

Data Storage Corp  
Form 10-Q  
August 14, 2014

**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, 2014**

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission File No. 001-35384**

**DATA STORAGE CORPORATION**



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As of August 15, 2014, 36,125,845 shares of common stock, par value \$0.001 per share, were outstanding.

**DATA STORAGE CORPORATION**

**FORM 10-Q**

**June 30, 2014**

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**PART I****ITEM 1. Financial Statements****DATA STORAGE CORPORATION AND SUBSIDIARY****CONDENSED CONSOLIDATED BALANCE SHEETS**

	June 30, 2014 (UNAUDITED)	December 31, 2013
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 208,110	\$ 87,675
Accounts receivable (less allowance for doubtful accounts of \$15,000 in 2014 and \$26,801 in 2013)	284,412	258,567
Prepaid compensation	4,139	9,052
Prepaid expenses and other current assets	38,017	171,584
Total Current Assets	534,678	526,878
Property and Equipment:		
Property and equipment	3,889,799	3,859,528
Less—Accumulated depreciation	(2,961,440)	(2,728,547)
Net Property and Equipment	928,359	1,130,981
Other Assets:		
Goodwill	2,201,828	2,201,828
Investment in joint venture – at equity	19,538	-
Other assets	2,460	3,608
Intangible assets, net	539,003	658,769
Employee loan	56,100	45,730
Total Other Assets	2,818,929	2,909,935
Total Assets	4,281,966	4,567,794
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current Liabilities:		
Accounts payable and accrued expenses	888,061	984,866
Revolving credit facility	100,292	100,292
Due to related party	229,712	207,848
Dividend payable	372,521	330,811
Deferred revenue	622,456	703,941
Leases payable	214,042	736,636

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Loans payable	-	47,312
Convertible debt – related parties net of discount	698,115	186,215
Contingent collateral obligation	350,000	356,204
Total Current Liabilities	3,475,199	3,654,125
Deferred rental obligation	-	5,187
Due to officer	928,364	801,875
Leases payable long term	680,880	86,180
Convertible debt – related parties	-	500,000
Total Long Term Liabilities	1,609,244	1,393,242
Total Liabilities	5,084,443	5,047,367
Stockholders' Deficit:		
Preferred Stock, \$0.001 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; 36,125,845 shares issued and outstanding in each period	36,126	36,126
Additional paid in capital	12,609,646	12,540,018
Accumulated deficit	(13,449,651 )	(13,057,119 )
Total Stockholders' Deficit	(802,477 )	(479,573 )
Total Liabilities and Stockholders' Deficit	\$ 4,281,966	\$4,567,794

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,	2013	June 30,	2013
	2014		2014	
Sales	\$ 1,004,477	\$ 1,170,364	\$ 2,052,135	\$ 2,346,542
Cost of sales	538,663	650,666	1,146,266	1,377,780
Gross Profit	465,814	519,698	905,869	968,762
Selling, general and administrative	631,966	659,942	1,199,997	1,381,336
Loss from Operations	(166,152 )	(140,244 )	(294,128 )	(412,574 )
Other Income (Expense)				
Interest income	17	4	25	15
Amortization of debt discount	-	-	-	-
Interest expense	(36,770 )	(32,837 )	(76,256 )	(64,611 )
Net Gain (loss) in equity method investment	19,538	(2,243 )	19,538	(2,243 )
Total Other (Expense)	(17,215 )	(35,076 )	(56,693 )	(66,839 )
Loss before provision for income taxes	(183,367 )	(175,320 )	(350,821 )	(479,413 )
Provision for income taxes	-	-	-	-
Net Loss	(183,367 )	(175,320 )	(350,821 )	(479,413 )
Preferred Stock Dividend	(21,224 )	(12,500 )	(41,710 )	(25,000 )
Net Loss Available to Common Shareholders	\$(204,591 )	\$(187,820 )	\$(392,531 )	\$(504,413 )
Loss per Share – Basic and Diluted	\$(0.01 )	\$(0.01 )	\$(0.01 )	\$(0.01 )
Weighted Average Number of Shares - Basic and Diluted	36,125,845	33,165,915	36,125,845	33,165,915

