

Data Storage Corp
Form 10-Q
November 16, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

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

For the transition period from _____ to _____

Commission File No. 001-35384

The number of shares of the registrant's common stock outstanding as of November 16, 2015 was 36,588,240.

DATA STORAGE CORPORATION

FORM 10-Q

September 30, 2015

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PART I**ITEM 1. Financial Statements****DATA STORAGE CORPORATION AND SUBSIDIARY****CONSOLIDATED BALANCE SHEETS**

| | September 30, 2015 | December 31, 2014 |
|---|-------------------------------|------------------------------|
| | (UNAUDITED) | |
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 38,085 | \$ 110,448 |
| Accounts receivable (less allowance for doubtful accounts of \$15,000 in 2015 and \$15,000 in 2014) | 138,270 | 114,556 |
| Prepaid expenses and other current assets | 266,075 | 118,768 |
| Total Current Assets | 442,430 | 343,772 |
| Property and Equipment: | | |
| Property and equipment | 3,904,242 | 3,889,799 |
| Less—Accumulated depreciation | (3,509,696) | (3,188,418) |
| Net Property and Equipment | 394,546 | 701,381 |
| Other Assets: | | |
| Goodwill | 2,201,828 | 2,201,828 |
| Employee loan | 85,800 | 76,100 |
| Other assets | 6,060 | 5,610 |
| Intangible assets, net | 358,092 | 449,276 |
| Investment in joint venture – at equity | 42,671 | 15,699 |
| Total Other Assets | 2,694,451 | 2,748,513 |
| Total Assets | 3,531,427 | 3,793,666 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| Current Liabilities: | | |
| Accounts payable and accrued expenses | 1,028,154 | 741,397 |
| Revolving credit facility | 90,292 | 100,292 |
| Due to related party | — | 245,601 |
| Dividend payable | 488,166 | 417,060 |
| Deferred revenue | 443,362 | 470,267 |
| Leases payable | 235,374 | 220,544 |

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| | | |
|--|--------------|--------------|
| Note payable – Enterprise Bank | 350,000 | |
| Convertible debt – related parties | 780,000 | 700,000 |
| Total Current Liabilities | 3,415,348 | 2,895,161 |
| Deferred rental obligation | 1,088 | 598 |
| Due to officer | | 1,065,762 |
| Leases payable | 403,252 | 568,959 |
| Note payable – Enterprise Bank | | 350,000 |
| Convertible debt – related parties | 1,311,363 | |
| Total Long Term Liabilities | 1,715,703 | 1,985,319 |
| Total Liabilities | 5,131,051 | 4,880,480 |
| Stockholders’ Deficit: | | |
| Preferred stock, \$.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; 36,588,240 shares issued and outstanding | 36,588 | 36,588 |
| Additional paid in capital | 12,752,694 | 12,678,811 |
| Accumulated deficit | (14,390,308) | (13,803,615) |
| Total Stockholders’ Deficit | (1,599,624) | (1,086,814) |
| Total Liabilities and Stockholders’ Deficit | \$ 3,531,427 | \$ 3,793,666 |

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 September 30, | | Nine Months Ended September 30, | |
|---|---|---------------|--|---------------|
| | 2015 | 2014 | 2015 | 2014 |
| Sales | \$ 930,686 | \$ 1,014,129 | \$2,988,503 | \$3,066,263 |
| Cost of sales | 612,916 | 535,392 | 1,865,380 | 1,681,658 |
| Gross Profit | 317,770 | 478,737 | 1,123,123 | 1,384,605 |
| Selling, general and administrative | 415,984 | 574,047 | 1,446,856 | 1,774,044 |
| Loss from Operations | (98,214) | (95,310) | (323,733) | (389,439) |
| Other Income (Expense) | | | | |
| Interest income | 1 | 18 | 2 | 42 |
| Interest expense | (71,893) | (62,333) | (218,828) | (138,589) |
| Net gain on equity method investment | 31,625 | 1,057 | 26,972 | 20,595 |
| Total Other Income (Expense) | (40,267) | (61,258) | (191,854) | (117,952) |
| Loss before provision for income taxes | (138,481) | (156,568) | (515,587) | (507,391) |
| Provision for income taxes | | | | |
| Net Loss | (138,481) | (156,568) | (515,587) | (507,391) |
| Preferred Stock Dividends | (24,294) | (22,215) | (71,106) | (63,925) |
| Net Loss Attributable to Common Stockholders | \$ (162,775) | \$ (178,783) | \$ (586,693) | \$ (571,316) |
| Loss per Share – Basic and Diluted | \$ (0.00) | \$ (0.01) | \$ (0.02) | \$ (0.01) |
| Weighted Average Number of Shares - Basic and Diluted | 36,588,240 | 36,135,897 | 36,588,240 | 36,129,220 |

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

**DATA STORAGE CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS**

(UNAUDITED)

| | Nine Months Ended September 30, | |
|---|--|--------------|
| | 2015 | 2014 |
| Cash Flows from Operating Activities: | | |
| Net loss | \$(515,587) | \$(507,391) |
| Adjustments to reconcile net loss to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | 412,462 | 512,916 |
| Amortization of debt discount | | 13,785 |
| Non cash interest expense | 158,673 | 56,877 |
| Deferred compensation | | 6,982 |
| Loan impairment | 18,300 | — |
| Net (gain) on equity method investment | (26,972) | (20,595) |
| Stock-based compensation | 73,883 | 104,441 |
| Changes in Assets and Liabilities: | | |
| Accounts receivable | (23,714) | (18,164) |
| Other assets | (450) | (802) |
| Prepaid expenses and other current assets | (147,307) | 30,621 |
| Employee loan | (28,000) | (18,370) |
| Accounts payable and accrued expenses | 128,084 | (38,019) |
| Deferred revenue | (26,905) | (180,896) |
| Deferred rent | 490 | (4,752) |
| Due to related party | | 32,108 |
| Net Cash (Used in) Provided by Operating Activities | 22,957 | (31,259) |
| Cash Flows from Financing Activities: | | |
| Issuance of convertible debt | 80,000 | |
| Repayments of capital lease obligations | (165,320) | (57,792) |
| Repayments of revolving credit facility | (10,000) | |
| Repayment of contingent consideration | | (6,204) |
| Advances from officer | | 132,584 |
| Net Cash (Used in) Provided by Financing Activities | (95,320) | 68,588 |
| Increase (Decrease) in Cash and Cash Equivalents | (72,363) | 37,329 |
| Cash and Cash Equivalents, Beginning of Period | 110,448 | 87,675 |
| Cash and Cash Equivalents, End of Period | \$38,085 | \$125,004 |
| Supplemental Disclosure of Cash Flow Information | | |
| Cash paid for interest | \$44,334 | \$40,865 |
| Cash paid for income taxes | \$ | \$ |

