Data Storage Corp
Form 10-Q
May 20, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013

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

For the transition period from ___________ to ___________

Commission File No. 333-148167

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

NEVADA (State or other jurisdiction of incorporation or organization)	98-0530147 (I.R.S. Employer Identification No.)

401 Franklin Avenue Garden City, N.Y (Address of principal executive offices)	11530 (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes 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 x 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 “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	o	Accelerated Filer	o
Non-Accelerated Filer	o	Smaller Reporting Company	x
(Do not check if a smaller reporting company)			

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

As of May 17, 2013, 33,165,915 shares of common stock, par value $0.001 per share, were outstanding.

DATA STORAGE CORPORATION
FORM 10-Q
March 31, 2013
INDEX

PART I

ITEM 1. Financial Statements

DATA STORAGE CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	March 31, 2013	December 31, 2012
ASSETS		
Current Assets:		
Cash and cash equivalents	$84,054	$72,756
Accounts receivable (less allowance for doubtful accounts of $26,801 in 2013 and $48,000 in 2012)	247,325	201,483
Deferred Compensation	17,562	17,562
Prepaid Expenses and other current assets	130,809	184,752
Total Current Assets	479,750	476,553
Property and Equipment:		
Property and equipment	3,851,104	3,851,104
Less—Accumulated depreciation	(2,352,807)	(2,189,024)
Net Property and Equipment	1,498,297	1,662,080
Other Assets:		
Goodwill	2,201,828	2,201,828
Deferred compensation	4,661	9,052
Other assets	53,110	65,923
Intangible Assets, net	840,565	903,761
Total Other Assets	3,100,164	3,180,564
Total Assets	5,078,211	5,319,197
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities:		
Accounts payable and accrued expenses	1,175,479	1,214,580
Credit line payable	100,292	100,292
Due to related party	175,793	162,804
Dividend Payable	225,000	212,500
Deferred revenue	683,269	722,658
Leases payable	783,381	715,095
Loans payable	59,199	47,312
Convertible Debt-Related Party	86,638	-
Contingent consideration in Message Logic acquisition	362,414	365,519
Total Current Liabilities	3,648,465	3,540,760
Deferred rental obligation	12,388	14,403
Due to officer	766,166	758,320
Leases payable long term	285,869	382,572
Convertible debt - Related party	500,000	500,000

Total Long Term Liabilities	1,564,423	1,655,295
Total Liabilities	5,212,888	5,196,055
Commitments and contingencies	-	-
Stockholders' Equity (Deficit):		
Preferred Stock, $.001 par value; 10,000,000 shares authorized;		
1,401,786 shares issued and outstanding in each period	1,402	1,402
Common stock, par value $0.001; 250,000,000 shares authorized;		
33,165,915 and 33,165,915 shares issued and outstanding, respectively, in each period	33,166	33,166
Additional paid in capital	12,101,397	12,042,623
Accumulated deficit	(12,270,642)	(11,954,049)
Total Stockholders' Equity (Deficit)	(134,677)	123,142
Total Liabilities and Stockholders' Equity (Deficit)	$5,078,211	$5,319,197

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

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

	Three Months Ended March 31, 2013	2012
Sales	$ 1,176,178	$ 970,399
Cost of sales	727,114	584,992
Gross Profit	449,064	385,407
Selling, general and administrative	721,395	899,573
Loss from Operations	(272,331)	(514,166)
Other Income (Expense)		
Interest income	11	82
Amortization of debt discount	(1,487)	-
Interest expense	(30,286)	(36,777)
Total Other (Expense)	(31,762)	(36,695)
Loss before provision for income taxes	(304,093)	(550,861)
Provision for income taxes	-	-
Net Loss	(304,093)	(550,861)
Preferred Stock Dividend	(12,500)	(12,500)
Net Loss Applicable to Common Shareholders	$ (316,593)	$ (563,361)
Loss per Share – Basic and Diluted	$ (0.01)	$ (0.02)
Weighted Average Number of Shares - Basic and Diluted	33,165,915	29,034,236