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



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

	Six Months Ended June 30,	
	2014	2013
Cash Flows from Operating Activities:		
Net loss	\$(350,821)	\$(479,413)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	352,660	369,914
Amortization of debt discount	11,901	5,950
Non cash interest expense	63,185	24,795
Deferred compensation	4,913	-
Net (Gain) loss attributable to joint venture	(19,538 )	2,243
Allowance for doubtful accounts	-	3,199
Stock based compensation	69,627	116,251
Changes in Assets and Liabilities:		
Accounts receivable	(25,845 )	(53,223 )
Other assets	1,146	(1,948 )
Prepaid expenses and other current assets	133,567	105,071
Employee loan	(10,370 )	(13,300 )
Accounts payable and accrued expenses	(159,990)	117,096
Deferred revenue	(81,485 )	(112,265)
Deferred rent	(5,187 )	(4,030 )
Due to related party	21,864	23,241
Net Cash Provided by Operating Activities	5,627	134,477
Cash Flows from Investing Activities:		
Capital expenditures	-	(167,655)
Investment in joint venture	-	(15,800 )
Net Cash Used in Investing Activities	-	(183,455)
Cash Flows from Financing Activities:		
Issuance of convertible debt	-	100,000
Repayments of capital lease obligations	(5,477 )	(89,154 )
Repayments of loan obligations	-	-
Repayment of contingent consideration	(6,204 )	(3,105 )
Advances from officer	126,489	43,685
Net Cash Provided by Financing Activities	114,808	51,426
Increase in Cash and Cash Equivalents	120,435	2,448
Cash and Cash Equivalents, Beginning of Period	87,675	72,756

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Cash and Cash Equivalents, End of Period	\$208,110	\$75,204
Cash paid for interest	\$13,071	\$4,559
Cash paid for income taxes	\$-	\$-
Non cash investing and financing activities:		
Accrual of preferred stock dividend	\$-	\$12,500
Warrants issued with convertible debt	\$-	\$17,851
Acquisition of equipment under capital lease	\$30,270	\$-

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

**DATA STORAGE CORPORATION AND SUBSIDIARY**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**SIX MONTHS ENDED JUNE 30, 2014 AND 2013**

**Note 1 - Basis of presentation, organization and other matters**

Headquartered in Garden City, N.Y., Data Storage Corporation (“DSC” or the “Company”) 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 and Cloud Disaster Recovery solutions, protecting information for our clients. In 2010 DSC expanded its solutions based on the asset acquisition of SafeData. In 2012 DSC continued to assimilate organizations, expanded its technology as well as technical group and positioned the new organization for growth. In October 2012 DSC purchased the email archive and data analytics software and assets of Message Logic. DSC has equipment for cloud storage and cloud computing in our data centers in Illinois, Massachusetts, New Jersey, and New York. DSC delivers its 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 three and six months ended June 30, 2014 are not necessarily indicative of the results of operations for the full year. The condensed consolidated balance sheet at December 31, 2013 was derived from audited consolidated 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 consolidated 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 consolidated 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 consolidated financial statements should be read in conjunction with the consolidated financial statements and additional information as contained in our Annual Report on Form 10-K for the year ended December 31, 2013.

*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, 2014, the Company has generated revenues of \$2,052,135 but has incurred a net loss attributed to common shareholders of \$392,531. 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 the Mr. Charles M. Piluso, the Company's Chief Executive Officer ("CEO") and largest shareholder since inception as well as several Directors. It is the intention of Mr. Piluso to continue to fund the Company on an as needed basis.

## **Note 2 - Summary of Significant Accounting Policies**

### *Principles of Consolidation*

The condensed 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*

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 investee's earnings or losses are included in other income in the accompanying Condensed 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, 2014 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.



### *Goodwill and Other Intangibles*

In accordance with GAAP, the Company tests goodwill and other intangible assets for impairment on at least an annual basis. Goodwill impairment exists if the net book value of a reporting unit exceeds its estimated fair value. The impairment testing is performed in two steps: (i) the Company determines impairment by comparing the fair value of a reporting unit with its carrying value, and (ii) if there is an impairment, the Company measures the amount of impairment loss by comparing the implied fair value of goodwill with the carrying amount of that goodwill. To determine the fair value of these intangible assets, the Company uses many assumptions and estimates using a market participant approach that directly impact the results of the testing. In making these assumptions and estimates, the Company uses industry accepted valuation models and set criteria that are reviewed and approved by various levels of management.

