product is comprised of digitiliti, a web based online backup/restore service that backs up mission critical data for companies of any size. We are currently working on expanding our digitiliti offering. We are also working on positioning Mythos, an internally developed storage solution for the MAC Market. Mythos has not been brought to market. We are considering several options for Mythos, from outright sale of the software to exclusive licensing.

## **Objectives**

We deliver network storage, backup and restore solutions to small, medium and enterprise level businesses. Digitiliti enables companies to efficiently manage and protect data with point and click ease of use. We will update the technological capabilities of our digitiliti product using a strategic product progression roadmap.

Mythos is intended to capture a significant portion of the market for Apple related storage products because it is one

of the only iSCSI storage solutions that is administered from an Apple server. In addition, Mythos is the only end to end solution that provides NAS, SAN and backup services for Apple users within a single product. Mythos provides storage consolidation, business continuity, backup and disaster recovery from an off the shelf Apple computer running OSX Server, Apple's premier operating system. We have developed a unified storage solution for the enterprise Macintosh user. We are working on positioning Mythos.

We believe that we can become a significant competitor in the backup and restore market, especially in the SMB/SME market. In order for us to achieve our forecasts, an aggressive sales model and dealer channel is planned and will be implemented with branded sales partners with utility-oriented sales systems. We believe our experience in this area gives us an edge over the typical storage related companies that are tightly tied to box sales business models with large up-front revenues, and very different scalability parameters. Many business plans of companies detail excellent products, but fall short in the area of sales. This is an area where we believe we excel. To support this mission, we will:

.  
Deliver affordable storage solutions with enterprise level capabilities.

.  
Utilize local and regional reseller partners and national level channel partners.

.  
Align with major storage participants to cooperatively work together within the same opportunities.

.  
Continue to build and deliver our Fortress Storage Center to support digitiliti's growing customer base and continue to add valuable features to our digitiliti service to keep ahead of our competitors.

.  
Require additional funding to fulfill our product development and sales and marketing objectives.

We have entered the mature data protection and backup market with a utility based backup service that has changed the way companies backup their data. This market has been dominated for 30 years by tape devices and current software backup suppliers. These suppliers charge for software and tape hardware to accomplish what digitiliti can do for a more economical monthly service fee. The cost of locally managing tape backup systems is a serious concern because of the data explosion rate companies are experiencing and the complexity of managing it. With digitiliti, customers no longer have to outlay capital for backup software and hardware. They simply download the digitiliti data collection agent, install it and begin their first backup to our Fortress Storage Center in a matter of minutes. If the data set is too large to transfer the first full backup over the Internet, a technician will send out a portable disk array where the customer backs up its data to it. The customer will then send the array back to our Fortress Storage Center for the data to be loaded onto the system. From there, the customer backs up only the daily changes to the data made

each day. The customer pays a monthly fee based on the number of compressed gigabytes of data they have stored in our Fortress Storage Center.

## **Targets**

For 2007, we concentrated on our vertical markets and setting up key resellers of these storage solutions. We will look to expand our reseller base first in the Midwestern states and then outward in 2008. Our lead registration database will help us with identification of strong resellers. We are working on partnerships with national level enterprise sales channel programs that will build revenue in the long run. We recently began a focused regional level channel partner development program that will build sales in the short term. In addition, we have identified 30,000 end-user prospects for our in-house sales team to call. Our end-user customer base has expanded from approximately 20 in fiscal 2005, to approximately 100 in fiscal 2006, to 508 in fiscal 2007; and currently, to approximately 594.

## **Digitiliti Product Operational Methodology**

Our digitiliti online backup and recovery solution simplifies the entire data backup and restore process into a few easy steps beginning with our data collection agent. Load our collection agent on a Windows, Linux or Macintosh server to scan the entire network for all available data to protect. This data may be a server's operating system state, files, databases, messaging systems or even email messages. Determine which data to backup and the number of revisions of each file or backup set. Schedule and automate the backup. When the backup executes, digitiliti looks for changed blocks within your files, eliminates common blocks, encrypts, compresses and transfers your data to the Fortress Storage Center. Should a customer lose data at their site, the restore process is just as easy. Determine

what data to restore and from which generation. Restore the data either from your local storage or from the Fortress Storage Center by entering a few commands. The latest copy of your data can be stored locally for restoring massive amounts of data in a timely fashion. The second copy and the third disaster recovery copy is ready and waiting at our Fortress Storage Center.

