

Edgar Filing: Data Storage Corp - Form 10-K

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of S-K (§229.405) is contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

| | | |
|-------------------------|-------------------------------------|-------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting |
| company | <input checked="" type="checkbox"/> | |

(Do not check if a smaller reporting company)

Revenues for year ended December 31, 2010: \$2,514,340

Aggregate market value of the voting common stock held by non-affiliates of the registrant as of December 31, 2010, was \$3,083,421

Number of shares of the registrant's common stock outstanding as of April 13, 2010 was:

| | Number of Shares |
|-----------------|------------------|
| Common Stock | 21,674,033 |
| Preferred Stock | 1,401,786 |

Transitional Small Business Disclosure Format: Yes No

Data Storage Corporation
Table of Contents

| | |
|--|-------|
| PART I | 2 |
| ITEM 1. DESCRIPTION OF BUSINESS | 2 |
| Corporate History | 2 |
| Overview of Data Storage Corporation & Industry | 2 |
| Description of Data Storage Corporation's Business | 3 |
| Data Storage Corporation's Services and Solutions | 4 |
| Professional Services | 7 |
| Competition | 8 |
| Principal Competitors by Service Sector | 8 |
| ITEM 1A. RISK FACTORS | 8 |
| ITEM 1B. UNRESOLVED STAFF COMMENTS | 8 |
| ITEM 2. DESCRIPTION OF PROPERTY | 9 |
| ITEM 3. LEGAL PROCEEDINGS | 9 |
| ITEM 4. (REMOVED AND RESERVED) | 9 |
| PART II | 9 |
| ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS | 9 |
| No Public Market for Common Stock | 9 |
| Holder of Our Common Stock | 9 |
| Stock Option Grants | 9 |
| Registration Rights | 9 |
| ITEM 6. SELECTED FINANCIAL DATA | 9 |
| ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS | 9 |
| Company Overview | 9 |
| Results of Operation | 10 |
| Critical Accounting Policies | 11 |
| Off Balance Sheet Transactions | 11 |
| ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK. | 11 |
| ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA. | 11-30 |
| ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE | 31 |
| ITEM 9A. CONTROLS AND PROCEDURES | 31 |
| PART III | 30 |
| ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS: COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT | 32 |
| ITEM 11. EXECUTIVE COMPENSATION | 38 |
| Summary Compensation Table | 38 |
| ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT | 39 |
| ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTION, AND DIRECTOR INDEPENDENCE | 39 |
| ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES | 39 |
| PART IV | 38 |
| ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES. | 41 |

SIGNATURES

42

1

PART I

ITEM 1. DESCRIPTION OF BUSINESS

Overview

CORPORATE HISTORY

Data Storage Corporation, a leader in Hybrid Cloud solutions and services is the result of several transactions: a share exchange with Euro Trend Inc. Incorporated on March 27, 2007 under the laws of the State of Nevada; Ownership of DSC incorporated in 2001; and an Asset Acquisition of SafeData in 2010. On October 20, 2008 we completed a Share Exchange Agreement whereby we acquired all of the outstanding capital stock and ownership interests of Data Storage Corporation. In exchange we issued 13,357,143 shares of our common stock to the Data Storage Corporation's Shareholders, a Cloud Storage and SaaS organization, providing services for Disaster Recovery. This transaction was accounted for as a reverse merger for accounting purposes. Accordingly, Data Storage Corporation, 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, namely, AS400 and iSeries 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.

The result of which positions Data Storage Corporation as a leader in Cloud Storage and Computing specializing in this underserved niche with over a 330% increase in revenue and a 38% increase in Gross Profit from 2009 to 2010.

OVERVIEW OF DATA STORAGE CORPORATION & INDUSTRY: The Hybrid Cloud

Data Storage Corporation (DSC) is a provider of Hybrid Cloud solutions on a subscription basis in the USA and Canada focusing on data protection and business continuity that assist organizations in protecting their data, minimize downtime, ensure regulatory compliance and recover and restore data within their objectives. Through our four data centers and by leveraging leading technologies, DSC delivers and supports a broad range of premium solutions for both Windows and IBM environments that assist clients in saving time and money, gain more control of and better access to data and enable the highest level of security for that data. The company's solutions include: offsite data protection and recovery services, High Availability (HA) replication services, email compliance solutions for e-discovery, continuous data protection, data de-duplication, virtualized system recovery and telecom recovery services. Headquartered in Garden City, N.Y., we offer solutions and services to healthcare, banking and finance, distribution services, manufacturing, construction, education, and government industries by leveraging leading technologies, such as virtualization, cloud computing and cloud storage.

Our Continuing Strategy set forth in 2009:

Data Storage Corporation derives revenues from Professional Services and Subscription Services that provide businesses, education, government and healthcare protection of critical electronic 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. We have expanded our solutions based on the expertise of the SafeData acquisition which is a leader in supporting disaster recovery and business continuity solutions to the IBM mid-range user group. We provide excellent value to this underserved market assisting clients in meeting their expectations. We have equipment for cloud storage and cloud computing in our centers in MA, RI, NY, and FL. We deliver our services 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.

Data Storage Corporation is in the position today to leverage our infrastructure, data center and equipment capacity and leadership team to grow revenue to significant levels by acquisitions of synergetic data protection and cloud storage businesses that provide data vaulting and cloud recovery services, disaster recovery and business continuity solutions, store data for future access for e-discovery and infrastructure as a service (IaaS). DSC believes opportunities exist to acquire synergistic service providers to enhance our products and services portfolio, 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 a significant opportunity exists to acquire synergistic services providers. In some form or another over 4,000 service providers exist today, providing DSC with ample acquisition targets. Initial acquisitions will be derived from companies that offer similar services to Data Storage as greater economies of scale can be realized using this strategy thereby improving net income

Our Acquisition Strategy:

We believe that the opportunity exists today to acquire and roll-up customer bases of cloud storage companies in this fractionized industry. This strategy will enable Data Storage Corporation to create a national presence as the premiere brand. The roll up of these technical consulting companies and system integrators will also form a powerful distribution channel for both our current and future service offerings.

The marketplace exists today for companies that provide professional services that specializing in Disaster Recovery and Business Continuity. These companies are segmented into systems integrators that have added data protection services as an additional product line adding to their bundle of services and products, focused on smaller clients, less than 1,500 employees which are 85% of all businesses in the USA. A few very large professional services providers such as IBM and SunGard focus on the enterprise level organizations greater than 1,500 employees, therefore leaving small and medium size organizations under-served for top level professional services for Disaster Recovery solutions under DSC's professional services umbrella utilizing a Cloud strategy.

DESCRIPTION OF SERVICES AND SOLUTIONS:

Data Storage Corporation (DSC) delivers and supports a broad range of premium cloud-based solutions focusing on data protection and recovery services utilizing High Availability with Hosted Replication, Data Storage, Data Backup and Data Recovery.

OVERVIEW:

Data Storage Corporation (DSC) is a provider of Hybrid Cloud solutions on a subscription basis and professional services in the USA and Canada focusing on data protection and business continuity that assist organizations in protecting their data, minimize downtime, ensure regulatory compliance and, recover and restore data within their recovery objectives. Through our four data centers and by leveraging leading technologies, DSC delivers and supports a broad range of premium solutions for both Windows and IBM environments that assist clients save time and money, gain more control of and better access to data and enable the highest level of security for that data. The company's solutions include: offsite data protection and recovery services, High Availability (HA) replication services, email compliance solutions for e-discovery, continuous data protection, data de-duplication, virtualized system recovery and telecom recovery services. We offer solutions and services to healthcare, banking and finance, distribution services, manufacturing, construction, education and government by leveraging leading technologies, such as systems virtualization, cloud computing and cloud storage, professional and managed services.

SERVICES AND SOLUTIONS:

Data Storage Corporation has become a leader in High Availability and Virtual Disaster Recovery of the IBM Mid RangePower Systems (AS400 / iSeries). Our overall core competencies within the cloud are the following: Data Vaulting, Virtual Disaster Recovery and High Availability using Cloud Storage, Recovery and Computing Subscription Solutions.

Hosted Replication Delivers Access to Data Within Minutes

When businesses think about protecting mission-critical systems, they may think they cannot afford to implement a high availability solution. However, when they consider the importance of keeping their data available, the question becomes, Can they afford not to?

With our cloud-based high availability services (SafeData HA), businesses finally have cost-effective access to best-in-class replication technologies for organizations of all sizes, operating in IBM iSeries/AS400, MS Windows, UNIX, Linux and AIX environments.

For a monthly subscription fee and long term contract, Data Storage creates and maintains a mirror of client's mission-critical systems and data. We assist to ensure that a business is "switch ready." So whether they experience a power outage, face a natural disaster, or simply fall victim to human error, the business will not miss a beat.

SafeData High Availability (SafeData HA)

For those companies that have recovery time objectives of 15 minutes or less, DSC's SafeData HA meets the high availability demands of their businesses. Combining best-of-breed technologies from the industry's leading developers, SafeData HA is the company's subscription-based high availability offering. For a monthly subscription fee, DSC creates and maintains a mirror of its clients' mission-critical systems and data at a secure off-site data center ensuring their business is "switch ready". During either planned or unplanned downtime, SafeData HA provides a switchable "mirror" of a company's data and applications guaranteeing availability in 15 minutes or less.

SafeData HA is available for the IBM System i, UNIX, AIX and Windows operating systems. Products on each platform share the same architecture, but use a different middleware product designed and priced for the platform's specific operating system. SafeData HA provides real-time system replication using standard Internet protocol. It is replicated to a server in DSC's data centers.

In the event of an outage, the DSC system becomes the production system. When the client's production system is again operational, the DSC server updates the client's system with any new data. When downtime is planned, the customer can switch to the DSC server and run its production applications.

Benefits of DSC's SafeData HA include:

- Data and application availability in 15 minutes or less
- Cost-effective
- Easy to implement and manage
- Reliable backup and recovery

SafeData Recovery (SafeData DR)

Organizations may not require real-time recovery. For those with recovery time objectives of 10 hours or less running in an IBM System i environment, DSC's SafeData DR subscription-based service is a viable option requiring no initial capital expenditure. Leveraging electronic vaulting technology, SafeData DR is an online backup and recovery service that gives organizations remote access to mirrored data and a full functioning recovery system within hours of a disruption.

