

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, 2018

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

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

NEVADA

(State or other jurisdiction of
incorporation or organization)

98-0530147

(I.R.S. Employer
Identification No.)

48 South Service Road
Melville, NY

(Address of principal executive offices)

11747

(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

(Do not check if a smaller reporting company)

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares of the registrant's common stock outstanding as of September 30, 2018, was 128,139,418

DATA STORAGE CORPORATION
FORM 10-Q
September 30, 2018
INDEX

PART I— FINANCIAL INFORMATION

Page

<u>Item 1.</u>	<u>Financial Statements</u>	<u>3</u>
	<u>Consolidated Balance Sheets as of September 30, 2018 (unaudited) and December 31, 2017</u>	<u>3</u>
	<u>Consolidated Statements of Operations for the three months and nine months ended September 30, 2018 and 2017 (unaudited)</u>	<u>4</u>
	<u>Consolidated Statements of Cash Flows for nine months ended September 30, 2018 and 2017 (unaudited)</u>	<u>5</u>
	<u>Notes to Consolidated Financial Statements</u>	<u>7-16</u>
<u>Item 2.</u>	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>17-19</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>20</u>
<u>Item 4.</u>	<u>Control and Procedures</u>	<u>20</u>

PART II— OTHER INFORMATION

<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>21</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>21</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>21</u>
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	<u>21</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	<u>21</u>
<u>Item 5.</u>	<u>Other Information</u>	<u>21</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>22</u>

PART I

ITEM 1. Financial Statements

DATA STORAGE CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

	September 30, 2018	December 31, 2017
	(UNAUDITED)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 204,642	\$ 105,139
Accounts receivable (less allowance for doubtful accounts of \$90,000 in 2018 and \$90,000 in 2017)	562,140	406,393
Prepaid expenses and other current assets	99,647	120,217
Total Current Assets	<u>866,429</u>	<u>631,749</u>
Property and Equipment:		
Property and equipment	5,282,942	5,237,965
Less—Accumulated depreciation	<u>(3,920,676)</u>	<u>(3,614,177)</u>
Net Property and Equipment	<u>1,362,266</u>	<u>1,623,788</u>
Other Assets:		
Goodwill	3,015,700	3,015,700
Employee Loans	—	3,000
Other assets	70,433	75,356
Intangible assets, net	896,046	1,044,046
Total Other Assets	<u>3,982,179</u>	<u>4,138,102</u>
Total Assets	<u><u>6,210,874</u></u>	<u><u>6,393,639</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable and accrued expenses	968,207	1,087,351
Dividend payable	828,265	733,673
Deferred revenue	418,410	566,731
Capital leases payable – related party	461,941	658,476
Notes payable - related party	—	186,906
Note payable – Enterprise Bank	350,000	350,000
Total Current Liabilities	<u>3,026,823</u>	<u>3,583,137</u>
Deferred rental obligation	20,229	1,061
Note Payable – related party, long term	—	99,915
Capital leases payable - related party, long term	1,384,632	1,130,764
Total Long-Term Liabilities	<u>1,404,861</u>	<u>1,231,740</u>
Total Liabilities	<u>4,431,684</u>	<u>4,814,877</u>
Stockholders' Deficit: Preferred Stock, \$.001 par value; 10,000,000 shares authorized; 1,401,786 shares issued and outstanding in each period		
	1,402	1,402
Common stock, par value \$0.001; 250,000,000 shares authorized; 128,139,418 and 128,139,418 shares issued and outstanding in 2018 and 2017, respectively		
	128,139	128,139
Additional paid in capital	17,389,397	17,377,986
Accumulated deficit	<u>(15,722,598)</u>	<u>(15,924,376)</u>
Total Data Storage Corp Stockholders' Equity	1,796,340	1,583,151
Non-controlling interest in consolidated subsidiary	<u>(17,150)</u>	<u>(4,389)</u>
Total Stockholders' Equity	<u>1,779,190</u>	<u>1,578,762</u>
Total Liabilities and Stockholders' Equity	<u><u>\$ 6,210,874</u></u>	<u><u>\$ 6,393,639</u></u>

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,	
	2018	2017	2018	2017
Sales	\$ 2,560,512	\$ 2,036,299	\$ 7,260,579	\$ 6,387,499
Cost of sales	1,526,450	1,226,430	4,456,499	3,766,448
Gross Profit	1,034,062	809,869	2,804,080	2,621,051
Selling, general and administrative	776,793	741,503	2,494,246	2,090,706
Income from Operations	257,269	68,366	309,835	530,345
Other Income (Expense)				
Other Income	—	—	716	2,178
Interest Income	13	2	13	34
Interest expense	(28,785)	(34,748)	(68,927)	(100,650)
Total Other Income (Expense)	(28,772)	(34,746)	(68,198)	(98,438)
Income before provision for income taxes	228,497	33,620	241,637	431,907
Provision for income taxes	—	—	—	—
Net Income	228,497	33,620	241,637	431,907
Non-controlling interest in consolidated subsidiary	5,002	—	12,761	—
Net Income attributable to Data Storage Corp	233,499	33,620	254,398	431,907
Preferred Stock Dividends	(32,656)	(29,648)	(94,591)	(86,774)
Net Income Attributable to Common Stockholders	\$ 200,843	\$ 3,972	\$ 159,807	\$ 345,133
Income per Share – Basic and Diluted	\$ (0.00)	\$ (0.00)	\$ 0.00	\$ 0.00
Weighted Average Number of Shares - Basic and Diluted	128,139,418	128,139,418	128,139,418	128,077,148