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Non cash investing and financing activities:

| | | |
|--|-------------|----------|
| Accrual of preferred stock dividend | \$71,106 | \$63,295 |
| Cashless exercise of stock options | | 462 |
| Conversion of due to related party to convertible debt | \$245,601 | \$ |
| Conversion of due to officer to convertible debt | \$1,065,762 | \$ |
| Acquisition of equipment under capital lease | \$14,443 | \$30,271 |

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

**DATA STORAGE CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014**

Note 1 - Basis of Presentation, Organization and Other Matters

Headquartered in Garden City, N.Y., Data Storage Corporation (“DSC” or the “Company”) offers its solutions and services to businesses within the healthcare, banking and finance, distribution services, manufacturing, construction, education, and government sectors.

DSC derives revenues from long term subscription services and professional services related to the implementation of subscription services that provide businesses in the education, government and healthcare industries protection of critical computerized data. In 2009, the Company’s revenues consisted primarily of offsite data backup, de-duplication, continuous data protection and Cloud Disaster Recovery solutions and protecting information for our clients. In 2010, DSC expanded its solutions based on the asset acquisition of SafeData. In 2012, DSC continued to assimilate organizations, expanded its technology as well as its technical group and positioned the new organization for growth. In October 2012, DSC purchased the software and assets of Message Logic.

DSC maintains equipment for cloud storage and cloud computing in our data centers in Illinois, Massachusetts, Rhode Island, and New York. DSC delivers its solutions over highly reliable, redundant and secure fiber optic networks with separate and diverse routes to the Internet. DSC’s 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.

Consolidated Financial Statements

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q. The results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the results of operations for the full year. The consolidated balance sheet at December 31, 2014 was derived from audited consolidated financial statements but does not include all disclosures required by accounting principles generally accepted in the United States of America. The other information in these consolidated financial statements is unaudited but, in the opinion of management, reflects all adjustments necessary for a fair presentation of the results for the periods covered. All such adjustments are of a normal recurring nature unless disclosed otherwise. These consolidated financial statements, including notes, have been prepared in accordance with the applicable rules of the Securities and Exchange Commission and do not include all of the information and disclosures required by

accounting principles generally accepted in the United States of America for complete financial statements. These consolidated financial statements should be read in conjunction with the consolidated financial statements and additional information as contained in our Annual Report on Form 10-K for the year ended December 31, 2014.

Liquidity

The financial statements have been prepared using accounting principles generally accepted in the United States of America applicable for a going concern, which assumes that the Company will realize its assets and discharge its liabilities in the ordinary course of business. For the nine months ended September 30, 2015, the Company has generated revenues of \$2,988,503 but has incurred a net loss attributable to common shareholders of \$586,693. 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 Mr. Charles M. Piluso, the Company's Chief Executive Officer ("CEO") and largest shareholder since inception as well as several Directors. It is the intention of Mr. Piluso to continue to fund the Company on an as needed basis.

Note 2 - Summary of Significant Accounting Policies

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 stock-based incentives for consultants and employees that over achieve. This plan is discretionary. The expense for this stock-based compensation is equal to the fair value of the stock that was determined by using closing price on the day the stock was awarded multiplied by the number of shares awarded. The Company records its options at fair value using the Black-Scholes valuation model.

Recently Issued and Newly Adopted Accounting Pronouncements

In May 2014, FASB issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers. The revenue recognition standard affects all entities that have contracts with customers, except for certain items. The new revenue recognition standard eliminates the transaction and industry-specific revenue recognition guidance under current GAAP and replaces it with a principle-based approach for determining revenue recognition. On July 9th the effective date was delayed one year by a vote by the FASB. Public business entities, certain not-for-profit entities, and certain employee benefit plans would apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application would be permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company has reviewed the applicable ASU and has not, at the current time, quantified the effects of this pronouncement, however it believes that there will be no material effect on the consolidated financial statements.

In June 2014, FASB issued Accounting Standards Update (ASU) No. 2014-12 Compensation - Stock Compensation (Topic 718), Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. A performance target in a share-based payment that affects vesting and that could be achieved after the requisite service period should be accounted for as a performance condition under Accounting Standards Codification (ASC) 718, Compensation - Stock Compensation. As a result, the target is not reflected in the estimation of the award's grant date fair value. Compensation cost would be recognized over the required service period, if it is probable that the performance condition will be achieved. The guidance is effective for annual periods beginning after December 15, 2015 and interim periods within those annual periods. Early adoption is permitted. Management has reviewed the ASU and believes that they currently account for these awards in a manner consistent with the new guidance; therefore there is no anticipation of any effect to the consolidated financial statements.

On August 2014, FASB issued Accounting Standards Update No. 2014-15, Presentation of Financial Statements - Going Concerns (Subtopic 205-40): Disclosures of Uncertainties about an Entity's Ability to continue as a Going Concern. The amendments require management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. Specifically, the amendments (1) provide a definition of the term substantial doubt, (2) require an evaluation every reporting period including interim periods, (3) provide principles for considering the mitigating effect of management's plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, (5) require an express statement and other disclosures when substantial doubt is not alleviated, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). The amendments in this Update are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The adoption of ASU 2014-15 is not expected to have a material impact on our financial position or results of operations.

In April 2015, the Financial Accounting Standards Board (FASB) issued ASU 2015-05, "Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." This ASU provides clarification on whether a cloud computing arrangement includes a software license. If a software license is included, the customer should account for the license consistent with its accounting of other software licenses. If a software license is not included, the arrangement should be accounted for as a service contract. This ASU is effective for annual reporting periods beginning after December 15, 2015, and interim periods within those years. Early adoption is permitted. The Company is currently evaluating the provisions of this guidance.