In September 2011, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2011-08, "Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment", to allow entities to use a qualitative approach to test goodwill for impairment. ASU 2011-08 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. The Company adopted ASU 2011-08 in fiscal 2013 and thus performed a qualitative assessment. This adoption did not have a material impact on the Company's condensed consolidated financial statements.

### *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, 2014 include 5,616,120 options and 133,334 warrants.



**Note 3 - Property and Equipment**

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

	June 30, 2014	December 31, 2013
Storage equipment	\$2,205,243	\$ 2,205,243
Website and software	622,667	622,667
Furniture and fixtures	22,837	23,861
Computer hardware and software	91,687	91,687
Data Center Equipment	947,365	916,070
	3,889,799	3,859,528
Less: Accumulated depreciation	2,961,440	2,728,547
Net property and equipment	\$928,359	\$ 1,130,981

Depreciation expense for the six months ended June 30, 2014 and 2013 was \$232,895 and \$274,419, respectively.

**Note 4 - Goodwill and Intangible Assets**

Goodwill and intangible assets consisted of the following:

	Estimated life in years	June 30, 2014 Gross amount	Accumulated Amortization
Goodwill	Indefinite	\$2,201,828	-
Intangible Assets			
Intangible assets not subject to amortization			
Trademarks	Indefinite	294,268	-
Intangible assets subject to amortization			
Customer list	5 - 15	897,274	652,539
Non-compete agreements	4	262,147	262,147
Total Intangible Assets		1,453,689	914,686
Total Goodwill and Intangible Assets		\$3,655,517	\$ 914,686

Scheduled amortization over the next five years as follows:

For The Twelve Months ending June 30,	
2014	\$173,254
2015	30,635
2016	30,635
2017	10,211
Total	\$244,735

Amortization expense for the six months ended June 30, 2014 and 2013 was \$119,765 and \$122,495 respectively.

**Note 5 – Investment in At Equity**

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, 2014
Current assets	\$351,159
Non-current assets	\$31,342
Current liabilities	\$346,188
Members' equity	\$36,313

The investment balance carried on the Company's balance sheet amounts to \$19,538 as of June 30, 2014.

	Six Months Ended June 30, 2014
Net sales	\$385,894
Gross profit	\$335,407
Operating expenses	\$328,832
Net ordinary income	\$6,575
Other income	\$32,500
Net income(loss)	\$39,075

The Company's share of the net income from Secure Infrastructure & Services, LLC for the six months ended June 30, 2014 was \$19,538.

**Note 6 – Capital Lease Obligations**

The Company entered into a new lease agreement with Systems Trading, Inc. on May 1, 2014 to refinance all outstanding leases into one capital lease. This lease obligation is payable to Systems Trading, Inc. with monthly installments of \$21,826 from June 1, 2014 through May 1, 2018. This lease is secured with the computer equipment and has been capitalized. Pursuant to Accounting Standards Codification (“ASC”) 470-50-40, Debt Modifications and Extinguishments-Derecognition, the Company determined that modification accounting applied to the refinancing. The new capital lease obligation has an effective interest rate of 7.22%.

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

As of June 30, 2014	\$ 1,004,006
Less amount representing interest	(109,084 )
Total obligations under capital leases	894,922
Less current portion of obligations under capital leases	(214,042 )
Long-term obligations under capital leases	\$680,880

Long-term obligations under capital leases at June 30, 2014 mature as follows:

For the twelve months ending June 30,	
2015	\$214,042
2016	227,243
2017	241,259
2018	212,378
	\$894,922

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

Equipment	\$1,603,461
Less: accumulated depreciation	(1,053,367)
	\$550,094

## **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, 2014, and is secured by all assets of the Company and personally guaranteed by the Company's principal shareholder. As of June 30, 2014, the Company owed \$100,292 under this agreement.