SafeData DR instantly transfers data off-site to one of DSC's secure data centers. All data is encrypted prior to transmission and remains encrypted "in-flight" and "at rest" to ensure protection and to meet today's compliance standards.

Benefits of DSC's SafeData DR for IBM System I (iSeries, AS400):

- Fast recovery times (in hours, not days)
- No tapes to get lost or damaged
- Virtual recovery that fully protects your iSeries investment
- Eliminate data recovery burden on IT resources

SafeData Virtual Recovery for Windows (SafeData VDR)

Data Storage Corporation's SafeData VDR solution provides the same recovery benefits as SafeData DR for the IBM System i platform, but for MS Windows environments.

In the event of a disruption or disaster, clients have remote connectivity to a fully functioning Windows system (virtual machine) complete with their backed up data and applications.

Benefits of DSC's SafeData VDR for Windows Recovery:

- Fast recovery times (in hours, not days)
- No tapes to get lost or damaged
- Virtual recovery that fully protects your Windows investment
- Eliminate data recovery burden on IT resources

SafeData Vault for Backup, Recovery & Archiving (offsite, remote, and local-only)

Data Storage Corporation offers a fully automated service designed to reduce the overall costs associated with backup and recovery of application and file servers that enables organizations to centralize and streamline their data protection

process. Business-critical data can be backed up any time, while servers are up and running.

The essence of data backup is simply the scheduled movement of “point-in-time” snapshots of data across a network to a remote location. DSC’s disk-to-disk backup and recovery solution is reliable and easy-to-use. As part of this service, DSC offers Continuous Data Protection (CDP), delta block processing, data de-duplication and large volume protection.

DSC’s SafeData Vault has significant advantages over traditional backup software:

- Immediate off-site backup
- Reduced backup windows
- Elimination of tape management issues
- Minimized costs associated with distributed backups
- Elimination of human intervention
- Encryption of all backed up data
- Optimized bandwidth

Features and Benefits:

- Simple to grow – Simple to manage
- Reduces operational overhead while freeing up staff to focus on higher priority tasks.
- Agent-less – No agents to install on any machine (Some limitations apply to MS Exchange, GroupWise, Lotus Notes and MS SharePoint).
- De-duplication and compression technology provides cost reduction for stored data.
- Backed up data can be archived for long term storage.
- Local Restore option from an on premise server (restore at LAN speeds), while backing up online
- Always secure with 256-bit AES encryption.
- Centralized management interface, email or SNMP alerts, extensive logging and reporting for audits and verification.
- Tape-less – Disk to Disk – No more manual handling of tapes.
- Minimize backup windows leveraging “incremental forever” technology
- Continuous Data Protection for email and data files.
- Customizable retention policies and software parameters.

Benefits and Features of DSC solutions:

Data Archiving – Lifecycle Management

Backup data must be managed throughout its life cycle to provide the best data protection, meet compliance regulations and to improve recovery time objectives (RTO). The Archive offers policy-based file archiving and manages archiving and restoration of data from backup sessions, reducing the cost of inactive files on-line. It creates restorable point-in-time copies of backup sets for historical reference to meet compliance objectives and creates Certificates of Destruction. All of an enterprise's data can be placed into one of two categories. Critical information is that which is needed for day-to-day operations and resides in the system's primary storage for fast access. Important information is the historical, legal and regulatory information that can safely be archived to secondary storage, lower cost disk or tapes stored offsite

Continuous Data Protection (CDP)

What if a database is corrupted in the middle of the workday? As data continually mounts in today's fast paced business environment, organizations need to protect their systems on an ongoing basis, or risk losing mission-critical data, information, and transactions, as well as associated business revenue. CDP solutions employ sophisticated I/O, CPU, and network throttling to achieve efficiency and reliability. Moreover, to protect against connectivity failures and interruptions, CDP features an auto resume mechanism that sustains replication and adapts according to the environment to achieve optimal and predictable performance.

Our technology will identify and propagate only that sector of data to the DR site, effectively reducing bandwidth and storage consumption. CDP also employs data compression and encryption to maximize network bandwidth utilization and ensure end-to-end security between the primary and DR site.

Microsoft Exchange

Ensure business-critical e-mail data is protected against application or hardware-based corruption or loss, user error, or a natural disaster with our solution. Designed with ease of use in mind, our solution provides Exchange Server 2000/2003/2007 complete protection down to the individual mailbox or even an individual mail message

Off-Site Backup Services

We provide online backup services that transfer your information over the Internet or on a dedicated private circuit to our secure company owned off-site storage location. Our online backup service provides the most advanced data protection solution for small and medium businesses. Our service turns an ordinary server into a powerful and fully

automated network backup device.

PROFESSIONAL SERVICES

OVERVIEW:

Data Storage Corporation's Professional Service offers a proven, comprehensive selection of professional services designed to assist in fully leveraging the value of the client investment in Information Systems Performance Management.

OUR STRATEGY:

Professional Services include the three most critical areas of service -deployment, performance and best practices. Specific services are available for end to end IT and infrastructure assessments to design build engagements. Our services, can be easily customized to fit IT and business requirements. Our consultants are experts in many technology disciplines and will provide a wealth of knowledge, tools, skills and expertise.

SERVICES:

Data Storage Corporation's Professional Services for planning, design, deployment, performance and best practices can help speed time to value and increase ROJ for the DSC investment:

Staffing

Gap Analysis

Systems Integration and Design

Technology Assessments

Managed Services

Technology Deployment

Network, Systems and broadband engineering consulting

Server farm virtualization analysis, design and implementation

BENEFITS TO OUR CLIENTS:

Develop a robust road map via DSC's audit services to increase efficiencies and develop pragmatic action plans to meet any business goal.

Accelerate deployment through proven procedures and deep technology expertise.

Maximize performance with proactive audit and analysis, backed by fast problem response.

Leverage best practices that include DSC's proprietary processes and intellectual capital gathered from numerous successful engagements.

Speed time to value with DSC's tools, procedures and assistance.

Minimize risk by adopting a proactive service management approach.

COMPETITION

High Availability and Virtual Disaster Recovery Services:

The following vendors are competition to DSC within this service offering: HP Services, IBM Business Continuity and Recovery Services, and SunGard. Recently these companies have expanded into data vaulting to target the smaller client base opportunity.

Data Vaulting:

- a) Information Management and Protection Vendors: Vendors include EMC, i365, Symantec and CommVault.
 - b) Specialized Vendors: Venyu, which focuses on SMBs in the US.
- c) Technology Providers / Service providers. OEM-focused vendors may or may not be service providers, but they have access to a large business based on licensing their technology to other vendors. This includes vendors such as CommVault and i365. Symantec acquired online backup provider SwapDrive. i365, A Seagate Company, acquired EVault in January 2007, renaming it i365. Connected Backup has an established enterprise customer base. IBM Global Technology Services acquired Arsenal Digital Solutions in 2007, adding a range of Online backup services

to its portfolio and rebranding it IBM Information Protection Services to Managed Data Vault. Venyu offers two online backup and recovery services: AmeriVault-AV and AmeriVault-EV. Its services protect PCs and servers, and while it focuses mostly on SMBs, it can also support Enterprises.

ITEM 1A. RISK FACTORS

Not Applicable

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not Applicable.

ITEM 2. DESCRIPTION OF PROPERTY

Our principal office is located at 401 Franklin Avenue, Garden City, NY 11530. Our telephone number is (212) 564-4922.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. (REMOVED AND RESERVED)

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

LIMITED PUBLIC MARKET FOR COMMON STOCK

A symbol was assigned for our securities so that our securities may be quoted for trading on the OTCBB under symbol DTST. Minimal trading occurred through the date of this Report. There can be no assurance that a liquid market for our securities will ever develop. Transfer of our common stock may also be restricted under the securities or blue sky laws of various states and foreign jurisdictions. Consequently, investors may not be able to liquidate their investments and should be prepared to hold the common stock for an indefinite period of time. The company has conducted private stockholder sales to qualified investors for \$2.2 million dollars over the last two years.

| Year ended | Low Price | High Price |
|-------------------|-----------|------------|
| December 31, 2010 | \$ 0.01 | \$ 0.25 |

HOLDERS OF OUR COMMON STOCK

As March 17, 2011, we had 35 record holders of our Common Stock.

STOCK OPTION GRANTS

During the year ended December 31, 2010 the company issued 1,013,668 Common Stock Options and 3,014,438 in Common Stock Warrants with the Convertible Debt.

REGISTRATION RIGHTS

We have not granted registration rights to the selling shareholders or to any other persons.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

COMPANY OVERVIEW

Data Storage Corporation (DSC) is a provider of Hybrid Cloud solutions on a subscription basis in the USA and Canada and Professional Services focusing on data protection and business continuity that assist organizations in protecting their data, minimize downtime, ensure regulatory compliance and recover and restore data within their objectives. Through our four data centers and by leveraging leading technologies, DSC delivers and supports a broad range of premium solutions for both Windows and IBM environments that assist clients save time and money, gain more control of and better access to data and enable the highest level of security for that data.

Headquartered in Garden City, N.Y., we offer solutions and services to healthcare, banking and finance, distribution services, manufacturing, construction, education, and government industries by leveraging leading technologies, such as virtualization, cloud computing and cloud storage.

Data Storage Corporation derives its revenues from the sale and subscription of services and solutions that provide businesses protection of critical electronic data. The company's solutions include: offsite data protection and recovery services, High Availability (HA) replication services, email compliance solutions for e-discovery, continuous data protection, data de-duplication, virtualized system recovery and telecom recovery services. The Company has equipment in four Technical Centers: Westbury, New York; Fort Lauderdale, Florida; Boston, MA and Warwick, RI.

We service customers from our New York and Rhode Island premises which consist of modern offices and a technology suite adapted to meet the needs of a technology based business. Our mission is to provide a high level of service to organizations that need to ensure their data is intact and available upon demand.

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

RESULTS OF OPERATION

Year ended December 31, 2010 as compared to December 31, 2009

Net Sales. Net sales for the year ended December 31, 2010 were \$2,514,340, an increase of \$1,929,055, or 329.6%, compared to \$585,285 for the year ended December 31, 2009. The increase in sales is primarily attributable to our increased capacity in data backup and managed services with the acquisition of SafeData.