Our Fortress Storage Center is a one-of-a-kind facility that provides our customers with all the benefits of direct fiber access to a Level 5 data center. The data center delivers the highest speed telecommunications, data service, satellite and wireless capabilities in the region. Being centrally located at the focal point of the Twin Cities Fiber Channel and Gig loop, the pipeline for data and load capabilities are immense. This allows us to send data back and forth in real time.

### **Distribution Methods of the Products or Services**

Our products are marketed in all traditional methods, including the web, trade publications, trade shows, advertising and direct sales methods. We also use our web site at [www.digitiliti.com](http://www.digitiliti.com).

Our customers typically sign a 36 month contract that provides for easy billing, stable recurring revenue and easy forecasting. We believe growth can be controlled and managed through customer backup set retention policies. Our success and size is based upon our ability to deliver a reliable cost effective storage solution, define our target market and effectively sell our storage solution over the telephone with ease. Digitiliti has been sold successfully through resellers. This is proven by the significant customers we have signed using our resellers. Currently 552 of our 594 customers have been signed using our resellers. Due to the success of our resellers, we plan to aggressively set up key resellers at local, regional and national levels throughout the United States, concentrating first in the Midwest. In addition to our marketing and sales efforts, operations consist of managing our customer's data in our Fortress Storage Center.

### **Status of any Publicly Announced New Product or Service**

Mythos (formerly MYTHOS ) was introduced in January 2007, at Macworld. A major development piece for Mythos was completed in the summer of 2007. Management may consider exclusive licensing or the outright sale of this product. There are many important benefits companies can realize by moving to Mythos from the DAS environment. In a DAS environment, each server is locally attached, which prohibits other servers to access it. The result is that if a server has excess capacity, another server cannot use it. When a potential customer needs more storage, typically another server is required to be purchased. This adds complexity to the customer's OS software licensing and backup issues. Our goal is server and storage consolidation for easier and more efficient data provisioning and protection.

### **Competitive Business Conditions, Competitive Position in the Industry and Methods of Competition**

We compete with current and potential customers' internal information protection and storage services capabilities. We can provide no assurance that these organizations will begin or continue to use an outside company like us for their future information protection and storage services.

We also compete with multiple information protection and storage services providers in all geographic areas where we operate. We believe that competition for customers is based on price, reputation for reliability, quality of service and scope and scale of technology, and that we attempt to compete effectively based on these factors.

Some of our competitors may possess greater financial and other resources than we do. If any such competitor were to devote additional resources to the information protection and storage services business and acquisition candidates in these areas or focus their strategy in our markets, our results of operations could be adversely affected.

The following are know material direct competitors to our digitliti, and their products are:

<b>Competing Enterprise Name</b>	<b>Competing Product Name</b>
Live Vault/Iron Mountain, Inc. EVault	Live Vault Online Backup Service EVault InControl

### **LiveVault /Iron Mountain Incorporated**

#### **Marlborough, MA**

LiveVault was recently purchased by Iron Mountain, Inc. ( Iron Mountain ). LiveVault is targeted for customers of less than 250GB. It can backup Windows, Linux and Solaris. We believe that LiveVault's service is very expensive in relation our digitliti. There is believed to be no common file elimination and agents are believed to be required on every single computer you backup.

We believe LiveVault does not scale as elegantly as we do because they require agents and only offer 30 days worth of backups, while we offer three years. We are priced more competitively to customers with over 250GB. When customers exceed 100GB, we become even more cost effective.

Iron Mountain has an estimated net worth of over \$1.5 billion, with over \$2.73 billion in estimated storage related products and services income.