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

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

	Nine months ended September 30,	
	2018	2017
Cash Flows from Operating Activities:		
Net Income	\$ 241,637	\$ 431,907
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	454,499	318,893
Stock based compensation	11,411	9,307
Changes in Assets and Liabilities:		
Accounts receivable	(155,747)	225,429
Other assets	4,923	2,136
Employee Loan	3,000	—
Prepaid expenses and other current assets	20,570	65,787
Accounts payable and accrued expenses	(119,145)	(267,472)
Deferred revenue	(106,348)	(223,431)
Deferred rent	19,168	(599)
Net Cash Provided by Operating Activities	<u>373,968</u>	<u>561,957</u>
Cash Flows from Investing Activities		
Capital expenditures	(44,977)	—
Net Cash Used in Investing Activities	<u>(44,977)</u>	<u>—</u>
Cash Flows from Financing Activities:		
Repayments of capital lease obligations	(229,488)	(232,596)
Repayments of loan obligations	—	(428,873)
Net Cash Used in Financing Activities	<u>(229,488)</u>	<u>(661,469)</u>
Increase (decrease) in Cash and Cash Equivalents	99,503	(99,512)
Cash and Cash Equivalents, Beginning of Period	105,139	255,817
Cash and Cash Equivalents, End of Period	<u>\$ 204,642</u>	<u>\$ 156,305</u>
Supplemental Disclosures:		
Cash paid for interest	<u>\$ 68,197</u>	<u>\$ 100,650</u>
Cash paid for income taxes	<u>\$ —</u>	<u>\$ —</u>
Non-cash investing and financing activities:		
Accrual of preferred stock dividend	\$ 94,591	\$ 86,774
Assets acquired by capital lease	\$ —	\$ 1,824,996

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

DATA STORAGE CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

Description	Preferred Stock		Common Stock		Additional Paid in Capital	Accumulated Deficit	Non- Controlling Interest	Total
	Shares	Amount	Shares	Amount				
Balance January 1, 2017	1,401,786	\$ 1,402	128,039,418	\$ 128,039	\$ 17,194,384	\$ (15,625,756)	\$ —	1,698,068
Stock-based compensation	—	—	—	—	169,702	—	—	169,702
Capital Stock Issued	—	—	100,000	100	13,900	—	—	14,000
Net Loss	—	—	—	—	—	(184,084)	(4,409)	(188,493)
Non-controlling interest stock issued	—	—	—	—	—	—	20	20
Preferred stock dividend	—	—	—	—	—	(114,536)	—	(114,536)
Balance December 31, 2017	1,401,786	\$ 1,402	128,039,418	\$ 128,139	\$ 17,377,986	\$ (15,924,376)	(4,389)	\$ 1,578,762
Stock-based compensation	—	—	—	—	11,411	—	—	11,411
Adjustment Resulting from the Adoption of ASC606	—	—	—	—	—	41,970	—	41,970
Net Income	—	—	—	—	—	254,399	(12,761)	241,637
Preferred stock dividend	—	—	—	—	—	(94,591)	—	(94,591)
Balance September 30, 2018	1,401,786	\$ 1,402	128,139,418	\$ 128,139	\$ 17,389,397	\$ (15,722,598)	\$ (17,150)	\$ 1,779,190

DATA STORAGE CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

Note 1 - Basis of presentation, organization and other matters

Headquartered in Melville, NY, Data Storage Corporation (“DSC” or the “Company”) is a Managed Service Provider that specializes within the IBM community. Our IBM Power and Intel IaaS Cloud ensures enterprise level equipment and support focusing on iSeries, AIX, Power, AS400 and our high-processing power for Intel. Our Disaster Recovery services for both Intel and IBM has a guaranteed back-to-work window. DSC is a one-stop source for managed services from VoIP to providing the client with equipment and software, monitoring, help desk and a full array of business continuity solutions.

DSC maintains equipment for cloud storage and cloud computing in our data centers located in New York and Massachusetts. 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.

Liquidity

The Company has concluded that the initial conditions which raised substantial doubt regarding the ability to continue as a going concern have been alleviated. As of September 30, 2018, we had cash of \$204,642 and a working capital deficiency of \$2,160,394. Included in current liabilities are accrued dividends that the Company is not obligated to pay at this point in time, and the Company is in compliance with its preferred shareholder agreement. Further, capitalized lease obligations for our enterprise level infrastructure in our data centers are related to long term contracts with clients, in which clients are represented in the accounts receivable as a month of billing in the current liabilities, whereas, the entire year of lease payments are recorded for future obligations. Our Enterprise Bank obligation relates to the acquisition of Message Logic of \$350,000 is structured so that DSC can be relieved of such obligation without impact. Additionally, deferred revenue, are obligations to perform services for clients, in which these clients have signed long term agreements with cancellation clauses obligating them to pay for such services, even if the client cancels within term. Capital lease obligations are owed to a company owned by the President of DSC. The Company has on previous occasions been able to renegotiate the leases to relieve pressure on its capital position.

The Company recognized a net profit available to common shareholders of \$159,807 for the nine months ended September 30, 2018 and generated cash from operations of \$373,968. Revenue growth for the quarter had a higher percentage of equipment and software sales and has a result of the mix of product and services overall margin have been impacted. Equipment and software normally have lower margin than subscription services such as IaaS and disaster recovery.

There is no assurance that the conditions that raise substantial doubt regarding the Company’s ability to continue as a going concern will be mitigated by the factors enumerated above. To further alleviate the concern, management has determined that related party capitalized leases can be refinanced. Further, senior management is committed to funding the Company’s operations for growth and expansion for the next 12 months.

