

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 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, N.Y.

(Address of principal executive offices)

11747

(Zip Code)

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

Securities registered under Section 12(b) of the Exchange Act:

**None**

**Name of each exchange on which registered: Not applicable**

Securities registered under Section 12(g) of the Exchange Act:

Title of each class registered:

**Common Stock, par value \$.001 per share**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 5(d) of the Act. Yes  No

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 is a shell company as defined in Rule 12b-2 of the Exchange Act. Yes  No

As of June 30, 2018, the last business day of the Registrant's most recently completed second fiscal quarter, the market value of our common stock held by non-affiliates was \$1,264,393

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

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

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

Large accelerated filer

Non-accelerated filer

Do not check if a smaller reporting company

Accelerated filer

Smaller reporting company

The number of shares of the registrant's common stock outstanding as of December 31, 2018 was 128,139,418

**Data Storage Corporation**  
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## PART I

### ITEM 1. DESCRIPTION OF BUSINESS

#### OVERVIEW OF THE INDUSTRY & DATA STORAGE CORPORATION:

##### Our Industry:

Data Storage Corporation (“DSC” or the “Company”) is positioned to leverage the growth in our industry. As background, DSC provides Disaster Recovery solutions, Infrastructure as a Service (IaaS), IT Managed Services and Voice over Internet Protocol (VoIP) type solutions. The following will provide a background on our industry and trends for the solutions we provide.

According to a new study by Grand View Research, Inc., the global disaster recovery solutions market size is expected to reach US\$ 26.23 billion by 2025, registering a strong CAGR of 36.5% during the forecast period. The global disaster recovery solutions market has been experiencing a significant increase in demand owing to growing instances related to infrastructure failure, cyberattacks, natural disasters, and other internal and external threats. Unanticipated events such as these cause disruption in business operations, resulting in massive losses for organizations.

Various companies are reconsidering their plans for backup and recovery of important business applications and data over the past few years owing to increasing occurrences of planned, manmade disasters. For instance, malicious attacks such as WannaCry and Locky ransomware in 2017 led to the loss of thousands of encrypted files and systems. Government and private sectors incurred considerable financial losses owing to these attacks.

Businesses are increasingly incorporating disaster recovery (DR) solutions in their business continuity strategies, making DR plans a critical part of IT priorities. Moreover, increasing awareness about the benefits of implementing such solutions and growing adoption of cloud-based solutions are promoting the adoption of disaster recovery solutions among SMEs.

The global infrastructure as a service (IaaS) industry value is expected to exceed US\$ 60 billion by 2024 with an estimated growth rate of over 25% over the forecast period. IaaS is a form of cloud computing system dependent on significant physical resources, such as network connections, bandwidth, load balancers, and servers, which are present as a virtual service offered by the cloud service providers (CSPs). An increasing amount of financial and business information and other critical data in various IT sectors are expected to increase the adoption of IaaS in many organizations.

The need for reducing cost in IT infrastructure management, and to focus more on their primary operations has been the key objective of various companies and agencies. The technological innovations have led to growing mobility, ease of access, sophisticated working environment, and digitalization development in numerous business verticals. Ease of deployment, flexibility, and scalability of services can also be acknowledged as the key factors steering the market growth.

The IT and telecommunications sector are expected to witness significant growth rate owing to increasing adoption of cloud-based services in the industry. This industry is considered to be the primary vertical generating enormous personal, financial and healthcare information. Customer-based organizations in banking financial services and in the insurance (BFSI) sector create large volumes of confidential business and financial data which look at security and storage convenience for smooth business continuity.

More and more companies are adopting the system of Bring Your Own Device (BYOD), hence, the demand for VoIP services is also growing. Moreover, along with updating their services, VoIP service providers are also introducing new features in VoIP services to attract users at both individual and corporate level. New market avenues are likely to open with an increase in international calling.

The telecommunications industry is changing rapidly, hence, growth and innovation are taking place in the VoIP industry.

According to a report issued by Persistence Market Research, the global VoIP services market is likely to witness substantial growth during 2017-2024. The global market for VoIP services is also estimated to reach US\$ 194.5 Billion revenue towards the end of 2024.

#### **Data Storage Corporation:**

Data Storage Corporation (“DSC” or the “Company”) provides subscription based, long term agreements for disaster recovery solutions, Infrastructure as a Service (IaaS) and VoIP type solutions. Over 35% of our revenue is derived from equipment sales for cyber security, storage, IBM Power i systems and managed service solutions.

Our mission is to protect our client’s data, ensuring business continuity, assisting in their compliance requirements and providing better control over their digital information. The Company’s October 2016 acquisition of the assets of ABC Services, Inc. and ABC Services II, Inc. (collectively, “ABC”) and its acquisition of the remaining 50% of the assets of Secure Infrastructure and Services LLC supports the Company’s acquisition strategy. These acquisitions accelerated our strategy into cloud based managed services, expanded cyber security solutions and our hybrid cloud solutions with the ability to provide equipment and expanded technical support.

The Company provides its solutions through its business development team and contracted distribution channels. DSC owns intellectual property 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 Recovery and Hybrid Cloud solutions, IBM and Intel IaaS cloud-based solutions without the distributor investing in infrastructure, data centers and telecommunications services as well as specialized technical staff whereby lowering their barrier of entry for them to provide these solutions to their client base.

DSC is an 18-year veteran in cloud storage and cloud computing providing disaster recovery, business continuity and compliance solutions that assist organizations in protecting their data, minimizing downtime while ensuring regulatory compliance. Serving the 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 their data. Solutions include: Infrastructure as a Service specializing in IBM Power; data backup recovery and restore, high availability data replication; email archival and compliance; and eDiscovery; continuous data protection; data de-duplication; and, virtualized system recovery. DSC has forged significant relationships with leading organizations creating valuable partnerships.

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.

Headquartered in Melville, NY with an additional office in Warwick, RI, DSC offers solutions and services to businesses within the healthcare, banking and finance, distribution services, manufacturing, construction, education, and government industries.

DSC derives its revenues from subscription services and solutions, managed services, software and maintenance, equipment and onboarding provisioning. DSC maintains its enterprise infrastructure in several data center facilities located within New York, Massachusetts and North Carolina.

Core support services channel through DSC’s operations division which is staffed by highly trained personnel to maintain service level agreements. The Company supports clients twenty-four hours a day, 365 days a year. DSC provides ongoing education to its staff for maintaining technical skills and certifications.

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.

## **Our Continuing Strategy**

DSC derives its revenues from long-term subscriptions, and professional services contracts related to the implementation of solutions that provide protection of critical data and equipment. In 2009, DSC's revenues consisted primarily of data vaulting, de-duplication, continuous data protection and cloud disaster recovery solutions, and protecting information for our clients.