#### **EVault**

#### **Emeryville, CA**

EVault was acquired by Seagate Technology ( Seagate ) in January, 2007, for \$186 million. Seagate's core business is as a disk drive manufacturer. EVault is a competitor in the small business market, primarily serving customers having well under 100GB. EVault is believed to be much more expensive in the small to medium business and the small to medium enterprise market. We believe that it charges for consulting, setup, software fees and data stored so this service may end up costing as much as a tape solution with the benefit of getting data offsite. EVault requires agents on all servers/workstations and charge for these software agents. EVault only allows customers to keep some of their data online; the rest has to be archived or deleted. Our product is so easy to use that it is possible to engage the customer for no more than a couple hours for a complete setup, often without a charge.

If our competitive position in this industry is based solely upon assets, current cash resources and the number of customers we now have, our present competitive position in this industry would not be deemed to be significant; however, we believe our business strategy, management, employees and products will result in us becoming a competitive force in this industry.

### **Sources and Availability of Raw Materials and Names of Principal Suppliers**

Our business solutions require software and related products and suppliers that are readily available.

### **Dependence on One or a Few Major Customers**

We are not dependent upon one or a few major customers, the loss of which could have an adverse material effect on our business operations or financial condition.

### **Patents, Trademarks, Licenses, Franchises, Concessions, Royalty Agreements or Labor Contracts, including Duration**

We have customary software licenses required to conduct current and intended operations; and we are in the process of filing certain service mark applications that are deemed to be necessary or beneficial to us. We have no patents.

We have the following service agreements that are deemed to be material:

## **M2 Capital Advisors, Inc.**

On May 3, 2006, Storage executed a Consulting Agreement with M2 Capital Advisors, Inc., a Minnesota corporation ( M2 ), and a related party of which Mark Savage, our former President and a current director (see Item 5), is the President and a principal shareholder, to render various consulting services, including introducing it to various sources of funding and providing management consulting services. As consideration for these services, M2 was to be paid \$3,000 per month for one year; 10% fee for introduction of funding sources that actually provided funding; receive 1,050,000 seven year \$0.50 warrants, subject to the introduction and receipt of not less than the sum of \$750,000; 1.4 seven year warrants for every additional \$1.00 of funding introduced and received; piggy-back registration and cashless rights on all warrants; and other fees based upon a sliding scale for the introduction of a merger or acquisition to which Storage was introduced and that was actually completed. An Addendum to this Consulting Agreement was entered into in March, 2007, effective May 6, 2006, that raised the monthly fee from \$3,000 to \$5,000, as compensation to Mr. Savage for filling the role as President of Storage; reduced the warrant exercise price to \$0.35, which coincided with the then current offering price of Storage common stock; and that indicated that the total warrants issuable under the Consulting Agreement were 3,726,520. This Consulting Agreement was extended by us on February 28, 2008, until May 31, 2008. M2 was paid approximately \$350,000 under this Consulting Agreement for funding introduced and received by Storage in the approximate amount of \$3,500,000 in connection with the offer and sale of certain shares of Storage common stock that were restricted securities and was issued the 3,726,520 warrants to acquire shares of common stock of Storage as outlined in Item 10. In September and October, 2007, warrants for 3,643,270 shares were exercised cashless with the issuance of 3,359,397 shares of our common stock in accordance with our assumption of these warrants under the Storage Merger.

M2 was also paid \$319,955 through December 31, 2007, in connection with the introduction of persons who acquired \$3,199,550 in 12% convertible notes in an aggregate offering of up to \$5.5million commenced by Storage in the first quarter of 2007 and extended by us following the closing of the Storage Merger on August 17, 2007; this 12% convertible note offering is presently being continued by us.

Effective on or about April 25, 2007, Storage executed and completed a Consulting Agreement with M2 whereby it agreed to issue 750,000 shares of Storage common stock that were restricted securities to M2 and its associates for the introduction of us as a potential reverse merger candidate to Storage. 297,166 of these shares were issued directly to Mr. Savage. All of these shares were exchanged under the Storage Merger. All of these securities were restricted securities.

M2 was also paid a 5% introduction fee of \$28,550 for a computer lease executed by us in November, 2006; \$15,448 for the introduction of two additional computer equipment leases executed by us in January and February, 2007; and \$13,600 for the introduction of an additional computer equipment lease we executed in December, 2007.

These Consulting Agreements contain various provisions regarding independent contractor status, confidentiality, due performance and care in performing services and mutual indemnification, among other provisions.



