Data Storage Corp
Form 10-Q
May 16, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2011

or

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

For the transition period from ______to______.

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

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

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

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

Not Applicable
(Former name, former address and former fiscal year, 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 Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the issuer was

required to file such reports), and (2)has been subject to such filing requirements for the past 90 days.
Yes x No o

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

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

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

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

As of May16, 2011 21,501,111 shares of common stock, 0.001 par value were issued and outstanding.

DATA STORAGE CORPORATION
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PART I-- FINANCIAL INFORMATION

PART II-- OTHER INFORMATION

PART I – Financial Information

ITEM 1. FINANCIAL STATEMENTS

DATA STORAGE CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

	March 31, 2011 (unaudited)	December 31, 2010
ASSETS		
Current Assets:		
Cash and cash equivalents	$1,081,493	$50,395
Accounts receivable (less allowance for doubtful accounts of $24,500 in 2011 and $17,000 in 2010)	417,688	387,697
Deferred compensation	17,562	17,562
Prepaid expense	115,408	63,215
Total Current Assets	1,632,151	518,869
Property and Equipment:		
Property and equipment	2,213,516	2,031,771
Less—Accumulated depreciation	(1,323,152)	(1,200,448)
Net Property and Equipment	890,364	831,323
Other Assets:		
Goodwill	2,201,828	2,201,828
Deferred compensation	32,246	44,176
Other assets	16,509	18,652
Intangible Assets, net	1,115,815	1,169,404
Employee loan	23,000	23,000
Total Other Assets	3,389,398	3,457,060
Total Assets	5,911,913	4,807,252
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current Liabilities:		
Accounts payable and accrued expenses	768,539	1,070,036
Credit line payable	99,970	99,970
Due to related party	57,218	52,718
Dividend payable	125,000	125,000
Deferred revenue	604,031	461,724
Leases payable	309,688	325,934
Loans payable	90,020	122,251
Contingent consideration in SafeData acquisition	801,511	805,087
Total Current Liabilities	2,855,977	3,062,720
Deferred rental obligation	25,157	26,065
Due to officer	614,628	614,628
Loan payable long term	151,491	151,491
Leases payable long term	249,170	115,533

Convertible debt	24,826	18,928
Convertible debt – related parties	297,911	227,138
Total Long Term Liabilities	1,363,183	1,153,782
Total Liabilities	4,219,160	4,216,502
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; 21,501,111 and 17,860,334 shares issued and outstanding, respectively	21,500	17,861
Additional paid in capital	8,826,183	7,313,844
Accumulated deficit	(7,156,332)	(6,742,357)
Total Stockholders' Equity (Deficit)	1,692,753	590,750
Total Liabilities and Stockholders' Equity (Deficit)	$5,911,913	$4,807,252

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, 2011	Three Months Ended March 31, 2010
Sales	$872,155	243,692
Cost of sales	575,322	164,320
Gross Profit	296,833	79,373
Selling, general and administrative	577,475	275,007
Loss from Operations	(280,642)	(195,635)
Other Income (Expense)		
Interest income	520	-
Interest expense	(121,353)	(1,357)
Total Other (Expense)	(120,833)	(1,357)
Loss before provision for income taxes	(401,475)	(196,992)
Provision for income taxes	-	-
Net Loss	(401,475)	(196,992)
Preferred Stock Dividend	(12,500)	(12,500)
Net Loss Available to Common Shareholders	$(413,975)	(209,492)
Loss per Share – Basic and Diluted	$(0.02)	(0.02)
Weighted Average Number of Shares - Basic and Diluted	18,467,130	13,670,399