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

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

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
Net loss	$ (304,093)	$ (550,861)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	225,032	170,248
Amortization of debt discount	1,487	-
Non cash interest expense	12,329	8,219
Deferred compensation	-	9,705
Stock based compensation	58,126	25,824
Changes in Assets and Liabilities:		
Accounts receivable	(45,841)	(10,064)
Other assets	1,948	(13,746)
Prepaid expenses and other current assets	53,943	23,744
Accounts payable and accrued expenses	(39,543)	(142,050)
Deferred revenue	(39,389)	32,026
Deferred rent	(2,015)	(1,454)
Due to related party	12,989	-
Net Cash Used in Operating Activities	(65,027)	(448,949)
Cash Flows from Investing Activities:		
Capital expenditures	-	(12,146)
Net Cash Used in Investing Activities	-	(12,146)
Cash Flows from Financing Activities:		
Proceeds from the issuance of common stock		-
Issuance of convertible debt	100,000	500,000
Repayments of capital lease obligations	(28,417)	(18,740)
Repayments of loan obligations	-	(10,641)
Repayment of contingent consideration	(3,105)	-
Advances from shareholder	7,847	-
Net Cash Provided by Financing Activities	76,325	470,619
Increase (Decrease) in Cash and Cash Equivalents	11,298	9,524
Cash and Cash Equivalents, Beginning of Period	72,756	168,490
Cash and Cash Equivalents, End of Period	$ 84,054	$ 178,014
Cash paid for interest	$ 4,559	$ 28,559
Cash paid for income taxes	$ -	$ -
Non cash investing and financing activities:		
Warrants issues with debt	$ 17,851	$ -

Accrual of preferred stock dividend	$ 12,500	$ 12,500

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

DATA STORAGE CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
THE THREE MONTHS ENDED MARCH 31, 2013 AND 2012

Note 1 - Basis of presentation, organization and other matters

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

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

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

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

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

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

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

Condensed Consolidated Financial Statements

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q. 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 presentation of the results of operations have been included. The results of operations for the three months ended March 31, 2013 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, 2012. The condensed balance sheet at December 31, 2012 was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the United States.

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 three months ended March 31, 2013, DSC has generated revenues of $1,176,178 but has incurred a net loss of $304,093. Its ability to continue as a going concern is dependent upon achieving sales growth, reduction of operation expenses and ability of the Company to obtain the necessary financing to meet its obligations and pay its liabilities arising from normal business operations when they come due, and upon profitable operations. The Company has been funded by Mr. Charles M. Piluso, the Company’s Chief Executive Officer and largest shareholder since inception as well as several Directors. It is the intention of Mr. Piluso to continue to fund Company on an as needed basis.

Note 2 - Summary of Significant Accounting Policies

Principles of Consolidation

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

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 March 31, 2013 approximate their carrying value as reflected in the balance sheets due to the short-term nature of these instruments or the use of market interest rates for debt instruments. The carrying values of certain of the Company’s notes payable and capital lease obligations approximate their fair values based upon a comparison of the interest rate and terms of such debt given the level of risk to the rates and terms of similar debt currently available to the Company in the marketplace. It is not practical to estimate the fair value of certain notes payable, the convertible debt and the liability for contingent compensation from acquisition. In order to do so, it would be necessary to obtain an independent valuation of these unique instruments. The cost of that valuation would not be justified in light of the circumstances.

Goodwill and Other Intangibles

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

Revenue Recognition

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

Net Income (Loss) Per Common Share

In accordance with FASB ASC 260-10-5 Earnings Per Share, basic income (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing net income (loss) adjusted for income or loss that would result from the assumed conversion of potential common shares from contracts that may be settled in stock or cash by the weighted average number of shares of common stock, common stock equivalents and potentially dilutive securities outstanding during each period. The inclusion of the potential common shares to be issued have an anti-dilutive effect on diluted loss per share and therefore they are not included in the calculation. Potentially dilutive securities at March 31, 2013 include 6,232,992 options and 95,309 warrants.

Recently Issued and Newly Adopted Accounting Pronouncements

In July 2012, the Financial Accounting Standards Board ("FASB") issued ASU No. 2012-02, "Testing Indefinite-Lived Intangible Assets for Impairment" ("ASU 2012-02"). ASU 2012-02 gives entities an option to first assess qualitative factors to determine whether the existence of events and circumstances indicate that it is more likely than not that the indefinite-lived intangible asset impaired. If based on its qualitative assessment an entity concludes that it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount, quantitative impairment testing is required. However, if an entity concludes otherwise, quantitative impairment testing is not required. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. ASU 2012-02 is not expected to have a material impact on the Company's financial position or results of operations.