See the headings Recent Sales of Unregistered Securities, Item 10, for additional information on securities issued under these two Consulting Agreements and the 12% convertible note offering by Storage and us. Copies of these Consulting Agreements are filed as Exhibits to this Registration Statement. See Item 15.

**5X Partners, LLC.**

We executed a Corporate Development Services Agreement (the Agreement ) with 5X Partners, LLC, a Minnesota limited liability company ( 5X Partners ) on August 20, 2007, that was extended by an Addendum on November 15, 2007 (the First Addendum ), and by an additional Addendum effective April 17, 2008 (the Second Addendum ). This Agreement and the Addendums focus on services in senior leadership, business development , sales and marketing, product packaging, infrastructure scaling methods and other key areas of management, business assessment and strategies. 5X Partners will apply its implementation skills to fill in needed strengths and improve functional areas including corporate strategy and revenue generation (sales, marketing, pricing, positioning,

partnering, etc). 5X Partners will add value in business development by leading M&A or divestiture functions as needed. It is also anticipated that 5X Partners will assist us in financing, investor relations and company positioning. Compensation under the initial Agreement was \$16,800, divided between Larry D. Ingwersen (who became our CEO and President on April 17, 2008 [see Item 5]) and Roderick D. Johnson (who became our Chief Operating Officer on April 17 [see Item 5]), two of its principals, \$8,400 to each for 25% of the time of each, less 50% shared risk of \$8,400; the First Addendum increased this amount to \$30,241, \$15,121 to each for 50% of the time of each, with a provision to discuss deferred compensation in the form of warrants; and the Second Addendum, a 12 month extension, provides that we will pay 5X Partners \$60,484 consisting of a 50% cash payment and 50% converted into common stock with a price of \$0.35 per share. We will also pay a monthly fee of \$28,000 of which \$8,000 will be deferred until reaching a financial funding goal, and issuance of 2,850,000 shares of stock options at a strike price of \$0.385 per share to the two principals of 5X Partners, which will vest over 24 months. These securities are all restricted securities. These two principals of 5X Partners were elected as our new CEO/President and COO, respectively; no additional compensation is presently anticipated for service in these capacities.

5X Partners was instrumental in the introduction, negotiation, due diligence process and the closing of the transactions with StorageSwitch, LLC and the introduction of Vision to Practice, Inc. to us.

The Agreement and these Addendums contain various provisions regarding independent contractor status, confidentiality, due performance and care in performing services, notice of disputes and time for correction, arbitration of disputes and indemnification by 5X Partners, among other provisions.

Copies of the initial Agreement and the First and Second Addendums are filed as Exhibits to this Registration Statement. See Items 13 and 15.

### **StorageSwitch, LLC**

In January 2008, we executed a nonbinding Letter of Intent (LOI) with StorageSwitch to purchase selective existing software technology. In addition, this LOI addressed the compensation paid for any related software product development consulting services and sales/marketing consulting services. The LOI had a due diligence period to confirm required compatibility with our present technology base. The due diligence process was completed in March, 2008, and we signed and completed a Technology Purchase Agreement for a purchase of certain technology software with a total payment of \$250,000 cash and 500,000 shares of our common stock that were restricted securities. We also entered into a Consulting Service Agreement with a monthly payment of \$25,000 and monthly issuance of 24,960 shares of our common stock that were also restricted securities. 5X Partners was instrumental in the introduction, negotiation, due diligence process and the closing of this acquisition.

These Agreement contain various provisions regarding independent contractor status, confidentiality, due performance and care in performing services, various representations and warranties, notice, venue for disputes and indemnification, among other provisions.

Copies of the Consulting Services Agreement, the Covenant Not to Compete Agreement and the Technology Purchase Agreement with StorageSwitch are filed as Exhibits to this Registration Statement. The Scope of Work outline referenced in any of these documents is not filed as an Exhibit as it considered confidential and proprietary information to us and our storage technology. See Items 13 and 15.

**Vision to Practice, Inc.**

On February 6, 2008, we entered into a Consulting Agreement with Vision to Practice, Inc., a Minnesota corporation ( Vision ), to assist in bringing our new product initiatives to market utilizing the technology software purchased from StorageSwitch. We will pay semi-monthly payments of \$7,680 based on full-time service provided to us under this Consulting Agreement. We will also issue to the consultant s principal 225,000 stock options at \$0.35 per share, which vest over 36 months.