We have reviewed all FASB issued Accounting Standards Update ("ASU") accounting pronouncements and interpretations thereof that have effectiveness dates during the periods reported and in future periods. The Company has carefully considered the new pronouncements that alter previous generally accepted accounting principles and does not believe that any new or modified principles will have a material impact on the corporation's reported financial position or operations in the near term. The applicability of any standard is subject to the formal review of our financial management and certain standards are under consideration.

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

Principles of Consolidation

The consolidated financial statements include the accounts of the Company. All significant inter-company transactions and balances have been eliminated in consolidation.

Equity Investments

Equity investments in which the Company exercises significant influence but does not control and is not the primary beneficiary are accounted for using the equity method. The Company's share of its equity method investee's earnings or losses is included in other income in the accompanying Consolidated Statements of Operations.

Use of Estimates

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

Estimated Fair Value of Financial Instruments

The Company's financial instruments include cash, accounts receivable, accounts payable, line of credit and due to related parties. Management believes the estimated fair value of these accounts at September 30, 2015 approximates 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.

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 three and nine months ended September 30, 2015 and 2014 DSC did not have any customer concentrations.

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 the 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 September 30, 2015, the Company had a full valuation allowance against its deferred tax assets.

Goodwill and Other Intangibles

In accordance with GAAP, the Company tests goodwill and other intangible assets for impairment on at least an annual basis. Goodwill impairment exists if the net book value of a reporting unit exceeds its estimated fair value. The impairment testing is performed in two steps: (i) the Company determines impairment by comparing the fair value of a reporting unit with its carrying value, and (ii) if there is an impairment, the Company measures the amount of impairment loss by comparing the implied fair value of goodwill with the carrying amount of that goodwill. To determine the fair value of these intangible assets, the Company uses many assumptions and estimates using a market participant approach that directly impact the results of the testing. In making these assumptions and estimates, the Company uses industry accepted valuation models and set criteria that are reviewed and approved by various levels of management.

In September 2011, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2011-08, "Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment", to allow entities to use a qualitative approach to test goodwill for impairment. ASU 2011-08 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than

its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. The Company adopted ASU 2011-08 in fiscal 2013 and has performed qualitative assessments since that date.

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.

Impairment of Long-Lived Assets

In accordance with FASB ASC 360-10-35, we review our long-lived assets for impairment whenever events and circumstances indicate that the carrying value of an asset might not be recoverable. An impairment loss, measured as the amount by which the carrying value exceeds the fair value, is recognized if the carrying amount exceeds estimated undiscounted future cash flows.

Advertising Costs

The Company expenses the costs associated with advertising as they are incurred. The Company incurred \$27,325 and \$71,394 for advertising costs for the nine months ended September 30, 2015 and 2014, 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 would have an anti-dilutive effect on diluted loss per share and therefore they are not included in the calculation. Potentially dilutive securities at September 30, 2015 include 6,221,222 options and 133,334 warrants.

Note 3 - Property and Equipment

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

| | September 30, 2015 | December 31, 2014 |
|--------------------------------|-----------------------------------|----------------------------------|
| Storage equipment | \$2,205,243 | \$2,205,243 |
| Website and software | 622,667 | 622,667 |
| Furniture and fixtures | 23,861 | 23,861 |
| Computer hardware and software | 91,687 | 91,687 |
| Data center equipment | 960,784 | 946,341 |
| | 3,904,242 | 3,889,799 |
| Less: Accumulated depreciation | 3,509,696 | 3,188,418 |
| Net property and equipment | \$394,546 | \$701,381 |

Depreciation expense for the nine months ended September 30, 2015 and 2014 was \$321,278 and \$348,287, respectively.

Note 4 - Goodwill and Intangible Assets

Goodwill and intangible assets consisted of the following:

| | | September 30, 2015 | |
|---|--|---------------------------|-------------------------------------|
| | Estimated Life In Years | Gross Amount | Accumulated Amortization |
| Goodwill | Indefinite | \$2,201,828 | — |
| Intangible Assets | | | |
| Intangible assets not subject to amortization | | | |
| Trademarks | Indefinite | 294,268 | — |
| Intangible assets subject to amortization | | | |
| Customer list | 5 - 15 | 897,274 | 833,450 |
| Non-compete agreements | 4 | 262,147 | 262,147 |
| Total Intangible Assets | | 1,453,689 | 1,095,597 |
| Total Goodwill and Intangible Assets | | \$3,655,517 | \$ 1,095,597 |

Scheduled amortization over the next five years as follows:

For The Twelve Months Ending September 30,

| | |
|-------|----------|
| 2016 | \$30,635 |
| 2017 | 30,635 |
| 2018 | 2,554 |
| Total | \$63,824 |

Amortization expense for the nine months ended September 30, 2015 and 2014 was \$91,184 and \$164,629 respectively.

Note 5 – Investment in Joint Venture under the Equity Method

The Company has a 50% non-controlling ownership interest in Secure Infrastructure & Services, LLC who provides infrastructure-as-a-Service (IaaS) for IBM iSeries and AIX v7 systems, Power HA services and network infrastructure hardware and services as needed to support the IaaS and PowerHA implementation and ongoing needs for customers and services sold under the Company. ASC 810 requires the Company to evaluate non-consolidated entities periodically and as circumstances change to determine if an implied controlling interest exists. The Company has evaluated this equity investment during 2013 and concluded that this is a variable interest entity and the Company is not the primary beneficiary. Secure Infrastructure & Services, LLC's fiscal year end is December 31.

The following presents unaudited summary financial information for Secure Infrastructure & Services, LLC. Such summary financial information has been provided herein based upon the individual significance of this unconsolidated equity investment to the consolidated financial information of the Company.

**September
30,
2015**

| | |
|---------------------|------------|
| Current assets | \$ 311,477 |
| Non-current assets | \$ 52,279 |
| Current liabilities | \$ 281,175 |
| Members' equity | \$ 82,581 |

The investment balance carried on the Company's balance sheet amounts to \$42,671 as of September 30, 2015.