Cost of Sales. For the year ended December 31, 2010, cost of sales was \$1,583,459, an increase of \$1,123,656 from \$459,803 for the year ended December 31, 2009. The increase in cost of sales is directly attributable to the increase in sales and related costs over the prior period. The Company's gross margin increased to 37.0 % for the year ended December 31, 2010 as compared to 21.4% for the year ended December 31, 2009. In connection with the acquisition, the Company was able to offer a broader spectrum of data backup and managed services at higher margins which increased overall margins over last year.

Operating Expenses. For the year ended December 31, 2010 operating expenses were \$2,295,753, an increase of \$1,124,850 as compared to \$1,170,903 for the year ended December 31, 2009. The majority of the increase in operating expenses for the year ended December 31, 2010 is a result of increased professional fees, amortization and commission expense in connection with the acquisition of SafeData. Professional fees increased \$311,144 to \$527,294 as compared to \$216,150 for the year ended December 31, 2009. Amortization expense increased \$116,646 to \$125,911 as compared to \$11,088 for the year ended December 31, 2009. Commission expense increased \$78,675 to \$120,161 as compared to \$41,486 for the year ended December 31, 2009.

Interest Expense. Interest expense for the year ended December 31, 2010 increased \$302,995 to \$307,981 from \$4,986 for the year ended December 31, 2009. For the year ended December 31, 2010, interest expense was primarily related to the issuance of convertible debt and the related interest and amortization of debt discount. For the year ended December 31, 2009, interest expense was related to a \$100,000 line of credit which was opened January 31, 2008.

Impairment of intangible asset. For the year ended December 31, 2010, the company determined that the intangible asset related to the NovaStor customer list was permanently impaired and wrote off the unamortized balance of \$126,130.

Net Loss. Net loss for the year ended December 31, 2010 was (\$1,798,981) an increase of \$748,766 as compared to net loss of (\$1,050,215) for the year ended December 31, 2009.

Liquidity and Capital Resources

The financial statements have been prepared using accounting principles generally accepted in the United States of America applicable for a going concern, which assumes that the Company will realize its assets and discharge its liabilities in the ordinary course of business. The Company has been funded by the CEO and largest shareholder combined with private placements of the company 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. In 2011 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 year ended December 31, 2010 the company's cash increased \$22,235 to \$50,395 from \$28,160 at December 31, 2009. Net cash of \$22,548 was used in the Company's operating activities and cash of \$1,266,200 was used in investing activities, primarily for the acquisition of the net assets of SafeData, LLC. Net cash of \$1,310,983 was provided by the company's financing activities, \$1,300,000 of the financing was from the issuance of convertible debt and stock, offset by \$224,260 in payment of capital lease obligations.

The Company's working capital was (\$2,543,851) at December 31, 2010, decreasing \$2,374,130 from (\$169,721) at December 31, 2009. The decrease is primarily due to accounts payable, leases payable, loan payable and deferred revenue recorded in connection with the acquisition of the net assets of SafeData.

CRITICAL ACCOUNTING POLICIES

Our financial statements and related public financial information are based on the application of accounting principles generally accepted in the United States (“GAAP”). GAAP requires the use of estimates; assumptions, judgments and subjective interpretations of accounting principles that have an impact on the assets, liabilities, revenue, and expense amounts reported. These estimates can also affect supplemental information contained in our external disclosures including information regarding contingencies, risk and financial condition. We believe our use of estimates and underlying accounting assumptions adhere to GAAP and are consistently and conservatively applied. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ materially from these estimates under different assumptions or conditions. We continue to monitor significant estimates made during the preparation of our financial statements.

Our significant accounting policies are summarized in Note 1 of our financial statements. While all these significant accounting policies impact our financial condition and results of operations, we view certain of these policies as critical. Policies determined to be critical are those policies that have the most significant impact on our financial statements and require management to use a greater degree of judgment and estimates. Actual results may differ from those estimates. Our management believes that given current facts and circumstances, it is unlikely that applying any other reasonable judgments or estimate methodologies would cause effect on our consolidated results of operations, financial position or liquidity for the periods presented in this report.

Recently Issued and Newly Adopted 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”) and ASU 2009-14, Certain Arrangements That Include Software Elements , (amendments to FASB ASC Topic 985, Software) (“ASU 2009-14”). 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 2009-14 removes tangible products from the scope of software revenue guidance and provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are covered by the scope of the software revenue guidance. ASU 2009-13 and ASU 2009-14 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 or ASU 2009-14 to have a material impact on the Company’s results of operations or financial condition.

OFF BALANCE SHEET TRANSACTIONS

We have no off-balance sheet arrangements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We do not hold any derivative instruments and do not engage in any hedging activities.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

| Index to the Financial Statements | Page |
|---|------|
| Report of Independent Registered Public Accounting Firm | 12 |
| Consolidated Balance Sheets | 13 |

Edgar Filing: Data Storage Corp - Form 10-K

| | |
|---|-------|
| Consolidated Statements of Operations | 14 |
| Consolidated Statements of Cash Flows | 15 |
| Consolidated Statements of Stockholders' Equity | 16 |
| Notes to Consolidated Financial Statements | 17-29 |

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Data Storage Corporation

We have audited the accompanying balance sheets of Data Storage Corporation as of December 31, 2010 and 2009, and the related statements of income, stockholders' equity and cash flows for each of the years then ended. Data Storage Corporation's management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Data Storage Corporation as of December 31, 2010 and 2009, and the results of its operations and its cash flows for each of the years in then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ Rosenberg Rich Baker Berman & Company

Somerset, New Jersey
April 15, 2011

DATA STORAGE CORPORATION AND SUBSIDIARY

| BALANCE SHEETS | December 31, | |
|---|------------------|----------------|
| | 2010 | 2009 |
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 50,395 | \$ 28,160 |
| Accounts receivable (less allowance for doubtful accounts of \$17,000 in 2010 and \$26,472 in 2009) | 387,697 | 30,378 |
| Deferred compensation | 17,562 | 101,160 |
| Prepaid expense | 63,215 | 21,103 |
| Total Current Assets | 518,869 | 180,801 |
| Property and Equipment: | | |
| Property and equipment | 2,031,771 | 1,221,706 |
| Less—Accumulated depreciation | (1,200,448) | (913,383) |
| Net Property and Equipment | 831,323 | 308,323 |
| Other Assets: | | |
| Goodwill | 2,201,828 | - |
| Deferred compensation | 44,176 | 28,628 |
| Other assets | 18,652 | 11,760 |
| Intangible Assets, net | 1,169,404 | 135,931 |
| Employee loan | 23,000 | 23,000 |
| Total Other Assets | 3,457,060 | 199,319 |
| Total Assets | 4,807,252 | 688,443 |
| LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | | |
| Current Liabilities: | | |
| Accounts payable and accrued expenses | 1,070,036 | 82,698 |
| Credit line payable | 99,970 | 99,970 |
| Due to related party | 52,718 | 34,718 |
| Dividend payable | 125,000 | 75,000 |
| Deferred revenue | 461,724 | 36,869 |
| Leases payable | 325,934 | - |
| Loans payable | 122,251 | - |
| Contingent consideration in SafeData acquisition | 805,087 | - |
| Total Current Liabilities | 3,062,720 | 350,522 |
| Deferred rental obligation | 26,064 | 28,642 |
| Due to officer | 614,628 | 379,025 |
| Loan payable long term | 151,491 | - |
| Leases payable long term | 115,533 | - |
| Convertible debt | 18,928 | - |
| Convertible debt – related parties | 227,138 | - |
| Total Long Term Liabilities | 1,153,782 | 407,667 |
| Total Liabilities | 4,216,502 | 758,189 |
| Commitments and contingencies | - | - |

| | | | |
|--|---------------------|-----------|----------------|
| Stockholders' Equity (Deficit): | | | |
| Preferred Stock, \$.001 par value; 10,000,000 shares authorized; 1,401,786 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 | 17,861 | | 13,670 |
| Additional paid in capital | 7,313,844 | | 4,808,558 |
| Accumulated deficit | (6,742,357) | | (4,893,376) |
| Total Stockholders' Equity (Deficit) | 590,750 | | (69,746) |
| Total Liabilities and Stockholders' Equity (Deficit) | \$ 4,807,252 | \$ | 688,443 |

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

DATA STORAGE CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS

| | Year Ended December 31, | |
|---|-------------------------|----------------|
| | 2010 | 2009 |
| Sales | \$ 2,514,340 | \$ 585,285 |
| Cost of sales | 1,583,459 | 459,803 |
| Gross Profit | 930,881 | 125,482 |
| Selling, general and administrative | 2,295,753 | 1,170,903 |
| Loss from Operations | (1,364,872) | (1,045,421) |
| Other Income (Expense) | | |
| Impairment of intangible asset | (126,130) | - |
| Interest income | 2 | 192 |
| Interest expense | (307,981) | (4,986) |
| Total Other (Expense) | (434,109) | (4,794) |
| Loss before provision for income taxes | (1,798,981) | (1,050,215) |
| Provision for income taxes | - | - |
| Net Loss | (1,798,981) | (1,050,215) |
| Preferred Stock Dividend | (50,000) | (50,000) |
| Net Loss Available to Common Stockholders | \$ (1,848,981) | \$ (1,100,215) |
| Loss per Share – Basic and Diluted | \$ (0.12) | \$ (0.08) |
| Weighted Average Number of Shares - Basic and Diluted | 15,538,129 | 12,944,647 |