### *Contingent Collateral Obligation*

In connection with the 2012 acquisition of Message Logic, LLC, the Company acquired software subject to a UCC filing in the amount of \$350,000 plus accrued interest. The company believes that it will pay this lien regardless of whether they are required to pay any of the contingent purchase price and accordingly the liability has been recorded on the Company's balance sheet.

### *Operating Leases*

The Company currently leases office space in Garden City, NY, and Warwick, RI and data centers in Westbury, NY and Waltham, MA.

The Company leases a data center in Westbury, NY on a month to month basis. Monthly rent is \$1,500, plus utilities and the lease is with the Chairman of the Company.

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The Company leases space in a data center in Waltham, MA. The lease calls for monthly payments under an annually renewable contract for space and services. The payments are approximately \$29,000 per month depending upon services used and the current contract expires June 30, 2014.

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. This lease was renewed for an additional year through June 30, 2015.

Minimum obligations under these lease agreements are as follows:

For the twelve months ending June 30,	
2015	\$27,888
2016	27,888
2017	28,694
2018	29,520
Thereafter	2,460
	\$116,450

Rent expense for the six months ended June 30, 2014 and June 30, 2013 was \$57,463 and \$73,071 respectively.

### **Note 8 - Related Party Transactions**

Due to related party represents rent accrued to a partnership controlled by Mr. Piluso for the New York Data Center in New York. The rent expense for the data center is \$1,500 per month plus electric service.

As of June 30, 2014 the Company owed Mr. Piluso \$928,364. These advances bear no interest and have no stated terms of repayment.

### **Note 9 – Convertible debt**

#### *Related Party*

On January 31, 2012 the Company entered into a \$500,000 convertible promissory note with a director of the company. The note is convertible into the Company's common stock at \$0.85 per share and carries interest at 10%. Interest is payable quarterly through the maturity date of January 31, 2015. DSC has accrued interest on this note totaling \$120,685 and is in arrears on its interest payments. DSC has accrued interest on this note totaling \$13,342.

On February 28, 2013 the Company entered into a \$100,000 convertible promissory note with a director of the company carries interest at 10%. Interest is payable quarterly through the maturity date of February 28, 2014. The Company issued 66,667 warrants valued at of \$17,851 which was recorded as a discount to the convertible promissory note. The note is convertible into common stock at \$0.15 per share. In 2014, the Company defaulted on this note and is subject to additional interest of 5% per annum as well as additional 10% warrants for each year in default. Subsequent to the original maturity date the note was extended through February 28, 2015.

On August 9, 2013 the Company entered into a \$100,000 convertible promissory note with the CEO 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 April 30, 2014. The Company issued 66,667 warrants valued at \$17,851 in connection with this agreement, which was recorded as a discount to the convertible promissory notes based on its relative fair value with an offset to additional paid-in capital. In 2014 the Company defaulted on this note and is subject to additional interest of 5% per annum as well as the additional 10% warrants for each year in default. DSC has accrued interest on this note totaling \$8,932. Subsequent to the original maturity date the note was extended through February 28, 2015.

## **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 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, 2014.

#### **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,



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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.

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 3,845,146 options outstanding under this plan as of June 30, 2014. There were 1,154,854 shares available for future grants under the plans.

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

	<b>Number of Shares Under Options</b>	<b>Range of Option Price Per Share</b>	<b>Weighted Average Exercise Price</b>
Options Outstanding at January 1, 2014	6,921,084	\$0.02 - 0.85	\$ 0.24
Options Granted	-	-	-
Options Exercised	-	-	-
Options Expired	-	-	-
Options Outstanding at June 30, 2014	6,921,084	\$0.02 - 0.85	\$ 0.24
Options Exercisable at June 30, 2014	5,616,120	0.02 - 0.85	\$ 0.24

Share-based compensation expense for options totaling \$74,540 and \$116,250 was recognized in our results for the six months ended June 30, 2014 and 2013, 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.

As of June 30, 2014, there was \$206,699 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 1.7 years.