Vision is owned by Rodd Johnson; he is not related to our new COO, Roderick D. Johnson, who is a partner of 5X

Partners.

This Consulting Agreement contains various provisions regarding independent contractor status, confidentiality, due performance and care in performing services, notice of disputes and time for correction, arbitration of disputes and indemnification by Vision, among other provisions. The Scope of Work outline referenced in the Consulting Agreement is not filed as an Exhibit as it considered confidential and proprietary information to us and our storage technology.

A copy of this Consulting Agreement is filed as an Exhibit to this Registration Statement. See Items 13 and 15.

### **Need for any Governmental Approval of Principal Products or Services**

None of our products are subject to prior governmental approvals.

### **Effect of Existing or Probable Governmental Regulations on the Business**

Once our Registration Statement has been filed and becomes effective (sixty (60) days after its filing date,) this will allow us to become a reporting issuer under the Exchange Act, and may allow us to seek to qualify our shares of common stock for public quotations on the OTC Bulletin Board of FINRA. Following the effective date of our Registration Statement, the following will be applicable to us:

### **Smaller Reporting Company**

We will become subject to the reporting requirements of Section 13 of the Exchange Act, subject to the disclosure requirements of Regulation S-K of the Securities and Exchange Commission, as a smaller reporting company. That designation will relieve us of some of the informational requirements of Regulation S-K.

### **Sarbanes/Oxley Act**

We will also become subject to the Sarbanes-Oxley Act of 2002. The Sarbanes/Oxley Act created a strong and independent accounting oversight board to oversee the conduct of auditors of public companies and strengthens auditor independence. It also requires steps to enhance the direct responsibility of senior members of management for financial reporting and for the quality of financial disclosures made by public companies; establishes clear statutory

rules to limit, and to expose to public view, possible conflicts of interest affecting securities analysts; creates guidelines for audit committee members' appointment, compensation and oversight of the work of public companies' auditors; management assessment of our internal controls; auditor attestation to management's conclusions about internal controls (anticipated to commence with the December 31, 2009, year end); prohibits certain insider trading during pension fund blackout periods; requires companies and auditors to evaluate internal controls and procedures; and establishes a federal crime of securities fraud, among other provisions. Compliance with the requirements of the Sarbanes/Oxley Act will substantially increase our legal and accounting costs.

### **Exchange Act Reporting Requirements**

Section 14(a) of the Exchange Act requires all companies with securities registered pursuant to Section 12(g) of the Exchange Act to comply with the rules and regulations of the Securities and Exchange Commission regarding proxy solicitations, as outlined in Regulation 14A. Matters submitted to shareholders at a special or annual meeting thereof or pursuant to a written consent will require us to provide our shareholders with the information outlined in Schedules 14A (where proxies are solicited) or 14C (where consents in writing to the action have already been received or anticipated to be received) of Regulation 14, as applicable; and preliminary copies of this information must be submitted to the Securities and Exchange Commission at least 10 days prior to the date that definitive copies of this information are forwarded to our shareholders.

We will also be required to file annual reports on Form 10-K and quarterly reports on Form 10-Q with the Securities Exchange Commission on a regular basis, and will be required to timely disclose certain material events (e.g., changes in corporate control; acquisitions or dispositions of a significant amount of assets other than in the ordinary course

of business; and bankruptcy) in a Current Report on Form 8-K.

### **Research and Development Costs During the Last Two Fiscal Years**

We had the following research and development expenses during the fiscal years ended December 31, 2007, and 2006: \$24,784 and \$150,214, respectively. In fiscal 2006, the CORESX (MYTHOS) product was renamed Mythos. Research and development was conducted on the Mythos software that allowed for functionality to be bundled into the software. Mythos has not been brought to market.

### **Cost and Effects of Compliance with Environmental Laws**

We do not believe that our current or intended business operations are subject to any material environmental laws, rules or regulations that would have an adverse material effect on our business operations or financial condition or result in a material compliance cost.