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, 2011	Three Months Ended March 31, 2010
Cash Flows from Operating Activities:		
Net loss	$ (401,475)	$ (196,992)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	176,293	32,356
Allowance for doubtful accounts	-	(9,742)
Stock based compensation	15,980	3,482
Amortization of debt discount	76,671	-
Deferred compensation	11,930	32,946
Changes in Assets and Liabilities:		
Accounts receivable	(29,991)	(47,511)
Inventory	-	6,500
Prepaid expenses	(6,443)	-
Other assets	2,145	(3,408)
Accounts payable & accrued expenses	(338,298)	14,024
Deferred revenue	142,307	(25,298)
Deferred rent	(908)	(3,092)
Due to related party	4,500	4,500
Net Cash Used in Operating Activities	(347,289)	(189,672)
Cash Flows from Investing Activities:		
Disposal of equipment	-	2,705
Net Cash Provided by Investing Activities	-	2,705
Cash Flows from Financing Activities:		
Proceeds from the issuance of common stock	1,500,000	-
Advances from officer	-	224,193
Repayments of capital lease obligations	(85,806)	-
Repayments of loan obligations	(35,807)	-
Net Cash Provided by Financing Activities	1,378,387	224,193
Increase in Cash and Cash Equivalents	1,031,098	37,226
Cash and Cash Equivalents, Beginning of Period	50,395	28,061
Cash and Cash Equivalents, End of Period	$ 1,081,493	$ 65,386
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$ 12,130	$ 1,357
Cash paid for income taxes	$ -	$ -

Noncash Investing and Financing Activities:				
Accrual of Preferred Stock Dividend	$	12,500	$	12,500
Investment in additional equipment under capital lease	$	181,746	$	-

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

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DATA STORAGE CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2011 AND 2010

Note 1 - Basis of presentation, organization and other matters

Data Storage Corporation, (the "Company") provides Hybrid Cloud solutions and services as 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 from SafeData LLC 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, wepaid 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.

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.

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, 2011 are not necessarily indicative of the results of operations for the full year. When reading the financial information contained in this Quarterly Report, reference should be made to the financial statements, schedule and notes contained in the

Company's Annual Report on Form 10-K for the year ended December 31, 2010

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 monthsended March 31, 2011, the Company has generated revenues of $872,155 but has incurred a net loss of $401,475. 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 price on the day the stock was awarded multiplied by the number of shares awarded.

Recently Issued Accounting Pronouncements

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

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

Note 2 - Summary of Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

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

Interim Financial Statements

The interim consolidated financial statements are unaudited; however, in the opinion of management, they contain all the adjustments (consisting of those of a normal recurring nature) considered necessary to present fairly the financial position, the results of operations and cash flows for the periods presented in conformity with GAAP applicable to interim periods. The interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements of Data Storage Corporation in its Annual Report.

Estimated Fair Value of Financial Instruments

The Company's financial instruments include cash, accounts receivable, accounts payable, line of credit and due to related parties. Management believes the estimated fair value of these accounts at March 31, 2011 approximate their carrying value as reflected in the balance sheets due to the short-term nature of these instruments or the use of market interest rates for debt instruments. The carrying values of certain of the Company’s notes payable and capital lease obligations approximate their fair values based upon a comparison of the interest rate and terms of such debt given the level of risk to the rates and terms of similar debt currently available to the Company in the marketplace. It is not practical to estimate the fair value of certain notes payable, the convertible debt and the liability for contingent compensation from acquisition. In order to do so, it would be necessary to obtain an independent valuation of these unique instruments. The cost of that valuation would not be justified in light of the circumstances.

Goodwill and Other Intangibles

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

Revenue Recognition

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

Net Income (Loss) per Common Share

In accordance with FASB ASC 260-10-5 Earnings Per Share, basic income (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing net income (loss) adjusted for income or loss that would result from the assumed conversion of potential common shares from contracts that may be settled in stock or cash by the weighted average number of shares of common stock, common stock equivalents and potentially dilutive securities outstanding during each period. The inclusion of the potential common shares to be issued has an anti-dilutive effect on diluted loss per share and therefore are not included in the calculation. Potentially dilutive securities at March 31, 2011 include 3,670,169 options and 3,225,865 warrants.

Concentrations

For the three months ended March 31, 2011 the company had one customer that represented approximately 16.29% of sales and for the three months ended March 31, 2010, had two customers that represented approximately 35% of sales.