In December 2011, the Financial Accounting Standards Board ("FASB") issued ASU No. 2011-11, " Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities " ("ASU 2011-11") . ASU 2011-11 enhances current disclosures about financial instruments and derivative instruments that are either offset on the statement of financial position or subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset on the statement of financial position. Entities are required to provide both net and gross information for these assets and liabilities in order to facilitate comparability between financial statements prepared on the basis of U.S. GAAP and financial statements prepared on the basis of IFRS. ASU 2011-11 is effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. ASU 2011-11 is not expected to have a material impact on the Company's financial position or results of operations.

In September 2011, the FASB issued Accounting Standards Update No. 2011-08 (“ASU 2011-08”), which updates the guidance in ASC Topic 350, Intangibles – Goodwill & Other. The amendments in ASU 2011-08 permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than the carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in ASC Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than fifty percent. If, after assessing the totality of events or circumstances, an entity determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. The amendments in ASU 2011-08 include examples of events and circumstances that an entity should consider in evaluating whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. However, the examples are not intended to be all-inclusive and an entity may identify other relevant events and circumstances to consider in making the determination. The examples in this ASU 2011-08 supersede the previous examples under ASC Topic 350 of events and circumstances an entity should consider in determining whether it should test for impairment between annual tests, and also supersede the examples of events and circumstances that an entity having a reporting unit with a zero or negative carrying amount should consider in determining whether to perform the second step of the impairment test. Under the amendments in ASU 2011-08, an entity is no longer permitted to carry forward its detailed calculation of a reporting unit’s fair value from a prior year as previously permitted under ASC Topic 350. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of ASU 2011-08 did not have a material impact on the Company’s financial position or results of operations.

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 3 - Property and Equipment

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

	March 31, 2013	December 31 2012
Storage equipment	$2,205,243	$2,205,243
Website and software	622,667	622,667
Furniture and fixtures	22,837	22,837
Computer hardware and software	91,687	91,687
Data Center Equipment	908,670	908,670
	3,851,104	3,851,104
Less: Accumulated depreciation	2,352,807	2,189,024
Net property and equipment	$1,498,297	$1,662,080

Depreciation expense for the three months ended March 31, 2013 and 2012 was $163,783 and $116,659, respectively.

Note 4 - Goodwill and Intangible Assets

Goodwill and Intangible assets consisted of the following:

		March 31, 2013	
	Estimated life in years	Gross amount	Accumulated Amortization
Goodwill	Indefinite	$ 2,201,828	$ -
Intangible assets not subject to amortization			
Trademarks	Indefinite	294,268	-
Intangible assets subject to amortization			
Customer list	5 - 15	897,274	423,166
Non-compete agreements	4	262,147	189,958
Total Intangible Assets		1,453,689	613,124
Total Goodwill and Intangible Assets		$ 3,655,517	$ 613,124

Scheduled amortization over the next five years as follows:

Twelve months ending March 31,	
2014	$ 183,743
2015	209,492
2016	98,844
2017	28,688
2018	25,530
Total	$ 546,297

Amortization expense for the three months ended March 31, 2013 and 2012 were $61,248 and $53,589 respectively

8

Note 5 – Capital lease obligations

The Company acquired capital leases in the acquisition of SafeData. The economic substance of the leases is that the Company is financing the acquisitions through the leases and accordingly, they are recorded in the Company's assets and liabilities. The leases are payable to Systems Trading, Inc. and IBM with combined monthly installments of $57,757 at various dates through 2016. The leases are secured with the computer equipment. Interest rates on capitalized leases vary from 6%-12% and are imputed based on the lower of the Company's incremental borrowing rate at the inception of each lease or the lessor's implicit rate of return.

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

As of March 31, 2013	$ 1,118,185
Less amount representing interest	(48,935)
Total obligations under capital leases	1,069,250
Less current portion of obligations under capital leases	(783,381)
Long-term obligations under capital leases	$ 285,869

Long-term obligations under capital leases at March 31, 2013 mature as follows:

For the year ending March 31, 2014	$ 783,381
2015	264,753
2016	21,116
	$ 1,069,250

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

Equipment	$ 1,571,784
Less: accumulated depreciation	590,219
	$ 981,565

Note 6 - 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 0.5% or 3.75% at March 31, 2013, and is secured by all assets of the Company and personally guaranteed by the Company's principal shareholder. As of March 31, 2013 and December 31, 2012, the Company owed $100,292 under this agreement.

Loan Payable

On August 4, 2010, the Company entered into a note payable with Systems Trading, LLC in settlement of past due balances owed to SafeData related to certain capital leases. The note bears interest at 4%, and is due in 24 equal installments of $11,927 commencing February 4, 2011 through January 4, 2013. The note payable is in arrears and has a balance as of March 31, 2013 of $59,199.