In 2010, we expanded solutions based on the asset acquisition of SafeData, a provider of disaster recovery and business continuity for IBM's mid-range servers, Power i. The Safe Data acquisition provided the ability to provide a solution to a specialized IBM community with limited competition and higher average revenue per client. October 2012, we purchased the software and assets of Message Logic, an email archival and compliance software. The Message Logic acquisition strategy was based on the increased requirements for compliance and storage of emails and e-discovery type data.

In October 2016, DSC purchased the assets of ABC (as defined above), including the remaining 50% of Secure Infrastructure and Services, LLC, the IBM Power Cloud. ABC has an excellent reputation that spans 25 years and is a Premium Partner of IBM providing equipment, licensing, provisioning and managed services to their clients. ABC also provides high-level cyber security as part of their solutions portfolio.

On October 19, 2017, DSC formed a new division, Nexxis Inc. ("Nexxis"), to provide VOIP and carrier services. DSC owns 80% of Nexxis, which is positioned to cross-sell our client base and provide new opportunities from of our base. We believe there is an opportunity to increase our clients' bandwidth 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 delivers its solutions over a highly reliable, redundant and secure fiber optic networks with separate and diverse routes to the internet from their data centers.

DSC is positioned to leverage its infrastructure, data centers, equipment capacity and leadership team to grow revenue and create value.

Positioned for organic growth, DSC will continue our strategy of growth through synergistic acquisitions. DSC believes opportunities exist to acquire service providers and intellectual property to enhance our solution portfolio, increase our distribution channels, expand our management and increase our cash flow.

Our acquisition strategy objective is to reduce costs through economies of scale while increasing market share and consolidating efforts. The effort of economies of scale in a reduction of cost are underway from the ABC and SIAS acquisitions.

We believe that through our partnership programs strategy, as well as through our acquisitions of synergistic service providers, we can create significant value.

The roll up of these technical companies and system integrators will also form a powerful distribution channel for both our current and future service offerings. We believe that our acquisition strategy will enable DSC to create a global presence and a recognizable premiere brand.

## DESCRIPTION OF SERVICES AND SOLUTIONS

### DATA PROTECTION SERVICES

Data Storage Corporation offers a variety of data protection services designed to meet its clients' requirements and budgets.

#### ezVault

ezVault Consists of Cloud backup services which eliminate the cost and challenges of tape handling, tape management and file retrieval and restore. All backups are encrypted and replicated to a second data center to ensure that data is always safe and available. The vault size automatically scales with data growth, and retention needs are never a concern. With our high-speed enterprise storage, deduplication, and compression, backup and restore times are reduced. Our ezVault services are backed by a clear and well-defined SLA, guaranteeing performance, availability and access. ezVault is most typically combined with ezRecovery (as described below) to provide Disaster Recovery as a Service (DRaaS).

#### Solution Details

- **Easily managed scheduling and retention** –Backup policies are managed directly by the client as part of our service offering. On IBM i, clients have access to the management interface on each system and other environments use a management portal to restore files, manage job schedules and data retention. This allows clients to retain as much data as they need.
- **Save While Active** – Backups can be scheduled to run at any time with little to no impact on production applications.
- **Scalable** – ezVault automatically scales to meet your backup storage requirements. The pay as you grow model eliminates the need to forecast future backup capacity and purchase additional storage that may go unused for several years.
- **Client has direct access and control of data retrieval** – ezVault provides the client with the ability to directly retrieve files from any point in time without having to rely on a provider to load tapes, which makes restoring files much quicker and easier than tape or Virtual Tape Library (VTL).
- **Optional local appliance** – A client site backup appliance is available for local data retention and automatic replication to the ezVault cloud, providing faster local restores when needed and all the offsite data protection of our ezVault cloud solution.
- **Reduced backup time** – ezVault backups are incremental forever with all data deduplicated, compressed and encrypted before transmission drastically reducing backup times compared to traditional tape-based backups. Backups are immediately transmitted offsite without the delay and complexity of tape handling, storage and retrieval.
- **Backup Protection** – All backups are encrypted and replicated to a second data center providing built in redundancy for your mission critical data.
- **Offsite Copy Included** – A monthly copy of clients' data is copied to tape and stored into separate data center to add another layer of safety to clients' important data.
- **Guaranteed Performance SLA**

#### ezRecovery

ezRecovery Consists of ezVault backup services combined with our managed standby compute, storage and network infrastructure resources. Vaulted applications, data and user access are quickly and easily restored to standby systems, saving clients' money and reducing the recovery time. Our recovery services are backed by a clear and well-defined SLA guaranteeing performance, availability and access with Recovery Point Objective's (RPO's) and Recovery Time Objective's (RTO's) as short as eight hours.

## Solution Details

- **Standby Systems** – Preconfigured systems capable of running full production workloads in the event of a disaster.
- **No Licensing** – Reduces cost, we provide temporary OS licensing in the event of system recovery.
- **Scalable** – Increase performance and capacity on demand, handling possible workload differences from original capacities and additional performance to improve restore time.
- **RTO Improvements** – Backups stored locally in our cloud are quickly restored to the standby systems and available for use in as little as eight hours.
- **Flexible Access options** – Preconfigured VPN, SSL Clients, MPLS and other dedicated circuits available for quick activation eliminating issues with user access.
- **Secure Recovery** – All standby systems are in their own dedicated network segment allowing strict security policies meeting any client and compliance requirements.
- **Guaranteed Performance SLA**

## ezAvailability

ezAvailability provides reliable, high availability and business continuity for mission critical applications with RPO under a minute and RTO typically under 15 minutes, with optional, fully managed real-time replication services. Our ezAvailability service consist of a full-time enterprise system, storage and network resources, allowing quick and easily-switched production workloads to our cloud when needed. Our ezAvailability services are backed by a clear and well-defined SLA guaranteeing performance, availability and access.

## Solution Details

- **Enterprise Level Resources** – Always on, switch ready and able to handle full production workloads.
- **Tier-3 Data Centers** – Meets or exceed most production environments for security, compliance standards, power and cooling redundancy, fire suppression and communications with 100% uptime.
- **Scalable Resources** – ezAvailability is designed to seamlessly scale system processor, memory and storage resources as needed. This allows clients to run replication on a base HA system with additional resources in reserve for use when needed in a test or disaster declaration. HA systems and standby resources can be expanded to meet typical client-side growth over time or from other business changes.
- **Host based Replication** – Software and/or Journal Based application installed on the production host that tracks and sends all changes to the ezAvailability target system. Replication is at the file or journal level ensuring data and transaction integrity on the target system.
- **SAN-Based Replication (ezMirror)** – SAN level replication using compatible hardware for the source and target. Replication is at the data block level copying all partial file changes to the target typically with a system that is powered off in standby.
- **Guaranteed Performance SLA**

## ezMirror

ezMirror is a SAN-based replication solution combined with our ezRecovery standby systems to provide easy to manage and cost-effective Business Continuity and Disaster Recovery (DR) option.

