

Data Storage Corp
Form 10-Q
August 19, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

- Quarterly Report PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2013
- TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File No. 333-148167

DATA STORAGE CORPORATION
(Exact name of registrant as specified in its charter)

NEVADA
(State or other jurisdiction of
incorporation or organization)

98-0530147
(I.R.S. Employer
Identification No.)

401 Franklin Avenue
Garden City, N.Y
(Address of principal executive
offices)

11530
(Zip Code)

Registrant's telephone number, including area code: (212) 564-4922

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Edgar Filing: Data Storage Corp - Form 10-Q

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company filer. See definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	<input type="radio"/>	Accelerated Filer	<input type="radio"/>
Non-Accelerated Filer	<input type="radio"/>	Smaller Reporting Company	<input checked="" type="radio"/>

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

As of August 14, 2013, 33,165,915 shares of common stock, par value \$0.001 per share, were outstanding.

DATA STORAGE CORPORATION
 FORM 10-Q
 June 30, 2013
 INDEX

		Page
PART I-- FINANCIAL INFORMATION		
Item 1	Financial Statements	2
	Condensed Consolidated Balance Sheets as of June 30, 2013 (unaudited) and December 31, 2012	2
	Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2013 and 2012 (unaudited)	3
	Condensed Consolidated Statements of Cash Flows for the three and six months ended June 30, 2013 and 2012 (unaudited)	4
	Notes to Condensed Consolidated Financial Statements	5 - 11
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	12 - 13
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	14
Item 4.	Control and Procedures	14
PART II-- OTHER INFORMATION		
Item 1.	Legal Proceedings	16
Item 1A.	Risk Factors	16
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	16
Item 3.	Defaults Upon Senior Securities	16
Item 4.	Mine Safety Disclosures	16
Item 5.	Other Information	16
Item 6.	Exhibits	17

PART I

ITEM 1. Financial Statements

DATA STORAGE CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	June 30, 2013	December 31, 2012
(UNAUDITED)		
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 75,204	\$72,756
Accounts receivable (less allowance for doubtful accounts of \$30,000 in 2013 and \$58,000 in 2012)	251,508	201,483
Deferred Compensation	17,562	17,562
Prepaid Expenses and other current assets	84,681	184,752
Total Current Assets	428,955	476,553
Property and Equipment:		
Property and equipment	4,018,759	3,851,104
Less—Accumulated depreciation	(2,463,442)	(2,189,024)
Net Property and Equipment	1,555,317	1,662,080
Other Assets:		
Goodwill	2,201,828	2,201,828
Deferred compensation	270	9,052
Equity investment in joint venture	13,557	-
Other assets	28,349	65,923
Intangible Assets, net	781,265	903,761
Employee loan	23,300	-
Total Other Assets	3,048,569	3,180,564
Total Assets	5,032,841	5,319,197
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	1,361,470	1,214,580
Credit line payable	100,292	100,292
Due to related parties	186,045	162,804
Dividend Payable	237,500	212,500
Deferred revenue	610,393	722,658
Leases payable	787,996	715,095
Loans payable	47,335	47,312
Convertible debt – related party	88,099	-
Contingent consideration in Message Logic acquisition	362,414	365,519
Total Current Liabilities	3,781,544	3,540,760

Edgar Filing: Data Storage Corp - Form 10-Q

Deferred rental obligation	10,373	14,403
Due to officer	802,005	758,320
Leases payable long term	220,493	382,572
Convertible debt – related party	500,000	500,000
Total Long Term Liabilities	1,532,871	1,655,295
Total Liabilities	5,314,415	5,196,055
Commitments and contingencies	-	-
Stockholders' Equity:		
Preferred Stock, \$.001 par value; 10,000,000 shares authorized; 1,401,786 shares issued and outstanding in each period	1,402	1,402
Common stock, par value \$0.001; 250,000,000 shares authorized; 33,165,915 and 33,165,915 shares issued and outstanding, respectively	33,166	33,166
Additional paid in capital	12,142,320	12,042,623
Accumulated deficit	(12,458,462)	(11,954,049)
Total Stockholders' Equity	(281,574)	123,142
Total Liabilities and Stockholders' Equity	\$ 5,032,841	\$5,319,197

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

DATA STORAGE CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Sales	\$ 1,170,364	\$ 1,013,665	\$ 2,346,542	\$ 1,984,064
Cost of sales	650,666	782,002	1,377,780	1,366,995
Gross Profit	519,698	231,663	968,762	617,069
Selling, general and administrative	659,942	985,497	1,381,336	1,885,070
Loss from Operations	(140,244)	(753,834)	(412,574)	(1,268,001)
Other Income (Expense)				
Interest income	4	24	15	106
Net loss from joint venture	(2,243)	-	(2,243)	-
Interest expense	(32,837)	(35,777)	(64,611)	(72,554)
Total Other (Expense)	(35,076)	(35,753)	(66,839)	(72,448)
Loss before provision for income taxes	(175,320)	(789,587)	(479,413)	(1,340,449)
Provision for income taxes	-	-	-	-
Net Loss	(175,320)	(789,587)	(479,413)	(1,340,449)
Preferred Stock Dividend	(12,500)	(12,500)	(25,000)	(25,000)
Net Loss Available to Common Shareholders	\$(187,820)	\$(802,087)	\$(504,413)	\$(1,365,449)
Loss per Share – Basic and Diluted	\$(0.01)	\$(0.03)	\$(0.01)	\$(0.05)
Weighted Average Number of Shares - Basic and Diluted	33,165,915	29,045,522	33,165,915	29,045,522

