Data Storage Corp
Form 10-Q
November 15, 2010
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2010

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______to______.

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

NEVADA (State or other jurisdiction of incorporation or organization)	333-148167 (Commission File No.)	98-0530147 (IRS Employee Identification No.)

401 Franklin Avenue
Garden City, N.Y. 11530
(Address of Principal Executive Offices)

(212) 564-4922
(Registrant's Telephone number)

(Former Name or Former Address if Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the issuer was required to file such reports), and (2)has been subject to such filing requirements for the past 90 days.
Yes x No o

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 o No o

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 “accelerated filer” and “large accelerated filer” in Rule 12b-2 of the Exchange Act (Check one):

Large Accelerated Filer o Accelerated Filer o Non-Accelerated Filer o Smaller Reporting Company x

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

State the number of shares outstanding of each of the issuer’s classes of stock, as of November 13 2010:

	Number of Shares
Common Stock	17,127,541
Preferred Stock	1,401,786

DATA STORAGE CORPORATION
FORM 10-Q
September 30, 2010
INDEX

PART I-- FINANCIAL INFORMATION

PART II-- OTHER INFORMATION

PART I – Financial Information

ITEM 1. FINANCIAL STATEMENTS

DATA STORAGE CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

	September 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 29,370	$ 28,160
Accounts receivable (less allowance for doubtful accounts of $17,000 in 2010 and $12,300 in 2009)	341,777	30,378
Deferred Compensation	9,285	101,160
Prepaid Expenses	58,302	21,103
Total Current Assets	438,734	180,801
Property and Equipment:		
Property and equipment	2,032,763	1,221,706
Less—Accumulated depreciation	(1,090,217)	(913,383)
Net Property and Equipment	942,546	308,323
Other Assets:		
Goodwill	2,201,828	-
Deferred compensation	21,664	28,628
Other assets	16,380	11,760
Intangible Assets, net	1,351,574	135,931
Employee loan	23,000	23,000
Total Other Assets	3,614,446	199,319
Total Assets	4,995,726	688,443
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities:		
Accounts payable and accrued expenses	648,263	103,965
Credit line payable	92,470	99,970
Due to related party	48,218	34,718
Dividend Payable	112,500	75,000
Deferred revenue	464,117	36,869
Leases payable	353,537	-
Loans payable	62,989	-
Contingent consideration in SafeData acquisition	763,807	-
Total Current Liabilities	2,545,901	350,522
Deferred rental obligation	26,974	28,642
Due to officer	614,628	379,025
Loan payable long term	208,034	-
Leases payable long term	181,306	-
Contingent consideration in SafeData acquisition – long term	15,630	-
Convertible debt	169,394	-
Total Long Term Liabilities	1,215,966	407,667
Total Liabilities	3,716,867	758,189

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;				
17,127,541 and 13,670,399 shares issued and outstanding, respectively		17,127		13,670
Additional paid in capital		6,885,604		4,808,558
Accumulated deficit		(5,670,274)		(4,893,376)
Total Stockholders' Equity (Deficit)		1,233,859		(69,746)
Total Liabilities and Stockholders' Equity (Deficit)	$	4,995,726	$	688,443

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

-1-

DATA STORAGE CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Sales	$ 886,372	$ 149,882	$ 1,643,597	$ 430,289
Cost of sales	446,991	116,403	956,070	328,564
Gross Profit	439,381	33,479	687,527	101,725
Selling, general and administrative	616,305	288,474	1,309,579	886,605
Loss from Operations	(176,924)	(254,995)	(622,052)	(784,880)
Other Income (Expense)				
Interest income	-	2	-	189
Interest expense	(97,634)	(958)	(117,345)	(3,392)
Total Other (Expense)	(97,634)	(956)	(117,345)	(3,203)
Loss before provision for income taxes	(274,558)	(255,951)	(739,397)	(788,083)
Provision for income taxes	-		-	
Net Loss	(274,558)	(255,951)	(739,397)	(788,083)
Preferred Stock Dividend	(12,500)	(12,500)	(37,500)	(37,500)
Net Loss Available to Common Shareholders	$ (287,058)	$ (268,451)	$ (776,897)	$ (825,583)
Loss per Share – Basic and Diluted	$ (0.02)	$ (0.02)	$ (0.05)	$ (0.06)
Weighted Average Number of Shares - Basic and Diluted	17,127,539	13,138,702	15,085,524	12,739,198