The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the matters discussed herein. While we believe in the viability of management’s strategy to generate sufficient revenue, control costs and the ability to raise additional funds if necessary, there can be no assurances to that effect. The Company’s ability to continue as a going concern is dependent upon our continued sales efforts, the ability to further implement the business plan, generate sufficient revenues and to control operating expenses.

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 regards 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 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.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries, jointly-owned subsidiaries over which it exercises control and entities for which it has been determined to be the primary beneficiary. Noncontrolling interest amounts relating to the Company’s less-than-wholly owned consolidated subsidiaries are included within the “Noncontrolling interest in consolidated subsidiaries” captions in its Consolidated Balance Sheets and within the “Noncontrolling interests” caption in its Consolidated Statements of Income. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

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

Estimated Fair Value of Financial Instruments

The Company's financial instruments include cash, accounts receivable, prepaid expenses and other current assets, accounts payable and accrued expenses and deferred revenue. Management believes the estimated fair value of these accounts at September 30, 2018 approximate their carrying value as reflected in the balance sheets due to the short-term nature of these 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.

Recently Issued and Newly Adopted Accounting Pronouncements

During January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments — Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*, ("ASU 2016-01"). The standard addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is not permitted with the exception of certain provisions related to the presentation of other comprehensive income. The adoption of ASU 2016-01 did not have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases*, ("ASC 842"), which supersedes FASB ASC 840, *Leases* and provides principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than twelve months regardless of classification. Leases with a term of twelve months or less will be accounted for similar to existing guidance for operating leases. The standard is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted upon issuance. The Company is currently evaluating the method of adoption and the impact of adopting ASU 2016-02 on its results of operations, cash flows and financial position.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows ("ASC 230"): Classification of Certain Cash Receipts and Cash Payments*, ("ASU 2016-15"). ASU 2016-15 will make eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2017. The new standard will require adoption on a retrospective basis unless it is impracticable to apply, in which case it would be required to apply the amendments prospectively as of the earliest date practicable. The adoption of ASU 2016-15 did not have a material impact on its consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, *Income Taxes ("ASC 740"): Intra-Entity Transfers of Assets Other than Inventory*, which eliminates the exception that prohibits the recognition of current and deferred income tax effects for intra-entity transfers of assets other than inventory until the asset has been sold to an outside party. The updated guidance is effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption of the update is permitted. The Company is currently in the process of evaluating the impact of ASU 2016-16 on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows ("ASC 230")*, requiring that the statement of cash flows explain the change in the total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. This guidance is effective for fiscal years, and interim reporting periods therein, beginning after December 15, 2017 with early adoption permitted. The provisions of this guidance are to be applied using a retrospective approach which requires application of the guidance for all periods presented. The adoption of ASU 2016-18 did not have a material impact on its consolidated financial statements.

In January 2017, the FASB issued ASU No 2017-04 *Intangibles-Goodwill and Other* (“ASC 350”): *Simplifying the Accounting for Goodwill Impairment* (“ASU 2017-04”). ASU 2017-04 simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under ASU 2017-04, an entity should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax-deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. ASU 2017-04 is effective for annual or any interim goodwill impairment tests for fiscal years beginning after December 15, 2019 and an entity should apply the amendments of ASU 2017-04 on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently evaluating the effects of ASU 2017-04 on its consolidated financial statements.

In July 2017, the FASB issued ASU 2017-11, *Earnings Per Share* (“ASC 260”), *Distinguishing Liabilities from Equity* (“ASC 480”), and *Derivatives and Hedging* (“ASC 815”). ASU No. 2017-11 is intended to simplify the accounting for financial instruments with characteristics of liabilities and equity. Among the issues addressed are: (i) determining whether an instrument (or embedded feature) is indexed to an entity’s own stock; (ii) distinguishing liabilities from equity for mandatorily redeemable financial instruments of certain nonpublic entities; and (iii) identifying mandatorily redeemable non-controlling interests. ASU No. 2017-11 is effective for the Company on January 1, 2019. The Company is currently evaluating the potential impact of ASU No. 2017-11 on the Company’s consolidated financial statements.

Effective January 1, 2018, the Company adopted Financial Accounting Standards Board (“FASB”) Topic 606, *Revenue from Contracts with Customers* (“ASC 606”). The Company changed its revenue recognition policy regarding set-up fees. Beginning January 2018, the company accounts for set-up fees as separate performance obligation. Set-up services are performed one time and accordingly the revenue is recognized at the point in time that the service is performed, and the Company is entitled to the payment. In addition, Management enhanced disclosure regarding revenue recognition, including disclosures of revenue streams, performance obligations, variable consideration and the related judgments and estimates necessary to apply the new standard.

ASC 606 was applied using the modified retrospective method. The Company recorded a journal entry as of January 1, 2018 to record the effect of the recognition of the deferred set up fees. Accordingly, comparative periods have not been adjusted and continue to be reported under FASB ASC Topic 605, *Revenue Recognition* (“ASC” 605).

The Company generates revenue by offering Cloud Services, Infrastructure as Service (“IaaS”), Disaster Recovery as a Service, Email Archival and Compliance Solutions as subscription-based services. The Company also sells Equipment and Software to its customer and offers Management and Support Services. Subscription contracts allows for high level of customization of services to meet customers’ needs. In certain instances, combination of customized products and services are determined to be essential to the functionality of the delivered services. In others, customers can benefit from one of these services on its own.