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

DATA STORAGE CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year Ended December 31, | |
|--|-------------------------|------------------|
| | 2010 | 2009 |
| Cash Flows from Operating Activities: | | |
| Net loss | \$ (1,798,981) | \$ (1,050,215) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 412,976 | 131,361 |
| Allowance for doubtful accounts | (9,742) | (18,058) |
| Stock based compensation | 439,420 | 51,902 |
| Amortization of debt discount | 166,121 | - |
| Deferred compensation | 68,050 | - |
| Impairment of intangible asset | 126,130 | - |
| Changes in Assets and Liabilities: | | |
| Accounts receivable | (91,101) | 41,047 |
| Prepaid expenses | (6,229) | (21,103) |
| Other assets | 3,608 | 1,708 |
| Accounts payable & accrued expenses | 768,825 | 21,865 |
| Deferred revenue | (117,048) | 24,079 |
| Deferred rent | (2,577) | 28,642 |
| Due to related party | 18,000 | 16,718 |
| Net Cash Used in Operating Activities | (22,548) | (772,054) |
| Cash Flows from Investing Activities: | | |
| Cash paid for equipment | (36,246) | (105,722) |
| Cash paid for customer list | - | (30,000) |
| Cash paid for acquisition of SafeData, LLC net assets | (1,229,954) | - |
| Net Cash Used in Investing Activities | (1,266,200) | (135,722) |
| Cash Flows from Financing Activities: | | |
| Issuance of convertible debt | 1,000,000 | - |
| Advances from officer | 235,603 | 371,775 |
| Repayments of capital lease obligations | (224,620) | - |
| Options exercised | - | 100 |
| Proceeds from the issuance of common stock | 300,000 | 275,000 |
| Net Cash Provided by Financing Activities | 1,310,983 | 646,875 |
| Increase in Cash and Cash Equivalents | 22,235 | (260,901) |
| Cash and Cash Equivalents, Beginning of Year | 28,160 | 289,061 |
| Cash and Cash Equivalents, End of Year | \$ 50,395 | \$ 28,160 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid for interest | \$ 24,906 | \$ 4,986 |

| | | | | |
|---|----|---------|----|--------|
| Cash paid for income taxes | \$ | - | \$ | - |
| Noncash Investing and Financing Activities: | | | | |
| Accrual of Preferred Stock Dividend | \$ | 50,000 | \$ | 50,000 |
| Issuance of capital stock in connection with acquisition of SafeData, LLC | \$ | 850,000 | \$ | - |
| Warrants issued with convertible debt | \$ | 920,056 | \$ | - |

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

DATA STORAGE CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

| Description | Preferred Stock | | Common Stock | | Additional Paid in Capital | Accumulated Deficit | Total |
|--|-----------------|---------|--------------|---------|----------------------------------|------------------------|--------------|
| | Shares | Amount | Shares | Amount | | | |
| Balance December 1, 2008 | 1,401,786 | \$1,402 | 12,473,214 | \$12,73 | \$4,352,966 | \$(3,796,161) | \$573,680 |
| Common Stock issued in private placement | - | - | 82,185 | 842 | 274,158 | - | 275,000 |
| Stock based compensation | - | - | 350,000 | 350 | 181,339 | - | 181,689 |
| Stock options exercised | - | - | 5,000 | 5 | 95 | - | 100 |
| Net loss | - | - | - | - | - | (1,050,215) | (1,050,215) |
| Preferred stock dividend | - | - | - | - | - | (50,000) | (50,000) |
| Balance December 31, 2009 | 1,401,786 | 1,402 | 13,670,399 | 13,670 | 4,808,558 | (4,893,376) | (69,746) |
| Common stock issued in private placement | - | - | 600,000 | 600 | 299,400 | - | 300,000 |
| Common stock issued in SafeData acquisition | - | - | 2,428,572 | 2,429 | 847,571 | - | 850,000 |
| Stock Compensation | - | - | 1,062,857 | 1,063 | 370,937 | - | 372,000 |
| Stock based compensation | - | - | - | - | 67,421 | - | 67,421 |
| | - | - | - | - | 920,056 | - | 920,056 |

Warrants
issued with
convertible
debt

Stock Options
exercised

- - 98,505 99 (99) - -

Net loss

(1,798,981) (1,798,981)

Preferred stock
dividend

- - - - - (50,000) (50,000)

Balance
December 31,
2010

1,401,786 \$1,402 17,860,331 \$17,861 7,313,844 (6,742,357) 590,750

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

DATA STORAGE CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2010 AND 2009

Note 1 – Description of business, organization and other matters

Description of Business

Data Storage Corporation, (the “Company”) who provides Hybrid Cloud solutions and services is the result of several transactions: a share exchange with Euro Trend Inc. Incorporated on March 27, 2007 under the laws of the State of Nevada; Ownership of DSC incorporated in 2001; and an Asset Acquisition of SafeData in 2010. On October 20, 2008 we completed a Share Exchange Agreement whereby we acquired all of the outstanding capital stock and ownership interests of Data Storage Corporation. In exchange we issued 13,357,143 shares of our common stock to the Data Storage Corporation’s Shareholders, a Cloud Storage and SaaS organization, providing services for Disaster Recovery. This transaction was accounted for as a reverse merger for accounting purposes. Accordingly, Data Storage Corporation, 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, namely, AS400 and iSeries 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. See also Note 11.

Data Storage Corporation was incorporated in Delaware on August 29, 2001. Data Storage Corporation is a provider of data backup services. The Company specializes in secure disk-to-disk data backup and restoration solutions for disaster recovery, business continuity, and regulatory compliance.

Data Storage Corporation (DSC) is a provider of Hybrid Cloud solutions on a subscription basis in the USA and Canada and Professional Services focusing on data protection and business continuity that assist organizations in protecting their data, minimize downtime, ensure regulatory compliance and recover and restore data within their objectives. Through our four data centers and by leveraging leading technologies, DSC delivers and supports a broad range of premium solutions for both Windows and IBM environments that assist clients save time and money, gain more control of and better access to data and enable the highest level of security for that data.

Data Storage Corporation derives its revenues from the sale and subscription of services and solutions that provide businesses protection of critical electronic data. The company’s solutions include: offsite data protection and recovery services, High Availability (HA) replication services, email compliance solutions for e-discovery, continuous data protection, data de-duplication, virtualized system recovery and telecom recovery services. The Company has equipment in four Technical Centers: Westbury, New York; Fort Lauderdale, Florida; Boston, MA and Warwick, RI.

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 year ended December 31, 2010, the Company has generated revenues of \$2,514,340 but has incurred a net loss of \$1,798,981. 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 largest shareholder since inception as well as several Directors. It is the intention of Charles Piluso to continue 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 that was determined by using the most recent private placement price on the day the stock was awarded multiplied by the number of shares awarded.

Recently Issued and Newly Adopted 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”) and ASU 2009-14, Certain Arrangements That Include Software Elements, (amendments to FASB ASC Topic 985, Software) (“ASU 2009-14”). 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 2009-14 removes tangible products from the scope of software revenue guidance and provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are covered by the scope of the software revenue guidance. ASU 2009-13 and ASU 2009-14 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 or ASU 2009-14 to have a material impact on the Company’s results of operations or financial condition.

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.

Cash, cash equivalents and short-term investments

The Company considers all highly liquid investments with an original maturity or remaining maturity at the time of purchase, of three months or less to be cash equivalents.

Concentration of credit risk and other risks and uncertainties

Financial instruments and assets subjecting the Company to concentration of credit risk consist primarily of cash and cash equivalents, short-term investments and trade accounts receivable. The Company's cash and cash equivalents are maintained at major U.S. financial institutions. Deposits in these institutions may exceed the amount of insurance provided on such deposits.

The Company's customers are primarily concentrated in the United States.

The Company provides credit in the normal course of business. The Company performs ongoing credit evaluations of its customers and maintains allowances for doubtful accounts on factors surrounding the credit risk of specific customers, historical trends, and other information.

For the year ended December 31, 2010, the company had one customer that represented approximately 11% of sales; for the year end December 31, 2009 the company had two customers that represented 21% of sales.

Accounts Receivable/Allowance for Doubtful Accounts

The Company sells its services to customers on an open credit basis. Accounts receivable are uncollateralized, non-interest-bearing customer obligations. Accounts receivables are due within 30 days. The allowance for doubtful accounts reflects the estimated accounts receivable that will not be collected due to credit losses and allowances. Provisions for estimated uncollectible accounts receivable are made for individual accounts based upon specific facts and circumstances including criteria such as their age, amount, and customer standing. Provisions are also made for other accounts receivable not specifically reviewed based upon historical experience. Clients are invoiced in advance for services as reflected in deferred revenue on the company's balance sheet.

Property and Equipment

Property and equipment is recorded at cost and depreciated over their estimated useful lives or the term of the lease using the straight-line method for financial statement purposes. Estimated useful lives in years for depreciation are 5 to 7 years for property and equipment. Additions, betterments and replacements are capitalized, while expenditures for repairs and maintenance are charged to operations when incurred. As units of property are sold or retired, the related cost and accumulated depreciation are removed from the accounts, and any resulting gain or loss is recognized in income.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. At December 31, 2010, the Company had a full valuation allowance against its deferred tax assets.

Estimated Fair Value of Financial Instruments

The Company's financial instruments include cash, accounts receivable and accounts payable, line of credit and due to related parties. Management believes the estimated fair value of these accounts at December 31, 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.

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.

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.

Advertising Costs

The Company expenses the costs associated with advertising as they are incurred. The Company incurred \$70,211 and \$30,399 for advertising costs for the years ended December 31, 2010 and 2009, respectively.

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 December 31, 2010 include 3,225,865 warrants and 3,670,169 options.

Note 3 - Property and Equipment

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

| | December 31, | |
|--------------------------------|--------------|------------|
| | 2010 | 2009 |
| Storage equipment | \$ 1,613,259 | \$ 838,912 |
| Website and software | 169,833 | 166,933 |
| Furniture and fixtures | 22,837 | 22,837 |
| Computer hardware and software | 84,592 | 81,794 |
| Data Center | 141,250 | 111,230 |
| | 2,031,771 | 1,221,706 |
| Less: Accumulated depreciation | 1,200,448 | 913,383 |
| Net property and equipment | \$ 831,323 | \$ 308,323 |

Depreciation expense for the years ended December 31, 2010 and 2009 was \$287,065 and \$131,361, respectively.

Note 4- Goodwill and Intangible Assets

Goodwill and Intangible assets consisted of the following:

| | Estimated life in years | December 31, 2010 | |
|---|-------------------------------|--------------------|-----------------------------|
| | | Gross amount | Accumulated Amortization |
| Goodwill | Indefinite | \$2,201,828 | - |
| Intangible assets not subject to amortization | | | |
| Trademarks | Indefinite | 279,268 | - |
| Intangible assets subject to amortization | | | |
| Customer list | 5 - 15 | 854,178 | 190,690 |
| Non-compete agreements | 4 | 262,147 | 35,499 |
| Total Intangible Assets | | 1,395,593 | 226,189 |
| Total Goodwill and Intangible Assets | | \$3,897,421 | \$ 226,189 |

Scheduled amortization over the next five years as follows:

| Twelve months ending December 31, | |
|--------------------------------------|-------------------|
| 2011 | \$ 214,357 |
| 2012 | 214,356 |
| 2013 | 214,356 |
| 2014 | 178,858 |
| 2015 | 68,209 |
| Total | \$ 890,136 |

Amortization expense for the year ended December 31, 2010 and 2009 were \$125,911 and \$14,186 respectively

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 \$41,590 through various dates in 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 December 31, 2010 | \$512,564 |
| Less amount representing interest | (71,097) |
| Total obligations under capital leases | 441,467 |

Edgar Filing: Data Storage Corp - Form 10-K

| | |
|--|------------|
| Less current portion of obligations under capital leases | (325,934) |
| Long-term obligations under capital leases | \$115,533 |

Long-term obligations under capital leases at December 31, 2010 mature as follows:

| | |
|---------------------------------------|-----------|
| For the year ending December 31, 2011 | \$325,934 |
| 2012 | 84,804 |
| 2013 | 30,729 |
| | \$441,467 |

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

| | |
|--------------------------------|-----------|
| Equipment | \$773,819 |
| Less: accumulated depreciation | 163,734 |
| | \$610,085 |

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 .5%, 3.75% at December 31, 2010, and is secured by all assets of the Company and personally guaranteed by the Company's principal shareholder. As of December 31, 2010, the Company owed \$99,970 under this agreement.