**Nine
months
Ended
September
30,
2015**

| | |
|--------------------|--------------|
| Net sales | \$ 1,264,040 |
| Gross profit | \$ 863,220 |
| Operating expenses | \$ 346,876 |
| Net income(loss) | \$ 53,944 |

The Company's share of the net income from Secure Infrastructure & Services, LLC for the nine months ended September 30, 2015 was \$26,972.

Note 6 – Capital Lease Obligations

The company entered into a new lease agreement with Systems Trading, Inc. on May 1, 2014 to refinance all outstanding leases into one capital lease. This lease obligation is payable to Systems Trading, Inc. with monthly installments of \$21,826 from June 1, 2014 through May 1, 2018. This lease is secured with the computer equipment and has been capitalized. Pursuant to Accounting Standards Codification (“ASC”) 470-50-40, Debt Modifications and Extinguishments-Derecognition, the Company determined that modification accounting applied to the refinancing. The new capital lease obligation has an effective interest rate of 7.22%.

On July 10, 2015 the Company entered into a lease with Systems Trading, Inc. The lease is for \$14,443, calls for monthly payments of \$420 and expires on August 1, 2018. It carries an interest rate of 3%.

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

| | |
|--|-----------|
| As of September 30, 2015 | \$690,474 |
| Less amount representing interest | (51,848) |
| Total obligations under capital leases | 638,626 |
| Less current portion of obligations under capital leases | (235,374) |
| Long-term obligations under capital leases | \$403,252 |

Future obligations under capital leases at September 30, 2015 mature as follows:

| | |
|---|-----------|
| For the Twelve Months Ending September 30, | |
| 2016 | \$235,374 |
| 2017 | 249,745 |
| 2018 | 153,507 |
| | \$638,626 |

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

| | |
|--------------------------------|--------------|
| Equipment | \$ 1,617,904 |
| Less: accumulated depreciation | 1,335,624 |
| | \$282,280 |

Note 7 - Commitments and Contingencies

Revolving Credit Facility

On January 31, 2008 the Company entered into a revolving credit line with a bank. The credit facility provides for \$100,000 at prime plus 0.5%, or 3.75% at September 30, 2015, and is secured by all assets of the Company and personally guaranteed by the Company's principal shareholder. As of September 30, 2015, the Company owed \$90,292 under this agreement.

Operating Leases

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

The lease for office space in Garden City, NY called for escalating monthly payments ranging from \$6,056 to \$6,617 plus a portion of the operating expenses through June 2014. This lease was renewed for an additional year in 2014 to extend through September 30, 2015 at the rate of \$6,617 per month. This lease was renewed again in 2015 for another additional year through September 30, 2016 at a rate of \$6,773 per month. The lease for office space in Warwick, RI calls for monthly payments of \$2,324 beginning February 1, 2014 which escalates to \$2,460 on February 1, 2017. This lease commenced on February 1, 2014 and continues through January 31, 2019.

Minimum obligations under these lease agreements are as follows:

| | |
|---|------------|
| For the Twelve Months Ending September 30, | |
| 2016 | \$ 105,641 |
| 2017 | 28,976 |
| 2018 | 29,520 |
| 2019 | 9,840 |

\$173,977

Rent expense for the nine months ended September 30, 2015 and September 30, 2014 was \$98,077 and \$91,640 respectively.

Other Leases

The Company currently leases data centers in Westbury, NY and Waltham, MA.

The Company leases space in a data center in Waltham, MA. The lease calls for monthly payments under an annually renewable contract for space and services. The payments are approximately \$29,000 per month depending upon services used and the current contract expires January 31, 2019.

Note 8 - Related Party Transactions

In 2014, the Company paid a monthly rent expense for a data center in NY of \$1,500, to a partnership owned by Mr. Piluso. For the three months ended September 30, 2014, the rent expense was \$4,500. The Company stopped using this facility in December 2014. The Company owed \$245,601 to this related party at December 31, 2014. In 2015, the Company converted this to convertible debt (see Note 9).

The Company's CEO, from time to time, advances money to fund the Company. These advances bear no interest and have no stated terms of repayment. As of December 31, 2014 the Company owed Mr. Piluso \$1,065,792 for such advances. In February 2015, the Company converted the \$1,065,762 to convertible debt (see Note 9).

Note 9 – Convertible Debt

Related Party

On January 31, 2012, the Company issued into a \$500,000 convertible promissory note to a director of the company in consideration of a loan in the amount of \$500,000. The note is convertible into shares of the Company's common stock at \$0.85 per share and carries interest at 10% per annum. Interest is payable quarterly through the maturity date of January 31, 2015. DSC has accrued interest on this note totaling \$183,288 and is in arrears on its interest payments. On May 13, 2015, the maturity date of the note was extended to May 6, 2016.

On February 28, 2013 the Company issued a \$100,000 convertible promissory note to a director of the company in consideration of a loan in the amount of \$500,000. The note is convertible into shares of the Company's common stock at \$0.15 per share and carries interest at 10% per annum. Interest is payable quarterly through the note's maturity date of February 28, 2014. The Company issued 66,667 warrants valued at of \$17,851 which was recorded as a discount to the convertible promissory note. In 2014, the Company defaulted on this note and is subject to additional interest of 5% per annum as well as additional 10% warrants for each year that it remains in default. DSC has accrued interest on this note totaling \$28,123. On May 13, 2015, the maturity date of the note was extended to May 6, 2016.

On August 9, 2013, the Company issued a \$100,000 convertible promissory note to the CEO of the Company in consideration of a loan in the amount of \$100,000. The convertible promissory note is convertible into shares of common stock of the Company at \$0.15 and carries interest at 10% per annum. Interest is payable quarterly through the note's maturity date of April 30, 2014. The Company issued 66,667 warrants valued at \$17,851 in connection with this note, which was recorded as a discount to the convertible promissory notes based on its relative fair value with an offset to additional paid in capital. In 2014, the Company defaulted on this note and is subject to additional interest of 5% per annum as well as the additional 10% warrants for each year in default. DSC has accrued interest on this note totaling \$23,712. On May 13, 2015, the maturity date was extended to May 6, 2016.