Operating Leases

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

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

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

Minimum obligations under these lease agreements are as follows:

For the year Ending March 31,:		
2013	$	78,838
2014		19,854
	$	98,692

Rent expense for the three months ended March 31, 2013 and March 31, 2012 was $40,661 and $48,633 respectively.

Note 7 - Related Party Transactions

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

As of March 31, 2013 the Company owed Mr. Piluso $766,166. These advances bear no interest and have no stated terms of repayment.

Note 8 – Convertible debt

Related parties

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 warrants values at of $17,851 which was recorded as a discount to the convertible promissory note with an offset to additional paid-in capital. The note is convertible into common stock at $0.15 per share.

Note 9 - Stockholders' Equity

Capital Stock

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

Common Stock Options

2008 Equity Incentive Plan

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

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 March 31, 2013.

2010 Incentive Award Plan

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

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

There are 3,157,054 options outstanding under this plan as of March 31, 2013. There were no shares available for future grants under the plans.

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

	Number of Shares Under Options	Range of Option Price Per Share	Weighted Average Exercise Price
Options Outstanding at January 1, 2013	6,232,992	0.02 - $0.85	$0.26
Options Granted	-	-	-
Options Exercised	-	-	-
Options Expired	-	-	-
Options Outstanding at March 31, 2013	6,232,992	0.02 - $0.85	$0.26
Options Exercisable at March 31, 2013	5,025,085	0.02 - $0.85	$0.23

Share-based compensation expense for options totaling $58,125 and $25,284 was recognized in our results for the three months ended March 31, 2013 and 2012, respectively is based on awards vested.

As of March 31, 2013, there was approximately $372,903 of total unrecognized compensation expense related to unvested employee options granted under the Company’s share based compensation plans that is expected to be recognized over a weighted average period of approximately 2.9 years.

Common Stock Warrants

There were 66,667 common stock warrants granted during the three months ended March 31, 2013 in connection with a convertible debt issuance.

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

	Number of Shares Under Warrants	Range of Warrants Price Per Share	Weighted Average Exercise Price
Warrants Outstanding at January 1, 2013	28,642	$ 0.01 - 0.02	$ 0.02
Warrants Granted	66,667	0.01	0.01
Warrants Exercised	-	-	-
Warrants Cancelled	-	-	-
Warrants Outstanding at March 31, 2013	95,309	0.01 – 0.02	0.01
Warrants exercisable at March 31, 2013	95,309	0.01 – 0.02	0.01

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

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

Company Overview

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

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

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

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

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

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

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

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

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

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

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

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

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

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

RESULTS OF OPERATIONS

For the three months ended March 31, 2013 as compared to March 31, 2012.

Net Sales. Net sales for the three months ended March 31, 2013 were $1,176,178 an increase of $205,779 or 21.2%, compared to $970,399 for the three months ended March 31, 2012. The increase in sales is the result of an increase in recurring sales revenues of $252,409 to $1,145,049 for the three months ended March 31, 2013 from $892,556 for the three months ended March 31, 2012, offset by a decrease of in non-recurring revenue of $51,636 to $30,224 for the three months ended March 31, 2013 from $81,881 for the three months ended March 31, 2012.

Cost of Sales. For the three months ended March 31, 2013, cost of sales were $727,114 an increase of $142,122 from $584,992 for the three months ended March 31, 2012 The increase in cost of sales is directly attributable to the increase in recurring sales which have a higher cost of sale than non-recurring sales which are typically generated from fixed labor costs. DSC's gross margin is 38.2 % for the three months ended March 31, 2013 as compared to 39.7 % for the three months ended March 31, 2012.

Operating Expenses. For the three months ended March 31, 2013, operating expenses were $721,395, a decrease of $178,178, as compared to $899,573 for the three months ended March 31,2012. The majority of the decrease in operating expenses for the three months ended March 31, 2012 is a result of decrease in salaries and professional fees. Professional fees decreased $62,686 to $32,677 for the three month ended March 31, 2013 as compared to $98,962 for the three months ended March 31, 2012. Sales salaries decreased $78,212 to $138,962 for the three months ended March 31, 2013, as compared to $217,174 for the three months ended March 31, 2012. Executive salaries expense increased $46,438 to $94,745 as compared to $48,307 for the three months ended March 31, 2013 and 2012. Sales commission expense decreased $41,438 to $13,714, as compared to $55,152 for the three months ended March 31, 2013 and 2012. This is a result of more new sales being generated by internal sales force that are paid by salary as opposed to new sales by partners.