Under ASC 606, revenue is recognized when a customer obtains control of promised goods or services in an amount that reflects the consideration the Company expect to receive in exchange for those goods or services. The Company measure revenue based on the consideration specified in the arrangement, and revenue is recognized when the performance obligations are satisfied. A performance obligation is a promise in a contract to transfer a distinct service or product to the customer. The transaction price of a contract is allocated to each distinct performance obligation and recognized as revenue when or as, the customer receives the benefit of the performance obligation. From subscription-based contracts, the customers continuously receive benefit of these services. With the sale of Equipment or Setup Services, the customers usually receive the benefit at the time the product or service is delivered or provided. Substantially, all of the contracts provide that the Company is compensated for services performed to date.

In July 2018, FASB issued ASU 2018-07 *Improvement to Nonemployee Share-based Payment Accounting*. Under the new standard, companies will no longer be required to value non-employee awards differently from employee awards. Meaning that companies will value all equity classified awards at their grant-date under ASC 718 and forgo revaluing the award after this date. Entities are required to value non-employee awards under ASC 718 but can still elect to use a different methodology for establishing the expected term or selecting the amortization method. Under ASC 718-10-30-10A, entities may elect to use the contractual term or the midpoint as the expected term when estimating the fair value of non-employee awards. Additionally, under ASC 718-10-25-2C, the guidance states that entities are required to recognized compensation cost for non-employee awards as if they had been paid in cash. As such, entities may still elect to apply a different amortization method to non-employee awards. All entities that have historically issued or are currently issuing share-based compensation to non-employee will be affected by the update. Public entities must adopt the new standard in the fiscal year beginning on December 15, 2018. All other entities must adopt the new standard in the fiscal year beginning on December 15, 2019. Companies can early adopt the new standard but are required to adopt ASC Topic 606 alongside their adoption of ASU 2018-07. For entities that have recorded historical expense for non-employee awards, the non-employee awards will need to be revalued on the date of adoption and a cumulative adjustment will be recorded to retained earnings. Companies will also need to disclose in their financial statements, the nature of and reason for the change in accounting principle, as well as any quantitative information about the cumulative adjustment’s effect on retained earnings and other equity component.

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, 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 federal insurance provided on such deposits.

The Company's clients 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 clients and maintains allowances for doubtful accounts on factors surrounding the credit risk of specific clients, historical trends, and other information.

For the nine months ended September 30, 2018 the Company had one client that accounted for 12.6% of revenue. For the nine months ended September 30, 2017 the Company did not have any client concentrations.

Accounts Receivable/Allowance for Doubtful Accounts

The Company sells its services to clients on an open credit basis. Accounts receivable are uncollateralized, non-interest-bearing client 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 client standing. Provisions are also made for other accounts receivable not specifically reviewed based upon historical experience. Clients are invoiced in advance for services as reflected in deferred revenue on the Company's balance sheet.

Property and Equipment

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

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. At September 30, 2018, the Company had a full valuation allowance against its deferred tax assets.

In December 2017, the 2017 Tax Cuts and Jobs Act (Tax Act) was enacted into law and the new legislation contains several key tax provisions that affected us, including a reduction of the corporate income tax rate to 21% effective January 1, 2018, among others. We are required to recognize the effect of the tax law changes in the period of enactment, such as determining the transition tax, re-measuring our U.S. deferred tax assets and liabilities as well as reassessing the net realizability of our deferred tax assets and liabilities.

Per FASB ASC 740-10, disclosure is not required of an uncertain tax position unless it is considered probable that a claim will be asserted and there is a more-likely-than-not possibility that the outcome will be unfavorable. Using this guidance, as of September 30, 2018 and December 31, 2017, the Company has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The Company's 2017, 2016 and 2015 Federal and State tax returns remain subject to examination by their respective taxing authorities. Neither of the Company's Federal or State tax returns are currently under examination.

Goodwill and Other Intangibles

In January 2017, FASB issued ASU No. 2017-04, "Intangibles—Goodwill and Other Simplifying the Accounting for Goodwill" (ASU 2017-04) requires goodwill impairment loss to be measured as the excess of a reporting unit's carrying amount over its fair value (not to exceed the total goodwill allocated to that reporting unit). The new guidance eliminates Step 2, which an entity used to measure goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. "In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination," the ASU states. "Instead, under the amendments in this update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount."

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.

Revenue Recognition

Nature of goods and services

The following is a description of the products and services from which the Company generates revenue, as well as the nature, timing of satisfaction of performance obligations, and significant payment terms for each:

1) Infrastructure as a Service (IaaS) and Disaster Recovery Revenue

Subscription services such as IaaS/Hosting Disaster Recovery, High Availability, Data Vault Services, IaaS, Message Logic email archival software, and Internet allows clients to centralize and streamline their technical environment. Client's data can be backed up, replicated, archived and restored to meet their back to work objective in a disaster. Infrastructure as a Service (IaaS) assist clients to achieve reliable and cost-effective computing and high availability solutions. Message Logic software helps clients to maintain message content secure and accessible. Internet services ensure companies have connectivity in the event of outages.

2) Professional Services

These services are performed at the inception of a contract for a fixed price. The Company offers professional assistance to its clients during the installation processes. Onboarding and set-up services ensure that the solution or software is installed properly and function as designed to provide clients with the best solutions. In addition, clients that are managed service clients have a requirement for DSC to offer time and material billing.

3) Equipment and Software Revenue

The Company provides equipment and software and actively participate in collaboration with IBM to provide innovative business solutions to clients.

4) Managed Services

To provide the best data protection, the Company manage data backup data for clients enabling them to meet compliance regulation and improve recovery time objectives. The Company also derives revenues from providing support and management of its software to clients. The managed services include help desk, remote access, annual recovery tests and on-going monitoring of client system performance.

Disaggregation of revenue

In the following table, revenue is disaggregated by major product line and timing of revenue recognition (in thousands of USD).