Effective January 1, 2015, the Company issued a \$1,189,439 convertible promissory note to the Company's CEO. This note was issued to convert debt that is owed to the CEO and to 875 Merrick LLC. The note carries interest at 10% per annum. Interest shall accrue and be payable in arrears on December 31, 2017. The note and all accrued and unpaid interest is convertible into shares of the Company's common stock at \$0.85 per share. DSC has accrued interest on this note totaling \$88,694.

Effective January 1, 2015, the Company issued a \$121,924 convertible promissory note to the Company's CEO. This note was issued to convert debt that is owed to the CEO and to 875 Merrick LLC. The note carries interest of 10% per annum. Interest shall accrue and be payable in arrears on December 31, 2016. The note and all accrued and unpaid interest is convertible into shares the Company's common stock at \$0.15 per share. DSC has accrued interest on this note totaling \$9,547.

On February 19, 2015 the Company issued a \$80,000 convertible promissory note to the the Company's CEO in consideration of an \$80,000 loan. The note carries interest at 10% per annum. Interest shall accrue and be payable in arrears on February 18, 2016. The note and all accrued and unpaid interest is convertible into shares of the Company's common stock at \$0.15 per share. DSC has accrued interest on this note totaling \$6,411.

Note 10 – Note Payable – Enterprise Bank

In connection with the 2012 acquisition of Message Logic, LLC, the Company acquired software subject to a UCC filing in the amount of \$350,000 plus accrued interest. On September 5, 2014 the Company entered into an agreement whereby the Company will pay all arrears interest over 7 months at \$3,910 per month. In addition, the Company has agreed to make monthly interest payments at \$1,553 per month with the principal balance of \$350,000 payable on April 30, 2016.

Note 11 - Stockholders' Deficit

Capital Stock

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

Common Stock Options

2008 Equity Incentive Plan

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

The material terms of options granted under the 2008 Plan (all of which have been nonqualified stock options) are consistent with the terms described in the footnotes to the "Outstanding Equity Awards at Fiscal Year-End December 31, 2011", including five year graded vesting schedules and exercise prices equal to the fair market value of our common stock on the date of grant. Stock grants made under the 2008 Plan have not been subject to vesting requirements. The 2008 Plan was terminated with respect to the issuance of new awards as of February 3, 2012. There are 2,235,599 options outstanding under this plan as of September 30, 2015.

2010 Incentive Award Plan

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

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

There are 3,985,623 options outstanding under this plan as of September 30, 2015. There were 1,154,854 shares available for future grants under the plan.

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

| | Number of Shares | Range of Option Price | Weighted Average Exercise Price |
|---|-----------------------------|----------------------------------|--|
| Options Outstanding at January 1, 2015 | 6,280,560 | \$ 0.02 - 0.46 | \$ 0.27 |
| Options Granted | — | — | — |
| Options Exercised | — | — | — |
| Options Expired | (59,338 |) 0.02 | 0.02 |
| Options Outstanding at September 30, 2015 | 6,221,222 | \$ 0.02 - 0.41 | \$ 0.27 |
| Options Exercisable at September 30, 2015 | 5,912,562 | 0.02 - 0.41 | \$ 0.28 |

Share-based compensation expense for options totaling \$73,833 and \$111,423 was recognized in the nine months ended September 30, 2015 and 2014, respectively.

The valuation methodology used to determine the fair value of the options issued during the year was the Black-Scholes option-pricing model. 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 options.

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.

As of September 30, 2015, there was \$133,027 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 1.7 years.

Common Stock Warrants

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

| | Number of Shares | Range of Warrants Price Per Share | Weighted Average Exercise Price |
|--|-----------------------------|--|--|
| Warrants Outstanding at January 1, 2015 | 133,334 | \$ 0.01-0.02 | \$ 0.01 |
| Warrants Granted | — | — | — |
| Warrants Exercised | — | — | — |
| Warrants Cancelled | — | — | — |
| Warrants Outstanding at September 30, 2015 | 133,334 | 0.01 - 0.02 | 0.01 |
| Warrants Exercisable at September 30, 2015 | 133,334 | 0.01 - 0.02 | 0.01 |

Note 12 - Litigation

The Company has been named as a defendant in a lawsuit filed in New York State Supreme Court, Nassau County, by Richard Rebetti, the Company's former Chief Operating Officer. In the lawsuit, Rebetti v. Data Storage Corp. and Charles M. Piluso, Rebetti asserted claims for unpaid wages in the amount of \$67,392 plus statutory damages and counsel fees. This litigation has been settled in accordance with a confidential agreement and a stipulation of discontinuance has been filed.

Note 13 – Subsequent Events

On October 16, 2015, the Company's Board of Directors approved and authorized the issuance of 69,240 stock options to a vendor. The options are exercisable at \$0.65 per share for a period of 10 years. The Board also approved a compensation plan for Stephen Catanzano providing for certain cash and equity compensation subject to certain M&A milestones being met.

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

This Quarterly Report on Form 10-Q contains forward looking statements, including without limitation, statements related to our plans, strategies, objectives, expectations, intentions and adequacy of resources. Investors are cautioned that such forward-looking statements involve risks and uncertainties including without limitation the following: (i) our plans, strategies, objectives, expectations and intentions are subject to change at any time at our discretion; (ii) our plans and results of operations will be affected by our ability to manage growth; and (iii) other risks and uncertainties indicated from time to time in our filings with the Securities and Exchange Commission.

In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "expect," "plans," "intends," "anticipates," "believes," "estimates," "predicts," "potential," or "continue" or the negative of such comparable terminology. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of such statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We are under no duty to update any of the forward-looking statements after the date of this report.

Company Overview

DSC is focused on infrastructure, disaster recovery and analytics. Our mission: Protecting our client's data, ensuring their business continuity, assisting in their compliance requirements and giving our clients better control over their information. We continue to stay on top of this dynamic industry with new solutions and services. Today, the Company owns intellectual property with our email archival and data analysis software, Message Logic. We provide recovery clouds for managed service providers, so that these companies can enter the industry of providing disaster recovery and business continuity solutions at a lower entry point. Our IBM solutions continue to grow with our newly formed joint venture, Secure Infrastructure and Services LLC, leading the way for infrastructure as a service on IBM's Power i systems.