Note 3 – Property and Equipment

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

	March 31, 2011	December 31, 2010
Storage equipment	$1,795,005	$1,613,259
Website and software	169,833	169,833
Furniture and fixtures	22,837	22,837
Computer hardware and software	84,591	84,592
Data Center	141,250	141,250
	2,213,516	2,031,771
Less: Accumulated depreciation	1,323,152	1,200,448
Net property and equipment	$890,364	$831,323

Depreciation expense for the three months ended March 31, 2011 and 2010 was $122,704 and $29,906, respectively.

Note 4 – Goodwill and Intangible Assets
Goodwill and Intangible assets consisted of the following:

	Estimated life in years	March 31, 2011

		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	227,895
Non-compete agreements	4	262,147	51,883
Total Intangible Assets		1,395,593	279,778
Total Goodwill and Intangible Assets		$3,597,421	$ 279,778

Scheduled amortization over the next five years as follows:

Twelve months ending March 31,			
2012		$	214,356
2013			214,357
2014			214,357
2015			193,477
	Total	$	836,547

Amortization expense for the three monthsended March 31, 2011 and 2010was $53,589 and $2,450, respectively.

Note 5 – Capital lease obligations

The Company acquired capital leases in the acquisition of Safe Data. The economic substance of the leases is that the Company is financing the acquisitions through the leases and accordingly, they are recorded in the Company's assets and liabilities. The leases are payable to Systems Trading, Inc and IBM with combined monthly installments of $31,357 through various dates in 2011, 2012 and 2013. 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 March 31, 2011	$592,518
Less amount representing interest	(33,660)
Total obligations under capital leases	558,858
Less current portion of obligations under capital leases	(309,688)
Long-term obligations under capital leases	$249,170

Long-term obligations under capital leases at March 31, 2011 mature as follows:

For the period ending March 31,	
2012	$309,688
2013	211,600
2014	37,570
	$558,858

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

Equipment	$548,278
Less: accumulated depreciation	(107,847)
	$440,431

Note 6 – Commitments and contingencies

Note Payable

On August 04, 2010, the Company entered into a note payable with Systems Trading, LLC in settlement ofpast due balances owed by Safe Data related to certain capital leases. The note bears interest at 4%, and is due in 24 equal installments of $11,927 commencing February 4, 2011 through January 04, 2013.The note payable balance as of March 31, 2011 is $241,511.

Total maturities of the long term debt are as follows:

For the period ended March 31,

	2012	$	90,020
	2013		151,491
		$	241,511

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:

Period Ending March 31,:

2012	$	127,112
2013		76,541
2014		78,838
2015		19,854
	$	302,345

Note 7 - Related Party Transactions

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

As of March 31, 2011the Company owed the Chief Executive Officer $614,628. These advances bear no interest and have no stated terms of repayment. No advances were made during the three months ended March 31, 2011.

Note 8 - Stockholders' Equity

During the three months ended March 31, 2011 the Company did not issue any common stock options.

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

	Number of Shares Under Options		Range of Option PricePer Share		Weighted Average Exercise Price
Options Outstanding at January 1, 2011	3,670,169	$	.02 - .36	$	0.137
Options Granted	-		-		-
Options Exercised	-		-		-

Options Cancelled	-	-	-
Options Outstanding at March 31, 2011	3,670,169	.02 - .36	0.137
Options Exercisable at March 31, 2011	2,582,622	.02 - .36	0.137

Share-based compensation expense for options totaling $15,980and $3,482 was recognized in our results for the three months ended March 31, 2011and 2010, respectively is based on awards vested. The options were valued at the grant date at $366,014 and are being amortized over five (5) years.

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 are set forth in the table below.

	2010
Weighted average fair value of options granted	$ 0.35
Risk-free interest rate	2.54 – 3.57%
Volatility	77.45 – 117.62 %
Expected life (years)	10
Dividend yield	0.00%

As of March 31, 2011, there was $256,302 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

There were no common stock warrants granted during the three months ended March 31, 2011.

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, 2011	3,225,865	$ 0.01 - 0.02	$ .01
Warrants Granted	-	-	-
Warrants Exercised	-	-	-
Warrants Cancelled	-	-	-
Warrants Outstanding at March 31, 2011	3,225,865	0.01 – 0.02	.01
Warrants exercisable at March 31, 2011	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%

Note 9 – Convertible debt

On May 21, 2010 the Company entered into three security purchase agreements including $1,000,000 of convertible notes payable along with 3,014,437 warrants to purchase common stock of the company at $.01. Each note is convertible into common stock at an exercise price of $.39.