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

DATA STORAGE CORPORATION AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six Months Ended June 30,	
	2013	2012
Cash Flows from Operating Activities:		
Net loss	\$(479,413)	\$(1,340,449)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	396,914	356,443
Amortization of debt discount	5,950	-
Non cash interest expense	24,795	20,685
Net loss attributable to joint venture	2,243	-
Deferred compensation	-	19,408
Allowance for doubtful accounts	3,199	10,000
Stock based compensation	116,251	169,016
Changes in Assets and Liabilities:		
Accounts receivable	(53,223)	(9,848)
Other assets	1,948	817
Prepaid expenses and other current assets	105,071	(12,836)
Employee Loan	(13,300)	-
Accounts payable and accrued expenses	117,096	249,665
Deferred revenue	(112,265)	(17,490)
Deferred rent	(4,030)	(2,907)
Due to related party	23,241	-
Net Cash Provided by (Used in) Operating Activities	134,477	(557,496)
Cash Flows from Investing Activities:		
Capital expenditures	(167,655)	(68,769)
Investment in joint venture	(15,800)	-
Net Cash Used in Investing Activities	(183,455)	(68,769)
Cash Flows from Financing Activities:		
Issuance of convertible debt	100,000	500,000
Repayments of capital lease obligations	(89,154)	-
Repayments of loan obligations	-	(81,228)
Advances from credit line	-	(33,555)
Repayment of contingent consideration	(3,105)	-
Advances from shareholder	43,685	115,274
Net Cash Provided by Financing Activities	51,426	500,491
Increase (Decrease) in Cash and Cash Equivalents	2,448	(125,774)
Cash and Cash Equivalents, Beginning of Period	72,756	168,490
Cash and Cash Equivalents, End of Period	\$75,204	\$42,716
Cash paid for interest	\$4,559	\$2,007

Cash paid for income taxes	\$-	\$-
----------------------------	-----	-----

Non cash investing and financing activities:

Accrual of preferred stock dividend	\$25,000	\$25,000
Warrants issued with convertible debt	\$17,851	\$-

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

DATA STORAGE CORPORATION AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2013 AND 2012

Note 1 - Basis of presentation, organization and other matters

Data Storage Corporation, (“DSC”) is the result of several consolidations and is strategically positioned to continue its consolidation strategy. To date, DSC consummated (i) a share exchange with Euro Trend Inc. in October 2008, (ii) an asset acquisition of SafeData, LLC (“SafeData”) in June 2010, and (iii) an asset acquisition of Message Logic LLC, (“Message Logic”) in October 2012.

On October 20, 2008 we completed a share exchange agreement whereby we acquired all of the outstanding capital stock and ownership interests of DSC. In exchange we issued 13,357,143 shares of our common stock to the shareholders. This transaction was accounted for as a reverse merger for accounting purposes. Accordingly, DSC, the accounting acquirer, is regarded as the predecessor entity.

On June 17, 2010 we entered into an asset purchase agreement with SafeData, a provider of cloud storage and cloud computing services mostly to IBM’s mid-range equipment users, under which we acquired all right, title and interest in the end user customer base of SafeData and all related current and fixed assets and contracts including the transfer of all of SafeData’s current liabilities arising out of the business or the assets acquired. Pursuant to the asset purchase agreement, we paid an aggregate purchase price equal to \$3,000,000. Giving effect to certain holdback and contingency clauses as defined in the asset purchase agreement, we paid \$1,229,952 in cash and \$850,000 in shares of our common stock as well as assumption of SafeData accounts payable and receivables. In June 2011 we made a final payment net of holdback of \$482,308 and we issued the remaining balance of \$150,000 in common stock. The final settlement resulted in a gain of \$176,497.

On October 31, 2012, DSC purchased the assets of Message Logic including email compliance software, all source codes to Message Logic’s email archival and data analytics software and select fixed assets. In exchange for the assets, at closing, DSC issued 725,960 shares of common stock and assumed liabilities of \$102,109. The contingent portion of the purchase price provides for up to 769,290 additional shares of DSC common stock and \$800,000. This contingent purchase price is based upon the achievement of certain metrics at the end of the 7th, 13th, 19th and 25th months as defined in the asset purchase agreement.

On October 1, 2012 the Company entered into a limited liability company agreement to form a joint venture. The joint venture, Secure Infrastructure & Services, LLC, will provide infrastructure-as-a-Service (IaaS) for IBM iSeries and AIX v7 systems, Power HA services and network infrastructure hardware and services as needed to support the IaaS and PowerHA implementation and ongoing needs for customers and services sold under the Company.

The result of these acquisitions, joint ventures and strategic alliances combined with DSC’s legacy disaster recovery and business continuity solutions positions DSC as a potential leader in business to business cloud storage and cloud computing sector specializing in email compliance Software as a Service (“SaaS”), Windows Infrastructure as a Service (“IaaS”) and IBM iSeries Platform as a Service (“PaaS”). DSC will continue to provide our solutions and continue our planned industry consolidations.

Headquartered in Garden City, N.Y., DSC offers its solutions and services to businesses within the healthcare, banking and finance, distribution services, manufacturing, construction, education, and government industries.