DSC is a 14 year veteran in cloud storage and cloud computing providing data protection, disaster recovery, business continuity and compliance solutions that assist organizations in protecting their data, minimizing downtime and ensuring regulatory compliance. Serving the rapidly emerging business continuity market, DSC's clients save time and money, gain more control and better access to data and enable a high level of security for that data. Solutions include: Infrastructure-as-a-Service, data backup, recovery and restore, high availability data replication services; email archive and compliance solutions for e-discovery; continuous data protection; data de-duplication; and virtualized system recovery. DSC has forged relationships with leading organizations.

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

DSC derives its revenues from the sale and subscription of services and solutions DSC has equipment in several technical centers located in New York Metro, Boston, Chicago and New Jersey.

DSC services clients from its staffed technical offices in New York and Rhode Island, which consist of modern offices and a technology suite adapted to meet the needs of a technology based business. DSC's mission is to provide a high level of service to organizations that need to ensure that their data is intact and available upon demand.

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

RESULTS OF OPERATIONS

For the three months ended September 30, 2015 as compared to the three months ended September 30, 2014

Net Sales. Net sales for the three months ended September 30, 2015 were \$930,686, a decrease of \$83,443, or 8.2%, as compared to \$1,014,129 for the three months ended September 30, 2014. The decrease is attributable to a decrease in infrastructure revenue.

Cost of Sales. For the three months ended September 30, 2015, cost of sales were \$612,916, an increase of \$77,524, or 14.5%, compared to \$535,392 for the three months ended September 30, 2014. The increase in cost of sales is the result of an increase in infrastructure services. DSC's gross margin is 34.1% for the three months ended September 30, 2015 as compared to 47.2% for the three months ended September 30, 2014.

Operating Expenses. For the three months ended September 30, 2015, operating expenses were \$415,984, a decrease of \$158,063, or 27.5%, as compared to \$574,047 for the three months ended September 30, 2014. The majority of the decrease in operating expenses for September 30, 2015 is a result of a decrease in salaries. Sales salaries expense decreased \$37,939 to \$11,781 for the three months ended September 30, 2015 as compared to \$49,720 for the three months ended September 30, 2014. Management salaries decreased \$60,463 to \$47,233 for the three months ended September 30, 2015 as compared to \$107,696 for the three months ended September 30, 2014.

Other Income (Expense). Interest income for the three months ended September 30, 2015 decreased \$17 to \$1 from \$18 for the three months ended September 30, 2014. Interest expense (including amortization of debt discount) for the three months ended September 30, 2015 increased \$9,560 to \$71,893 from \$62,333 for the three months ended September 30, 2014. Income on the investment in joint venture at equity, increased \$30,568 to a gain of \$31,625 from a gain of \$1,057 in 2014, which was attributable to an increase in sales in 2015.

Net Loss. Net loss for the three months ended September 30, 2015 was (\$138,481) a decrease of \$18,087, or 11.6%, as compared to a net loss of (\$156,568) for the three months ended September 30, 2014.

For the nine months ended September 30, 2015 as compared to the nine months ended September 30, 2014

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Net Sales. Net sales for the nine months ended September 30, 2015 were \$2,988,503, a decrease of \$77,760, or 2.5%, compared to \$3,066,263 for the nine months ended September 30, 2014. The decrease is attributable to a decrease in infrastructure revenue.

Cost of Sales. For the nine months ended September 30, 2015, cost of sales were \$1,865,380, an increase of \$183,722, or 10.9%, compared to \$1,681,658 for the nine months ended September 30, 2014. The increase in cost of sales is the result of an increase in infrastructure services. DSC's gross margin is 37.6% for the nine months ended September 30, 2015 as compared to 45.2% for the nine months ended September 30, 2014.

Operating Expenses. For the nine months ended September 30, 2015, operating expenses were \$1,446,856, a decrease of \$327,188, or 18.4%, as compared to \$1,774,044 for the nine months ended September 30, 2014. The majority of the decrease in operating expenses for the nine months ended September 30, 2015 is a result of a decrease in salaries. Sales salaries expense decreased \$145,225 to \$53,021 for the nine months ended September 30, 2015 as compared to \$198,246 for the nine months ended September 30, 2014. Management salaries expense decreased \$58,418 to \$238,170 for the nine months ended September 30, 2015 as compared to \$296,588 for the nine months ended September 30, 2014. Advertising expense decreased \$44,069 to \$27,325 for the nine months ended September 30, 2015 as compared to \$71,394 for the nine months ended September 30, 2014.

Other Income (Expense). Interest income for the nine months ended September 30, 2015 decreased \$40 to \$2 from \$42 for the nine months ended September 30, 2014. Interest expense (including amortization of debt discount) for the nine months ended September 30, 2015 increased \$80,239 to \$218,828 from \$138,589 for the nine months ended September 30, 2014. Income on the investment in joint venture at equity, increased \$6,377 to a gain of \$26,972 from a gain of \$20,595 in 2014, which was attributable to an increase in sales in 2015.

Net Loss. Net loss for the nine months ended September 30, 2015 was \$515,587 an increase of \$8,196, or 1.6%, as compared to net loss of \$507,391 for the nine months ended September 30, 2014.

LIQUIDITY AND CAPITAL RESOURCES

The consolidated financial statements have been prepared using generally accepted accounting principles in the United States of America (“GAAP”) applicable for a going concern, which assumes that DSC will realize its assets and discharge its liabilities in the ordinary course of business. DSC has been funded by Mr. Charles M Piluso, DSC’s Chief Executive Officer and largest shareholder combined with private placements of DSC’s common stock. DSC 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 DSC on an as needed basis. In 2015, 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 nine months ended September 30, 2015 the Company’s cash decreased \$72,363 to \$38,085, from \$110,448 at December 31, 2014. Net cash of 22,957 was provided by the Company’s operating activities and cash of \$0 was used in investing activities. Net cash of \$95,320 was used in the Company’s financing activities, primarily due to the repayment of lease obligations and the issuance of \$80,000 of convertible debt.

