

Data Storage Corp
Form 10-Q
May 17, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2010

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

For the transition period from _____ to _____.

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

NEVADA
(State or other jurisdiction of
incorporation or organization)

333-148167
(Commission File No.)

98-0530147
(IRS Employee Identification No.)

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

(212) 564-4922
(Issuer Telephone number)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

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

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

State the number of shares outstanding of each of the issuer's classes of common equity, as of May 17, 2010: 13,670,399 shares of Common Stock.

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FORM 10-Q
March 31, 2010
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PART I – Financial Information

Item 1. Consolidated Financial Statements

DATA STORAGE CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

| | March 31, 2010 | December 31, 2009 |
|---|-------------------|-------------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$65,386 | \$28,160 |
| Accounts receivable (less allowance for doubtful accounts of \$17,000 in 2010 and \$26,472 in 2009) | 87,631 | 30,378 |
| Inventory | 6,500 | - |
| Deferred compensation | 70,535 | 101,160 |
| Prepaid expense | 11,196 | 21,103 |
| Total Current Assets | 241,248 | 180,801 |
| Property and Equipment: | | |
| Property and equipment | 1,219,002 | 1,221,706 |
| Less—Accumulated depreciation | (943,290) | (913,383) |
| Net Property and Equipment | 275,712 | 308,323 |
| Other Assets: | | |
| Deferred compensation | 26,306 | 28,628 |
| Security deposit | 11,760 | 11,760 |
| Intangible Asset - Acquired Customer Base | 133,481 | 135,931 |
| Employee loan | 23,000 | 23,000 |
| Total Other Assets | 194,547 | 199,319 |
| Total Assets | 711,507 | 688,443 |
| LIABILITIES AND STOCKHOLDERS' DEFICIENCY | | |
| Current Liabilities: | | |
| Accounts payable | 91,348 | 82,698 |
| Accrued expenses | 26,641 | 21,267 |
| Credit line payable | 99,970 | 99,970 |
| Due to related party | 39,218 | 34,718 |
| Dividend Payable | 87,500 | 75,000 |
| Deferred revenue | 11,571 | 36,869 |
| Total Current Liabilities | 356,248 | 350,522 |
| Deferred rental obligation | 27,796 | 28,642 |
| Due to officer | 603,219 | 379,025 |
| Total Long Term Liabilities | 631,015 | 407,667 |
| Commitments and contingencies | - | - |
| Stockholders' Deficiency: | | |
| Preferred Stock, \$.001 par value; 10,000,000 shares authorized; 1,401,786 shares issued and outstanding in both periods | 1,402 | 1,402 |
| Common stock, par value \$0.001; 250,000,000 shares authorized; 13,670,399 shares issued and outstanding in both periods | 13,670 | 13,670 |

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| | | |
|--|-------------|-------------|
| Additional paid in capital | 4,812,040 | 4,808,558 |
| Accumulated deficit | (5,102,868) | (4,893,376) |
| Total Stockholders' Equity (Deficit) | (275,756) | (69,746) |
| Total Liabilities and Stockholders' Equity (Deficit) | \$711,507 | 688,443 |

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

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

| | Three Months Ended | |
|---|--------------------|-------------------|
| | March 31, 2010 | March 31, 2009 |
| Sales | \$243,692 | \$139,373 |
| Cost of sales | 164,320 | 86,629 |
| Gross Profit | 79,373 | 49,744 |
| Selling, general and administrative | 275,007 | 262,687 |
| Loss from Operations | (195,635) | (212,943) |
| Other Income (Expense) | | |
| Interest income | - | 177 |
| Interest expense | (1,357) | (1,312) |
| Total Other (Expense) | (1,357) | (1135) |
| Loss before provision for income taxes | (196,992) | (214,078) |
| Provision for income taxes | - | - |
| Net Loss | (196,992) | (214,078) |
| Preferred Stock Dividend | (12,500) | (12,500) |
| Net Loss Available to Common Shareholders | \$(209,492) | \$(226,578) |
| Loss per Share – Basic and Diluted | \$(0.02) | \$(0.02) |
| Weighted Average Number of Shares - Basic and Diluted | 13,670,399 | 12,473,214 |