DSC derives revenues from long term subscription services and professional services related to implementation of subscription services that provide businesses in the education, government and healthcare industries protection of

critical computerized data. In 2009 revenues consisted primarily of offsite data backup, de-duplication, continuous data protection, Cloud Disaster Recovery solutions and Electronic Medical Records, protecting information for our clients. In 2010 we expanded our solutions based on the asset acquisition of SafeData. In 2012 we continued to assimilate organizations, expanded our technology as well as technical group and positioned the new organization for growth. In October 2012 we purchased the software and assets of Message Logic. DSC has equipment for cloud storage and cloud computing in our data centers in Illinois, Massachusetts, Rhode Island, and New York. We deliver our solutions over highly reliable, redundant and secure fiber optic networks with separate and diverse routes to the Internet. The network and geographical diversity is important to clients seeking storage hosting and disaster recovery solutions, ensuring protection of data and continuity of business in the case of a network interruption.

Condensed Consolidated Financial Statements

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q. The results of operations for the six months ended June 30, 2013 are not necessarily indicative of the results of operations for the full year. The condensed balance sheet at December 31, 2012 was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America. The other information in these condensed financial statements is unaudited but, in the opinion of management, reflects all adjustments necessary for a fair presentation of the results for the periods covered. All such adjustments are of a normal recurring nature unless disclosed otherwise. These condensed financial statements, including notes, have been prepared in accordance with the applicable rules of the Securities and Exchange Commission and do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. These condensed financial statements should be read in conjunction with the financial statements and additional information as contained in our Annual Report on Form 10-K for the year ended December 31, 2012.

Liquidity

The financial statements have been prepared using accounting principles generally accepted in the United States of America applicable for a going concern, which assumes that the Company will realize its assets and discharge its liabilities in the ordinary course of business. For the six months ended June 30, 2013, DSC has generated revenues of \$2,346,542 but has incurred a net loss of \$479,413. Its ability to continue as a going concern is dependent upon achieving sales growth, reduction of operation expenses and ability of the Company to obtain the necessary financing to meet its obligations and pay its liabilities arising from normal business operations when they come due, and upon profitable operations. The Company has been funded by Mr. Charles M. Piluso, the Company’s Chief Executive Officer and largest shareholder since inception as well as several Directors. It is the intention of Mr. Piluso to continue to fund Company on an as needed basis.

Note 2 - Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiary, Data Storage Corporation, a Delaware Corporation. All significant inter-company transactions and balances have been eliminated in consolidation.

Equity investments in which the Company exercises significant influence but does not control and is not the primary beneficiary are accounted for using the equity method. The Company's share of its equity method investees earnings or losses are included in other income in the accompanying Consolidated Statements of Operations.

Use of Estimates

The preparation of financial statements in conformity with U.S. 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 revenue and expenses during the reporting period. Actual results could differ from these estimates.

Estimated Fair Value of Financial Instruments

The Company's financial instruments include cash, accounts receivable, accounts payable, line of credit and due to related parties. Management believes the estimated fair value of these accounts at June 30, 2013 approximate their carrying value as reflected in the balance sheets due to the short-term nature of these instruments or the use of market interest rates for debt instruments. The carrying values of certain of the Company's notes payable and capital lease obligations approximate their fair values based upon a comparison of the interest rate and terms of such debt given the level of risk to the rates and terms of similar debt currently available to the Company in the marketplace. It is not practical to estimate the fair value of certain notes payable, the convertible debt and the liability for contingent compensation from acquisition. In order to do so, it would be necessary to obtain an independent valuation of these unique instruments. The cost of that valuation would not be justified in light of the circumstances.

Goodwill and Other Intangibles

Goodwill is not subject to amortization and is tested for impairment annually and whenever events or changes in circumstances indicate that impairment may have occurred. Intangible assets were evaluated to determine if they are finite or indefinite-lived. The intangible assets that are finite lived are amortized over the useful life of the asset. Indefinite-lived intangible assets are also tested for impairment annually and whenever events or changes in circumstances indicate that their carrying value may not be recoverable.

Revenue Recognition

The Company's revenues consist principally of cloud storage and cloud computing revenues, SaaS and IaaS. Storage revenues consist of monthly charges related to the storage of materials or data (generally on a per unit basis). Sales are generally recorded in the month the service is provided. For customers who are billed on an annual basis, deferred revenue is recorded and amortized over the life of the contract. Set up fees charged in connection with storage contracts are deferred and recognized on a straight line basis over the life of the contract.

Net Income (Loss) Per Common Share

In accordance with FASB ASC 260-10-5 Earnings Per Share, basic income (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing net income (loss) adjusted for income or loss that would result from the assumed conversion of potential common shares from contracts that may be settled in stock or cash by the weighted average number of shares of common stock, common stock equivalents and potentially dilutive securities outstanding during each period. The inclusion of the potential common shares to be issued have an anti-dilutive effect on diluted loss per share and therefore they are not included in the calculation. Potentially dilutive securities at June 30, 2013 include 6,232,992 options and 28,642 warrants.

Note 3 - Property and Equipment

Property and equipment, at cost, consist of the following:

	June 30, 2013	December 31, 2012
Storage equipment	\$2,205,243	\$2,205,243
Website and software	790,322	622,667
Furniture and fixtures	22,837	22,837
Computer hardware and software	91,687	91,687
Data Center Equipment	908,670	908,670
	4,081,759	3,851,104
Less: Accumulated depreciation	2,463,442	2,189,024
Net property and equipment	\$1,555,317	\$1,662,080

Depreciation expense for the six months ended June 30, 2013 and 2012 was \$274,418 and \$249,263, respectively.