At their commitment date, each convertible promissory note was tested for a beneficial conversion feature by comparing the effective conversion price to the fair value of the Company’s stock. The Company recognized a beneficial conversion feature of $410,256 which was recorded as a discount to the convertible promissory notes with an offset to additional paid-in capital. Additionally, the relative fair value of the warrants of $509,800 was calculated and recorded as a further reduction to the carrying amount of the convertible debt and as an addition to paid-in capital. The Company is amortizing the debt discount over the term of the debt. Amortization of debt discount for the three months ended March 31, 2011and 2010 was $76,671 and $0, respectively.

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

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

Company Overview

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

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

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

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

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

Results of Operations

Three months ended March 31, 2011 as compared to the three months ended March 31, 2010

Net Sales. Net sales for the three months ended March 31, 2011 were $872,155, an increase of $628,463, or 257.9%, compared to $243,692 for the three months ended March 31, 2010. 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 three months ended March31, 2011, cost of sales was $575,322, an increase of $411,002 from $164,320 for the three months ended March 31, 2010. 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 34.0 % for the three months ended March 31, 2011 as compared to 32.6% for the three months ended March 31, 2010. In connection with the acquisition of Safe Data, 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 three months ended March 31, 2011 operating expenses were $577,475, an increase of $302,468 as compared to $275,007 for the three months ended March 31, 2010. The majority of the increase in operating expenses for the three months ended March 31, 2011 is a result of increased professional fees, amortization, salaries and marketing expenses in connection with the acquisition of SafeData. Professional fees increased $77,541 to $143,954 as compared to $66,413 for the three months ended March 31, 2010. Depreciation expense increased $51,654 to $55,241 as compared to $3,587 for the three months ended March 31, 2010. Salary expense increased $39,725 to $160,323 as compared to $120,598 for the three months ended March 31, 2010. Marketing expense increased $34,515 to $37,089 as compared to $2,574 for the three months ended March 31, 2010.

Interest Expense. Interest expense for the three months ended March 31, 2011 increased $118,996 to $121,353 from $1,357 for the three months ended March 31, 2010. For the three months ended March 31, 2011, interest expense was primarily related to convertible debt and contingent consideration, and the related interest and amortization of debt discount. For the three months ended March 31, 2010, interest expense was related to a $100,000 line of credit which was opened January 31, 2008.

Net Loss. Net loss for the three months ended March 31, 2011 was ($401,475) an increase of $204,483 as compared to net loss of ($196,992) for the three months ended March 31, 2010.

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 three months ended March 31, 2011 the company's cash increased $1,031,098 to $1,081,493 from $50,395 at December 31, 2010. Net cash of $347,289 was used in the Company's operating activities and net cash of $1,378,387 was provided by the company's financing activities. Cash from financing activities was the result of $1,500,000 from the issuance of stock, offset by $85,806 in payment of capital lease obligations and $35,807 in payment of loan obligations.

The Company's working capital deficiency was ($1,223,826) at March 31, 2011, increasing $1,320,025 from ($2,543,851) at December 31, 2010. The increase is primarily due to the issuance of stock for $1,500,000.

Off-Balance Sheet Arrangements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

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

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

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

None.

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

None.

Item 3. Defaults Upon Senior Securities.

There were no defaults upon senior securities during the period ended March 31, 2011.

Item 4. Removed and Reserved.

Item 5.Other Information.

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

Item 6. Exhibits

(a) Exhibits

Exhibits. No.	Description
10.1	Stock Purchase Agreement between Data Storage Corporation and John F. Coghlan [incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 7, 2011]
31.1	Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
32.1	Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.

SIGNATURES

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

	DATA STORAGE CORPORATION	
Date: May 16, 2011	By:	/s/ Charles M. Piluso Charles M. Piluso President, Chief Executive Officer Principal Financial Officer