## Features

- RPO of 5-10 minutes and RTO of 30 minutes achievable under optimal conditions
- Support for IBM SVC/Storwize SAN with Global Mirror
- Full system replication mirrors all Volumes/LUNs of the system including the load source to the target SAN
- When replication is active the target host is offline in standby
- No additional maintenance, patching or updates required on the target system
- Replication process is separate from the Operating System
- Any ASP configuration is supported including IASPs

## ezHost

Our cloud hosting solution, ezHost provides full-time, scalable compute, storage, and network infrastructure resources needed to run clients' mission critical workloads on our enterprise class infrastructure. ezHost removes the burden of the typical hardware lifecycle management of on-premise systems by replacing the cost of support, maintenance, system administration, space, power and cooling with a predictable monthly expense. Our ezHost services are backed by a clear and well-defined SLA guaranteeing performance, availability and access.

### Solution Details

- **Enterprise Level Resources** – Always on and able to handle full production workloads. QOS capabilities on the storage and network ensures resources are delivered at the desired performance level.
- **Tier-3 Data Centers** – Meets or exceeds most production environments for security, compliance standards, power and cooling redundancy, fire suppression and communications with 100% uptime.
- **Scalable Resources** – ezHost is designed to seamlessly scale system processor, memory and storage resources as needed. This allows clients to start using a system with lower resources than they would need to purchase in an on-premise system and scale to meet typical client growth over time or from other business changes.
- **OS Support** – IBM i, Windows, AIX, and Linux
- **Security** – ezHost clients are always deployed in isolated environments with strict security controls on network traffic. Options exist for dedicated or client provided firewalls and security appliances.
- **Communications** – All ezHost services include public internet access with VPN support and options for client provided private networks such as MPLS, Metro Ethernet, Point to Point.
- **Support** – 24x7 Infrastructure support with options for operating system support and system administration.
- **Licensing** – Flexible licensing options let you bring your own or we can provide the OS licensing
- **Compliance** – Compliant with PCI, HIPAA, SOX standards.
- **All system, storage and network infrastructure are owned, operated and supported by DSC.**
- **Guaranteed Performance SLA**

## DATA CENTER & SECURITY

Data Storage Corporation helps organizations manage risk, increase performance and improve agility. Our Tier 3 data centers are part of a nationwide network with a shared commitment to Redundancy, Security and Compliance. Each of DSC's data centers is a safe, secure facility audited under SSAE-16 SOC 1 Type II, SOC 2 Type II, PCI-DSS1, GLBA and HIPAA standards annually.

### Physical Security

Controls access and provides a redundant, reliable environment

#### Data Center/System Access

- 24/7 Security and Surveillance (NOC & SOC)
- BIOMETRIC / ID Card Two Factor Access Control
- Man Traps – Limits access to one person at a time
- Fire Suppression
- Redundant Power and Cooling
- Locked Cages and Racks

### System Security

#### System Hardening – Very securable

- Use Highest security levels
- System Auditing and Logging
- Control Privileged Accounts and Access
- Data Encryption



### Fully Managed Systems

- Stay up to date on Patches and Updates
- System Auditing and Monitoring
- Assistance remediating issues

### Edge Security

Control the traffic in and out of a client's hosted environment

#### Shared Managed Network Routers and Firewalls

- Service Provider handles updates,
- policy management, and maintenance
- Typical services include: UTM, AV, IDP, Load Balancing

#### Dedicated Network Routers and Firewalls

- Client has full control

#### Client Supplied Edge Equipment

- Firewall, Router, Load Balancers, etc.
- Client has full control

Each Client has a dedicated network segment and all traffic, in and out, must pass through a firewall policy.

### VOICE & DATA SOLUTIONS

Nexxis, our new voice and data division, is leading the way with advanced voice and data services that propel business' forward with unparalleled performance, speed and continuity to keep vital information moving in the right direction. Faster than traditional phone systems — and infinitely smarter — Nexxis's voice and data solutions add functionality and improve efficiency, while keeping your costs down.

#### Solution Details

- **Pure, Reliable Voice Service:** The latest data and VoIP technology to ensure flawless service clients can rely on, 24/7, with numerous options and no upfront costs.
- **Premium Color IP Phones:** Choose from a range of top-of-the-line, feature-rich Polycom VVX color phone systems that look great and sound crystal clear.
- **Enterprise-level Features:** Our 100% fiber-optic network provides unrivaled, enterprise-level service to meet clients' business needs today, and tomorrow.
- **Built-in Business Continuity — and Connectivity:** Our VoIP solutions keep businesses fully connected, whenever and wherever clients are working from.
- **Dedicated High-speed Internet:** With speeds up to 40 GB, Nexxis provides lightning-fast download and upload — with superior connectivity and cost-efficiencies built-in.
- **Multi-site Connectivity:** Our secure high-speed network keeps your entire business connected, from hub to off-site locations nationwide.

### EMAIL ARCHIVAL SOLUTION

#### Message Logic

*Email Archival, compliance & analytics:* Services designed to keep email and message content safe, secure and accessible with powerful, cost-efficient email and IM archiving, monitoring and retrieval that is flexible, scalable and dependable.

Our MLArchiver has taken email archiving to a new level by combining archiving with advanced analytics. We deliver our technology as the only certified VMware Ready software, and cloud enabled software with partners such as Amazon Web Services, Windows Azure and NASDAQ OMX. We turn all emails into searchable records to meet regulatory and legal search needs and work with companies in all industries including K-12, local government, finance and healthcare which have strict regulatory requirements to archive and produce emails when requested. Our combined analytic engine also identifies potential problems and concerns for management and can alert them and the sender of a possible issue. This has become a major advantage for businesses that handle personal and confidential information such as social security numbers or HR concerns. Emails are introduced as evidence in nearly all court cases and are very often cited in the media. Having a system to manage emails as records with integrity has become a critical function for all organizations.

## Solution Benefits

- **Ease of Use, Affordable:** Intuitive design for ease of use; yet the features are advanced and powerful.
- **Records Management:** Good record keeping is essential for any organization. MLArchiver captures all emails; full-text indexes the message and attachment, applies retention policies and turns emails into non-alterable records.
- **Regulatory & Litigation Process:** MLArchiver make responding to regulatory or litigation search requests quick and easy. We meet the Federal Rules of Civil Procedure process for legal discovery and have advanced searching, dynamic folders, tagging, legal hold management and exporting options.
- **Compliant:** Nearly all industries have one or more regulations which require them to treat emails as corporate records and produce them when requested. ML is a fully compliant solution.
- **Analytics:** 50 custom and standard analytics to let management “Know what is being archived” with real-time alerts. Identify and report on business-critical information.
- **Employee Access & Email Storage Cost:** Emails older than six months are infrequently accessed. MLArchiver provides tools for employee access via web interface or Outlook. Archive storage is lower cost storage for cost reductions.