### **Number of Total Employees and Number of Full Time Employees**

We currently have 14 full time employees and no part time employees.

### **Reports to Security Holders**

We are required to file annual reports on Form 10-K and quarterly reports on Form 10-Q with the Securities Exchange Commission on a regular basis, and will be required to timely disclose certain material events (e.g., changes in corporate control; acquisitions or dispositions of a significant amount of assets other than in the ordinary course of business; and bankruptcy) in a Current Report on Form 8-K.

You may read and copy any materials that we file with the Securities and Exchange Commission at the Securities and Exchange Commissions Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549, on official business days during the hours of 10:00 am to 3:00 pm. You may obtain information on the operation of the Public Reference Room by calling the Commission at 1-800-SEC-0330. You may also find all of the reports that we have filed electronically with the Securities and Exchange Commission at their Internet site [www.sec.gov](http://www.sec.gov).

**Item 1A. Risk Factors**

An investment in us involves a high degree of risk, and is suitable only for persons of substantial financial means who have no need for initial liquidity in their investments. Prospective investors should carefully consider the following risk factors, which are not all inclusive, along with all types of risk factors that generally relate to undercapitalized companies and companies that have limited revenues and that depend upon equity or debt financing to continue operations:

**Risks Related to Our Business**

**We have not recorded annual profitable operations since our inception.**

We have experienced operating losses each year since our inception. Even though our revenues increased \$926,748 to \$1,329,386 for the year ended December 31, 2007, our net loss increased \$4,097,008 for the year ended December 31, 2007, compared to the year ended December 31, 2006, and we may still incur additional future operating losses.

Our operating results may fluctuate significantly and any failure to meet financial expectations may disappoint securities analysts or investors and result in a decline in our common stock price on the Pink Sheets or any other nationally recognized quotation system upon which our common stock may be publicly traded in the future.

**Our substantial short term debt could adversely affect our financial condition.**

As of December 31, 2007, we had short term debt in the form of our 12% convertible notes in the amount of \$1,062,631. Though these 12% convertible notes are convertible into the purchase of shares of our common stock that are restricted securities at a conversion price of \$0.50 per share, with the extremely current limited public trading market for our shares of common stock, it is highly unlikely that many of the holders of these debt instruments will convert them to purchase shares of our common stock. The amendments that have been approved by the Securities and Exchange Commission to shorten the holding period for unlimited sales of restricted securities by non-affiliates after a six month holding period under Rule 144 are not effective for former shell companies like we are; and for resales under Rule 144(i), holders of shares of shell companies must satisfy a minimum holding period of one year following the filing of this Registration Statement, among other conditions. See the heading Rule 144, Item 9.

We continue to sell units comprised of our 12% convertible notes and warrants.

If we are unable to pay these notes when due, including interest, and the holders of these notes do not elect to convert them to purchase shares of our common stock, our financial condition could worsen substantially, and we may be required to cease operations entirely.

We also have substantial other current liabilities as of December 31, 2007, in the form of a note payable (\$45,906); capital lease obligations (\$687,159); notes payable to related parties (\$241,540); trade accounts payable (\$92,000); accrued expenses (\$377,308) and amounts due to a stockholder (\$60,176), for total current liabilities of \$2,566,720, which includes the \$1,062,631 in 12% convertible notes.

**Our substantial indebtedness could have important consequences.**

For example, it could:

.  
make it more difficult for us to satisfy our obligations with respect to

the current or new 12% convertible notes still being offered;

.  
make us more sensitive to adverse economic conditions than some of our



competitors with less debt;

.

limit our ability to fund future working capital, acquisitions, capital

expenditures and other general corporate requirements;

.

limit our flexibility in planning for, or reacting to, changes in our

business and the records and information management services industry; and

.

make it more difficult for us to obtain additional financing for future

working capital needs or for possible future acquisitions or other

purposes, including possible required payments of the past and new 12% convertible notes.

**Despite our current debt position, we may still need to incur substantial additional debt.**

We continue to sell units comprised of our 12% convertible notes and warrants. See the heading Recent Sales of Unregistered Securities, Item 10. However, if we are unable to pay the currently outstanding 12% convertible notes and accrued interest, our financial condition may be adversely affected to the point that no debt or equity financing may be available to us. That could require us to cease or substantially limit our business operations, including termination of employees and business associations necessary for us to continue in our business.