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

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

| | Three Months Ended | |
|---|--------------------|-------------------|
| | March 31, 2010 | March 31, 2009 |
| Cash Flows from Operating Activities: | | |
| Net loss | (196,992) | (214,078) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 32,356 | 34,798 |
| Deferred Compensation | 32,946 | - |
| Stock Based Compensation | 3,482 | - |
| Allowance for doubtful accounts | (9,742) | (25,000) |
| Changes in Assets and Liabilities: | | |
| Accounts receivable | (47,511) | 7,179 |
| Inventory | 6,500 | - |
| Deferred Rent | (3,092) | - |
| Other Assets | 3,408 | 7,854 |
| Accounts payable | 8,650 | 18,831 |
| Accrued expenses | 5,374 | (3,445) |
| Deferred Revenue | (25,298) | (2,136) |
| Due to Related Party | 4,500 | 3,218 |
| Net Cash Used in Operating Activities | (189,672) | (172,779) |
| Cash Flows from Investing Activities: | | |
| Cash paid for equipment | - | (3,000) |
| Disposal of Equipment | 2,705 | - |
| Net Cash Provided by (Used in) Investing Activities | 2,705 | (3,000) |
| Cash Flows from Financing Activities: | | |
| Advances from credit line | - | - |
| Advances from shareholder | 224,193 | 1,213 |
| Net Cash Provided by Financing Activities | 224,193 | 1,213 |
| Increase (Decrease) in Cash and Cash Equivalents | 37,226 | (174,566) |
| Cash and Cash Equivalents, Beginning of Period | 28,160 | 289,061 |
| Cash and Cash Equivalents, End of Period | 65,386 | 114,495 |
| NONCASH INVESTING AND FINANCING ACTIVITIES: | | |
| Preferred dividend accrued | 12,500 | 12,500 |

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

DATA STORAGE CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2010 AND 2009

Note 1 Basis of presentation, organization and other matters

On October 20, 2008, Euro Trend Inc. ("Euro Trend") acquired all of the outstanding capital stock of Data Storage Corporation ("Data Storage"). Data Storage became a wholly owned subsidiary of Euro Trend. On January 6, 2009 Euro Trend, Inc. filed with the state of Nevada changing its name to Data Storage Corporation. The business of Data Storage was the only business of Euro Trend after the acquisition.

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 derives its revenues from the sale of solutions that provide businesses protection of critical electronic data. Primarily, these services consist of email storage and compliance solutions; off site data back up; continuous data protection; data duplication; high availability replication and virtual tape libraries for disaster recovery and business continuity. The Company has Data Centers in Westbury, New York and maintains equipment under a strategic alliance with Broadsmart a VoIP company in Fort Lauderdale, Florida to provide redundant data protection.

Condensed Consolidated Financial Statements

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

Liquidity

The financial statements have been prepared using accounting principles generally accepted in the United States of America applicable for a going concern, which assumes that the Company will realize its assets and discharge its liabilities in the ordinary course of business. For the three months ended March 31, 2010, the Company has generated revenues of \$243,692 but has incurred a net loss of \$196,992. Its ability to continue as a going concern is dependent upon achieving sales growth, reduction of operation expenses and ability of the Company to obtain the necessary financing to meet its obligations and pay its liabilities arising from normal business operations when they come due, and upon profitable operations. The Company has been funded by the CEO and majority shareholder since inception. 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 Accounting Pronouncements

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

In April 2010, the FASB issue ASU 2010-17, Revenue Recognition – Milestone Method (“ASU 2010-17”). ASU 2010-17 provides guidance on the criteria that should be met for determining whether the milestone method of revenue recognition is appropriate. A vendor can recognize consideration that is contingent upon achievement of a milestone in its entirety as revenue in the period in which the milestone is achieved only if the milestone meets all criteria to be considered substantive. The following criteria must be met for a milestone to be considered substantive. The consideration earned by achieving the milestone should 1. Be commensurate with either the level of effort required to achieve the milestone or the enhancement of the value of the item delivered as a result of a specific outcome resulting from the vendor’s performance to achieve the milestone. 2, Related solely to past performance. 3. Be reasonable relative to all deliverables and payment terms in the arrangement. No bifurcation of an individual milestone is allowed and there can be more than one milestone in an arrangement. Accordingly, an arrangement may contain both substantive and nonsubstantive milestones. ASU 2010-17 is effective on a prospective basis for milestones achieved in fiscal years, and interim periods within those years, beginning on or after June 15, 2010. Management is currently evaluating the potential impact of ASU 2010-17 on our financial statements.