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

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

	Nine Months Ended September 30, 2010	2009
Net loss	$(739,397)	$(788,083)
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	246,706	97,597
Deferred compensation	98,839	-
Allowance for doubtful accounts	(9,742)	(27,800)
Amortization of debt discount	89,450	-
Stock based compensation	10,446	15,474
Changes in Assets and Liabilities:		
Accounts receivable	(45,181)	35,159
Other Assets	5,880	(504)
Prepaid Expenses	(1,317)	(27,943)
Accounts payable and accrued expenses	318,681	118,655
Deferred revenue	(114,655)	47,064
Deferred rent	(1,668)	11,380
Due to Related Party	13,500	12,218
Net Cash Used in Operating Activities	(128,458)	(506,783)
Cash Flows from Investing Activities:		
Cash paid for equipment	(37,237)	(98,177)
Acquisition of SafeData, LLC net assets	(1,229,954)	-
Net Cash Used in Investing Activities	(1,267,191)	(98,177)
Cash Flows from Financing Activities:		
Capital Stock Issuance	300,000	-
Issuance of convertible debt	1,000,000	-
Issuance of common stock	-	275,000
Advances from shareholder	235,603	71,774
Repayment of capital lease obligations	(131,243)	-
Repayment of line of credit	(7,500)	-
Net Cash Provided by Financing Activities	1,396,860	346,775
Increase (Decrease) in Cash and Cash Equivalents	1,210	(258,185)
Cash and Cash Equivalents, Beginning of Period	28,160	289,061
Cash and Cash Equivalents, End of Period	$29,370	$30,876
Cash paid for interest	$15,630	$3,392
Cash paid for income taxes	$-	$-
Non cash investing and financing activity		

Issuance of capital stock in connection with acquisition of SafeData,LLC	$850,000	$-

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

DATA STORAGE CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

Note 1 - Basis of presentation, organization and other matters

Data Storage Corporation was incorporated in Delaware on August 29, 2001. The company provides professional technology services that encompass disaster recovery and business continuity of data with a focus on regulatory compliance of electronic information under the current environment.

Data Storage Corporation derives its revenues from the sale and subscription of solutions that provide businesses protection of critical electronic information. Primarily, these services consist of professional services implementing high availability replication (mirroring of data) of client data between the client's data center or one of DSC's four data centers; email storage and archival; email compliance solutions for e-discovery; off site data back up and recovery; continuous data protection; data de-duplication; telecom recovery services; and, virtual tape libraries. The Company maintains and operates Data Centers in Rhode Island and New York; and, maintains DSC equipment under a strategic alliance or vendor relations in both Florida and Massachusetts, totaling four data centers providing clients with data replication and redundant data protection in specific applications.

On June 17, 2010, our wholly owned subsidiary Data Storage Corporation, a Delaware corporation ("Data Storage DE") and SafeData, LLC, a Delaware Limited Liability Company ("SafeData") entered into an Asset Purchase Agreement (the "Agreement"); setting forth the acquisition of Safe Data's assets.

Data Storage Corporation delivers and supports a broad range of premium technology solutions which store, protect, optimize and leverage information; minimize downtime and recovery of information. Clients depend on DSC to manager data growth, ensure disaster recovery and business continuity, strengthen security, reduce capital and operational expenses, and to meet increasing industry state and federal regulations

DSC provides solutions and services to business, government, education and healthcare industries by leveraging leading technologies such as Virtualization, Cloud Computing and Green IT.

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 for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all normal recurring adjustments considered necessary for a fair statement of the results of operations have been included. The results of operations for the nine months ended September 30, 2010 are not necessarily indicative of the results of operations for the full year. When reading the financial information contained in this Quarterly Report, reference should be made to the financial statements, schedule and notes contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2009

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 nine months ended September 30, 2010, the Company has generated revenues of $1,643,597, but has incurred a net loss of $739,397. 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 CEO and majority shareholder, Charles M. Piluso since inception. The Company has been successful in raising money as needed. Further it is the intention of Mr. Piluso to continue to raise money through stock issuance and to fund the Company on an as needed basis.