## COMPETITION

The markets for the Company’s products and services are highly competitive and the Company is confronted by aggressive competition. These markets are characterized by frequent product introductions and rapid technological advances. The Company’s financial condition and operating results can be adversely affected by these and other industry-wide downward pressures on gross margins. Principal competitive factors important to the Company include price, product features, relative price and performance, product quality and reliability, a strong third-party software, marketing and distribution capability, service and support and corporate reputation.

The Company is focused on expanding its market opportunities related to disaster recovery and infrastructure as a service and platform as a service, primarily focused on the IBM community. These markets are highly competitive and include several large, well-funded and experienced participants.

The Company’s future financial condition and operating results depend on the Company’s ability to continue to provide a high-quality solution as well as increase distribution of the solutions in each of the markets in which it competes.

The Company believes it offers superior 365x24x7 enterprise level service and solutions for the SME marketplace and value-added reseller community with guaranteed uptime and service level agreements which sets the company apart from many of their competitors.

## CORPORATE HISTORY

To date, DSC consummated a share exchange with Data Storage Corporation, a Delaware corporation in October 20, 2008, and DSC subsequently changed its name from Euro Trend Inc. to Data Storage Corporation. DSC acquired the assets of SafeData, LLC in June 2010 and the assets of Message Logic LLC, (“Message Logic”) in October 2012.

In December 2012, DSC was accepted as an IBM Service provider for cloud solutions.

In October 2016, DSC purchased the assets of ABC which included the remaining 50% of the Secure Infrastructure and Services venture.

On October 19, 2017 DSC formed a new division, Nexxis Inc., to provide VOIP and carrier services.

The result of these acquisitions, joint venture and strategic alliances combined with DSC’s legacy disaster recovery and business continuity solutions positions DSC as a potential leader in business to business disaster recovery as a service, infrastructure as a service on the IBM Power i mid-range servers, email compliance with Software as a Service (SaaS). DSC will continue to provide our solutions and continue our planned industry consolidations.

**ITEM 1A. RISK FACTORS**

As a smaller reporting company, we are not required to provide disclosure pursuant to this item.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

As a smaller reporting company, we are not required to provide disclosure pursuant to this item.

**ITEM 2. PROPERTIES**

Our principal office is located at 48 South Service Road, South Service Road, Suite 203, Melville, NY 11747. We also maintain an office located at 535 Centerville Road, Warwick, RI 02886, and we maintain data centers in New York, Massachusetts and North Carolina. Our corporate telephone number is (212) 564-4922. We believe the current facilities are adequate for the near future.

**ITEM 3. LEGAL PROCEEDINGS**

We are currently not involved in any litigation that we believe could have a materially adverse effect on our financial condition or results of operations. There is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the executive officers of our company or any of our subsidiaries, threatened against or affecting 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 4. MINE SAFETY DISCLOSURES**

Not applicable.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

#### LIMITED PUBLIC MARKET FOR COMMON STOCK

A symbol was assigned for our securities so that our securities may be quoted for trading on the OTCQB under symbol "DTST". Minimal trading occurred through the date of this Annual Report based on a limited float. There can be no assurance that a liquid market for our securities will ever develop. Transfer of our common stock may also be restricted under the securities or blue-sky laws of various states and foreign jurisdictions. Consequently, investors may not be able to liquidate their investments and should be prepared to hold the common stock for period of time.

<b>Quarterly ended</b>	<b>Low Price</b>	<b>High Price</b>
March 31, 2017	\$ 0.10	\$ 0.11
June 30, 2017	\$ 0.11	\$ 0.15
September 30, 2017	\$ 0.07	\$ 0.08
December 31, 2017	\$ 0.07	\$ 0.07
March 31, 2018	\$ 0.09	\$ 0.10
June 30, 2018	\$ 0.11	\$ 0.16
September 30, 2018	\$ 0.16	\$ 0.17
December 31, 2018	\$ 0.14	\$ 0.16

#### HOLDERS OF OUR COMMON STOCK

As of December 31, 2018, we had 40 shareholders of record of our Common Stock.

#### DIVIDEND POLICY

DSC has not declared or paid dividends on common stock since its formation, and do not anticipate paying dividends in the foreseeable future. The declaration or payment of dividends, if any, in the future, will be at the discretion of DSC's Board and will depend on the then current financial condition, results of operations, capital requirements and other factors deemed relevant by the Board. There are no contractual restrictions on our ability to declare or pay dividends. Preferred dividends are accrued quarterly. No Preferred dividends have been paid to date.

#### EQUITY COMPENSATION PLAN INFORMATION

See "Executive Compensation "2008 Equity Incentive Plan" and "2010 Incentive Award Plan" on page 44 for DSC's equity compensation plan information.

During the past fiscal year, we have issued stock options to several employees for the purchase of an aggregate amount 1,022,004 shares of common stock in reliance on an exemption from registration pursuant to Section 4(2) of the Securities Act:

#### ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

### COMPANY OVERVIEW

Data Storage Corporation ("DSC" or the "Company") provides subscription based, long term agreements for disaster recovery solutions, Infrastructure as a Service (IaaS) and VoIP and carrier type solutions. Over 35% of our revenue is derived from equipment sales for cyber security, storage, IBM Power i systems and managed service solutions.

Our mission is to protect our client's data, ensuring business continuity, assisting in their compliance requirements and providing better control over their digital information. The Company's October 2016 acquisition of the assets of ABC Services, Inc. and ABC Services II, Inc. (collectively, "ABC") and its acquisition of the remaining 50% of the assets of Secure Infrastructure and Services LLC supports the Company's acquisition strategy. These acquisitions accelerated our strategy into cloud based managed services, expanded cyber security solutions and our hybrid cloud solutions with the ability to provide equipment and expanded technical support.

The Company provides its solutions through its business development team and contracted distribution channels. DSC owns intellectual property 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 Recovery and Hybrid Cloud solutions, IBM and Intel IaaS cloud-based solutions without the distributor investing in infrastructure, data centers and telecommunications services as well as specialized technical staff whereby lowering their barrier of entry for them to provide these solutions to their client base.

DSC is an 18-year veteran in cloud storage and cloud computing providing disaster recovery, business continuity and compliance solutions that assist organizations in protecting their data, minimizing downtime while ensuring regulatory compliance. Serving the 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 their data. Solutions include: Infrastructure as a Service specializing in IBM Power; data backup recovery and restore, high availability data replication; email archival and compliance; and eDiscovery; continuous data protection; data de- duplication; and, virtualized system recovery. DSC has forged significant relationships with leading organizations creating valuable partnerships.

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.

Headquartered in Melville, NY with additional offices in Warwick, RI, DSC offers solutions and services to businesses within the healthcare, banking and finance, distribution services, manufacturing, construction, education, and government industries.

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, Massachusetts and North Carolina.

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 customer requirements. The Company supports clients twenty-four hours a day, 365 days a year.

## RESULTS OF OPERATIONS

### Year ended December 31, 2018 as compared to December 31, 2017

*Net Sales.* Net sales for the year ended December 31, 2018 were \$8,887,402 an increase of \$630,484 or 7.6%, compared to \$8,256,918 for the year ended December 31, 2017. The increase is attributable to the increase in equipment and software sales.