	For the Nine Months Ended September	
	30,	
	2018	2017
Major products/services lines		
Infrastructure and Disaster Recovery	\$ 3,490,434	\$ 3,540,784
Professional Service	224,623	328,857
Equipment and Software	2,743,915	1,611,166
Managed Service	489,884	627,924
Other	311,723	278,768
Total Revenue	\$ 7,260,579	\$ 6,387,499
Timing of revenue recognition		
Products transferred at a point in time	\$ 2,433,899	\$ 1,907,764
Products and services transferred over time	4,826,680	4,479,734
	\$ 7,260,579	\$ 6,387,499

Deferred revenue from 2017 of \$41,000 has been re-classified as retained earnings. During the third quarter of 2018 a total of \$10,105 in onboarding fees related to the company's cloud-based solutions has been recorded as revenue. The amount of onboarding fees for the third quarter 2018 sales for cloud-based solution for the company's USA client base is immaterial when compared to revenue of \$7,228,714 resulting in a total revenue including onboarding fees of \$7,260,579. Future periods may have material onboarding fees and will be reported according to the revenue recognition standards for comparisons to previous periods.

Contract receivables are recorded at the invoiced amount and are uncollateralized, non-interest-bearing client obligations. 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 client standing.

Sales are generally recorded in the month the service is provided. For clients who are billed on an annual basis, deferred revenue is recorded and amortized over the life of the contract.

Transaction price allocated to the remaining performance obligations

The Company has the following performance obligations:

- 1) Disaster Recovery (“DR”): subscription-based service that instantly encrypted and transfers data to secure location further replicates the data to a second DSC data center where it remains encrypted. Provides 10 hour or less recovery time
- 2) Data Vaulting: subscription-based cloud backup solution that uses advanced data reduction technology to shorten restore time
- 3) High Availability (“HA”): subscription-based service offers cost-effective mirroring replication technology, provides 1 hour or less recovery time
- 4) Infrastructure as a Service (“IaaS”): subscription-based service offers “capacity on-demand” for IBM Power and Intel server systems
- 5) Message Logic: subscription-based service offers cost effective email archiving, data analytics, compliance monitoring and retrieval of email messages which cannot be deleted.
- 6) Internet: subscription-based service offers continuous internet connection in the event of outages
- 7) Support and Maintenance: subscription-based service offers support for servers, firewalls, desktops or software and ad hoc support and help desk
- 8) Initial Set-Up Fees: on boarding and set-up services
- 9) Equipment sales: sale of servers to the end user
- 10) License: granting SSL certificates and other licenses

Disaster Recovery with Stand-By Servers, High Availability, Data Vaulting, IaaS, Message Logic, Support and Maintenance, and Internet

Subscription services such as the above allows clients to access a set of data or receive services for a predetermined period of time. As the client obtains access at a point in time but continues to have access for the remainder of the subscription period, the client is considered to simultaneously receive and consume the benefits provided by the entity’s performance as the entity performs. Accordingly, the related performance obligation is considered to be satisfied ratably over the contract term. As the performance obligation is satisfied evenly across the term of the contract, revenue should be recognized on a straight-line basis over the contract term.

Initial Set-Up Fees

The Company accounts for set-up fees as separate performance obligation. Set-up services are performed one time and accordingly the revenue should be recognized at the point in time that the service is performed, and the Company is entitled to the payment.

Equipment sales

For the Equipment sales performance obligation, the control of the product transfers at a point in time (i.e., when the goods have been shipped or delivered to the client’s location, depending on shipping terms). Noting that the satisfaction of the performance obligation, in this sense, does not occur over time as defined within ASC 606-10-25-27 through 29, the performance obligation is considered to be satisfied at a point in time (ASC 606-10-25-30) when the obligation to the client has been fulfilled (i.e., when the goods have left the shipping facility or delivered to the client, depending on shipping terms).

License – granting SSL certificates and other licenses

In the case of Licensing performance obligation, the control of the product transfers either at point in time or over time depending on the nature of the license. The revenue standard identifies two types of licenses of IP: a right to access IP and a right to use IP. To assist in determining whether a license provides a right to use or a right to access IP, ASC 606 defines two categories of IP: Functional and Symbolic. The Company’s license arrangements typically do not require the Company to make its proprietary content available to the client either through a download or through a direct connection. Throughout the life of the contract the Company does not continue to provide updates or upgrades to the license granted. Based on the guidance, the Company considers its license offerings to be akin to functional IP and will recognize revenue at the point in time the license is granted and/or renewed for a new period.

Payment terms

The terms of the contracts are typically ranging from 12 months to 36 months with auto-renew options. The Company invoice clients one month in advance for the services plus any overages or additional services provided.

Warranties

The Company offers guaranteed service levels and performance and service guarantees on some of its contracts. These warranties are not sold separately and according to ASC 606-10-50-12(a) are accounted as “assurance warranties”.

Significant judgement

In the instances that contract have multiple performance obligation, the Company uses judgment to establish stand -alone price for each performance obligation separately. The price for each performance obligation is determined by reviewing market data for similar services as well as the Company’s historical pricing of each individual service. The sum of each performance obligation was calculated to determine the aggregate price for the individual services. Next the proportion of each individual service to the aggregate price was determined. That ratio was applied to the total contract price in order to allocate the transaction price to each performance obligation.

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 \$106,109 and \$83,751 for advertising costs for the nine months ended September 30, 2018 and 2017, respectively.