Other Expenses. Interest income for the three months ended March 31, 2013 decreased $71 to $11 from $82 for the three months ended March 31, 2012. Interest Expense for the three months ended March 31, 2013 decreased $5,004 to $31,773 from $36,777 for the three months ended March 31, 2013.

Net Loss. Net loss for the three months ended March 31, 2013 was ($304,093) a decrease of $246,768 as compared to net loss of ($550,861) for the three months ended March 31, 2012.

LIQUIDITY AND CAPITAL RESOURCES

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

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

During the three months ended March 31, 2013 DSC's cash increased $11,298 to $84,054 from $72,756 at March 31, 2012. Net cash of $65,027 was used in DSC's operating activities. Net cash of $76,325 was provided by DSC's financing activities. This is the result of a $100,000 convertible debt issuance, $7,847 in advances from a company shareholder offset by $28,417 in capital lease payments.

DSC's working capital deficit was ($3,168,715) March 31, 2013, increasing $104,508 from ($3,064,207) at December 31, 2012. The increase is primarily due to the issuance of convertible debt.

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 three months ended March 31, 2013 and three months ended March 31, 2012, DSC had interest expense, net of interest income, of $30,275 and $36,695, 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 March 31, 2013, DSC did not maintain effective internal control over financial reporting. As defined by the Public Company Accounting Oversight Board Auditing Standard No. 5, a material weakness is a deficiency or a combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected. In order to ensure the effectiveness of DSC's disclosure controls in the future DSC intends on adding financial staff resources to our accounting and finance department.

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

Changes in Internal Control Over Financial Reporting .

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

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

Not applicable

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

On February 28, 2013, the Company sold a convertible promissory note in the principal amount of $100,000 and a warrant to purchase 66,667 shares of the Company's Common Stock for an aggregate purchase price of $100,000 to John F. Coghlan, a member of the Company's Board of Directors. The securities are more specifically described below in Item 5, Other Information. The securities were sold in reliance on Section 4(a)(2) of the Securities Act of 1933, as amended.

Item 3. Defaults Upon Senior Securities.

There were no defaults upon senior securities during the period ended March 31, 2013

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information.

The Company entered into a Securities Purchase Agreement, dated as of February 28, 2013, by and between the Company and John F. Coghlan, a member of the Company's board of directors (the "Securities Purchase Agreement"). Pursuant to the Securities Purchase Agreement, the Company issued a Convertible Promissory Note in the principal amount of $100,000 and a Warrant to purchase 66,667 shares of the Company's Common Stock for an aggregate purchase price of $100,000.

The Convertible Promissory Note matures on February 27, 2014 (the "Maturity Date"), accrues interest at an interest rate of ten percent (10%) per annum payable in arrears on the Maturity Date and is subject to customary terms and conditions including events of default.

The Warrant entitles Mr. Coghlan to purchase from the Company an aggregate of 66,667 shares of Common Stock, par value $0.001 per share, at an exercise price of $0.15. The Warrant is immediately exercisable and expires on February 28, 2023. The Warrant is subject to customary terms and conditions.

The securities described above were sold upon reliance on Section 4(a)(2) of the Securities Act of 1933, as amended.

Item 6. Exhibits

(a) Exhibits

Exhibits. No.	Description
4.1	Convertible Promissory Note, dated February 28, 2013, by and between the Company and John F. Coghlan.
4.2	Warrant to Purchase Common Stock, dated February 28, 2013, by and between the Company and John F. Coghlan.
10.1	Securities Purchase Agreement, dated February 28, 2013, by and between the Company and John F. Coghlan.
31.1	Certification of Principal Executive Officer and Principal Financial Officer, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer and Principal Financial Officer, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS *	XBRL Instance Document
101.SCH*	XBRL Taxonomy Schema
101.CAL*	XBRL Taxonomy Calculation Linkbase
101.DEF*	XBRL Taxonomy Definition Linkbase
101.LAB*	XBRL Taxonomy Label Linkbase
101.PRE*	XBRL Taxonomy Presentation Linkbase

SIGNATURES

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

	DATA STORAGE CORPORATION	
Date: May 20, 2013	By:	/s/ Charles M. Piluso Charles M. Piluso President, Chief Executive Officer Principal Financial Officer (Duly Authorized Officer and Principal Executive Officer)

Exhibits Index

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