*Cost of Sales.* For the year ended December 31, 2018, cost of sales was \$5,427,990 an increase of \$517,659 or 10.5% from \$4,910,331 for the year ended December 31, 2017. The increase in cost of sales is a result of an increase in equipment and software sold. The Company's gross margin is 39% for the year ended December 31, 2018 as compared to 41% for the year ended December 31, 2017.

*Operating Expenses.* For the year ended December 31, 2018, operating expenses were \$3,124,052 a decrease of \$307,292 as compared to \$3,431,344 for the year ended December 31, 2017. The net decrease is a result a decrease in staffing salaries, professional fees, travel, commissions, state filing fees and the recovery of bad debt. Salaries decreased by \$204,654 to \$800,424 for the year ended December 31, 2018 as compared to \$1,005,079 for the year ended December 31, 2017. Officer's Salaries decreased \$283,704 to \$251,446 for the year ended December 31, 2018 as compared to \$535,150 for the year ended December 31, 2017. Professional fees decreased \$32,506 to \$460,186 for the year ended December 31, 2018 as compared to \$492,692 for the year ended December 31, 2017. Commissions increased \$334,375 to \$702,361 for the year ended December 31, 2018 as compared to \$367,985 for the year ended December 31, 2017 due to a reclassification between professional fees and commissions. Travel decreased \$54,228 to \$58,892 for the year ended December 31, 2018 as compared to \$113,120 for the year ended December 31, 2017. State filing fees decreased \$6,794 to \$6,408 for the year ended December 31, 2018 as compared to \$13,202 for the year ended December 31, 2017 due to a reclassification between state filings and professional fees. The recovery of bad debt in 2018 was \$60,716

*Other Income (Expense)* Interest expense for the year ended December 31, 2018 decreased \$8,118 to \$98,788 from \$106,906 as compared to the year ended December 31, 2017. Other income decreased \$3,071 to \$99 in 2018 from \$3,170 in 2017.

*Net Income (Loss).* Net Income (Loss) for the year ended December 31, 2018 was \$236,671 an increase of \$425,164 as compared to net loss of \$(188,493) for the year ended December 31, 2017. DSC's profit was primarily a result of an increase in sales and expense reductions in operating expenses.

## 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. In 2019, we intend to continue to work to increase our presence in the cloud and business continuity marketplace specializing in IBM Power i and disaster recovery / business continuity marketplace utilizing our technical expertise, software and our capacity in our data centers.

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, which will require a renegotiation of related party capital equipment leases and / or major shareholders, such as senior management, entering into financing or stock purchase arrangements.

During the year ended December 31, 2018, DSC's cash increased \$123,651 to \$228,790 from \$105,139 December 31, 2017. Net cash of \$541,305 was provided by DSC's operating activities resulting primarily from depreciation expense of \$602,532. Net cash of (\$347,871) was used in financing activities resulting from payments on capital lease obligations.

DSC's working capital deficit was \$2,202,230 at December 31, 2018, decreasing \$749,158 from \$2,951,388 at December 31, 2017. The decrease is primarily attributable to a reduction of related party notes and leases of \$335,895 and recognition of deferred income of \$131,325 and an increase in cash and accounts receivable totaling \$248,503.

## Share Based Compensation

DSC follows the requirements of FASB ASC 718-10-10, *Share Based Payments* with regards to stock-based compensation issued to employees. DSC has agreements and arrangements that call for stock to be awarded to the employees and consultants at various times as compensation and periodic bonuses. The expense for this stock-based compensation is equal to the fair value of the stock price on the day the stock was awarded multiplied by the number of shares awarded.

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 DSC's stock price is expected to fluctuate each year during the expected life of the award. DSC's estimated volatility is an average of the historical volatility of peer entities whose stock prices were publicly available. DSC'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. DSC uses the historical volatility of peer entities due to the lack of sufficient historical data of its stock price.

## Off-Balance Sheet Arrangements

DSC does not have any off-balance sheet arrangements, financings, or other relationships with unconsolidated entities or other persons, also known as "special purpose entities" ("SPE" s).

## CRITICAL ACCOUNTING POLICIES

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

Our significant accounting policies are summarized in Note 2 of our financial statements. While all these significant accounting policies impact our financial condition and results of operations, we view certain of these policies as critical. Policies determined to be critical are those policies that have the most significant impact on our financial statements and require management to use a greater degree of judgment and estimates. Actual results may differ from those estimates. Our management believes that given current facts and circumstances, it is unlikely that applying any other reasonable judgments or estimate methodologies would cause effect on our consolidated results of operations, financial position or liquidity for the periods presented in this report.

## RECENTLY ISSUED AND NEWLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "*Revenue from Contracts with Customers*" ("ASU 2014-09"), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. In addition, this guidance requires new or expanded disclosures related to the judgments made by companies when following this framework and additional quantitative disclosures regarding contract balances and remaining performance obligations. ASU 2014-09 may be applied using either a full retrospective approach, under which all years included in the financial statements will be presented under the revised guidance, or a modified retrospective approach, under which financial statements will be prepared under the revised guidance for the year of adoption, but not for prior years. Under the latter method, entities will recognize a cumulative catch-up adjustment to the opening balance of retained earnings at the effective date for contracts that still require performance by the entity.

ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those annual reporting periods. The Company developed an implementation plan to adopt this new guidance, which included an assessment of the impact of the new guidance on our financial position and results of operations. The Company has substantially completed its assessment and has determined that this standard will have no impact on its financial position or results of operations, except 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. On January 1, 2018, the Company adopted the new accounting standard ASC 606, *Revenue from Contracts with Customers* and for all open contracts and related amendments as of January 1, 2018 using the modified retrospective method. Results for reporting periods beginning after January 1, 2018 will be presented under ASC 606, while the comparative information will not be restated and will continue to be reported under the accounting standards in effect for those periods.

In January 2016, the FASB issued ASU 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 the 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 (“ROU”) 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. The Company does not expect a significant change in its leasing activities between now and adoption. On adoption, the Company currently expects to recognize operating lease liabilities of approximately \$319,236 with corresponding ROU assets of the same amount based on the present value of the remaining rental payments of our office locations.

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 the 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 audited 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 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 2017-11 is effective for the Company on January 1, 2019. The Company is currently evaluating the potential impact of ASU 2017-11 on the Company’s consolidated financial statements.



**OFF-BALANCE SHEET TRANSACTIONS**

DSC has no off-balance sheet arrangements.

**ITEM 7A. 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 years ended December 31, 2018 and 2017, DSC had interest expense, net of interest income, of \$98,788 and \$106,906, 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 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.**

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<a href="#">Consolidated Balance Sheets</a>	<a href="#">20</a>
<a href="#">Consolidated Statements of Operations</a>	<a href="#">21</a>
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and  
Stockholders of Data Storage Corporation

**Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of Data Storage Corporation and Subsidiary (the Company) as of December 31, 2018 and 2017, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2018, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 2008.