Note 4 - Goodwill and Intangible Assets

Goodwill and Intangible assets consisted of the following:

	Estimated life in years	June 30, 2013	
		Gross amount	Accumulated Amortization
Goodwill	Indefinite	\$2,201,828	-
Intangible assets not subject to amortization			
Trademarks	Indefinite	294,268	-
Intangible assets subject to amortization			
Customer list	5 - 15	897,274	473,084
Non-compete agreements	4	262,147	199,340
Total Intangible Assets		1,453,689	672,424
Total Goodwill and Intangible Assets		\$3,655,517	\$ 672,424

Scheduled amortization over the next five years as follows:

Year ending June 30,	
2014	\$ 242,261
2015	173,254
2016	30,635
2017	30,635
2018	10,212
Total	\$ 486,997

Amortization expense for the six months ended June 30, 2013 and 2012 was \$122,495 and 107,178 respectively

Note 5 – Joint Venture

The Company has a 50% non-controlling ownership interest in Secure Infrastructure & Services, LLC who provides infrastructure-as-a-Service (IaaS) for IBM iSeries and AIX v7 systems, Power HA services and network infrastructure hardware and services as needed to support the IaaS and PowerHA implementation and ongoing needs for customers and services sold under the Company.. ASC 810 requires the Company to evaluate non-consolidated entities periodically and as circumstances change to determine if an implied controlling interest exists. During Fiscal 2013, the Company evaluated this equity investment and concluded that this is a variable interest entity and the Company is not the primary beneficiary. Secure Infrastructure & Services, LLC's fiscal year end is December 31.

The following presents unaudited summary financial information for Secure Infrastructure & Services, LLC. Such summary financial information has been provided herein based upon the individual significance of this unconsolidated equity investment to the consolidated financial information of the Company.

	June 30, 2013
Current assets	\$46,204
Non-current assets	\$16,150
Current liabilities	\$36,902
Members' equity	\$25,452

The equity balance carried on the Company's balance sheet amounts to \$13,557 for the six months ended June 30, 2013.

	Six Months Ended June 30, 2013
Net sales	\$9,055
Gross profit	\$5,566
Operating expenses	\$11,164
Net income(loss)	\$(5,598)

The Company's share of the net loss from Secure Infrastructure & Services, LLC for the six months ended June 30, 2013 was \$2,243.

Note 6 – Capital lease obligations

The Company acquired capital leases in the acquisition of SafeData. The economic substance of the leases is that the Company is financing the acquisitions through the leases and accordingly, they are recorded in the Company's assets and liabilities. The leases are payable to Systems Trading, Inc. and IBM with combined monthly installments of \$57,757 through various dates in 2013 and 2012. The leases are secured with the computer equipment. Interest rates on capitalized leases vary from 6%-12% and are imputed based on the lower of the Company's incremental borrowing rate at the inception of each lease or the lessor's implicit rate of return.

Future minimum lease payments under the capital leases are as follows:

Edgar Filing: Data Storage Corp - Form 10-Q

As of June 30, 2013	\$ 1,045,266
Less amount representing interest	(36,777)
Total obligations under capital leases	1,008,489
Less current portion of obligations under capital leases	(787,996)
Long-term obligations under capital leases	\$ 220,493

8

Long-term obligations under capital leases at June, 2013 mature as follows:

For the year ending June 30,	
2014	\$ 787,996
2015	215,089
2016	5,404
	\$ 1,008,489

The assets held under the capital leases are included in property and equipment as follows:

Equipment	\$ 1,571,784
Less: accumulated depreciation	654,815
	\$ 916,969

Note 7 - Commitments and Contingencies

Revolving Credit Facility

On January 31, 2008 the Company entered into a revolving credit line with a bank. The credit facility provides for \$100,000 at prime plus .5%, 3.75% at June 30, 2013, and is secured by all assets of the Company and personally guaranteed by the Company's principal shareholder. As of June 30, 2013, the Company owed \$100,292 under this agreement.

Loan Payable

On August 4, 2010, the Company entered into a note payable with Systems Trading, LLC in settlement of past due balances owed to SafeData related to certain capital leases. The note bears interest at 4%, and is due in 24 equal installments of \$11,927 commencing February 4, 2011 through January 4, 2013. The note payable is in arrears and has a balance as of June 30, 2013 of \$47,335

Operating Leases

The Company currently leases office space in Garden City, NY and Warwick, RI.

The lease for office space in Warwick, RI calls for monthly payments of \$5,400 plus a portion of the operating expenses beginning in April 2012 and ending in December 2012. We are currently operating under a month to month agreement.

The lease for office space in Garden City, NY calls for escalating monthly payments ranging from \$6,056 to \$6,617 plus a portion of the operating expenses through June 2014.

Minimum obligations under these lease agreements are as follows:

For the year ending June 30, 2014	\$85,841
-----------------------------------	----------

Rent expense for the six months ended June 30, 2013 and June 30, 2012 was \$73,071 and \$106,757 respectively.

Note 8 - Related Party Transactions

Due to related party represents rent accrued to a partnership controlled by Charles Piluso, CEO, for the New York Data Center. The rent expense for the data center is \$1,500 per month. As of June 30, 2013 the Company owes the related party \$186,045.

As of June 30, 2013 the Company also owed Mr. Piluso \$802,005. These advances bear no interest and have no stated terms of repayment.

Note 9 – Convertible debt

Related parties

On February 28, 2013 the Company entered into a \$100,000 convertible promissory note with a director of the Company. The convertible promissory note is convertible at \$0.15 and carries interest at 10%. Interest is payable quarterly through the maturity date of February 28, 2014. The Company recognized a beneficial conversion feature of \$17,851 which was recorded as a discount to the convertible promissory notes with an offset to additional paid-in capital.