Loan Payable

On August 04, 2010, the Company entered into a note payable with Systems Trading, LLC in settlement of past due balances owed by 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 04, 2013. The note payable balance as of December 31, 2010 is \$273,743.

Total maturities of the long term debt are as follows:

For the twelve months
ended December 31,

| | |
|------|------------|
| 2011 | \$ 122,251 |
| 2012 | 139,604 |
| 2013 | 11,887 |
| | \$ 273,742 |

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
December 31,

| | |
|------|------------|
| 2011 | \$ 131,367 |
|------|------------|

Edgar Filing: Data Storage Corp - Form 10-K

| | |
|------|------------|
| 2012 | 85,580 |
| 2013 | 78,259 |
| 2014 | 39,708 |
| | \$ 334,914 |

Rent expense for the years ended December 31, 2010 and December 31, 2009 was \$116,203 and \$56,301 respectively.

Note 7 – Convertible debt

Related parties

On May 21, 2010 the Company entered into a security purchase agreements with its Chief Executive Officer for \$538,463 of convertible notes payable along with 1,623,159 warrants to purchase common stock of the company at \$.01. Each note is convertible into common stock at an exercise price of \$.39.

Unrelated parties

On May 21, 2010 the Company entered into two security purchase agreements with independent investors for \$461,537 of convertible notes payable along with 1,391,278 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 year ended December 31, 2010 was \$166,121.

Note 8 - Stockholders’ Equity

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

See Note 7 regarding the Convertible debt and warrants

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

During the year ended December 31, 2010 the Company issued 1,013,668 common stock options.

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

Edgar Filing: Data Storage Corp - Form 10-K

| | Number of Shares Under Options | Range of Option Price Per Share | Weighted Average Exercise Price |
|--|--------------------------------------|--|--|
| Options Outstanding at January 1, 2010 | 2,929,434 | \$.02 - .36 | \$ 0.093 |
| Options Granted | 1,013,668 | 0.31 – 0.36 | 0.35 |
| Options Exercised | (103,505) | 0.02 | .02 |
| Options Cancelled | (169,428) | 0.32 | 0.32 |
| Options Outstanding at December 31, 2010 | 3,670,169 | .02 - .36 | 0.137 |
| Options Exercisable at December 31, 2010 | 2,558,269 | .02 - .36 | 0.137 |

Share-based compensation expense for options totaling \$67,420 was recognized in our results for the year ended December 31, 2010 is based on awards vested. The options were valued at the grant date at \$366,014.

The valuation methodology used to determine the fair value of the options 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.

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 year ended December 31, 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 | 2.54 – 3.57% | 3.07 - 3.85% |
| Volatility | 77.45 – 117.62 % | 78.36 - 85% |
| Expected life (years) | 10 | 10 |
| Dividend yield | 0.00% | 0.00% |

As of December 31, 2010, there was approximately \$272,282 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.

Common Stock Warrants

During the year ended December 31, 2010 the Company issued 3,014,438 common stock warrants with the convertible debt.

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

| | Number of Shares Under Warrants | Range of Warrants PricePer Share | Weighted Average Exercise Price |
|---|---------------------------------------|---|--|
| Warrants Outstanding at January 1, 2010 | 211,427 | \$.02 | \$.02 |
| Warrants Granted | 3,014,438 | .01 | .01 |
| Warrants Exercised | -0- | -0- | -0- |
| Warrants Cancelled | -0- | -0- | -0- |

Edgar Filing: Data Storage Corp - Form 10-K

| | | | |
|---|-----------|----------------|-----|
| Warrants Outstanding at December 31, 2010 | 3,225,865 | 0.01 – 0.02 | .01 |
| Warrants exercisable at December 31, 2010 | 3,225,865 | 0.01 – 0.02 | .01 |

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.

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 year ended December 31, 2010 is set forth in the table below.

| | 2010 |
|--|--------|
| Weighted average fair value of options granted | \$.01 |
| Risk-free interest rate | 3.32% |
| Volatility | 85% |
| Expected life (years) | 10 |
| Dividend yield | 0.00% |

Preferred Stock

Liquidation preference

Upon any liquidation, dissolution, or winding up of the Corporation, whether voluntary or involuntary, before any distribution or payment shall be made to the holders of any Common Stock, the holders of Series A Preferred Stock shall be entitled to be paid out of the assets of the Corporation legally available for distribution to stockholders, for each share of Series A Preferred Stock held by such holder, an amount per share of Series A Preferred Stock equal to the Original Issue Price for such share of Series A Preferred Stock plus all accrued and unpaid dividends on such share of Series A Preferred Stock as of the date of the Liquidation Event.

Conversion

The number of shares of Common Stock to which a share of Series A Preferred Stock may be converted shall be the product obtained by dividing the Original Issue Price of such share of Series A Preferred Stock by the then-effective Conversion Price (as defined below) for such share of Series A Preferred Stock. The conversion price for the Series A Preferred Stock shall initially be equal to \$.39 and shall be adjusted from time to time.

Voting

Each holder of shares of Series A Preferred Stock shall be entitled to the number of votes, upon any meeting of the stockholders of the Corporation (or action taken by written consent in lieu of any such meeting) equal to the number of shares of Class B Common Stock into which such shares of Series A Preferred Stock could be converted

Dividends

Each share of Series A Preferred Stock, in preference to the holders of all Common Stock (as defined below), shall entitle its holder to receive, but only out of funds that are legally available therefore, cash dividends at the rate of ten percent (10%) per annum from the Original Issue Date on the Original Issue Price for such share of Series A Preferred Stock, compounding annually unless paid by the Corporation.

Note 9 - Related Party Transactions

Edgar Filing: Data Storage Corp - Form 10-K

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 year ended December 31, 2010 the Chief Executive Officer advanced the Company \$235,603. As of December 31, 2010 the Company owed the Chief Executive Officer \$614,628. Since March 2010 no loans have been extended by the CEO. These advances bear no interest and have no stated terms of repayment.

Note 10 - Income Taxes

The components of the provision (benefit) for income taxes are as follows:

| | Years Ended December 31, | |
|----------------------------------|--------------------------|--------------|
| | 2010 | 2009 |
| CURRENT | | |
| Federal | \$ -0- | \$ -0- |
| State | -0- | -0- |
| Total current tax provision | -0- | -0- |
| DEFERRED | | |
| Federal | -0- | -0- |
| State | -0- | -0- |
| Total deferred tax benefit | -0- | -0- |
| Total tax provision (benefit) | \$ -0- | \$ -0- |
| Temporary differences: | | |
| Deferred Tax Assets: | | |
| Net operating loss carry-forward | \$ (1,273,478) | \$ (554,286) |
| Less: valuation allowance | 1,273,478 | 554,286 |
| Deferred tax assets | -0- | -0- |
| Deferred tax liabilities | -0- | -0- |
| Net deferred tax asset | \$ -0- | \$ -0- |

The Company had federal and state net operating tax loss carry-forwards of approximately \$3,183,696 and \$2,165,106, respectively as of December 31, 2010. The tax loss carry-forwards are available to offset future taxable income with the federal and state carry-forwards beginning to expire in 2028.

In 2010, net deferred tax assets did not change due to the full allowance. The gross amount of the asset is entirely due to the Net operating loss carry forward. The realization of the tax benefits is subject to the sufficiency of taxable income in future years. The combined deferred tax assets represent the amounts expected to be realized before expiration.

The Company periodically assesses the likelihood that it will be able to recover its deferred tax assets. The Company considers all available evidence, both positive and negative, including historical levels of income, expectations and risks associated with estimates of future taxable income and ongoing prudent and feasible profits. As a result of this analysis of all available evidence, both positive and negative, the Company concluded that it is more likely than not that its net deferred tax assets will ultimately not be recovered and, accordingly, a valuation allowance was recorded as of December 31, 2010.

The difference between the expected income tax expense (benefit) and the actual tax expense (benefit) computed by using the Federal statutory rate of 34% is as follows:

| | Year Ended December 31, | |
|--|-------------------------|------|
| | 2010 | 2009 |

Edgar Filing: Data Storage Corp - Form 10-K

| | | | | |
|--|----|-----------|----|-----------|
| Expected income tax benefit (loss) at statutory rate of 34% | \$ | 611,654 | \$ | 346,661 |
| State and local tax benefit, net of federal | | 107,538 | | 61,175 |
| Change in valuation account | | (719,192) | | (407,836) |
| Income tax expense (benefit) | \$ | -0- | \$ | -0- |

Note 11 - 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 SafeData’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 Assets 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. Total price paid for SafeData Assets in the Acquisition was \$3 million dollars.

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 consolidated financial statements presented include the results of operations for SafeData for the period from June 17, 2010 to December 31, 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 SafeData, 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.

| | Year ended December 31, | |
|--------------------------------|----------------------------|--------------|
| | 2010 | 2009 |
| Revenues | \$ 3,768,030 | \$ 1,594,651 |
| Net loss | (1,861,031) | (1,076,069) |
| Loss per share of common stock | (0.11) | (0.06) |
| Basic and Diluted | 17,127,541 | 18,128,809 |

Note 12 – Subsequent Events

On March 1, 2011, the company completed an equity raise of \$1.5 million dollars with an independent investor.

Note 13 – Restatement of Previously Issued Financial Statements

On March 28, 2011, Management of Data Storage Corporation (the “Company”), after consulting with its independent registered public accounting firm, concluded that the Company’s previously issued financial statements included in its quarterly interim period report previously reported on Form 10-Q for the period ended September 30, 2010, should no longer be relied upon due to the discovery of the issuance of a stock grant that was omitted from the financial results for the third quarter in error.