/s/ Rosenberg Rich Baker Berman P.A.

Somerset, New Jersey  
April 1, 2019

**DATA STORAGE CORPORATION AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS**

	December 31, 2018	December 31, 2017
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 228,790	\$ 105,139
Accounts receivable (less allowance for doubtful accounts of \$30,000 in 2018 and \$90,000 in 2017)	531,245	406,393
Prepaid expenses and other current assets	167,891	120,217
Total Current Assets	<u>927,926</u>	<u>631,749</u>
Property and Equipment:		
Property and equipment	5,293,711	5,237,965
Less—Accumulated depreciation	(4,005,338)	(3,614,177)
Net Property and Equipment	<u>1,228,373</u>	<u>1,623,788</u>
Other Assets:		
Goodwill	3,015,700	3,015,700
Employee loans	-	3,000
Other assets	65,433	75,356
Intangible assets, net	846,713	1,044,046
Total Other Assets	<u>3,927,846</u>	<u>4,138,102</u>
Total Assets	<u>6,144,145</u>	<u>6,393,639</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable and accrued expenses	988,579	1,087,351
Dividend payable	846,685	733,673
Deferred revenue	435,406	566,731
Capital leases payable related party	509,487	658,476
Notes payable related party	—	186,906
Note payable	350,000	350,000
Total Current Liabilities	<u>3,130,157</u>	<u>3,583,137</u>
Deferred rental obligation	18,890	1,061
Notes payable related party	—	99,915
Capital leases payable related party, long-term	1,218,703	1,130,764
Total Long-Term Liabilities	<u>1,237,593</u>	<u>1,231,740</u>
Total Liabilities	<u>4,367,750</u>	<u>4,814,877</u>
Commitments and contingencies		
Stockholders' Equity		
Preferred stock, Series A par value \$.001; 10,000,000 shares authorized; 1,401,786 shares issued and outstanding in each period	1,402	1,402
Common stock, par value \$.001; 250,000,000 shares authorized; 128,139,418 and 128,039,418 shares issued and outstanding in 2018 and 2017, respectively	128,139	128,139
Additional paid in capital	17,409,989	17,377,986
Accumulated deficit	(15,735,624)	(15,924,376)
Total Data Storage Corp Stockholders' Equity	1,803,906	1,583,151
Non-controlling interest in consolidated subsidiary	(27,511)	(4,389)
Total Stockholder's Equity	<u>1,776,395</u>	<u>1,578,762</u>
Total Liabilities and Stockholders' Equity	<u>\$ 6,144,145</u>	<u>\$ 6,393,639</u>

The accompanying notes are an integral part of these consolidated Financial Statements.

**DATA STORAGE CORPORATION AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF OPERATIONS**

	<u>Years Ended December 31,</u>	
	<u>2018</u>	<u>2017</u>
Sales	\$ 8,887,402	\$ 8,256,918
Cost of Sales	5,427,990	4,910,331
Gross Profit	3,459,412	3,346,587
Selling, General and Administrative	3,124,052	3,431,344
Income (Loss) from Operations	335,360	(84,757)
Other Income (Expense)		
Other income	99	3,170
Interest expense	(98,788)	(106,906)
Total Other (Expense)	(98,689)	(103,736)
Income (Loss) Before Provision for Income Taxes	236,671	(188,493)
Provision for Income Taxes	—	—
Net Income (Loss)	236,671	(188,493)
Net Loss attributable to non-controlling interest	23,122	4,409
Net Income (Loss) attributable to Data Storage Corp	259,793	(184,084)
Preferred Stock Dividend	(113,012)	(114,536)
Net Income (Loss) Available to Common Shareholders	\$ 146,781	\$ (298,620)
Earnings (Loss) per Share – Basic	\$ 0.00	\$ 0.00
Earnings (Loss) per Share - Diluted	\$ 0.00	\$ 0.00
Weighted Average Number of Shares - Basic	128,139,418	128,092,569
Weighted Average Number of Shares - Diluted	131,939,979	128,092,569

The accompanying notes are an integral part of these consolidated Financial Statements.

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

	Years Ended December 31,	
	2018	2017
Net Income (loss)	\$ 236,671	\$ (188,493)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	602,532	614,449
Stock-based compensation	32,003	183,703
Changes in Assets and Liabilities:		
Accounts receivable	(124,852)	401,122
Other assets	9,923	(20,832)
Prepaid expenses and other current assets	(47,674)	111,215
Employee loan	3,000	(3,000)
Accounts payable and accrued expenses	(98,774)	(266,270)
Deferred revenue	(89,353)	(352,372)
Deferred rent	17,829	(843)
Net Cash Provided by Operating Activities	<u>541,305</u>	<u>478,679</u>
Cash Flows from Investing Activities:		
Capital expenditures	(69,783)	—
Net Cash Used in Investing Activities	<u>(69,783)</u>	<u>—</u>
Cash Flows from Financing Activities:		
Repayments of capital lease obligations	(347,871)	(428,559)
Repayments of credit line	—	(50,412)
Repayments of related party loans	—	(150,386)
Net Cash Used in Financing Activities	<u>(347,871)</u>	<u>(629,357)</u>
Increase (Decrease) in Cash and Cash Equivalents	123,651	(150,678)
Cash and Cash Equivalents, Beginning of Year	<u>105,139</u>	<u>255,817</u>
Cash and Cash Equivalents, End of Year	<u>\$ 228,790</u>	<u>\$ 105,139</u>
Cash paid for interest	\$ 98,788	\$ 106,906
Cash paid for income taxes	\$ 5,604	\$ 1,877
Non-cash investing and financing activities:		
Assets acquired by capital lease	\$ —	\$ 1,836,714
Accrual of preferred stock dividend	\$ 113,012	\$ 114,536

The accompanying notes are an integral part of these consolidated Financial Statements.

**DATA STORAGE CORPORATION AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

Description	Preferred Stock		Common Stock		Additional Paid in Capital	Accumulated Deficit	Non- Controlling Interest	Total
	Shares	Amount	Shares	Amount				
Balance January 1, 2017	1,401,786	\$ 1,402	128,139,418	\$ 128,039,418	\$ 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	\$ 128,039	\$ 17,377,986	\$ (15,924,376)	(4,389)	\$ 1,578,762
Stock-based compensation	—	—	—	—	32,003	—	—	32,003
Net Income	—	—	—	—	—	259,793	(23,122)	236,671
Cumulative Adjustment Adoption of ASC606	—	—	—	—	—	41,971	—	41,971
Preferred stock dividend	—	—	—	—	—	(113,012)	—	(113,012)
Balance December 31, 2018	1,401,786	\$ 1,402	128,139,418	\$ 128,139	\$ 17,409,989	\$ (15,735,624)	\$ (27,511)	\$ 1,776,395

The accompanying notes are an integral part of these consolidated Financial Statements

**DATA STORAGE CORPORATION AND SUBSIDIARY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2018 AND 2017**

**Note 1 - Basis of Presentation, Organization and Other Matters**

Data Storage Corporation ("DSC" or the "Company") provides subscription based, long term agreements for disaster recovery solutions, Infrastructure as a Service (IaaS) and VoIP type solutions. Over 35% of our revenue is derived from equipment sales for cyber security, storage, IBM Power i systems and managed service solutions.