### *Common Stock Warrants*

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, 2014	133,334	\$0.01 - 0.02	\$ 0.01
Warrants Granted	-	-	-
Warrants Exercised	-	-	-
Warrants Cancelled	-	-	-
Warrants Outstanding at June 30, 2014	133,334	0.01 - 0.02	0.01
Warrants Exercisable at June 30, 2014	133,334	0.01 - 0.02	0.01

### **Note 11 - Litigation**

The Company has been named as a defendant in a lawsuit filed in New York State Supreme Court, Nassau County, by Richard Rebeti, the Company's former Chief Operating Officer. In the lawsuit, *Rebeti v. Data Storage Corp. and Charles M. Piluso*, Rebeti asserts claims for unpaid wages in the amount of \$67,392 plus statutory damages and counsel fees. The Company intends to vigorously defend against this action and believes that it has counterclaims against Rebeti, and intends to interpose same in the action.

## **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

This Quarterly Report on Form 10-Q contains forward looking statements, including without limitation, statements related to our plans, strategies, objectives, expectations, intentions and adequacy of resources. Investors are cautioned that such forward-looking statements involve risks and uncertainties including without limitation the following: (i) our plans, strategies, objectives, expectations and intentions are subject to change at any time at our discretion; (ii) our plans and results of operations will be affected by our ability to manage growth; and (iii) other risks and uncertainties indicated from time to time in our filings with the Securities and Exchange Commission.

In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “could,” “expect,” “plans,” “intends,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” or “continue” or the negative of such comparable terminology. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of such statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We are under no duty to update any of the forward-looking statements after the date of this report.

### **Company Overview**

DSC is a different company in many ways from our 2001 commencement. From the very beginning we focused on assisting businesses in their disaster recovery to business continuity plans. Each year we continue to pivot, but with our same mission. Protecting our client’s data, ensuring business continuity, assisting in their compliance requirements and giving our clients better control over their information. We continue to stay on top of this dynamic industry with new solutions and services. Today, the Company owns intellectual property with our email archival and data analysis software, Message Logic. We provide Recovery Clouds for Managed Service Providers, so that these companies can enter the industry of providing Disaster Recovery and Business Continuity solutions at a lower entry point. Our IBM solutions continue to grow with our legacy solutions and our newly formed joint venture, Secure Infrastructure and Services LLC, leading the way for Infrastructure as a Service on IBM’s Power i systems.

DSC, is a 13 year veteran in cloud storage and cloud computing, providing 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: Infrastructure-as-a-Service, 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 with leading organizations for distribution such as Dell, Amazon, NASDAQ, and IBM and many others.

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

DSC derives its revenues from the sale and subscription of services and solutions DSC has equipment in several technical centers: New York Metro, Boston, Chicago and New Jersey.

DSC services clients from its staffed technical offices in New York and Rhode Island, which consist of modern offices and a technology suite adapted to meet the needs of a technology based business.

DSC varies its use of resource, technology and work processes to meet the changing opportunities and challenges presented by the market and the internal customer requirements.

## RESULTS OF OPERATIONS

### *For the three months ended June 30, 2014 as compared to the three months ended June 30, 2013*

*Net Sales.* Net sales for the three months ended June 30, 2014 were \$1,004,477, a decrease of \$165,887, or 14.17%, compared to \$1,170,364 for the three months ended June 30, 2013. The decrease is attributable to the assignment of certain customers to the joint venture during 2013.

*Cost of Sales.* For the three months ended June 30, 2014, cost of sales were \$538,663, a decrease of \$112,003, or 17.2%, compared to \$650,666 for the three months ended June 30, 2013. 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 46.4% for the three months ended June 30, 2014 as compared to 44.4% for the three months ended June 30, 2013.

*Operating Expenses.* For the three months ended June 30, 2014, operating expenses were \$631,966, a decrease of \$27,976, or 4.23%, as compared to \$659,942 for the three months ended June 30, 2013. The majority of the decrease in operating expenses for the three months ended June 30, 2014 is a result of decrease in salaries. Sales salaries decreased \$48,116 to \$66,422 for the three months ended June 30, 2014, as compared to \$114,538 for the three months ended June 30, 2013.

*Other Income (expense).* Interest income for the three months ended June 30, 2014 increased \$13 to \$17 from \$4 for the three months ended June 30, 2014. Interest expense for the three months ended June 30, 2014 increased \$3,933 to \$36,770 from \$32,837 for the three months ended June 30, 2013. .. Gain on equity method investment increased \$21,780 to \$19,538 for the three months ended June 30, 2014 from (\$2,242) for the three months ended June 30, 2013.