Note 10 - Stockholders' Equity

Capital Stock

The Company has 260,000,000 shares of capital stock authorized, consisting of 250,000,000 shares of common stock, par value \$0.001, 10,000,000 shares of Series A Preferred Stock, par value \$0.001 per share.

Common Stock Options

2008 Equity Incentive Plan

In October 2008, the Company's board of directors (the "Board") adopted, the Euro Trend, Inc. 2008 Equity Incentive Plan (the "2008 Plan"). Under the 2008 Plan, we may grant options (including incentive stock options) to purchase our common stock or restricted stock awards to our employees, consultants or non-employee directors. The 2008 Plan is administered by the Board. Awards may be granted pursuant to the 2008 Plan for 10 years from the date the Board approved the 2008 Plan. Any grant under the 2008 Plan may be repriced, replaced or regranted at the discretion of the Board. From time to time, we may issue awards pursuant to the 2008 Plan.

The material terms of options granted under the 2008 Plan (all of which have been nonqualified stock options) are consistent with the terms described in the footnotes to the "Outstanding Equity Awards at Fiscal Year-End December 31, 2011", including 5 year graded vesting schedules and exercise prices equal to the fair market value of our common stock on the date of grant. Stock grants made under the 2008 Plan have not been subject to vesting requirements. The 2008 Plan was terminated with respect to the issuance of new awards as of February 3, 2012. There are 3,075,938 options outstanding under this plan as of June 30, 2013.

2010 Incentive Award Plan

The Company has reserved 2,000,000 shares of common stock for issuance under the terms of the Data Storage Corporation 2010 Incentive Award Plan (the "2010 Plan"). The 2010 Plan is intended to promote the interests of the Company by attracting and retaining exceptional employees, consultants, directors, officers and independent contractors (collectively referred to as the "Participants"), and enabling such Participants to participate in the long-term growth and financial success of the Company. Under the 2010 Plan, the Company may grant stock options, which are intended to qualify as "incentive stock options" under Section 422 of the Internal Revenue Code of 1986, as amended, non-qualified stock options, stock appreciation rights and restricted stock awards, which are restricted shares of common stock (collectively referred to as "Incentive Awards"). Incentive Awards may be granted pursuant to the 2010 Plan for 10 years from the Effective Date. From time to time, we may issue Incentive Awards pursuant to the 2010 Plan. Each of the awards will be evidenced by and issued under a written agreement.

Edgar Filing: Data Storage Corp - Form 10-Q

On April 23, 2012, the Board of Directors of the Company amended and restated the Data Storage Corporation 2010 Plan. The 2010 Plan, as amended and restated, has been renamed the “Amended and Restated Data Storage Corporation Incentive Award Plan”. The new plan provides for flexibility in vesting periods and includes a limit of \$100,000 per employee per year for incentive stock options

There are 3,157,054 options outstanding under this plan as of June 30, 2013. There were 857,101 shares available for future grants under the plans.

A summary of the Company's option activity and related information follows:

	Number of Shares Under Options	Range of Option Price Per Share	Weighted Average Exercise Price
Options Outstanding at January 1, 2013	6,232,992	0.02 - \$0.85	\$0.26
Options Granted	-	-	-
Options Exercised	-	-	-
Options Expired	-	-	-
Options Outstanding at June 30, 2013	6,232,992	0.02 - \$0.85	\$0.26
Options Exercisable at June 30, 2013	5,077,982	0.02 - \$0.85	\$0.23

Share-based compensation expense for options totaling \$116,250 and \$50,568 was recognized in our results for the six months ended June 30, 2013 and 2012, respectively is based on awards vested.

The valuation methodology used to determine the fair value of the options issued during the year was the Black-Scholes option-pricing model. The Black-Scholes model requires the use of a number of assumptions including volatility of the stock price, the average risk-free interest rate, and the weighted average expected life of the options.

The risk-free interest rate assumption is based upon observed interest rates on zero coupon U.S. Treasury bonds whose maturity period is appropriate for the term of the Warrants and is calculated by using the average daily historical stock prices through the day preceding the grant date.

Estimated volatility is a measure of the amount by which the Company's stock price is expected to fluctuate each year during the expected life of the award. The Company's estimated volatility is an average of the historical volatility of peer entities whose stock prices were publicly available. The Company's calculation of estimated volatility is based on historical stock prices of these peer entities over a period equal to the expected life of the awards. The Company uses the historical volatility of peer entities due to the lack of sufficient historical data of its stock price.

The weighted average fair value of options granted and the assumptions used in the Black-Scholes model during the six months ended June 30, 2013 and 2012 are set forth in the table below.

	2013	2012
Weighted average fair value of options granted	\$ 0.35	\$ 0.41
Risk-free interest rate	1.59%	2.20%
Volatility	98.00%	74.98%
Expected life (years)	10	10

As of June 30, 2013, there was approximately \$319,000 of total unrecognized compensation expense related to unvested employee options granted under the Company's share based compensation plans that is expected to be recognized over a weighted average period of approximately 2.0 years.

Common Stock Warrants

There were no common stock warrants granted during the six months ended June 30, 2013.