Headquartered in Melville, NY with additional offices in Warwick, RI, DSC offers solutions and services to businesses within the healthcare, banking and finance, distribution services, manufacturing, construction, education, and government industries.

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, New Jersey, Massachusetts and North Carolina.

*Going Concern Analysis*

The Company had a net income (loss) available to shareholders of \$146,781 and (\$298,620) for the years ended December 31, 2018 and 2017, respectively. As of December 31, 2018, we had cash of \$228,790 and a working capital deficiency of \$2,202,231.

As a result, these conditions raised substantial doubt regarding our ability to continue as a going concern. During the year ended December 31, 2018, the Company generated cash from operations of \$541,305.

The continued revenue growth coupled with improved gross profit margins on our subscription solutions and control of expenses leads management to conclude that it is probable that the Company's cash resources along with over 8 million dollars in remaining contract value for monthly subscription solutions will be sufficient to meet our cash requirements for twelve months from the issuance of the consolidated financial statements. Additionally, the year over year trend in EBITDA continues to improve at over 900 thousand dollars for 2018.

Further the company has no capital commitments. The company's offices have been consolidated and fully staffed and with sufficient room for growth. Our data center equipment and cages have inventory for revenue growth for selected solutions without an increase in technical support or capex, so decided by management. We continue to drive down our cost of goods sold through data center efficiencies, including the 2018 data center consolidation and the renegotiation of vendor agreements.

Additionally, the company's current liabilities represent accrued dividends, not payable at this point in time. The company's equipment leases, representing assets in our data centers cages, represents twelve monthly payments, when in fact over 95% of the company client's accounts receivable pay in under sixty days; the \$350,000 in a bank loan for Message Logic software is structured in favor of the company and the ability to return the software and remove the debt without any material impact or legal consequence; and, deferred revenue represents the contracts we invoice in advance, represented by invoicing over 70% of our clients thirty days in advance.

If necessary, management also determined that it is possible that related party sources of debt financing and capitalized leases can be renegotiated based on management's history of being able to raise and refinance debt through related parties.

As a result of both managements plans and current favorable trends in improving cash flow, the Company concluded that the initial conditions which raised substantial doubt regarding the ability to continue as a going concern have been alleviated. Therefore, the accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern.

As always, any company can and does have client churn, however since 2001 the company has maintained an excellent contract renewal rate and low client churn, which we anticipate will continue.



## 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 fair value 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 January 2016, the FASB issued ASU 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 did not have a material impact on the 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 (“ROU”) 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 does not expect a significant change in its leasing activities between now and adoption. On adoption, the Company currently expects to recognize operating lease liabilities of approximately \$319,236 with corresponding ROU assets of the same amount based on the present value of the remaining rental payments of our office locations.

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 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 does not expect the adoption of ASU 2017-04 to have a material impact 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 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 2017-11 is effective for the Company on January 1, 2019. The Company is currently evaluating the potential impact of ASU 2017-11 on the Company’s consolidated financial statements.

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers* (“ASU 2014-09”), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP. In addition, this guidance requires new or expanded disclosures related to the judgments made by companies when following this framework and additional quantitative disclosures regarding contract balances and remaining performance obligations. ASU 2014-09 may be applied using either a full retrospective approach, under which all years included in the financial statements will be presented under the revised guidance, or a modified retrospective approach, under which financial statements will be prepared under the revised guidance for the year of adoption, but not for prior years. Under the latter method, entities will recognize a cumulative catch-up adjustment to the opening balance of retained earnings at the effective date for contracts that still require performance by the entity.

ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those annual reporting periods. The Company developed an implementation plan to adopt this new guidance, which included an assessment of the impact of the new guidance on our financial position and results of operations. The Company has substantially completed its assessment and has determined that this standard will have no impact on its financial position or results of operations, except 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. On January 1, 2018, the Company adopted the new accounting standard ASC 606, *Revenue from Contracts with Customers* and for all open contracts and related amendments as of January 1, 2018 using the modified retrospective method. Results for reporting periods beginning after January 1, 2018 will be presented under ASC 606, while the comparative information will not be restated and will continue to be reported under the accounting standards in effect for those periods.

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.

*Principles of Consolidation*

The consolidated financial statements include the accounts of Data Storage Corporation and its majority owned subsidiary Nexxis Inc. All significant inter-company transactions and balances have been eliminated in consolidation.

*Business combinations.*

We account for business combinations under the acquisition method of accounting, which requires us to recognize separately from goodwill, the assets acquired and the liabilities assumed at their acquisition date fair values. While we use our best estimates and assumptions to accurately value assets, acquired and liabilities assumed at the acquisition date as well as contingent consideration, where applicable, our estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, we record adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recognized in our consolidated statements of operations.

Accounting for business combinations requires our management to make significant estimates and assumptions, especially at the acquisition date including our estimates for intangible assets, contractual obligations assumed, restructuring liabilities, pre-acquisition contingencies, and contingent consideration, where applicable. Although we believe the assumptions and estimates we have made in the past have been reasonable and appropriate, they are based in part on historical experience and information obtained from the management of the acquired companies and are inherently uncertain. Critical estimates in valuing certain of the intangible assets we have acquired include future expected cash flows from product sales, customer contracts and acquired technologies, and estimated cash flows from the projects when completed and discount rates. Unanticipated events and circumstances may occur that may affect the accuracy or validity of such assumptions, estimates or actual results.

#### *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 December 31, 2018 approximate their carrying value as reflected in the balance sheets due to the short-term nature of these instruments or the use of market interest rates for debt instruments. The carrying values of certain of the Company's notes payable and capital lease obligations approximate their fair values based upon a comparison of the interest rate and terms of such debt given the level of risk to the rates and terms of similar debt currently available to the Company in the marketplace.

#### *Cash, Cash Equivalents and Short-Term Investments*

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

#### *Concentration of Credit Risk and Other Risks and Uncertainties*

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

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

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

For the year ended December 31, 2018, DSC had one customer with an accounts receivable balance representing 10.6% of total accounts receivable.

#### *Accounts Receivable/Allowance for Doubtful Accounts*

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

#### *Property and Equipment*

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

#### *Income Taxes*

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. At December 31, 2018 and 2017, 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 December 31, 2018, 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, the FASB issued ASU 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 does not expect the adoption of ASU 2017-04 to have a material impact on its consolidated financial statements.