The tables below summarize the impact of the restatements described above on financial information previously reported on the Company’s Forms 10-Q for the period ended September 30, 2010.

| | Restated 9-30-10 | Adjustments | As Reported 9-30-10 |
|---------------------------------------|---------------------|-------------|------------------------|
| BALANCE SHEET DATA | | | |
| Equity | | | |
| Common Stock | 17,284 | 157 | 17,127 |
| Additional Paid in Capital | 6,940,447 | 54,843 | 6,885,604 |
| Accumulated deficit | (5,725,274) | (55,000) | (5,670,274) |
| STATEMENT OF OPERATIONS | | | |
| Operating expense | | | |
| Selling, general and administrative | 1,364,579 | 55,000 | 1,309,579 |
| Net loss | (794,397) | 55,000 | (739,397) |
| CASH FLOW DATA | | | |
| Net loss | (794,397) | (55,000) | (739,397) |
| Stock compensation | 55,000 | 55,000 | - |
| Net cash used in operating activities | (128,458) | - | (128,428) |

Balance Sheet (unaudited)9-30-10

| | Restated 9/30/09 | Adjustments | Reported 9/30/09 |
|--|---------------------|-------------|---------------------|
| Assets: | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 29,370 | | \$ 29,370 |
| Accounts receivable, net | 341,777 | | 341,777 |
| Deferred Compensation | 9,285 | | 9,285 |
| Prepaid Expenses | 58,302 | | 58,302 |
| Total Current Assets | 438,734 | | 438,734 |
| Property and Equipment, net | 942,546 | | 942,546 |
| Other Assets, net | 3,614,446 | | 3,614,446 |
| Total Assets | 4,995,726 | | 4,995,726 |
| Liabilities and stockholders' equity (deficit) | | | |
| Current Liabilities | | | |
| Accounts payable and accrued expenses | 648,263 | | 648,263 |
| Credit line payable | 92,470 | | 92,470 |
| Due to related party | 48,218 | | 48,218 |
| Dividend payable | 112,500 | | 112,500 |
| Deferred revenue | 464,117 | | 464,117 |
| Leases payable | 353,537 | | 353,537 |
| Loans payable | 62,989 | | 62,989 |
| Contingent consideration in SafeData acquisition | 763,807 | | 763,807 |
| Total Current Liabilities | 2,545,901 | | 2,545,901 |
| Deferred rental obligation | 26,974 | | 26,974 |
| Due to officer | 614,628 | | 614,628 |
| Loan payable long term | 208,034 | | 208,034 |
| Leases payable long term | 181,306 | | 181,306 |
| Contingent consideration in SafeData acquisition, long term | 15,630 | | 15,630 |
| Convertible debt | 169,394 | | 169,394 |
| Total liabilities | 3,716,867 | | 3,716,867 |
| Stockholder's equity: | | | |
| Preferred stock, \$0.001 par value; 10,000,000 shares authorized; 1,401,786 shares issued and outstanding | 1,402 | | 1,402 |
| Common stock, par value \$0.001; 250,000,000 shares authorized; 17,127,541 shares issued and outstanding | 17,284 | 157 | 17,127 |
| Additional paid in capital | 6,940,447 | 54,843 | 6,885,604 |
| Accumulated deficit | (5,670,274) | (55,000) | (5,670,274) |
| Total stockholders' equity | 1,223,859 | | 1,223,859 |
| Total liabilities and stockholders' deficit | \$ 4,995,726 | | \$ 4,995,726 |

Statement of Operations – three and nine months ended 9-30-10 (unaudited)

| | Three Months ended | | | Nine Months ended | | |
|--|---------------------|-------------|---------------------|---------------------|-------------|---------------------|
| | Restated 9/30/09 | Adjustments | Reported 9/30/09 | Restated 9/30/09 | Adjustments | Reported 9/30/09 |
| Sales | \$886,372 | | \$886,372 | \$1,643,597 | | \$1,643,597 |
| Cost of sales | 446,991 | | 446,991 | 956,070 | | 956,070 |
| Gross profit | 439,381 | | 439,381 | 687,527 | | 687,527 |
| Selling, general and administrative | 671,305 | 55,000 | 616,305 | 1,364,579 | 55,000 | 1,309,579 |
| Loss from operations | (231,924) | | (176,924) | (677,052) | | (622,052) |
| Interest expense | (97,634) | | (97,634) | (117,345) | | (117,345) |
| Loss before provision for income taxes | (329,558) | | (274,558) | (794,397) | | (739,397) |
| Provision for income taxes | - | | - | - | | - |
| Net Loss | (329,558) | | (274,558) | (794,397) | | (739,397) |
| Preferred stock dividend | (12,500) | | (12,500) | (37,500) | | (37,500) |
| Net loss available to Common Shareholders | \$(342,058) | | \$(287,058) | \$(831,897) | | \$(776,897) |
| Loss per share – basic and diluted | (0.02) | | (0.02) | (0.05) | | (0.05) |
| Weighted average number of shares – basic and diluted | 17,149,297 | | 17,127,539 | 15,092,803 | | 15,085,524 |

Statement of cash flows nine months ended 9-30-10

| | Restated 9/30/09 | Adjustments | Reported 9/30/09 |
|--|---------------------|-------------|---------------------|
| Net loss | \$(794,937) | (55,000) | \$(739,397) |
| Adjustment to reconcile net income to net cash used in operating activities: | | | |
| Depreciation and amortization | 246,706 | | 246,706 |
| Deferred compensation | 98,839 | | 98,839 |
| Allowance for doubtful accounts | (9,742) | | (9,742) |
| Amortization of debt discount | 89,450 | | 89,450 |
| Stock based compensation | 10,446 | | 10,446 |
| Stock compensation | 55,000 | 55,000 | - |
| Changes in assets and liabilities: | | | |
| Accounts receivable | (45,181) | | (45,181) |
| Other assets | 5,880 | | 5,880 |
| Prepaid expenses | (1,317) | | (1,317) |
| Accounts payable and accrued expenses | 318,681 | | 318,681 |
| Deferred revenue | (114,655) | | (114,655) |
| Deferred rent | (1,668) | | (1,668) |
| Due to related party | 13,500 | | 13,500 |
| Net cash used in operating activities | (128,458) | | (128,458) |
| Cash flows from investing activities: | | | |
| Cash paid for equipment | (37,237) | | (37,237) |
| Acquisition of SafeData, LLC net assets | (1,229,954) | | (1,229,954) |
| Net cash used in investing activities | (1,267,191) | | (1,267,191) |
| Cash flows from financing activities: | | | |
| Capital stock issuance | 300,000 | | 300,000 |
| Issuance of convertible debt | 1,000,000 | | 1,000,000 |
| Advances from shareholder | 235,603 | | 235,603 |
| Repayment of capital lease obligations | (131,243) | | (131,243) |
| Repayment of line of credit | (7,500) | | (7,500) |
| Net cash provided by financing activities | 1,396,860 | | 1,396,860 |
| Increase in cash and cash equivalents | 1,210 | | 1,210 |
| Cash and cash equivalents, beginning of period | 28,160 | | 28,160 |
| Cash and cash equivalents, end of period | \$29,370 | | \$29,370 |

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

At no time have there been any disagreements with our accountants regarding any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our 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 (Exchange Act), as of December 31, 2009. Based on this evaluation, our principal executive officer and principal financial officers have concluded that our disclosure controls and procedures are not effective to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules based on the material weakness described below.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of the Company is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. The Company's internal control over financial reporting is designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements in accordance with United States' generally accepted accounting principles (US GAAP), including those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with US GAAP and that receipts and expenditures are being made only in accordance with authorizations of management and directors of the company, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Management conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included an evaluation of the design of our internal control over financial reporting and testing of the operational effectiveness of our internal control over financial reporting. Based on this evaluation, management has determined that as of December 31, 2010, there were material weaknesses in our internal control over financial reporting. 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 generally accepted accounting principles (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 December 31, 2010, we 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 our disclosure controls in the future we intend 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.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this Annual Report.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS: COMPLIANCE WITH SECTION 16(A) OF THE EXCHANGE ACT

The following table sets forth the names, ages, and positions of our new executive officers and directors as of the December 31, 2010. Executive officers are elected annually by our Board of Directors. Each executive officer holds his office until he resigns, is removed by the Board, or his successor is elected and qualified. Each director holds his office until his successor is elected and qualified or his earlier resignation or removal.

| Name | Age | Position |
|--------------------------|-----|--|
| Charles M. Piluso | 57 | President, Chief Executive Officer, Chief Financial Officer, Principal Accounting Officer, Chairman of the Board |
| Richard Rebeti Jr. | 45 | Director, Joined as COO in February 2011 |
| Peter Briggs | 52 | Officer and VP |
| Matthew Grosso | 47 | Secretary, Treasurer and VP |
| John Argen | 56 | Director |
| Jan Burman | 58 | Director |
| Biagio Civile | 75 | Director |
| Joseph B. Hoffman | 53 | Director |
| Lawrence M. Maglione Jr. | 49 | Director |
| Lawrence Putterman | 62 | Director |
| Cliff Stein | 53 | Director |

Charles M. Piluso, President, Chief Executive Officer, Chief Financial Officer, Principal Accounting Officer, Chairman of the Board

Education

- St. John's University Bachelor's Degree, 1976
- Masters of Arts in Political Science and Public Administration, 1979
- Masters of Business Administration, 1985
- Instructor Professor, St. John's University, College of Business, 1986 through 1988

Profile

Prior to Data Storage Corporation, Mr. Piluso founded North American Telecommunication Corporation, a facilities based Competitive Local Exchange Carrier licensed by the Public Service Commission in ten states, serving as the company's Chairman and President from 1997 to 2000.

Between 1990 and 1997, Mr. Piluso served as Chairman & Founder of International Telecommunications Corporation, a facilities-based international carrier licensed by the Federal Communications Commission. Mr. Piluso founded ITC in 1990 and grew it from two employees to 135 employees with \$170 million in revenues in 1997. The company had operations and agreements in many countries including Russia, Israel, Ukraine, United Kingdom, Dominican Republic, Chile and Canada. During his tenure, Mr. Piluso grew the company to the fifth largest facilities based

international carrier in the USA within five years. Mr. Piluso's career in the telecommunications industry began in 1978 when he joined ITT Corporation's Telephone Equipment Division.