Stock Based Compensation

The Company follows the requirements of FASB ASC 718-10-10, Share Based Payments with regard to stock-based compensation issued to employees. The Company has various employment agreements and consulting arrangements that call for stock to be awarded to the employees and consultants at various times as compensation and periodic bonuses. The expense for this stock based compensation is equal to the fair value of the stock price on the day the stock was awarded multiplied by the number of shares awarded.

Recently Issued Accounting Pronouncements

In October 2009, the FASB issued ASU 2009-13, Multiple-Deliverable Revenue Arrangements, (amendments to FASB ASC Topic 605, Revenue Recognition) ("ASU 2009-13"). ASU 2009-13 requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendments eliminate the residual method of revenue allocation and require revenue to be allocated using the relative selling price method. ASU 2009-13 should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. The Company does not expect adoption of ASU 2009-13 to have a material impact on the Company's results of operations or financial condition.

In April 2010, the FASB issue ASU 2010-17, Revenue Recognition – Milestone Method ("ASU 2010-17"). ASU 2010-17 provides guidance on the criteria that should be met for determining whether the milestone method of revenue recognition is appropriate. A vendor can recognize consideration that is contingent upon achievement of a milestone in its entirety as revenue in the period in which the milestone is achieved only if the milestone meets all criteria to be considered substantive. The following criteria must be met for a milestone to be considered substantive. The consideration earned by achieving the milestone should 1. Be commensurate with either the level of effort required to achieve the milestone or the enhancement of the value of the item delivered as a result of a specific outcome resulting from the vendor's performance to achieve the milestone. 2. Related solely to past performance. 3. Be reasonable relative to all deliverables and payment terms in the arrangement. No bifurcation of an individual milestone is allowed and there can be more than one milestone in an arrangement. Accordingly, an arrangement may contain both substantive and nonsubstantive milestones. ASU 2010-17 is effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. The Company does not expect adoption of ASU 2010-17 to have a material impact on the Company's results of operations or financial condition.

Management does not believe there would have been a material effect on the accompanying financial statements had any other recently issued, but not yet effective, accounting standards been adopted in the current period.

Note 2 - Summary of Significant Accounting Policies

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 these accounts at September 30, 2010 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 llight 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 storage revenues. 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 September 30, 2010 include 2,924,434 options and 3,014,438 warrants.

Concentrations

For the nine months ended September 30, 2010 the company had one customer that represented approximately 16% of sales and for the nine months ended September 30, 2009, had two customers that represented approximately 29% of sales.

Note 3 – Property and Equipment

Machinery and equipment	$2,032,763
Less: Accumulated depreciation and amortization	(1,090,217)
Property and equipment, net	$942,546

Note 4 – Goodwill and Intangible Assets

Goodwill and Intangible assets consisted of the following:

		September 30, 2010
Goodwill		$2,201,828
Intangible assets not subject to amortization		
Trademarks		279,268
Intangible assets subject to amortization	Life in years	
Customer list	5 - 15	1,001,197
Non-compete agreements	4	262,147
Less accumulated amortization		(191,038)
Total Goodwill and Intangible Assets		$3,553,402

Scheduled amortization over the next five years as follows:

Twelve months ending September 31,	
2011	$224,158
2012	224,158
2013	224,158
2014	205,043
2015	115,215
Thereafter	79,573

Total	$1,072,306

Note 5 – Capital lease obligations

The Company acquired capital leases in the acquisition of Safe Data. 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 $55,200 through various dates in 2010, 2011 and 2012. The leases are secured with the computer equipment. Interest rates on capitalized leases vary from 6%-8% 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:

As of September 30, 2010	$570,894
Less amount representing interest	(36,051)
Total obligations under capital leases	534,843
Less current portion of obligations under capital leases	(353,537)
Long-term obligations under capital leases	$181,306

Long-term obligations under capital leases at September 30, 2010 mature as follows:

For the year ending December 31,	
2011	$353,537
2012	120,235
2013	61,071
	$534,843

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

Equipment	$773,819
Less: accumulated depreciation	84,113
	$689,706

Note 6 – Commitments and contingencies

Note Payable

On August 04, 2010, the Company entered into a note payable with Systems Trading, LLC in settlement of past due balances owed by Safe Data 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 04, 2013. The note payable balance as of September 30, 2010 is $271,023.