*Net Loss.* Net loss for the three months ended June 30, 2014 was (\$183,367) an increase of \$8,047, or 4.5%, as compared to net loss of (\$-175,320) for the three months ended June 30, 2013.

### *For the six months ended June 30, 2014 as compared to the six months ended June 30, 2013*

*Net Sales.* Net sales for the six months ended June 30, 2014 were \$2,052,135, a decrease of \$294,407, or 12.6%, compared to \$2,346,542 for the six months ended June 30, 2013. The decrease is attributable to the assignment of

certain customers to the joint venture during 2013-2014.

*Cost of Sales.* For the six months ended June 30, 2014, cost of sales was \$1,114,266, a decrease of \$231,514, or 16.8%, compared to \$1,377,780 for the six months ended June 30, 2013. 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. The Company's gross margin is 44.1 % for the six months ended June 30, 2014 as compared to 41.3 % for the six months ended June 30, 2013.

*Operating Expenses.* For the six months ended June 30, 2014, operating expenses were \$1,199,997 a decrease of \$181,339, or 28.7%, as compared to \$1,381,336 for the six months ended June 30, 2013. The majority of the decrease in operating expenses for the six months ended June 30, 2014 is a result of decrease in salaries. Sales salaries decreased \$107,401 to \$148,525, as compared to \$255,927 for the six months ended June 30, 2013. Officer's salaries expense decreased \$46,947 to \$141,119, as compared to \$188,066 for the six months ended June 30, 2013. Sales commission expense decreased \$15,896 to \$15,073, as compared to \$30,969 for the six months ended June 30, 2013. Stock based compensation decreased \$41,711 to \$74,540 for the six months ended June 30, 2014 as compared to \$116,251 for the six months ended June 30, 2013.

*Other Income (expense).* Interest income for the six months ended June 30, 2014 increased \$10 to \$25 from \$15 for the six months ended June 30, 2013. Interest expense and related debt discounts for the six months ended June 30, 2014 increased \$11,645 to \$76,256 from \$64,611 for the six months ended June 30, 2013. Gain on equity method investment increased \$21,780 to \$19,538 for the six months ended June 30, 2014 from (\$2,242) for the six months ended June 30, 2013.

*Net Loss.* Net loss for the six months ended June 30, 2014 was (\$350,821) a decrease of \$128,592, or 26.8%, as compared to net loss of (\$479,413) for the six months ended June 30, 2013.

## 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 the CEO 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 2014, 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 and expand our presence in the email archiving marketplace through our acquisition of Message Logic.

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, 2014 the Company's cash increased \$120,435 to \$208,110, from \$87,675 at December 31, 2013. Net cash of \$5,627 was provided by the Company's operating activities and no cash was used in investing activities.. Net cash of \$114,808 was provided by the Company's financing activities, primarily due to the officer and related party advances of \$126,489.

The Company's working capital deficiency was \$2,940,521 at June 30, 2014, decreasing \$186,726 or 6.09% from \$3,127,247 at December 31, 2013. This is principally due to the restructuring of the Company's long capital lease obligations.



### **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, 2014 and six months ended June 30, 2013, DSC had interest including amortization of debt discounts and expense, net of interest income, of approximately \$72,448 and \$64,596, 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, 2014, 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.**

Except as set forth below we are currently not involved in any litigation that we believe could have a materially 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 our company or any of our subsidiaries, threatened against or affecting DSC, its common stock, any of its subsidiaries or of DSC's or DSC's subsidiaries' officers or directors in their capacities as such, in which an adverse decision could have a material adverse effect.

The Company has been named as a defendant in a lawsuit filed in New York State Supreme Court, Nassau County, by Richard Rebeti, the Company's former Chief Operating Officer. In the lawsuit, *Rebeti v. Data Storage Corp. and Charles M. Piluso*, Index No. 14-2504, Rebeti asserts claims for unpaid wages in the amount of \$67,392 plus statutory damages and counsel fees. The Company intends to vigorously defend against this action and believes that it has counterclaims against Rebeti, and intends to interpose same in the action.