A summary of the Company's warrant activity and related information follows:

	Number of Shares Under Warrants	Range of Warrants Price Per Share	Weighted Average Exercise Price
Warrants Outstanding at January 1, 2013	28,642	0.01 - \$ 0.02	\$ 0.02
Warrants Granted	-	-	-
Warrants Exercised	-	-	-
Warrants Cancelled	-	-	-
Warrants Outstanding at June 30, 2013	28,642	0.01 – 0.02	0.02
Warrants exercisable at June 30, 2013	28,642	0.01 – 0.02	0.02

Note 11. - Subsequent Events

The Company entered into a Securities Purchase Agreement, dated as of August 13, 2013, by and between the Company and Charles M. Piluso, the Company's Chairman of the Board and Chief Executive Officer (the "Securities Purchase Agreement"). Pursuant to the Securities Purchase Agreement, the Company issued a Convertible Promissory Note in the principal amount of \$100,000 and a Warrant to purchase 66,667 shares of the Company's Common Stock for an aggregate purchase price of \$100,000.

The Convertible Promissory Note matures on August 13, 2014 (the "Maturity Date"), accrues interest at an interest rate of ten percent (10%) per annum payable in arrears on the Maturity Date and is subject to customary terms and conditions including events of default.

The Warrant entitles Mr. Piluso to purchase from the Company an aggregate of 66,667 shares of Common Stock, par value \$0.001 per share, at an exercise price of \$0.15. The Warrant is immediately exercisable and expires on August 13, 2024. The Warrant is subject to customary terms and conditions.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The information contained in Item 2 contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Actual results may materially differ from those projected in the forward-looking statements as a result of certain risks and uncertainties set forth in this report. Although management believes that the assumptions made and expectations reflected in the forward-looking statements are reasonable, there is no assurance that the underlying assumptions will, in fact, prove to be correct or that actual results will not be different from expectations expressed in this report.

Company Overview

Data Storage Corporation, ("DSC" or the "Company") is the result of several consolidations and is strategically positioned to continue its consolidation strategy. To date, DSC consummated (i) a share exchange with Euro Trend Inc. in October 20, 2008, (ii) an asset acquisition of SafeData, LLC ("SafeData") in June 2010, and (iii) an asset acquisition of Message Logic LLC, ("Message Logic") in October 2012.

On October 20, 2008 the Company completed a share exchange agreement whereby we acquired all of the outstanding capital stock and ownership interests of DSC. In exchange we issued 13,357,143 shares of our common stock to the shareholders. This transaction was accounted for as a reverse merger for accounting purposes. Accordingly, DSC, the accounting acquirer, is regarded as the predecessor entity.

On June 17, 2010 we entered into an asset purchase agreement with SafeData, a provider of Cloud Storage and Cloud Computing mostly to IBM's mid-range equipment users, under which we acquired all right, title and interest in the end user customer base of SafeData and all related current and fixed assets and contracts including the transfer of all of SafeData's current liabilities arising out of the business or the assets acquired. Pursuant to the Agreement, we paid an aggregate purchase price equal to \$3,000,000. Giving effect to certain holdback and contingency clauses as defined in the agreement, we paid \$1,229,952 in cash and \$850,000 in shares of our common stock as well as assumption of SafeData accounts payable and receivables. In June of 2011 we made a final payment net of holdback of \$482,308 and we issued the remaining balance of \$150,000 in Common Stock. The final settlement resulted in a gain of \$176,497.

On October 31, 2012, DSC purchased the assets of Message Logic including email compliance software all source code to Message Logic's email archival and data analytics software and select fixed assets. In exchange for the assets, at closing, DSC gave 725,960 shares of its common stock and assumed liabilities of \$102,109. The contingent purchase price provides for up to 769,290 additional shares of DSC common stock and \$800,000. This contingent purchase price is based upon the achievement of certain metrics at the end of the 7th, 13th 19th and 25th months as defined in the asset purchase agreement dated October 31, 2012.

In November 2012, DSC entered into a joint venture partnership with an IBM partner, ABC Services Inc. to provide an IBM Infrastructure as a service ("IaaS") offering, marketed under the name Aegis, a New York LLC.

In November 2012, DSC also entered into agreements with Amazon AWS to offer its Message Logic email archiving software through the AWS marketplace and to offer stand-by-server and storage solutions.

In November 2012, DSC also entered into an agreement with Dell for distribution of its Message Logic email archiving solution.

In December 2012, DSC was accepted as an IBM Service provider for cloud solutions.

The result of these acquisitions, joint venture and strategic alliances combined with DSC's legacy disaster recovery and business continuity solutions positions DSC as a potential leader in business to business cloud storage and cloud computing sector specializing in email compliance Software as a Service (SaaS), Windows Infrastructure as a Service (IaaS) and IBM iSeries Platform as a Service (PaaS). DSC will continue to provide our solutions and continue our planned industry consolidations.

DSC, an 11 year veteran in cloud storage and cloud computing solutions, provides data protection, disaster recovery, business continuity and compliance solutions that assist organizations in protecting their data, minimizing downtime and ensuring regulatory compliance. Serving the rapidly emerging business continuity market, DSC's clients save time and money, gain more control and better access to data and enable high level of security for that data. Solutions include: IaaS, data backup, recovery and restore, high availability data replication services; email archive and compliance solutions for e-discovery; continuous data protection; data de-duplication; and virtualized system recovery. DSC has forged relationships for distribution with Dell, Amazon and IBM among others.

Headquartered in Garden City, N.Y., DSC offers its solutions and services to businesses within the healthcare, banking and finance, distribution services, manufacturing, construction, education, and government industries.