The Company’s working capital deficit was \$2,972,918 at September 30, 2015, increasing \$421,529 or 16.5% from \$2,551,389 at December 31, 2014.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Sensitivity

Interest due on DSC's loans is based upon the applicable stated fixed contractual rate with the lender. Interest earned on DSC's bank accounts is linked to the applicable base interest rate. For the nine months ended September 30, 2015 and nine months ended September 30, 2014, DSC had interest expense including amortization of debt discounts and expense, net of interest income, of \$191,853 and \$138,547, respectively. DSC believes that its results of operations are not materially affected by changes in interest rates.

DSC's exposure to market risk is confined to its cash and cash equivalents, all of which have maturities of less than three months and bear and pay interest in U.S. dollars. Since DSC invests in highly liquid, relatively low yield investments, we do not believe interest rate changes would have a material impact on us.

DSC does not hold any derivative instruments and does not engage in any hedging activities.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures.

As of the end of the period covered by this Report, under the supervision and with the participation of DSC's management, including its principal executive officer and principal financial officer, DSC conducted an evaluation of its disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on this evaluation, DSC's principal executive officer and principal financial officers have concluded that DSC's disclosure controls and procedures are not effective to ensure that information required to be disclosed by DSC in the reports it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's (the "SEC") rules based on the material weakness described below.

The material weaknesses identified during management's assessment were (i) a lack of sufficient internal accounting expertise to provide reasonable assurance that our financial statements and notes thereto are prepared in accordance

with GAAP and (ii) a lack of segregation of duties to ensure adequate review of financial statement preparation. In light of these material weaknesses, management has concluded that, as of September 30, 2015, DSC did not maintain effective internal control over financial reporting. As defined by the Public Company Accounting Oversight Board Auditing Standard No. 5, a material weakness is a deficiency or a combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected. In order to ensure the effectiveness of DSC's disclosure controls in the future DSC intends on adding financial staff resources to our accounting and finance department.

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

Changes in Internal Control Over Financial Reporting.

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

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

We are currently not involved in any litigation that we believe could have a 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 DSC, its common stock, any of its subsidiaries or of DSC's or DSC's subsidiaries' officers or directors in their capacities as such, in which an adverse decision could have a material adverse effect.

Item 1A. Risk Factors.

As a smaller reporting company, as defined in Rule 12b-2 of the Exchange Act, we are not required to provide the information required by this Item.

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

There have been no equity securities sold by the Company or any repurchases by the Company during the period covered by this report.

Item 3. Defaults Upon Senior Securities.

There were no defaults upon senior securities during the period ended September 30, 2015.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information.

On May 13, 2015, Charles Piluso and the Company entered into a letter agreement whereby the maturity date of the Promissory Note dated February 28, 2014 in the principal amount of \$100,000 was extended to May 6, 2016.

On May 13, 2015, John F. Coghlan and the Company entered into a letter agreement whereby the maturity date of the Promissory Note dated February 28, 2014 in the principal amount of \$100,000 was extended to May 6, 2016.

On May 13, 2015, Clifford Stein and the Company entered into a letter agreement whereby the maturity date of the Promissory Note dated January 31, 2012 in the principal amount of \$500,000 was extended to May 6, 2016.

On July 1, 2015, an employee of the Company, Stephen Catanzano, was appointed as corporate secretary.

On July 6, 2015, Hal Schwartz was appointed to serve as a director of the Company.

There is no understanding or arrangement between Mr. Schwartz and any other person pursuant to which he was appointed as a director. Mr. Schwartz does not have any family relationship with any director, executive officer or person nominated or chosen by us to become a director. Mr. Schwartz has not had direct or indirect material interest in any transaction or proposed transaction, in which the Company was or is a proposed participant, exceeding \$120,000.

Since 1995, Mr. Schwartz has served as vice president of ABC Services, Inc., which he co-founded, where he is responsible for the strategic direction of the company, operations, business development, and sales. Over the past two decades, Mr. Schwartz has honed his expertise in IBM business systems, business continuity and helping organizations increase IT performance while reducing costs. In addition, Mr. Schwartz is the founder of Systems Trading Incorporated, a technology leasing company established in 1997, where Mr. Schwartz serves as the company's CEO and president. Prior to founding these two businesses, Mr. Schwartz was with CAC Leasing for six years, where he started a lease asset sales division in 1991. This division was established shortly after Mr. Schwartz earned his bachelor's degree in business from California State University in San Bernardino. Since 2010, Mr. Schwartz has served on the Board of Advisors for Data Storage Corporation.