Over the years, Mr. Piluso was promoted from sales to Sales Management, Marketing and Business Development in their Long Distance Division until 1984. He left ITT to become the General Manager of the New York region for United Technologies Communications Corporation. In that position, Mr. Piluso managed union technicians, sales, installation and customer service.

Currently, Mr. Piluso serves on the Board of Governors at Saint John's University and the Board of Trustees of Molloy College.

Richard Rebeti, Director, Chief Operating Officer

Education

- Bachelor of Science Degree in Finance
 - Masters of Business Administration in Management from City University of New York, Baruch College
 - Advanced Professional Certificate in Accounting from St. John's University, New York

Profile

Mr. Rebeti is the Chief Operating Officer of Data storage Corporation where he is responsible for managing the company's day-to-day operations, as well as overseeing its marketing and information systems functions.

Mr. Rebeti has more than 20 years of operational management experience at technology and telecommunications organizations. Prior to joining DSC, Mr. Rebeti was the chief technology officer for STi Prepaid, LLC, an over \$300 million division of Leucadia National Corp. and also held the position of COO for Telco Group Inc./STi Prepaid, Inc. During Mr. Rebeti's nine years at STi he was part of a team that coordinated the integration of corporate acquisitions and was responsible for the launch of the company's prepaid wireless division.

From 1997 to 2001, Mr. Rebeti was a co-founder of North American Telecommunications Corporation along with Mr. Piluso, a competitive local exchange carrier offering local, long distance and data services to small and medium size businesses. In this role, Mr. Rebeti was responsible for Systems and Technology, which included information systems, Internet services, service delivery, and operational support systems.

Before co-founding North American Telecommunications, Mr. Rebeti worked for RSL COM, U.S.A., Inc., formally International Telecommunications Corporation (ITC), which he co-founded with Mr. Piluso in 1990. During his first five years at ITC, he was responsible for setting up and managing the accounting, billing and M.I.S. departments. During his last 18 months at RSL COM, U.S.A., Inc., he coordinated the implementation of corporate acquisitions held the position of president of RSL Com PrimeCall, Inc., which was the enhanced services division of RSL COM, U.S.A., Inc. During his tenure as president of PrimeCall, annual revenue increased from \$4,000,000 to \$40,000,000.

Mr. Rebeti has a Bachelor of Science degree in finance and an Advanced Professional Certificate in accounting from St. John's University in New York, as well as a Master of Business Administration in management from City University of New York, Baruch College.

Peter Briggs, Executive Vice President

Education

- B.S. in Business Administration from C.W. Post Campus of Long Island University

Profile

Mr. Briggs founded SafeData in 2005 realizing the growing HA need for replication and data recovery solutions for mid-sized businesses and experienced continual growth in both revenues and its customer base during its first five years. Prior to SafeData, Mr. Briggs was president and CEO of ADS, a company he founded and managed. With more than 20 years experience in the IBM mid-market, he led ADS to become one of the largest distributors of AS/400 servers in the New England market. Prior to ADS, Mr. Briggs held various sales and sales management roles for several IBM business partners where he had significant revenue responsibility.

Mr. Briggs earned a B.S. degree in business administration from the C.W. Post Campus of Long Island University. He has been awarded the Top Contributor Partner award from IBM and Partner of the Year from Lakeview Technology. He is also a member of the New England Disaster Recovery Exchange and Greater Providence Chamber of Commerce.

Matthew P. Grosso, Executive Vice President, Corporate Secretary and Treasure

Education

- Bachelors of Science in Electrical Engineering from Manhattan College, Specializing in Digital Systems Design

Certifications

- Cisco Certified Sales Expert, specializing in Unified Communications, Wireless and Security
 - EMC Proven Professional, Storage, Backup and Recovery
 - AT&T Sales, Marketing and Business Management (AT&T National Sales University)

Profile

Mr. Grosso has been a Managing Partner, VP, General Manager, Practice Manager and Sales Director for companies focused on technology consulting, systems integration and value-added product solutions. His 24 year professional career started with Blue-Chip AT&T and has been balanced between Technology, Business Development, Sales and Management. As an Executive VP at a Technology Consulting Startup, he successfully managed the Sales Channel and Vendor Partnership programs with Cisco and AT&T (among others) and, led the sales teams to consistent year-over-year growth. His company was the first international partner to obtain the contract rights with India Partner, Data Access, to offer VoIP phone service between India and the USA in 2002.

Some notable achievements have been the support and leadership on the service activation of many AT&T-lead Undersea Fiber Optic Cable systems in use today (TAT-9, TAT-10, TAT-11, Haw-5/PacRimEast, Taino-Caribe, etc.) as well as the Sales leadership and joint project management of the 1996 Centennial Olympic Games in Atlanta, where his AT&T team provided worldwide TV broadcast and News Media data transmission.

Mr. Grosso has built and managed sales and consultant teams focusing on Telecommunications, Data Communications and Network Hardware Integration, winning many awards for Sales Excellence and Channel Partner Leadership. He brings his diverse business, technical and leadership skills to Data Storage Corporation. As Executive VP, Corporate Secretary & Treasurer, he leads the Technical Operations Management team (including all Data Center Facilities), Product Management & Development, and, Corporate Technical Marketing.

John Argen, Director

Education

- BPS in Finance from Pace University
- 2,000 hours of corporate sponsored education

Profile

Mr. Argen is a Business Consultant and Developer specializing in the information technology, telecommunications and construction industries. He is a seasoned professional that brings 30 years of experience and entrepreneurial success from working with small business owners to Fortune 500 firms.

From 1992 to 2003, Mr. Argen was the CEO and founder of DCC Systems, a privately held nationwide Technology Design / Build Construction Development and Consulting Solutions firm. Mr. Argen built DCC Systems from the ground up, re-engineering the firm several times to meet the needs of its clientele and enabled DCC Systems to produce gross revenues exceeding 100 million dollars in 2000.

Mr. Argen has been a guest speaker at numerous corporate seminars and industry shows. He has been featured on NBC's "Business Now" which accredited his Technology Construction Management methodology as an innovative process for implementing high tech projects on time and within budget.

Prior to DCC Systems Mr. Argen held senior management positions at ITT/Metromedia (15 years) and was VP of Engineering & Operations at DataNet, a Wilcox & Gibbs company (2 years). Throughout his corporate tenure he has worked in Operations, Marketing, Systems Engineering, Telecommunications and Information Technology. In a career that spans 30 years he has had full responsibility for technology related and construction projects worth over a billion dollars.

Mr. Argen graduated Pace University with a BPS in Finance. His commitment to continued education is reflected in his completion to over 2000 hours of corporate sponsored courses. Mr. Argen also holds a Federal Communication Commission (FCC) Radio Telephone 1st Class License.

Jan Burman, Director

Education

- School of Management at Syracuse University, MBA

Profile

Since 1978, Jan Burman has brought a unique style and personal sensitivity to the business of real estate development. He has an insight for spotting hidden opportunities that lesser-trained eyes overlook. This adds up to consistent results: value for partners, dividends for investors, and outstanding properties for tenants and buyers.

Among his successes: a divestiture of nearly \$140 million in holdings to First Industrial Realty Trust; he conceived and developed LI's largest independent "golden age" community to date, The Meadows; he co-developed The Bristol, a growing family of prestigious Assisted Living communities; and, over the years, he has collaborated on the purchase and/or development of over 15 million square feet of property, from Canada to Florida.

Jan, also a CPA, is the founder, past president and chairman of ABLI, the Association for a Better Long Island, which is an aggressive multi-focus lobby created to protect the economic needs of Nassau and Suffolk Counties. He is also a member of the Corporate Advisory Council for the School of Management at Syracuse University, from where he received his MBA.

Biagio "Gino" Civale, Director

Education

- University of Pisa
- University of Florence

Profile

Mr. Civale has a long, successful career in Telecommunications and as a distinguished Arbitrator with both NASD Regulations, Inc. and the American Arbitration Association. As an Arbitrator over the past 32 years, he has dealt with issues surrounding the performance of and adherence to contracts and relationships and responsibilities between and among Clients and Stockbrokers.

As Vice President of Business Development for North American Telecom, Mr. Civale created new business opportunities and alliances around the globe. As Regional Vice President for RSLCOM, he planned and implemented an international Telecommunications network inter-connecting 22 countries on four continents. And, as VP of International Business Development for International Telecommunications Corporation, he was directly responsible for obtaining operating agreements with 24 countries and reached 5th internationally.

Prior to International Telecommunications Corporation, Mr. Civale held various General Management positions with a number of International Business Concerns. Mr. Civale is fluent in 5 languages, has a degree from the University of

Pisa and has studied Law at the University of Florence. Mr. Civale is also a member of the Data Storage Corporation Board of Directors.

Joseph B. Hoffman, Director

Education

- University of Maryland - B.S., cum laude, 1979
- George Washington University Law School - J.D., with honors, 1982

Profile

Mr. Hoffman is a partner at Kelley Drye & Warren LLP in the firm's Washington, D.C. office. His commercial practice focuses on real estate and corporate transactions cutting across a wide range of industries. Mr. Hoffman's real estate practice involves developers, borrowers, lenders, buyers, sellers, landlords and tenants. Mr. Hoffman's corporate experience includes the purchase and sale of assets and companies as well as venture capital, equipment leasing and institutional financing transactions. Mr. Hoffman represents telecommunications companies, real estate developers, lenders, venture capital funds, emerging growth companies, thoroughbred horse industry interests and high-net-worth individuals.

Lawrence A. Maglione, Director

Education

- Bachelor of Science Degree in Accountancy
- Masters of Science Degree in Taxation
- Certified Public Accountant (CPA)

Associations

- New York State Society of CPAs

Profile

Mr. Maglione is a partner in the accounting firm Eisner & Maglione CPAs, LLC.

Mr. Maglione, a co-founder of Data Storage Corporation, LLC, is a financial management veteran with more than 24 years of experience. Prior to joining Data Storage Corporation, LLC Mr. Maglione was a co-founder of North American Telecommunications Corporation, a local phone service provider which provides local and long distance telephone services and data connectivity to small and medium sized businesses.

At North American Telecommunications Corporation Mr. Maglione was Chief Financial Officer, Executive Vice President and was responsible for all finance, legal and administration. During his tenor (September 1997-January 2001) Mr. Maglione successfully raised over \$100 million in debt and equity funding for North American Telecommunications Corporation.