Net Income (Loss) Per Common Share

In accordance with FASB ASC 260-10-5 Earnings Per Share, basic income (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing net income (loss) adjusted for income or loss that would result from the assumed conversion of potential common shares from contracts that may be settled in stock or cash by the weighted average number of shares of common stock, common stock equivalents and potentially dilutive securities outstanding during each period. The inclusion of the potential common shares to be issued have an anti-dilutive effect on diluted loss per share and therefore they are not included in the calculation. Potentially dilutive securities at September 30, 2018 include 133,334 warrants and 3,667,227 options.

Note 3 - Property and Equipment

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

	September 30, 2018	December 31, 2017
Storage equipment	\$ 992,996	\$ 992,996
Website and software	533,418	533,418
Furniture and fixtures	14,037	14,037
Telephone System	9,690	—
Leasehold Improvements	13,104	11,719
Computer hardware and software	1,207,844	1,194,120
Data Center Equipment	2,511,853	2,491,675
	5,282,942	5,237,965
Less: Accumulated depreciation	3,920,676	3,614,177
Net property and equipment	<u>\$ 1,362,266</u>	<u>\$ 1,623,788</u>

Depreciation expense for the nine months ended September 30, 2018 and 2017 was \$306,499 and \$293,417, respectively.

Note 4 - Goodwill and Intangible Assets

Goodwill and intangible assets consisted of the following:

	Estimated life in years	September 30, 2018	
		Gross Amount	Accumulated Amortization
Goodwill	Indefinite	\$ 3,015,700	N/A
Intangible Assets			
Intangible assets not subject to amortization			
Trademarks	Indefinite	294,268	N/A
Intangible assets subject to amortization			
Client list	5 - 15	897,274	897,274
ABC Acquired contracts	5	310,000	118,833
SIAS Acquired contracts	5	660,000	253,000
Non-compete agreements	3 - 4	272,147	268,536
Total Intangible Assets		<u>2,433,689</u>	<u>1,537,643</u>
Total Goodwill and Intangible Assets		<u>\$ 5,449,389</u>	<u>\$ 1,537,643</u>

Scheduled amortization over the next three years as follows:

For the Twelve Months ending September 30,

2019	\$ 197,333
2020	194,278
2021	194,000
2022	16,167
Total	<u>\$ 601,778</u>

Amortization expense for the nine months ended September 30, 2018 and 2017 was \$148,000 and \$25,476 respectively.

Note 5– Capital Lease Obligations – Related Party

On March 7, 2018, the Company entered into a lease with Systems Trading, Inc. ("Systems Trading"), a company owned by DSC's President, to refinance old leases and Notes payable – related party referenced above and in Note 7. The lease calls for bi monthly payments of \$23,475 and expires on April 6, 2022. It carries an interest rate of 5%.

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

As of September 30, 2018	\$ 2,018,850
Less amount representing interest	(172,277)
Total obligations under capital leases	1,846,573
Less current portion of obligations under capital leases	(461,941)
Long-term obligations under capital leases	<u>\$ 1,384,632</u>

Long-term obligations under the capital leases at September 30, 2018 mature as follows:

For the Twelve months ending September 30,	
2019	\$ 563,400
2020	563,400
2021	563,400
2022	328,650
	<u>\$ 2,018,850</u>

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

Equipment	\$ 3,272,888
Less: accumulated depreciation	1,634,485
	<u>\$ 1,638,403</u>

Note 6 - Commitments and Contingencies

Operating Leases

The Company currently leases two office spaces in Melville, NY, and one in Warwick, RI.

Location one in Melville calls for monthly payments of \$8,382 with a lease terminating in August 31, 2019. Location two in Melville calls for monthly payments of monthly payments of \$7,189 starting April 2018, escalating to \$8,334. The term of the lease is 5 years and 3 months and will end on July 31, 2023.

The lease for office space in Warwick, RI calls for monthly payments of \$2,324 beginning February 1, 2015 which escalates to \$2,460 on February 1, 2017. This lease commenced on February 1, 2015 and continues through January 31, 2019.

Minimum obligations under these lease agreements are as follows:

For the Twelve Months Ending September 30,	
2019	\$ 192,803
2020	90,633
2021	93,352
2022	96,152
2023	65,458
	<u>\$ 538,398</u>

Rent expense for the nine months ended September 30, 2018 and 2017 was \$162,772 and \$160,085, respectively.

Note 7- Long Term Debt

Note Payable – Enterprise Bank

In connection with its acquisition of Message Logic, LLC, the Company assumed a loan with Enterprise Bank. The loan was due on April 30, 2016. There has been no default notice from Enterprise Bank. Enterprise Bank has requested that we move from an interest only payment to a self-amortized arrangement. The Company has requested that the bank consider all payments made to date as satisfaction of the assumed loan and the bank is in process of a response. Interest only payments have been paid with the last monthly payment made in September 30, 2018. The interest rate on this note was 6.5%.

Notes Payable – Related Party

On March 7, 2018, the Company entered into a lease with Systems Trading, a company owned by DSC's President, to refinance and consolidate notes payable – related party and existing leases referenced in Note 5. The lease calls for bi-monthly payments of \$23,475 and expires on April 6, 2022. It carries an interest rate of 5%.

Future minimum payments under these note agreements are reflected in Note 5 above.

Note 8 - Stockholders' Equity

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 Preferred Stock, par value \$0.001 per share.

Note 9 – Subsequent Events

On November 5, 2018, Nexxis Inc. ("Nexxis"), a subsidiary of the Company, entered into a Stock Purchase Agreement (the "Agreement") with Todd A. Correll ("Correll"), Thomas J. Tharrington ("Tharrington" and together with Correll, "Seller"), and Broadsmart Florida, Inc. ("Broadsmart"), a privately held provider of telecommunications services serving customers in the State of Florida, to purchase from Seller 100% of the issued and outstanding shares of common stock of Broadsmart.