Item 6. Exhibits

(a) Exhibits

(b) Exhibits

| # | Description |
|------|--|
| 3.1 | Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Registrant’s Registration Statement on Form SB-2 filed on December 17, 2007 (the “SB-2”)). |
| 3.2 | Certificate of Amendment to Articles of Incorporation (incorporated by reference to Exhibit 3.1 to Form 8-K filed on October 24, 2008). |
| 3.3 | Certificate of Amendment to Articles of Incorporation (incorporated by reference to Exhibit 3.1.1 on Form 8-K filed on January 6, 2009). |
| 3.4 | Bylaws (incorporated by reference to Exhibit 3.2 to the SB-2). |
| 3.5 | Amended Bylaws (incorporated by reference to Exhibit 3.2 to Form 8-K filed on October 24, 2008). |
| 4.1 | Share Exchange Agreement, dated October 20, 2008, by and among Euro Trend Inc., Data Storage Corporation and the shareholders of Data Storage Corporation named on the signature page thereto (incorporated by reference to Exhibit 10.1 to Form 8-K filed on October 24, 2008). |
| 4.2 | Share Exchange Agreement, dated October 20, 2008, by and among, Euro Trend Inc., Data Storage Corporation and the shareholders of Data Storage Corporation named on the signature page thereto (incorporated by reference to Exhibit 10.1 to Form 8-K/A filed on June 29, 2009). |
| 4.3 | Registration Rights Agreement, dated November 29, 2011, by and between Data Storage Corporation and Southridge Partners II, LP (incorporated herein by reference to Exhibit 10.2 to Form 8-K filed on December 2, 2011). |
| 4.4 | Equity Purchase Agreement, dated November 29, 2011, by and between Data Storage Corporation and Southridge Partners II, LP (incorporated herein by reference to Exhibit 10.2 to Form 8-K filed on December 2, 2011). |
| 4.5 | Convertible Promissory Note, dated February 28, 2013, by and between the Company and John F. Coghlan. (incorporated herein by reference to Exhibit 4.1 to Form 10-Q filed on May 20, 2013) |
| 4.6 | Warrant to Purchase Common Stock, dated February 28, 2013, by and between the Company and John F. Coghlan(incorporated herein by reference to Exhibit 4.2 to Form 10-Q filed on May 20, 2013) |
| 4.7 | Securities Purchase Agreement, dated February 28, 2013, by and between the Company and John F. Coghlan. (incorporated herein by reference to Exhibit 10.1 to Form 10-Q filed on May 20, 2013) |
| 4.8 | Securities Purchase Agreement between Charles M. Piluso and the Company dated as of August 9, 2013 (incorporated by reference to Exhibit 2.3 of Schedule 13D/A No. 1 filed by Charles M. Piluso on August 14, 2013 (File No. 005-84248). |
| 4.9 | 10% Convertible Promissory Note due April 30, 2014 (incorporated by reference to Exhibit 2.4 of Schedule 13D/A No. 1 filed by Charles M. Piluso on August 14, 2013 (File No. 005-84248)). |
| 4.10 | Warrant to Purchase Common Stock dated as of August 9, 2013 (incorporated by reference to Exhibit 2.5 of Schedule 13D/A No. 1 filed by Charles M. Piluso on August 14, 2013 (File No. 005-84248)). |
| 10.1 | Asset Purchase Agreement dated November 10, 2008, by and between Novastor Corporation as Seller and Data Storage Corporation as Purchaser (incorporated by reference to Exhibit 10.1 to Form 8-K filed on November 12, 2008). |
| 10.2 | |

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Joint Venture – Strategic Alliance Agreement, dated March 2, 2010, by and between Data Storage Corporation and United Telecomp, LLC (incorporated by reference to Exhibit 10.1 to Form 8-K filed on March 3, 2010).

10.3 Term Sheet for Acquisition by Data Storage Corporation of 80% of the Equity of e-ternity Business Continuity Consultants, Inc., dated May 16, 2012 (incorporated by reference to Exhibit 99.1 to Form 8-K, filed on May 30, 2012).

10.4 Term Sheet for Acquisition by Data Storage Corporation of Message Logic, Inc., dated August 31, 2012 (incorporated by reference to Exhibit 99.1 to Form 8-K filed on September 4, 2012).

10.5 Asset Purchase Agreement, dated June 17, 2010, between SafeData, LLC and Data Storage Corporation (incorporated by reference to Exhibit 10.1 to Form 8-K filed on June 23, 2010).

10.6 Asset Purchase Agreement dated October 31, 2012, by and between Data Storage Corporation and Message Logic, Inc. (incorporated by reference to Exhibit 2.1 to Form 8-K filed on January 30, 2013).

10.7 Stock Purchase Agreement, dated October 31, 2012, by and between Data Storage Corporation and Zojax Group, LLC (incorporated by reference to Exhibit 10. 1 to Form 8-K filed on November 7, 2012).

10.8 Form of Employment Agreement between Peter Briggs and Data Storage Corporation (incorporated by reference to Exhibit 10.2 to Form 8-K filed on June 23, 2010).

10.9 Data Storage Corporation 2010 Incentive Award Plan (incorporated by reference to Exhibit 10.1 on Form S-8/A filed on October 25, 2010).

- 10.10 Amended and Restated Data Storage Corporation 2010 Incentive Award Plan (incorporated by reference to Exhibit 10.1 to Form 8-K filed on April 26, 2012).
- 10.11 Stock Purchase Agreement, dated as of March 1, 2011, by and between Data Storage Corporation and John F. Coghlan (incorporated by reference to Exhibit 10.1 to Form 8-K filed on March 7, 2011).
- 10.12 Stock Purchase Agreement, dated September 7, 2012, by and between Data Storage Corporation and John F. Coghlan (incorporated by reference to Exhibit 2.1 to Form 8-K filed on September 13, 2012).
- 10.13 Stock Purchase Agreement, dated September 7, 2012, by and between Data Storage Corporation and Clifford Stein (incorporated by reference to Exhibit 2.2 to Form 8-K filed on September 13, 2012).
- 10.14 Stock Purchase Agreement, dated September 18, 2012, by and between Data Storage Corporation and Jan Burman (incorporated by reference to Exhibit 2.1 to Form 8-K filed on September 21, 2012).
- 10.15 Stock Purchase Agreement, dated September 18, 2012, by and between Data Storage Corporation and Charles M. Piluso (incorporated by reference to Exhibit 2.2 to Form 8-K filed on September 21, 2012).
- 10.16 Stock Purchase Agreement, dated September 18, 2012, by and between Data Storage Corporation and Piluso Family Associates (incorporated by reference to Exhibit 2.3 to Form 8-K filed on September 21, 2012).
- 14 Code of Ethics (incorporated by reference to Exhibit 14.1 to Form 10-K filed on March 31, 2009).
- 21 List of Subsidiaries of Data Storage Corporation (incorporated by reference to Exhibit 21 to the Registration Statement on Form S-1 filed on February 6, 2012).
- 31.1 Certification of President, Chief Executive Officer, Chief Financial Officer, Chairman of the Board of Directors Pursuant to Rule 13a-14(a) and Rule 15d-14(a) under the Exchange Act.
- 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.
- 101.INS * XBRL Instance Document
- 101.SCH * XBRL Taxonomy Schema
- 101.CAL * XBRL Taxonomy Calculation Linkbase
- 101.DEF * XBRL Taxonomy Definition Linkbase
- 101.LAB * XBRL Taxonomy Label Linkbase
- 101.PRE * XBRL Taxonomy Presentation Linkbase

SIGNATURES

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

DATA STORAGE CORPORATION

Date: November 16, 2015 By: */s/ Charles M. Piluso*
Charles M. Piluso

President, Chief Executive Officer

Chief Financial Officer

(Principal Executive, Financial and Accounting Officer)