Prior to North American Telecommunications Corporation Mr. Maglione spent over 14 years in public accounting and he brings a broad range of experience related to companies in the technology, retail services and manufacturing industries.

Mr. Maglione is a member of the New York State Society of CPAs. He holds a Bachelor of Science degree in Accountancy, a Masters of Science in Taxation and is a Certified Public Accountant.

Larry Putterman, Director

Education

- Bachelor of Science Degree in Business Administration from the University of Denver

Profile

Mr. Putterman has more than 30 years of executive experience and specializes in taking businesses to the next level in sales and profitability. His expertise is in improving the efficiency of existing businesses, conceptualizing and implementing strategic plans for revenue growth and sustaining revenue in competitive markets.

In 2005 Mr. Putterman became the chairman and chief executive officer of SafeData, which was acquired by Data Storage Corporation in 2010. Prior to SafeData, he was the president and owner of American Sports Company and Pan American Sports Company in San Pedro de Macoris, Dominican Republic, for more than 20 years. With American Sports Company and Pan American Sports Company, Mr. Putterman started and became the largest independent contract manufacturer of men's and women's shoes and components in the Dominican Republic. He built a \$25 million business with more than 1,000 manufacturing employees. Clients included Timberland, Sebago, Polo, LL Bean, Dexter and New Balance. Mr. Putterman honed his management skills as executive vice president and chief operating officer of Milton Shoe Company in Milton, Pa. and New York City, where he had P&L responsibility and was responsible for manufacturing and sales of this \$35 million business.

Mr. Putterman is a member of the Central Susquehanna Valley Chamber of Commerce, a board member of the Susquehanna Investment Network and a former regional board member of Northern Central Bank.

Cliff Stein, Director

Education

- Juris doctor Degree from University of Miami
- Graduated with honors by American University with a Bachelor of Science in finance and accounting

Profile

Clifford Stein founded Savitar in 1988 as a real estate advisory company providing assistance to beleaguered lenders and financial institutions on their nonperforming real estate assets.

Mr. Stein has acted as an expert witness in countless litigation matters involving real estate transactions and has been appointed as a Receiver, Examiner, and Trustee in State and Federal Courts.

Mr. Stein is an attorney and a member of the Florida Bar Association since 1982. He received his Juris Doctor Degree from the University of Miami. He was graduated with honors by American University with Bachelor of Science Degrees in finance and accounting. From September 1982 through 1984, he served as a law clerk to the Honorable Joseph A. Gassen, U.S. Bankruptcy Judge for the Southern District of Florida. In 1988, Mr. Stein formed Savitar Realty Advisors, as a real estate advisory and management organization, whose clients were primarily financial institutions and government agencies. Savitar (or Cliff Stein) has been appointed Receiver, Examiner, or Trustee in numerous foreclosures or bankruptcies and has been retained as advisor to financial institutions in connection with their troubled assets or their intended acquisition of portfolios of troubled assets. Mr. Stein currently serves as Chairman and Chief Executive Officer of Savitar.

Mr. Stein served as a member of the Board of Directors of Cenvill Development, formerly a \$500 million, publicly-traded real estate concern, having been appointed to the Board by the FDIC to represent its interest as the single-largest shareholder.

Mr. Stein was appointed in 1993 by the Governor of Florida to serve as a Commissioner on the Florida Real Estate Commission, which appointment was subsequently ratified by the Florida Senate. In January 1996, Mr. Stein was elected to be the Chairman of the Commission. Mr. Stein recently concluded his second and final term.

Term of Office

Our directors are appointed for a one-year term to hold office until the next annual general meeting of our shareholders or until removed from office in accordance with our bylaws. Our officers are appointed by our board of directors and hold office until removed by the board.

Audit and Compensation Committee

The Company does not have an independent audit committee but maintains an Audit and Compensation Committee composed of internal and independent directors.

Family Relationships

No family relationships exist among our directors or executive officers.

Involvement in Certain Legal Proceedings

To our knowledge, during the past ten years, none of our directors, executive officers, promoters, control persons, or nominees has been:

the subject of any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;

convicted in a criminal proceeding or is subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);

subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; or

found by a court of competent jurisdiction (in a civil action), the Commission or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law.

Compliance with Section 16(A) Of the Exchange Act.

Section 16(a) of the Exchange Act requires the Company's officers and directors, and persons who beneficially own more than 10% of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission and are required to furnish copies to the Company. To the best of the Company's knowledge, any reports required to be filed were timely filed in fiscal year ended December 31, 2010.

Code of Ethics

The company has adopted a Code of Ethics applicable to its Chief Executive Officer and Chief Financial Officer. This Code of Ethics is incorporated by reference to Form 10-K filed on March 31, 2009.

ITEM 11. EXECUTIVE COMPENSATION

Compensation of Executive Officers

The following summary compensation table sets forth all compensation awarded to, earned by, or paid to the named executive officers paid by us during the fiscal years ended December 31, 2010 and 2009 in all capacities for the accounts of our executives, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO):

SUMMARY COMPENSATION TABLE

| Name and Principal Position | Year | Salary (\$) | Bonus (\$) | Stock Awards (\$) | Option Awards (\$) | Non-Equity | Non-Qualified | All Other Compensation (\$) | Totals (\$) |
|-----------------------------|------|-------------|------------|-------------------|--------------------|----------------------------------|-------------------------------------|-----------------------------|-------------|
| | | | | | | Incentive Plan Compensation (\$) | Deferred Earnings Compensation (\$) | | |
| Charles M. Piluso | 2010 | \$ 11,310 | 0 | 200,000 | 5,000 | 0 | 0 | 0 | \$ 216,310 |

Edgar Filing: Data Storage Corp - Form 10-K

| | | | | | | | | | |
|--|------|---------|-----|-----|-----|-----|-----|-----|---------|
| President, Chief Executive Officer and Director | 2009 | 9,135 | 0 | 0 | 0 | 0 | 0 | 0 | 9,135 |
| Jason Nocco | 2010 | \$ 0 | 0 | 0 | 0 | 0 | 0 | 0 | \$ 0 |
| Secretary | 2009 | 113,720 | 0 | 0 | 0 | 0 | 0 | 0 | 113,720 |
| Peter O'Brien President, Chief Executive Officer, Treasurer, and Secretary | 2010 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | 0 |
| | 2009 | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |

Employment Agreements

We have employment agreements with Peter Briggs an Officer of DSC.

Compensation of Directors

Directors receive stock options for serving on the Board of Directors.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth each person known by us to be the beneficial owner of five percent or more of the Company's Common Stock, all directors individually and all directors and officers of the Company as a group. Except as noted, each person has sole voting and investment power with respect to the shares shown.

| Name and Address of Beneficial Owner (1)(2) | Amount and Nature of Beneficial Ownership | Percent of Outstanding Shares (3) |
|---|---|-----------------------------------|
| Charles M. Piluso | 10,303,734 | 50% |
| Lawrence M. Maglione, Jr. | 33,171 | *% |
| Jan Burman | 1,580,737 | 8% |
| Richard P. Rebetti, Jr. | 8,171 | *% |
| All Executive Officers and Directors as a group | 11,925,813 | 58% |

* Less than 1%

(1) The address for each person is 401 Franklin Avenue, Garden City, N.Y. 11530.

(2) Under the rules of the SEC, a person is deemed to be the beneficial owner of a security if such person has or shares the power to vote or direct the voting of such security or the power to dispose or direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities if that person has the right to acquire beneficial ownership within 60 days of the date hereof. Unless otherwise indicated by footnote, the named entities or individuals have sole voting and investment power with respect to the shares of common stock beneficially owned.

(3) Based upon 20,735,588 shares issued and outstanding as of April 15, 2011. Unless otherwise indicated in the footnotes to the above table and subject to community property laws where applicable, we believe that each shareholder named in the above table has sole or shared voting and investment power with respect to the shares indicated as beneficially owned.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTION, AND DIRECTOR INDEPENDENCE

None

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit Fees

Edgar Filing: Data Storage Corp - Form 10-K

For the Company's fiscal years ended December 31, 2010 and 2009, we were billed approximately \$74,000 and \$33,500 for professional services rendered for the audit and review of our financial statements.

Audit Related Fees

There were no fees for audit related services for the years ended December 31, 2010 and 2009.

Tax Fees

For the Company's fiscal years ended December 31, 2010 and 2009, we were billed approximately \$3,000 and \$3,000 respectively for professional services rendered for tax compliance, tax advice, and tax planning.

All Other Fees

The Company did not incur any other fees related to services rendered by our principal accountant for the fiscal years ended December 31, 2010 and 2009.

Pursuant to the requirements of Section 13 or 15(d) 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.

Effective May 6, 2003, the Securities and Exchange Commission adopted rules that require that before our auditor is engaged by us or our subsidiaries to render any auditing or permitted non-audit related service, the engagement be:

- approved by our audit committee; or
- entered into pursuant to pre-approval policies and procedures established by the audit committee, provided the policies and procedures are detailed as to the particular service, the audit committee is informed of each service, and such policies and procedures do not include delegation of the audit committee's responsibilities to management.

Our entire board of directors pre-approves all services provided by our independent auditors. The pre-approval process has just been implemented in response to the new rules. Therefore, our board of directors does not have records of what percentage of the above fees were pre-approved. However, all of the above services and fees were reviewed and approved by the entire board of directors either before or after the respective services were rendered.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

a) Documents filed as part of this Annual Report

1. Consolidated Financial Statements

2. Financial Statement Schedules

3. Exhibits

ExhibitsTitle

#

14 Code of Ethics (incorporated by reference to Form 10-K filed on March 31, 2009)

31.1 Certification of President, Chief Executive Officer, Chief Financial Officer, Chairman of the Board of Directors Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of President, Chief Executive Officer, Chief Financial Officer, Chairman of the Board of Directors Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

41

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, there unto duly authorized.

DATA STORAGE CORPORATION

Dated April 15 , 2011

By: /s/ Charles M. Piluso
President, Chief Executive Officer
Chief Financial Officer
Principal Executive Officer
Principal Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature(s) | Title | Date |
|----------------------|--|----------------|
| /s/Charles M. Piluso | President, Chief Executive Officer | April 15, 2011 |
| Charles M. Piluso | Chief Financial Officer Principal Executive Officer Principal Accounting Officer | |