Total maturities of the long term debt are as follows:

For the twelve months ended September 30,	
2011	$85,493
2012	138,217
2013	47,313
	$271,023

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 $4,800 plus a portion of the operating expenses through February 2012.

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:

Twelve Months Ending September 30,:	
2011	$130,822
2012	99,419
2013	77,681
2014	59,562
	$367,484

-7-

Note 7 - Related Party Transactions

Due to related party represents rent accrued to a partnership controlled by the Chief Executive Officer of the company for the New York Data Center. The rent expense for the data center is $1,500 per month.

During the nine months ended September 30, 2010 the Chief Executive Officer advanced the Company $235,603. As of September 30, 2010 the Company owed the Chief Executive Officer $614,628. These advances bear no interest and have no stated terms of repayment.

Note 8 - Stockholders' Equity

On January 7, 2009, our stockholders approved a one-for-seven reverse stock split, which became effective on January 27, 2009. All references to share and per-share data for all periods presented in this report have been adjusted to give effect to this reverse split.

The Company entered into three stock purchase agreements on May 26, 2009 for a total of 316,350 shares for an aggregate price of $100,000

On May 21, 2010 the company entered into three security purchase agreements totaling $1,300,000. The agreements were with the chairman of the company for $700,000 and two unrelated individuals for $500,000 and $100,000. The security purchase agreements consisted of the issuance of common stock, convertible debentures and warrants as follows:

Common Stock	600,000 shares @ $0.50
Convertible Debentures	$1,000,000
Warrants	3,014,437 shares @ $0.01

See Note 9 regarding the Convertible debt and warrants

Common Stock Options/Warrants

During the nine months ended September 30, 2010 the Company issued 3,014,437 common stock warrants with the convertible debt.

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

	Number of Shares Under Option/Warrants	Range of Option/Warrants PricePer Share	Weighted Average Exercise Price
Options and Warrants Outstanding at January 1, 2010	2,929,432	$ 0.16	$ 0.16
Options Granted	-0-	-0-	-0-
Options Exercised	-0-	-0-	-0-
Options Cancelled	-0-	-0-	-0-
Warrants Granted	3,014,438	0.01	0.01
Options and Warrants Outstanding at September 30, 2010	5,943,870	0.01 – 0.16	0.01 – 0.16

Options outstanding at September 30, 2010	2,929,432	0.16	0.16
Warrants outstanding at September 30, 2010	3,014,438	.01	.01

Share-based compensation expense for options totaling $10,446 was recognized in our results for the nine months ended September 30, 2010 is based on awards vested. The options were valued at the grant date at $116,058.

The valuation methodology used to determine the fair value of the warrants issued during the year was the Black-Scholes option-pricing model, an acceptable model in accordance with FASB ASC 718-10-10 Share Based Payments. 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 warrants.

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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 nine months ended September 30, 2010 and 2009 are set forth in the table below.

	2010	2009
Weighted average fair value of options granted	$ 0.35	$ 0.29
Risk-free interest rate	3.32%	3.07%
Volatilty	85%	85%
Expected life (years)	10	10
Dividend yield	0.00%	0.00%

As of September 30, 2010, there was approximately $46,000 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 4.0 years.

Note 9 – Convertible debt

On May 21, the Company entered into three security purchase agreements including $1,000,000 of convertible notes payable along with 3,014,437 warrants to purchase common stock of the company at $.01. Each note is convertible into common stock at an exercise price of $.39.

At their commitment date, each convertible promissory note was tested for a beneficial conversion feature by comparing the effective conversion price to the fair value of the Company's stock. The Company recognized a beneficial conversion feature of $410,256 which was recorded as a discount to the convertible promissory notes with an offset to additional paid-in capital. Additionally, the relative fair value of the warrants of $509,800 was calculated and recorded as a further reduction to the carrying amount of the convertible debt and as an addition to paid-in capital. The Company is amortizing the debt discount over the term of the debt. Amortization of debt discount for the nine months ended September 30, 2010 was $89,450.