Pursuant to the Agreement, on November 5, 2018 (the "Closing Date"), Nexxis purchased from Seller all of the outstanding capital stock of Broadsmart (the "Shares") and all assets related to the business of Broadsmart, with Broadsmart becoming a wholly-owned subsidiary of Nexxis on the Closing Date, in consideration of certain incidental cash consideration and 15% of the net billing of Broadsmart, not including any taxes billed on invoices, payable by Nexxis to Seller on a monthly-basis during the respective terms of each of Broadsmart's customer agreements for existing services provided Broadsmart to its customers (the "Profit-Sharing Purchase Price"); provided, however, that in the event there is no customer agreement the Profit-Sharing Purchase Price will be paid for no more than five (5) years. The Agreement contains customary representations and warranties.

In connection with the Agreement, on March 13, 2018, Nexxis and Broadsmart jointly filed with the Federal Communications Commission ("FCC") that certain Joint Application for Consent to Acquire Control of an Authorized Provider of Domestic Interstate and International Telecommunications Services Pursuant to Section 214 of the Communications Act of 1934, as amended, pursuant to which Nexxis and Broadsmart jointly requested the FCC's authorization of the purchase and sale of the Shares (the "Stock Purchase"). On April 20, 2018, the FCC granted its authorization of the Stock Purchase.

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,’ ‘expects,’ ‘plans,’ ‘intends,’ ‘anticipates,’ ‘believes,’ ‘estimates,’ ‘predicts,’ ‘potential,’ or ‘continue’ or the negative of such terms or other 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

Headquartered in Melville, NY, with additional offices in Warwick, RI, Data Storage Corporation (“DSC” or the “Company”) is a Managed Service Provider that specializes within the IBM community. Our IBM Power and Intel IaaS Cloud ensures enterprise level equipment and support, focusing on iSeries, AIX, Power, AS400 and our high-processing power for Intel. Our Disaster Recovery services for both Intel and IBM has a guaranteed back-to-work window. DSC is a one-stop source for managed services from VoIP to providing the client with equipment and software, monitoring, help desk and a full array of business continuity solutions.

The Company provides its solutions through its business development team and contracted distribution channels. DSC owns intellectual property in connection with our proprietary email archival and data analytics software, Message Logic. DSC is marketing Message Logic on the DSC website. DSC’s contracted approved distributors have the ability to provide our Recovery and IaaS solutions without capital investment thereby lowering their barrier of entry in providing these cloud solutions to their client base.

On October 19, 2017 DSC formed a new division, Nexxis Inc. (“Nexxis”), a new telecommunications company which provides VOIP services. DSC owns 80% of Nexxis. Nexxis is positioned to cross-sell our client base and provide new opportunities to our base. We believe there is an opportunity to increase the bandwidth of our clients for improved access to our cloud solutions, while at the same time continue to target new clients as businesses move to new telecommunications technologies for voice and data.

DSC derives its revenues from subscription services and solutions, managed services, software and maintenance, equipment and onboarding provisioning. DSC maintains infrastructure and storage equipment in several technical centers in New York and Massachusetts.

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 varies its use of resources, technology and work processes to meet the changing opportunities and challenges presented by the market and the internal client requirements. The Company supports clients twenty-four hours a day, 365 days a year.

RESULTS OF OPERATIONS

For the three months ended September 30, 2018 as compared to the three months ended September 30, 2017

Net Sales. Net sales for the three months ended September 30, 2018 were \$2,560,512, an increase of \$524,213, or 25.7% compared to \$2,036,299 for the three months ended September 30, 2017. The increase is attributable to non-recurring sales of equipment and software.

Cost of Sales. For the three months ended September 30, 2018, cost of sales was \$1,526,450 an increase of \$300,020, or 24.5%, compared to \$1,226,430 for the three months ended September 30, 2017. The increase is attributable to the increase in equipment and software costs.

Operating Expenses. For the three months ended September 30, 2018, operating expenses were \$801,069, an increase of \$59,566, or 8%, as compared to \$741,503 for the three months ended September 30, 2017. Commissions for the three months ended September 30, 2018 increased \$127,226 to \$221,271 from \$94,046 for the three months ended September 30, 2017. Professional fee for the three months ended September 30, 2018 decreased \$42,649 as compared to \$96,669 for the three months ended September 30, 2017.

Other Income (Expense). Interest expense for the three months ended September 30, 2018 decreased \$5,963 to \$28,785 from \$34,748 for the three months ended September 30, 2017. This decrease is a result of the Company refinancing pre-existing leases into one new lease.

Net Profit (loss). Net profit (loss) for the three months ended September 30, 2018 was \$209,223 representing an increase of \$175,603, or 507.4%, as compared to a net profit of \$33,620 for the three months ended September 30, 2017.

For the nine months ended September 30, 2018 as compared to the nine months ended September 30, 2017

Net Sales. Net sales for the nine months ended September 30, 2018 were \$7,260,579, an increase of \$873,080, or 13.7% compared to \$6,387,499 for the nine months ended September 30, 2017. The increase is attributable to non-recurring sales of equipment and software \$2,743,915 for the nine months ended September 30, 2018 as compared to \$1,611,166 for the nine months ended September 30, 2017.

Cost of Sales. For the nine months ended September 30, 2018, cost of sales was \$4,456,499 an increase of \$690,051, or 18.3% compared to \$3,766,448 for the nine months ended September 30, 2017. The increase is attributable to the increase in equipment and software costs.