DSC derives revenues from long term subscription services and professional services related to implementation of subscription services that provide businesses in the education, government and healthcare industries protection of critical computerized data. In 2009 revenues consisted primarily of offsite data backup, de-duplication, continuous data protection, Cloud Disaster Recovery solutions and Electronic Medical Records, protecting information for our clients. In 2010 we expanded our solutions based on the asset acquisition of SafeData. In 2012 we continued to assimilate organizations, expanded our technology as well as technical group and positioned the new organization for growth. In October 2012 we purchased the software and assets of Message Logic. DSC has equipment for cloud storage and cloud computing in our data centers in Massachusetts, Rhode Island, and New York. We deliver our solutions over highly reliable, redundant and secure fiber optic networks with separate and diverse routes to the Internet. The network and geographical diversity is important to clients seeking storage hosting and disaster recovery solutions, ensuring protection of data and continuity of business in the case of a network interruption.

DSC is in the position today to leverage our infrastructure, data center, equipment capacity and leadership team to grow revenue to significant levels. Positioned for organic growth, although a strategy will be to grow through acquisition of similar solutions such as data vaulting, cloud recovery services, disaster recovery and business continuity solutions, e-discovery and IaaS companies. DSC believes opportunities exist to acquire synergistic service providers to enhance our products and services portfolio, increase our distribution channels, expand our management and increase our cash flow.

Our objective is to reduce costs through economies of scale while increasing market share and consolidating efforts. We believe that through a strategy of increasing our direct sales force and partnership program as well as acquisition of synergistic services providers we can create significant value.

RESULTS OF OPERATIONS

For the three months ended June 30, 2013 as compared to the three months ended June 30, 2012.

Net Sales. Net sales for the three months ended June 30, 2013 were \$1,170,364 an increase of \$156,699 or 15%, compared to \$1,013,665 for the three months ended June 30, 2012. The increase in sales is the result of an increase in recurring sales revenues of \$174,173 to \$1,128,702 for the three months ended June 30, 2013 from \$954,529 for the three months ended June 30, 2012, offset by a decrease in non-recurring revenue of \$17,474 to \$41,661 for the three months ended June 30, 2013 from \$59,135 for the three months ended June 30, 2012.

Cost of Sales. For the three months ended June 30, 2013, cost of sales were \$650,666 a decrease of \$131,336 from \$782,002 for the three months ended June 30, 2012. The decrease in cost of sales is the result of lower installation costs for non-recurring sales and lower outsourcing of storage due to the Company's increased internal storage capacity. DSC's gross margin is 44% for the three months ended June 30, 2013 as compared to 23% for the three months ended June 30, 2012.

Operating Expenses. For the three months ended June 30, 2013, operating expenses were \$659,942, a decrease of \$325,555, as compared to \$985,497 for the three months ended June 30, 2012. The majority of the decrease in operating expenses for the three months ended June 30, 2013 is a result of decrease in salaries and professional fees. Professional fees decreased \$20,111 to \$104,468 for the three month ended June 30, 2013 as compared to \$124,579 for the three months ended June 30, 2012. Sales salaries decreased \$104,695 to \$114,537 for the three months ended June 30, 2013, as compared to \$219,232 for the three months ended June 30, 2012. Executive salaries expense decreased \$73,968 to \$52,604 for the three months ended June 30, 2013 as compared to \$126,572 for the three months ended June 30, 2012. Sales commission expense increased \$4,512 to \$17,255 for the three months ended June 30, 2013, as compared to \$12,743 for the three months ended June 30, 2012.

Other Expenses. Interest income for the three months ended June 30, 2013 decreased \$20 to \$4 from \$24 for the three months ended June 30, 2012. Interest Expense for the three months ended June 30, 2013 decreased \$2,940 to \$32,837 from \$35,777 for the three months ended June 30, 2012.

Net Loss. Net loss for the three months ended June 30, 2013 was \$175,320 a decrease of \$614,267 as compared to net loss of \$789,587 for the three months ended June 30, 2012.

For the six months ended June 30, 2012 as compared to the six months ended June 30, 2012

Net Sales. Net sales for the six months ended June 30, 2013 were \$2,346,542, an increase of \$362,478, or 19%, compared to \$1,984,064 for the six months ended June 30, 2012. The increase is attributable to an increase in recurring sales, which is the result of the acquisition of Message Logic, and increase in customer storage requirements and new sales, for the six months ended June 30, 2013.

Cost of Sales. For the six months ended June 30, 2013, cost of sales was \$1,377,780, an increase of \$10,805, or 1%, compared to \$1,366,975 for the six months ended June 30, 2012. Although sales increased, the Company was able to utilize its current hardware, storage capacity and infrastructure and did not incur additional direct costs. The Company's gross margin is 41% for the six months ended June 30, 2013 as compared to 31% for the six months ended June 30, 2012.

Operating Expenses. For the six months ended June 30, 2013, operating expenses were \$1,381,336, a decrease of \$503,734, or 27%, as compared to \$1,885,070 for the six months ended June 30, 2012. The majority of the decrease in operating expenses for the six months ended June 30, 2013 is a result of decreased officer's salaries, sales salaries and sales commissions. Sales salaries decreased \$180,479 to \$255,927, as compared to \$436,406 for the six months ended June 30, 2012. Executive salaries expense decreased \$69,732 to \$188,066, as compared to \$257,798 for the six months ended June 30, 2012. Sales commission expense decreased \$36,926 to \$30,969, as compared to \$67,895 for the six months ended June 30, 2012. Stock based compensation decreased \$52,765 to \$116,250 for the six months ended June 30, 2013 as compared to \$169,016 for the six months ended June 30, 2012.

Other Expenses. Interest income for the six months ended June 30, 2013 decreased \$91 to \$15 from \$106 for the six months ended June 30, 2012. Interest expense and related debt discounts for the six months ended June 30, 2013 decreased \$7,943 to \$64,611 from \$72,554 for the six months ended June 30, 2012.