**We have deficiencies in our internal controls.**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting.

Our internal control system is intended to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of published financial statements. Management's current assessment of the effectiveness our internal controls is based principally on our financial reporting as of December 31, 2007, and



2006. In making its assessment of internal control over financial reporting, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ) in Internal Control Integrated Framework.

Accordingly, our management, with the participation of our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as of December 31, 2007, and 2006. Based on such evaluation of the above referenced periods, due to the material weaknesses of our internal controls over financial reporting further described below, our Chief Financial Officer concluded that such disclosure controls and procedures were not effective in providing reasonable assurance that information required to be disclosed by us in the reports we intended to file under the Exchange Act were recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commissions rules, regulations and forms.

For the periods referenced above, management s assessment identified material deficiencies in our internal control over financial reporting. These deficiencies include lack of segregation of duties, lack of adequate documentation of our system of internal control, deficiencies in our information technology systems, limited capability to interpret and apply United States generally accepted accounting principles and lack of formal accounting policy and procedures and related documentation.

We hired a Chief Financial Officer and a Chief Operating Officer effective April 17, 2008, and it is management s intent to correct all identified material deficiencies in our internal controls as reported in previous periods. Until such time, our internal control over financial reporting may be subject to additional material weaknesses and deficiencies that we have not yet identified. Management has determined that these significant deficiencies, in the aggregate, constitute a material weakness in the design and operation of our internal controls in effect prior to December 31, 2007, and 2006.

**If we do not respond effectively to technological changes, our products and services could become obsolete.**

The development of our products and services and other technology entails significant technical and business risks. High technology industries like ours are characterized by: (1) rapid technological change; (2) changes in user and customer requirements and preferences; (3) frequent new product and services introductions embodying new technologies; and (4) the emergence of new industry standards and practices.

Future advances in technology may not be beneficial to, or compatible with, our intended business. Furthermore, we may not use new technologies effectively or adapt our technology and systems to user requirements or emerging industry standards in a timely way. In order to stay technologically competitive, we may have to spend large amounts of money and time. If we do not adapt to changing market conditions or user requirements in a timely way, our business, financial condition and results of operations could be adversely affected.

**If we fail to develop new products, or if we incur unexpected expenses or delays in product development, we may lose our competitive position.**

Although we currently have fully developed products available for sale, we are also developing various products and technologies that we will rely on to remain competitive. Due to the risks in developing new products and technologies, limited financing, competition, obsolescence, loss of key personnel and other factors, we may fail to develop these technologies and products, or we may experience lengthy and costly delays in doing so. Although we may be able to license some of our technologies in their current stage of development, we cannot assure you that we will be able to do so.

**Our business may be adversely affected by downturns in the economy.**

We are subject to the capital spending patterns of this industry. If our customers and potential customers do not increase their capital spending budgets, we could face a weaker demand for our products; however, such an event may not be materially adverse to us as our storage solution products offers a more cost-effective methodology of data backup and restoring services.

**We depend on our key personnel, and the loss of any would impair our ability to compete.**

We are highly dependent on the principal members of our management. The loss of services of any of these persons could seriously harm the growth and success of our current and intended business operations. In addition, research, product development and commercialization will require additional skilled personnel in the backup and storage retention services industry procedures and products. Competition for and retention of personnel, particularly for employees with technical expertise, is intense and the turnover rate for these qualified personnel is high. If we are unable to hire, train and retain a sufficient number of qualified employees, our ability to conduct and expand our business could be reduced. The inability to retain and hire qualified personnel could also hinder the planned expansion of our business.

**Our intellectual property rights or contractual provisions may not protect us and our products.**

Our storage solution products could infringe on the intellectual property rights of others, which may involve us in costly litigation and, if we are not successful in defending such claims, could also cause us to pay substantial damages and prohibit us from selling our products. Third parties may assert infringement or other intellectual property claims against us. Even if these claims are without merit, defending lawsuits takes significant time, may be expensive and may divert management's attention from other business concerns. We are not currently aware of any third-party patents claims against us or other legal proceedings.