Note 10 - Acquisition

On June 17, 2010, our wholly owned subsidiary Data Storage Corporation, a Delaware corporation ("Data Storage DE") and SafeData, LLC, a Delaware Limited Liability Company ("SafeData") entered into an Asset Purchase Agreement (the "Agreement"); setting forth the acquisition of Safe Data's assets. Data Storage DE and its parent Data Storage Corporation is hereinafter referred to as the "Company" or "Data Storage."

As described above, on June 17, 2010, SafeData agreed to sell, transfer, assign, and deliver to the Company all right, title and interest in the end user customer base of SafeData (the "Business") and all related current and fixed assets and contracts related to the Business. These assets include, but not limited to, all of SafeData's accounts receivable and intellectual property. Additionally, SafeData transferred to the Company all of their current liabilities to the extent arising out of the business or the assets.

Pursuant to the Agreement, the Company paid an aggregate purchase price for the Business equal to $3,000,000 (the "Purchase Price") with $2,000,000 paid in cash and $1,000,000 in shares of the Company's common stock, par value

$0.001 per share (the “Common Stock”) valued at $0.35 per share or 2,857,142 shares of Common Stock. Upon Closing (as defined in the Agreement), a certain portion of the Purchase Price was deferred subject to certain holdback and contingency clauses contained in the Agreement.

The following sets forth the components of the purchase price:

Purchase price:		
Cash paid to seller, less credit threshold adjustment of $70,047	$	1,229,952
Stock issued to seller		850,000
Holdback price adjustments		779,437
Total purchase price		2,859,389
Assets acquired:		
Accounts Receivable		259,476
Prepaid Expenses		35,883
Fixed Assets		773,819
Security Deposits		10,500
Total assets acquired		1,079,678
Liabilities assumed:		
Accounts payable		499,641
Capital Lease Obligation		666,087
Deferred Revenue		537,016
Total liabilities assumed		1,702,744
Net assets acquired		(623,066)
Excess purchase price	$	3,482,455

Based on an independent appraisal, the Company allocated $1,280,627 of the excess purchase price to intangible assets with the balance of $2,201,828 assigned to Goodwill. The unaudited consolidated financial statements presented in the Report include the results of operations for Safe Data for the period from June 17, 2010 to September 30, 2010.

The intangible assets subject to amortization have been assigned useful lives as follows:

Customer list	5 years
Non-compete agreements	4 years

The following table summarizes, on an unaudited pro forma basis, the combined results of operations of the Company and Safe Data, LLC as though the acquisition had occurred as of January 1, 2009. The pro forma amounts give effect to appropriate adjustments of amortization of intangible assets and interest expense associated with the financing of the purchase. The pro forma amounts presented are not necessarily indicative of either the actual consolidated operation results had the acquisition transaction occurred as of January 1, 2009.

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Revenues	$ 886,372	$ 804,793	$ 2,897,288	$ 2,382,737
Net loss	(274,557)	(377,344)	(949,679)	(1,115,173)

Loss per share of common stock	(0.02)	(0.02)	(0.06)	(0.07)
Basic and Diluted	17,127,539	16,595,842	17,127,539	16,196,338

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 was incorporated in Delaware on August 29, 2001. The company provides professional technology services that encompass disaster recovery and business continuity of data with a focus on regulatory compliance of electronic information under the current environment.

Data Storage Corporation derives its revenues from the sale and subscription of solutions that provide businesses protection of critical electronic information. Primarily, these services consist of professional services implementing high availability replication (mirroring of data) of client data between the client's data center or one of DSC's four data centers; email storage and archival; email compliance solutions for e-discovery; off site data back up and recovery; continuous data protection; data de-duplication; telecom recovery services; and, virtual tape libraries. The Company maintains and operates Data Centers in Rhode Island and New York; and, maintains DSC equipment under a strategic alliance or vendor relations in both Florida and Massachusetts, totaling four data centers providing clients with data replication and redundant data protection in specific applications.

On June 17, 2010, our wholly owned subsidiary Data Storage Corporation, a Delaware corporation ("Data Storage DE") and SafeData, LLC, a Delaware Limited Liability Company ("SafeData") entered into an Asset Purchase Agreement (the "Agreement"); setting forth the acquisition of Safe Data's assets.