### **Item 1A. Risk Factors.**

As a smaller reporting company, as defined in Rule 12b-2 of the Exchange Act, we are not required to provide the information required by this Item.

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

During the year ended December 31, 2013 the Company issued 2,959,930 shares of the Company's common stock, \$0.001 par value per share (the "Common Stock") at a price of \$0.09 for an aggregate of \$266,393. The shares were issued to Charles M. Piluso, Chief Executive Officer in lieu of accrued salary compensation for 2012 and 2013.

### **Item 3. Defaults Upon Senior Securities.**

There were no defaults upon senior securities during the period ended June 30, 2014.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information.**

On February 21, 2014, Richard Rebeti Jr. resigned as Director of the Company due to a conflict with his new position at another employer. Mr. Rebeti's resignation was not the result of any disagreements with management.

In addition, on June 24, 2014, Jan Burman resigned as Director of the Company as a result of lack of time to commit to the Company and other Board affiliations. Ms. Burman's resignation was not the result of any disagreements with management.

**Item 6. Exhibits**

(a) Exhibits

<b>(b)</b>	
<b>Exhibits #</b>	<b>Description</b>
3.1	Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form SB-2 filed on December 17, 2007 (the "SB-2")).
3.2	Certificate of Amendment to Articles of Incorporation (incorporated by reference to Exhibit 3.1 to Form 8-K filed on October 24, 2008).
3.3	Certificate of Amendment to Articles of Incorporation (incorporated by reference to Exhibit 3.1.1 on Form 8-K filed on January 6, 2009).
3.4	Bylaws (incorporated by reference to Exhibit 3.2 to the SB-2).
3.5	Amended Bylaws (incorporated by reference to Exhibit 3.2 to Form 8-K filed on October 24, 2008).
4.1	Share Exchange Agreement, dated October 20, 2008, by and among Euro Trend Inc., Data Storage Corporation and the shareholders of Data Storage Corporation named on the signature page thereto (incorporated by reference to Exhibit 10.1 to Form 8-K filed on October 24, 2008).
4.2	Share Exchange Agreement, dated October 20, 2008, by and among, Euro Trend Inc., Data Storage Corporation and the shareholders of Data Storage Corporation named on the signature page thereto (incorporated by reference to Exhibit 10.1 to Form 8-K/A filed on June 29, 2009).
4.3	Registration Rights Agreement, dated November 29, 2011, by and between Data Storage Corporation and Southridge Partners II, LP (incorporated herein by reference to Exhibit 10.2 to Form 8-K filed on December 2, 2011).
4.4	Equity Purchase Agreement, dated November 29, 2011, by and between Data Storage Corporation and Southridge Partners II, LP (incorporated herein by reference to Exhibit 10.2 to Form 8-K filed on December 2, 2011).
4.5	Convertible Promissory Note, dated February 28, 2013, by and between the Company and John F. Coghlan. (incorporated herein by reference to Exhibit 4.1 to Form 10-Q filed on May 20, 2013)
4.6	Warrant to Purchase Common Stock, dated February 28, 2013, by and between the Company and John F. Coghlan(incorporated herein by reference to Exhibit 4.2 to Form 10-Q filed on May 20, 2013)
4.7	Securities Purchase Agreement, dated February 28, 2013, by and between the Company and John F. Coghlan. (incorporated herein by reference to Exhibit 10.1 to Form 10-Q filed on May 20, 2013)
4.8	Securities Purchase Agreement between Charles M. Piluso and the Company dated as of August 9, 2013 (incorporated by reference to Exhibit 2.3 of Schedule 13D/A No. 1 filed by Charles M. Piluso on August 14, 2013 (File No. 005-84248)).
4.9	10% Convertible Promissory Note due April 30, 2014 (incorporated by reference to Exhibit 2.4 of Schedule 13D/A No. 1 filed by Charles M. Piluso on August 14, 2013 (File No. 005-84248)).
4.10	Warrant to Purchase Common Stock dated as of August 9, 2013 (incorporated by reference to Exhibit 2.5 of Schedule 13D/A No. 1 filed by Charles M. Piluso on August 14, 2013 (File No. 005-84248)).
10.1	Asset Purchase Agreement dated November 10, 2008, by and between Novastor Corporation as Seller and Data Storage Corporation as Purchaser (incorporated by reference to Exhibit 10.1 to Form 8-K filed on November 12, 2008).
10.2	

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Joint Venture – Strategic Alliance Agreement, dated March 2, 2010, by and between Data Storage Corporation and United Telecomp, LLC (incorporated by reference to Exhibit 10.1 to Form 8-K filed on March 3, 2010).