We may need to initiate lawsuits to protect or enforce our proprietary rights in our products, which would also be expensive and, if we unsuccessful, may cause us to lose some of our intellectual property rights, which would reduce our ability to compete in the market. In the future, we may rely on patents to protect our intellectual property and our competitive position. The rights we rely upon to protect the intellectual property underlying our products may not be adequate, which could enable third parties to use this technology and would reduce our ability to compete in our markets.

We presently have no patents. We rely on a combination of trade secrets, nondisclosure agreements and other contractual provisions and technical measures to protect our intellectual property rights. Nevertheless, these measures may not be adequate to safeguard the technology underlying our storage solutions products.

Notwithstanding our efforts to protect our intellectual property, our competitors may independently develop similar or alternative technologies or products that are equal or superior to our technology and storage solutions products without infringing on any of our intellectual property rights or design around our proprietary technologies.

**We need additional capital.**

Failure to raise additional capital or generate the significant capital necessary to continue and expand our operations and launch, sell or license our Mythos product could reduce our ability to compete and result in lower revenue. We anticipate that our existing capital resources will only enable us to maintain currently planned operations at least through the second quarter of 2008; and we continue to seek funding through the sale of our units consisting of our 12% convertible notes and warrants. See the caption Recent Sales of Unregistered Securities, Item 10, for a complete description of our funding efforts. However, we premise this expectation on our current operating plans, which may change as a result of many factors. Consequently, we may need additional funding sooner than anticipated. Our inability to raise needed capital would harm our business. In addition, we may choose to raise additional capital due to market conditions or strategic considerations even if we believe we have sufficient funds for our current operating plans. To the extent that additional capital is raised through the sale of equity, debt, convertible debt securities or other combinations of our securities, including our newly authorized preferred stock, the issuance of these securities could result in substantial dilution to our stockholders.

We currently have no credit facility or committed sources of capital. To the extent operating and capital resources are insufficient to meet our future funding requirements, we will have to raise additional funds to continue the commercialization of our products. These funds may not be available on favorable terms, or at all. If adequate funds

are not available on attractive terms, we may be required to cease or curtail operations significantly or to obtain funds by entering into financing, supply or collaboration agreements on unfavorable terms.

**We face a higher risk of failure because we cannot accurately forecast our future revenues and operating results.**

Our short operating history and the rapidly changing nature of the market in which we compete make it difficult to accurately forecast our revenues and operating results. Furthermore, we expect our revenues and operating results to fluctuate in the future due to a number of factors, including the following:

- .  
the timing of sales of our products and services;
- .  
the timing of product implementation;
- .  
unexpected delays in introducing new products and services;
- .  
increased expenses, whether related to sales and marketing, product development or administration;
- .  
the mix of product license and services revenue; and
- .  
costs related to possible acquisitions of technology or businesses.

**Our limited resources may make it harder for us to manage growth.**

We have a limited basis upon which to evaluate our Storage Management Solutions systems ability to handle controlled or full commercial availability of our products and services. We anticipate that we will expand our operations significantly in the near future, and we will have to expand further to address the anticipated growth in our user base and market opportunities. To manage the expected growth of operations and personnel, we will need to improve existing, and implement new systems, procedures and controls. In addition, we will need to expand, train and

manage an increasing employee base. We will also need to expand our finance, administrative and operations staff. We may not be able to effectively manage this growth. Our planned expansion in the near future will place, and we expect our future expansion to continue to place, a significant strain on our managerial, operational and financial resources. Our planned personnel, systems, procedures and controls may be inadequate to support our future operations. If we can not manage growth effectively or if we experience disruptions during our expansion, the expansion may not be cost-effective.

**If we do not respond effectively to technological change, our products and services could become obsolete.**

The development of our products and services and other technology entails significant technical and business risks. To remain competitive, we must continue to improve our Storage Management Solutions products and their responsiveness, functionality and features.

High technology industries are characterized by:

- 
- rapid technological change;
- 
- changes in user and customer requirements and preferences;
- 
- frequent new product and services introductions embodying new technologies; and
- 
- the emergence of new industry standards and practices.

The evolving nature of the Internet could render our existing technology and sys