Data Storage Corporation delivers and supports a broad range of premium technology solutions which store, protect, optimize and leverage information; minimize downtime and recovery of information. Clients depend on DSC to manager data growth, ensure disaster recovery and business continuity, strengthen security, reduce capital and operational expenses, and to meet increasing industry state and federal regulations

DSC provides solutions and services to business, government, education and healthcare industries by leveraging leading technologies such as Virtualization, Cloud Computing and Green IT.

Results of Operations

Three and Nine months ended September 30, 2010 as compared to the three and nine months ended September 30, 2009

Net sales. Net sales for the three months ended September 30, 2010 were $886,372, an increase of $736,490, or 491.4% compared to $149,882 for the three months ended September 30, 2009, and for the nine months ended September 30, 2010 were $1,643,597 an increase of $1,213,308, or 281.9%, compared to $430,289 for the nine months ended September 30, 2009. The increase in sales is primarily attributable to the addition of equipment sales and the addition of sales from the acquisition of SafeData,LLC.

Cost of sales. For the three months ended September 30, 2010, cost of sales increased $330,588 to $446,991 from $116,403 for the three months ended September 30, 2009 and for the nine months ended September 30, 2010, cost of sales increased $627,506 to $956,070 from $328,564 for the nine months ended September 30, 2009. The increase in cost of sales is primarily attributable to the corresponding increase in sales for the three and nine months ended September 30, 2010. The Company's gross margin increased to 49.6% for the three months ended September 30, 2010 as compared to 22.3% for the three months ended September 30, 2009 and the Company's gross margin increased to 41.8% for the nine months ended September 30, 2010 as compared to 23.6% for the nine months ended September 30, 2009. The increase is gross profit for the three and nine month period ended September 30, 2010 is primarily attributable to the addition of sales of SafeData services at higher margins in addition to the increase of data backup services against fixed costs resulting in higher margins.

Operating Expenses. For the three months ended September 30, 2010 operating expenses were $616,305, an increase of $327,831 as compared to $288,474 for the three months ended September 30, 2009 and for the nine months ended September 30, 2010 operating expenses were $1,309,579 an increase of $422,974, as compared to $886,605 for the nine months ended September 30, 2009. The majority of the net increase in operating expenses for the three months ended September 30, 2010 is a result of increases in professional fees, salaries and depreciation and amortization expense. Salary expense for the three months ended September 30, 2010 was $168,907 an increase of $50,253 from $118,654 for the three months ended September 30, 2009, professional fees for the three months ended September 30, 2010 were $206,128 an increase of $153,134 from $52,994 for the three months ended September 30, 2009 and depreciation and amortization expense for the three months ended September 30, 2010 was $57,557 an increase of $54,431 from $3,126 for the three months ended September 30, 2009. The majority of the net increase in operating expenses for the nine months ended September 30, 2010 is a result of increases in professional fees, rent and depreciation and amortization expense. Rent expense for the nine months ended September 30, 2010 was $78,152 an increase of $44,872 from $33,281 for the three months ended September 30, 2009, professional fees for the nine months ended September 30, 2010 were $450,954 an increase of $294,963 from $155,991 for the nine months ended September 30, 2009 and depreciation and amortization expense for the nine months ended September 30, 2010 was $85,560 an increase of $73,675 from $11,885 for the three months ended September 30, 2009. Additional expenses are primarily related to the acquisition of SafeData during the nine months ended September 30, 2010.

Interest Expense. Interest expense for the three months ended September 30, 2010 increased to $97,634 from $958 for the three months ended September 30, 2009 and interest expense for the nine months ended September 30, 2010 increased to $117,345 from $3,392 for the nine months ended September 30, 2009. For the three and nine months ended September 30, 2010 and September 30, 2009, interest expense was primarily the result of convertible debt that was issued in connection with the acquisition of SafeData. In addition to recording interest on the face of the debt, the Company is required to record additional interest related to the warrants issued in connection with the debt financing as well as an amount calculated to approximate the beneficial conversion option of the debt.