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

Note 2 Summary of Significant Accounting Policies

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Estimated Fair Value of Financial Instruments

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

Revenue Recognition

The Company’s revenues consist principally of storage revenues. Storage revenues consist of monthly charges related to the storage of materials or data (generally on a per unit basis). Sales are generally recorded in the month the service is provided. For customers who are billed on an annual basis, deferred revenue is recorded and amortized over the life of the contract.

Inventory

Inventories are stated at the lower of cost or market determined by the first in, first out method and consist of equipment held for re-sale.

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 because under the treasury stock method the average market price of the Company's common stock was less than the exercise prices of the warrants, and therefore they are not included in the calculation. Potentially dilutive securities at March 31, 2010 include 190,285 warrants and 2,924,434 options.

For the three months ended March 31, 2010 and 2009 the company had two customers that represented approximately 35% and 13% of sales, respectively.

Note 3 Related Party Transactions

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

During the three months ended March 31, 2010 the Chief Executive Officer advanced the Company \$224,193. As of March 31, 2010 the Company owed the Chief Executive Officer \$603,219. These advances bear no interest and have no stated terms of repayment.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Company Overview

Data Storage Corporation f/k/a Euro Trend Inc. was incorporated on March 27, 2007 under the laws of the State of Nevada intending to commence business operations by distributing high-end European made designer clothing in mass wholesale and retail markets throughout Western Europe, Canada and the United States of America. 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 93,500,000 shares of our common stock to the Data Storage Shareholders.

Data Storage Corporation derives its revenues from the sale of solutions that provide businesses protection of critical electronic data. Primarily, these services consist of email storage and compliance solutions; off site data back up; continuous data protection; data duplication; high availability replication and virtual tape libraries for disaster recovery and business continuity. The Company has Data Centers in Westbury, New York and maintains equipment under a strategic alliance with Broadsmart a VoIP company in Fort Lauderdale, Florida to provide redundant data protection.

We service customers from our New York premises which consist of modern offices and a technology suite adapted to meet the needs of a technology based business. Our primary role is to provide, maintain and develop the network hub hardware and software to meet the needs of our customers.

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

Three months ended March 31, 2010 as compared to the three months ended March 31, 2009

Net sales. Net sales for the three months ended March 31, 2010 were \$243,692 an increase of \$104,319, or 74.85%, compared to \$139,373 for the three months ended March 31, 2009. The increase in sales for is primarily the addition of equipment sales by the quarter.

Cost of sales. For the three months ended March 31, 2010, cost of sales increased to \$164,320 an increase of \$74,691 from \$86,629 for the three months ended March 31, 2009. The increase is due to the addition of managed services which are provided on a resale basis. The Company's gross margin decreased to 32.6% for the three months ended March 31, 2010 as compared to 35.7% for the three months ended March 31, 2009. The addition of managed services which carry a lower gross margin combined with the addition of equipment sales accounted for the decrease.

Operating Expenses. For the three months ended March 31, 2010 operating expenses were \$275,007 an increase of \$12,320 4.7% as compared to \$262,687 for the three months ended March 31, 2009

Interest Expense. Interest expense for the three months ended March 31, 2010 increased to \$1,357 from \$1,312 for the three months ended March 31, 2009. For the three months ended March 31, 2010 and March 31, 2009, interest expense was related to a \$100,000 line of credit which was opened January 31, 2008.

Net Income (Loss). Net loss for the three months ended March 31, 2010 was \$196,992 a decrease of \$17,086 as compared to net loss of \$214,078 for the three months ended March 31, 2009.

Liquidity and Capital Resources

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

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

During the 3 months ended March 31, 2010 the company's cash increased \$37,226 to \$65,386.

The Company's working capital was (\$115,000) at March 31, 2010, increasing, \$54,721 from (\$169,721) December 31, 2009.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4T. Controls and Procedures

a) Evaluation of Disclosure Controls. Pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 ("Exchange Act"), the Company carried out an evaluation, with the participation of the Company's management, including the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") (the Company's principal financial and accounting officer), of the effectiveness of the Company's disclosure controls and procedures (as defined under Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report. Based upon that evaluation, the Company's CEO and CFO concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Company's CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

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

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

None.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. (Removed and Reserved)

None.

Item 5. Other Information.

None

Item 6. Exhibits.

(a) Exhibits

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

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

SIGNATURES

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

DATA STORAGE
CORPORATION

Date: May 17, 2010

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