- 10.3 Term Sheet for Acquisition by Data Storage Corporation of 80% of the Equity of e-ternity Business Continuity Consultants, Inc., dated May 16, 2012 (incorporated by reference to Exhibit 99.1 to Form 8-K, filed on May 30, 2012).
- 10.4 Term Sheet for Acquisition by Data Storage Corporation of Message Logic, Inc., dated August 31, 2012 (incorporated by reference to Exhibit 99.1 to Form 8-K filed on September 4, 2012).
- 10.5 Asset Purchase Agreement, dated June 17, 2010, between SafeData, LLC and Data Storage Corporation (incorporated by reference to Exhibit 10.1 to Form 8-K filed on June 23, 2010).
- 10.6 Asset Purchase Agreement, dated October 31, 2012, by and between Data Storage Corporation and Message Logic, Inc. (incorporated by reference to Exhibit 2.1 to Form 8-K filed on January 30, 2013).
- 10.7 Stock Purchase Agreement, dated October 31, 2012, by and between Data Storage Corporation and Zojax Group, LLC (incorporated by reference to Exhibit 10. 1 to Form 8-K filed on November 7, 2012).
- 10.8 Form of Employment Agreement between Peter Briggs and Data Storage Corporation (incorporated by reference to Exhibit 10.2 to Form 8-K filed on June 23, 2010).
- 10.9 Data Storage Corporation 2010 Incentive Award Plan (incorporated by reference to Exhibit 10.1 on Form S-8/A filed on October 25, 2010).

- 10.10 Amended and Restated Data Storage Corporation 2010 Incentive Award Plan (incorporated by reference to Exhibit 10.1 to Form 8-K filed on April 26, 2012).
- 10.11 Stock Purchase Agreement, dated as of March 1, 2011, by and between Data Storage Corporation and John F. Coghlan (incorporated by reference to Exhibit 10.1 to Form 8-K filed on March 7, 2011).
- 10.12 Stock Purchase Agreement, dated September 7, 2012, by and between Data Storage Corporation and John F. Coghlan (incorporated by reference to Exhibit 2.1 to Form 8-K filed on September 13, 2012).
- 10.13 Stock Purchase Agreement, dated September 7, 2012, by and between Data Storage Corporation and Clifford Stein (incorporated by reference to Exhibit 2.2 to Form 8-K filed on September 13, 2012).
- 10.14 Stock Purchase Agreement, dated September 18, 2012, by and between Data Storage Corporation and Jan Burman (incorporated by reference to Exhibit 2.1 to Form 8-K filed on September 21, 2012).
- 10.15 Stock Purchase Agreement, dated September 18, 2012, by and between Data Storage Corporation and Charles M. Piluso (incorporated by reference to Exhibit 2.2 to Form 8-K filed on September 21, 2012).
- 10.16 Stock Purchase Agreement, dated September 18, 2012, by and between Data Storage Corporation and Piluso Family Associates (incorporated by reference to Exhibit 2.3 to Form 8-K filed on September 21, 2012).
- 14 Code of Ethics (incorporated by reference to Exhibit 14.1 to Form 10-K filed on June 30, 2009).
- 21 List of Subsidiaries of Data Storage Corporation (incorporated by reference to Exhibit 21 to the Registration Statement on Form S-1 filed on February 6, 2012).
- 31.1 Certification of President, Chief Executive Officer, Chief Financial Officer, Chairman of the Board of Directors Pursuant to Rule 13a-14(a) and Rule 15d-14(a) under the Exchange Act.
- 32.1 Certification of President, Chief Executive Officer, Chief Financial Officer, Chairman of the Board of Directors 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 14, 2014 By: */s/ Charles M. Piluso*  
Charles M. Piluso

President, Chief Executive Officer

Chief Financial Officer

(Principal Executive, Financial and Accounting Officer)