Net Income (Loss). Net loss for the three months ended September 30, 2010 was $274,558 an increase of $18,607 as compared to net loss of $255,951 for the three months ended September 30, 2009. The net loss for the nine months ended September 30, 2010 was $739,397 a decrease of $48,686 as compared to net loss of $788,083 for the nine months ended September 30, 2009.

Liquidity and Capital Resources

In 2010 we intend to continue to work to increase our presence in the marketplace through both organic growth and acquisition of data storage service provider’s assets.

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 nine months ended September 30, 20010 the company’s cash increased $1,210 to $29,370 from $28,160 at December 31, 2009. Net cash of $128,458was used in the Company’s operating activities and cash of $1,267,191 was used in investing activities, primarily for the acquisition of the net assets of SafeData, LLC. Cash of $1,396,860 was provided by the company’s financing activities, the majority of the financing was from the issuance of convertible debt and stock.

The Company's working capital was ($2,107,167) at September 30, 2010, decreasing $1,937,446 from ($169,721) at December 31, 2009. The decrease is primarily due to Leases payable, loan payable and deferred revenue recorded in connection with the acquisition of the net assets of SafeData.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, financings, or other relationships with unconsolidated entities or other persons, also known as “special purpose entities” (SPEs).

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company is subject to certain market risks, including changes in interest rates and currency exchange rates. The Company does not undertake any specific actions to limit those exposures.

Item 4. Controls and Procedures

a) Evaluation of Disclosure Controls. Pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 (“Exchange Act”), the Company carried out an evaluation, with the participation of the Company’s management, including the Company’s Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) (the Company’s principal financial and accounting officer), of the effectiveness of the Company’s disclosure controls and procedures (as defined under Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report. The Company lacks the size and complexity to segregated duties sufficiently for proper controls. Based upon that evaluation, the Company’s CEO and CFO concluded that the Company’s disclosure controls and procedures are not effective to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to the Company’s management, including the Company’s CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

(b) 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 our company or any of our subsidiaries, threatened against or affecting our company, our common stock, any of our subsidiaries or of our companies 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

None.

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

On August 12, 2009 the Company entered into a stock purchase agreement for 288,572.25 shares of common stock for $100,000.

On May 21, 2010 the company entered into three security purchase agreements totaling $1,300,000. The agreements were with the chairman of the company for $700,000 and two unrelated individuals for $500,000 and $100,000. The security purchase agreements consisted of the issuance of common stock, convertible debentures and warrants as follows:

Common Stock	600,000 shares @ $0.50
Convertible Debentures	$1,000,000
Warrants	3,014,437 shares @ $0.01

These shares were issued in reliance on the exemption under Section 4(2) of the Securities Act of 1933, as amended (the "Act"). These shares of our common stock qualified for exemption under Section 4(2) of the Securities Act of 1933 since the issuance shares by us did not involve a public offering. The offering was not a "public offering" as defined in Section 4(2) due to the insubstantial number of persons involved in the deal, size of the offering, manner of the offering and number of shares offered. We did not undertake an offering in which we sold a high number of shares to a high number of investors. In addition, the investors had the necessary investment intent as required by Section 4(2) since they agreed to and received share certificates bearing a legend stating that such shares are restricted pursuant to Rule 144 of the 1933 Securities Act. This restriction ensures that these shares would not be immediately redistributed into the market and therefore not be part of a "public offering." Based on an analysis of the above factors, we have met the requirements to qualify for exemption under Section 4(2) of the Securities Act of 1933 for this transaction.

Item 3. Defaults Upon Senior Securities

There were no defaults upon senior securities during the period ended September 30, 2010.

Item 4. Removed and Reserved.

Item 5. Other Information

There is no information required to be disclosed under this item which was not previously disclosed.

Item 6. Exhibits

(a) Exhibits

31.1 Certifications pursuant to Section 302 of Sarbanes Oxley Act of 2002

32.1 Certifications pursuant to Section 906 of Sarbanes Oxley Act of 2002

SIGNATURES

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

	DATA STORAGE CORPORATION	
Date: November 15, 2010	By:	/s/ Charles M. Piluso Charles M. Piluso President, Chief Executive Officer, Chief Financial Officer Principal Financial Officer

-14