Operating Expenses. For the nine months ended September 30, 2018, operating expenses were \$2,518,522 an increase of \$427,816, or 20.5%, as compared to \$2,090,706 for the nine months ended September 30, 2017. Commissions for the nine months ended September 30, 2018 increased \$270,240 to \$532,373 from \$262,133 for the nine months ended September 30, 2017.

Other Income (Expense). Interest expense for the nine months ended September 30, 2018 decreased \$31,723 to \$68,927 from \$100,650 for the nine months ended September 30, 2017. This decrease is a result of the Company refinancing pre-existing leases into one new lease.

Net Income (loss). Net income for the nine months ended September 30, 2018 was \$230,122 representing a decrease of \$201,785, or 46.7%, as compared to a net profit of \$431,907 for the nine months ended September 30, 2017.

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. Furthermore, we believe that the Company will continue its trend of profitability throughout 2018 and the foreseeable future. Historically, the Company has been successful in raising money as needed. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through future issuances of equity or convertible debt securities, our existing stockholders could be diluted, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. Any debt financing that we secure in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. We may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support our business growth and to respond to business challenges could be impaired, and our business may be affected. Further it is the intention of management to continue to raise money through related party debt issuances to continue on their growth path in creating value.

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 circumstances change, we may not be able to meet our liquidity needs.

During the nine months ended September 30, 2018 the Company's cash increased \$99,503 to \$204,642 from \$105,139 at December 31, 2017. Net cash of \$373,968 was provided by the Company's operating activities. Net cash of \$274,465 was used in the Company's investing and financing activities, primarily due to purchases of fixed assets and payments of capital lease obligations

DSC's working capital deficit was \$2,160,394 at September 30, 2018, decreasing \$790,994 or 26.8% from \$2,951,388 at December 31, 2017. The decrease is primarily attributable to the refinancing and consolidation of all previous related party leases and notes into one new lease increase in account receivable offset by increase in account payable.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Sensitivity

Interest due on the Company's loans is based upon the applicable stated fixed contractual rate with the lender. Interest earned on DSC bank accounts is linked to the applicable base interest rate. For the nine months ended September 30, 2018 and 2017, DSC had interest expense of \$68,927 and \$100,650 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.

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, 2018, 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 internal 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. 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, we are not required to provide disclosure pursuant to this item.

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 September 30, 2018.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information.

None

Item 6. Exhibits

Exhibit No.	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, 2016 (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	Joint Venture – Strategic Alliance Agreement, dated March 2, 2010, by and between Data Storage Corporation and United Telecom, 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).
10.17	Asset Purchase Agreement by and between ABC Services Inc., and Data Storage Corporation Inc. and Data Storage Corporation as of October 25, 2016 (incorporated by reference to Exhibit 10.1 to Form 8K filed on October 31, 2016) Asset Purchase Agreement by and between ABC Services II Inc., and Data Storage Corporation Inc. and Data Storage Corporation as of October 25, 2016 (incorporated by reference to Exhibit 10.2 to Form 8K filed on October 31, 2016) Conversion Agreement by and between Data Storage Corporation and Charles M. Piluso dated October 25, 2016
10.18	(incorporated by reference to Exhibit 10.3 to Form 8K filed on October 31, 2016) Conversion Agreement by and between Data Storage Corporation and John F. Coghlan dated October 25, 2016
10.19	(incorporated by reference to Exhibit 10.4 to Form 8K filed on October 31, 2016)
10.20	Conversion Agreement by and between Data Storage Corporation and Clifford Stein dated October 25, 2016(incorporated by reference to Exhibit 10.5 to Form 8K filed on October 31, 2016).
10.21	Conversion Agreement by and between Data Storage Corporation and Clifford Stein dated October 25, 2016 (incorporated by reference to Exhibit 10.5 to Form 8K filed on October 31, 2016).
10.22	Form of Stockholders Agreement by and between Data Storage Corporation, Nexxis Inc., and John Camello dated November 13, 2017.
10.23	Form of Employment Agreement between Data Storage Corporation, Nexxis Inc., and John Camello dated November 13, 2017.
14	Code of Ethics (incorporated by reference to Exhibit 14.1 to Form 10-K filed on September 30, 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.
99.1	Press Release dated November 1, 2017 (incorporated by reference to Exhibit 99.1 to Form 8K filed on November 9, 2017)

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.

Date: November 19, 2018

DATA STORAGE CORPORATION

By: */s/ Charles M. Piluso*

Charles M. Piluso

Chief Executive Officer

Chief Financial Officer

(Principal Executive, Financial and Accounting Officer)

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL
OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002,

I, Charles M. Piluso, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Data Storage Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. As the registrant's certifying officer, I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and I have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. As the registrant's certifying officer, I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Data Storage Corporation

/s/Charles M. Piluso

Charles M. Piluso

Chief Executive Officer and Chief Financial Officer

(Principal Executive, Financial and Accounting Officer)

Date: November 19, 2018

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the accompanying Quarterly Report on Form 10-Q of Data Storage Corporation Inc., for the period ended September 30, 2018, I, Charles M. Piluso, Chief Executive Officer and Chief Financial Officer of Data Storage Corporation Inc., hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief, that:

1. Such Quarterly Report on Form 10-Q for the period ended September 30, 2018, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in such Quarterly Report on Form 10-Q for the period ended September 30, 2018, fairly represents in all material respects, the financial condition and results of operations of Data Storage Corporation, Inc.

Data Storage Corporation

/s/Charles M. Piluso

Charles M. Piluso

Chief Executive Officer and Chief Financial Officer

(Principal Executive, Financial and Accounting Officer)

Date: November 19, 2018