Net Loss . Net loss for the six months ended June 30, 2013 was \$479,413 a decrease of \$861,036, or 64%, as compared to net loss of \$1,340,449 for the six months ended June 30, 2012.

LIQUIDITY AND CAPITAL RESOURCES

The financial statements have been prepared using accounting principles generally accepted in the United States of America applicable for a going concern, which assumes that the Company will realize its assets and discharge its liabilities in the ordinary course of business. The Company has been funded by Mr. Charles M. Piluso, the Company's Chief Executive Officer and largest shareholder combined with private placements of the Company's stock. The Company has been successful in raising money as needed. Further it is the intention of management to continue to raise money through stock issuances and to fund the Company on an as needed basis. During the remainder of 2013, we intend to continue to work to increase our presence in the IBM marketplace utilizing our increased technical expertise, capacity for data storage and managed services with our asset acquisition of SafeData.

To the extent we are successful in growing our business, identifying potential acquisition targets and negotiating the terms of such acquisition, and the purchase price includes a cash component, we plan to use our working capital and the proceeds of any financing to finance such acquisition costs. Our opinion concerning our liquidity is based on current information. If this information proves to be inaccurate, or if circumstances change, we may not be able to meet our liquidity needs.

During the six months ended June 30, 2013 DSC's cash increased \$2,448 to \$75,204 from \$72,756 at December 31, 2012. Net cash of \$134,477 was provided by DSC's operating activities. Net cash of \$183,455 was used in investing activities. Net cash of \$51,426 was provided by DSC's financing activities. This is the result of proceeds from a \$100,000 convertible debt issuance, \$43,685 in advances from a company shareholder offset by \$89,154 in capital lease payments.

DSC's working capital deficit was \$3,352,589 at June 30, 2013, increasing \$288,382 from \$3,064,207 at December 31, 2012. The increase is primarily due to the increase in accounts payable and accrued expenses.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Sensitivity

Interest due on DSC's loans is based upon the applicable stated fixed contractual rate with the lender. Interest earned on DSC's bank accounts is linked to the applicable base interest rate. For the six months ended June 30, 2013 and six months ended June 30, 2012, DSC had interest expense, net of interest income, of approximately \$64,596 and \$72,448, respectively. DSC believes that its results of operations are not materially affected by changes in interest rates.

DSC's exposure to market risk is confined to its cash and cash equivalents, all of which have maturities of less than three months and bear and pay interest in U.S. dollars. Since DSC invests in highly liquid, relatively low yield investments, we do not believe interest rate changes would have a material impact on us.

DSC does not hold any derivative instruments and does not engage in any hedging activities.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Report, under the supervision and with the participation of DSC's management, including its principal executive officer and principal financial officer, DSC conducted an evaluation of its disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on this evaluation, DSC's principal executive officer and principal financial officers have concluded that DSC's disclosure controls and procedures are not effective to ensure that information required to be disclosed by DSC in the reports it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's (the "SEC") rules based on the material weakness described below.

The material weaknesses identified during management's assessment were (i) a lack of sufficient internal accounting expertise to provide reasonable assurance that our financial statements and notes thereto are prepared in accordance with GAAP and (ii) a lack of segregation of duties to ensure adequate review of financial statement preparation. In light of these material weaknesses, management has concluded that, as of June 30, 2013, DSC did not maintain effective internal control over financial reporting. As defined by the Public Company Accounting Oversight Board Auditing Standard No. 5, a material weakness is a deficiency or a combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected. In order to ensure the effectiveness of DSC's disclosure controls in the future DSC intends on adding financial staff resources to our accounting and finance department.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Changes in Internal Control Over Financial Reporting.

There have been no changes in our internal control over financial reporting that occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

We are currently not involved in any litigation that we believe could have a material adverse effect on our financial condition or results of operations. There is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the executive officers of the Company or any of our subsidiaries, threatened against or affecting the Company, our common stock, any of our subsidiaries any of the Company's or our subsidiaries' officers or directors in their capacities as such, in which an adverse decision could have a material adverse effect.

Item 1A. Risk Factors.

Not applicable

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None

Item 3. Defaults Upon Senior Securities.

There were no defaults upon senior securities during the period ended June 30, 2013

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information.

None.

Item 6. Exhibits

(a) Exhibits

Exhibits.

No.	Description
31.1	Certification of Principal Executive Officer and Principal Financial Officer, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer and Principal Financial Officer, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS *	XBRL Instance Document
101.SCH*	XBRL Taxonomy Schema
101.CAL*	XBRL Taxonomy Calculation Linkbase
101.DEF*	XBRL Taxonomy Definition Linkbase
101.LAB*	XBRL Taxonomy Label Linkbase
101.PRE*	XBRL Taxonomy Presentation Linkbase

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DATA STORAGE CORPORATION

Date: August 19, 2013

By: /s/ Charles M. Piluso
Charles M. Piluso
President, Chief Executive
Officer
Principal Financial Officer
(Duly Authorized Officer and
Principal Executive Officer)

Exhibits Index

Exhibits.

No.	Description
31.1	Certification of Principal Executive Officer and Principal Financial Officer, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer and Principal Financial Officer, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS *	XBRL Instance Document
101.SCH*	XBRL Taxonomy Schema
101.CAL*	XBRL Taxonomy Calculation Linkbase
101.DEF*	XBRL Taxonomy Definition Linkbase
101.LAB*	XBRL Taxonomy Label Linkbase
101.PRE*	XBRL Taxonomy Presentation Linkbase