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 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 Infrastructure as a Service, Platform as a Service and Disaster Recovery, High Availability, Data Vault Services and DRaaS type solutions (cloud) allows clients to centralize and streamline their technical and mission critical digital information and 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 while eliminating or supplementing Capex.

#### 2) Managed Services

These services are performed at the inception of a contract. The Company offers professional assistance to its clients during the installation processes. On-boarding 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.

The Company also derives revenues in the area from providing support and management of its software to clients. The managed services include help desk, remote access, annual recovery tests and manufacturer support for equipment and on-going monitoring of client system performance.

#### 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. The company is a partner of IBM and the various software solutions provided to clients.

### 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 Year Ended December 31,	
	2018	2017
<b>Major products/services lines</b>		
Infrastructure and Disaster Recovery	\$ 4,711,187	\$ 4,672,882
Equipment and Software	2,591,665	2,385,931
Managed Service	1,620,618	1,052,315
Other	(36,068)	145,790
<b>Total Revenue</b>	<b>\$ 8,887,402</b>	<b>\$ 8,256,918</b>
<b>Timing of revenue recognition</b>		
Products transferred at a point in time	\$ 2,591,665	\$ 2,385,931
Products and services transferred over time	6,295,737	5,870,987
	<b>\$ 8,887,402</b>	<b>\$ 8,256,918</b>

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 one (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 net expenses the costs associated with advertising as they are incurred. The Company incurred a net impact of \$216,784 and \$189,922 for advertising costs for the years ended December 31, 2018 and 2017, respectively. after receiving credits from vendor type partnerships.

#### 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 following table sets forth the information needed to compute basic and diluted earnings per share for the years ended December 31, 2018 and 2017:

	December 31,	
	2018	2017
Net Income (Loss) Available to Common Shareholders	\$ 146,781	\$ (298,620)
Weighted average number of common shares - basic	128,139,418	128,092,569
Dilutive securities		
Options	3,667,227	—
Warrants	133,334	—
Weighted average number of common shares - diluted	131,939,979	128,092,569
Earnings (Loss) per share, basic \$ 0.00 \$ 0.00		
Earnings (Loss) per share, diluted	\$ 0.00	\$ 0.00

The following table sets forth the number of potential shares of common stock that have been excluded from diluted net income (loss) per share net income (loss) per share because their effect was anti-dilutive:

	December 31,	
	2018	2017
Options	2,098,292	5,052,418
Warrants	-	133,334
	2,098,292	5,185,752

### Note 3 - Property and Equipment

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

	December 31,	
	2018	2017
Storage equipment	\$ 756,236	\$ 756,236
Website and software	533,418	533,418
Furniture and fixtures	25,975	15,695
Leasehold improvements	13,104	11,719
Computer hardware and software	1,211,658	1,194,120
Data center equipment	2,753,320	2,726,777
	<u>5,293,711</u>	<u>5,237,965</u>
Less: Accumulated depreciation	4,005,338	3,614,177
Net property and equipment	<u>\$ 1,288,373</u>	<u>\$ 1,623,788</u>

Depreciation expense for the years ended December 31, 2018 and 2017 was \$405,199 and \$391,586, respectively.

### Note 4 - Goodwill and Intangible Assets

Goodwill and intangible assets consisted of the following:

	Estimated life in years	December 31, 2018		
		Gross amount	Accumulated Amortization	Net
Intangible assets not subject to amortization				
Goodwill	Indefinite	\$ 3,015,700	\$ —	\$ 3,015,700
Trademarks	Indefinite	294,268	—	294,268
Total intangible assets not subject to amortization		<u>3,309,968</u>	<u>—</u>	<u>3,309,968</u>
Intangible assets subject to amortization				
Customer lists	5 - 15	897,274	897,274	—
ABC acquired contracts	5	310,000	134,333	175,667
SIAS acquired contracts	5	660,000	286,000	374,000
Non-compete agreements	4	272,147	269,369	2,778
Total intangible assets subject to amortization		<u>2,139,421</u>	<u>1,586,976</u>	<u>552,445</u>
Total Goodwill and Intangible Assets		<u>\$ 5,449,389</u>	<u>\$ 1,586,976</u>	<u>\$ 3,862,413</u>

Scheduled amortization over the next five years as follows:

Years ending December 31,		
2019	\$	196,778
2020		194,000
2021		161,668
Total	\$	<u>552,446</u>

Amortization expense for the years ended December 31, 2018 and 2017 were \$197,333 and \$222,863 respectively.

Fair values are primarily determined through the use of inputs that are not observable from market-based information. Under ASC 805-10-25-13, management may adjust the fair values of acquired assets or assumed liabilities for a period of up to one year from the date of the acquisition to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have an effect on the measurement of the amounts recognized as of that date. During the fourth quarter of 2017 and within the measurement period, the Company made a net adjustment of \$937,667 to the intangibles acquired from in the ABC acquisition which reduced the previous goodwill recorded from the transaction by \$970,000 in 2016. The Company also recorded \$32,333 in amortization for the same period in 2016. The effect of the change to 2016 increased the net loss by \$32,333 and reduced retained deficit \$32,333 and had no effect on loss per share.

**Note 5 – Capital Lease Obligations – Related Party**

In 2018, The Company entered into a new lease agreement with Systems Trading to refinance all leases into one lease. This lease obligation is payable to Systems Trading with bi-monthly installments of \$23,475. The lease carries an interest rate of 5%.

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

As of December 31, 2018	\$ 1,878,000
Less amount representing interest	<u>(149,810)</u>
Total obligations under capital leases	1,728,190
Less current portion of obligations under capital leases	<u>(509,487)</u>
Long-term obligations under capital leases	<u>\$ 1,218,703</u>

Long-term obligations under capital leases at December 31, 2018 mature as follows:

Year ending December 31,	
2019	\$ 586,875
2020	563,400
2021	563,400
2022	<u>164,325</u>
	<u>\$ 1,878,000</u>

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

Equipment	\$ 3,194,988
Less: accumulated depreciation	<u>2,050,731</u>
	<u>\$ 1,144,257</u>

**Note 6 - Commitments and Contingencies***Revolving Credit Facility*

On January 31, 2008, the Company entered into a revolving credit line with a bank. The credit facility provides for \$100,000 at prime plus 0.5%, 6.00% at December 31, 2018, and is secured by all assets of the Company and personally guaranteed by the Company's principal shareholder. As of December 31, 2018, and 2017 the balance was \$0.

*Operating Leases*

The Company currently has two leases for office space in Melville, NY, and one lease for office space in Warwick, RI.

A lease for office space in Melville, NY was entered into on November 20, 2017 which commenced on April 2, 2018. The term of this lease is for five years and three months and has a fixed rent schedule.

A second lease, that was part of the acquisition of ABC in 2016, is also located in Melville and calls for monthly payments of \$8,382 with a lease terminating in August 31, 2019.

The lease for office space in Warwick, RI calls for monthly payments of \$2,324 beginning February 1, 2015 which escalated 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 Year Ending December 31,

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2019	\$	192,803
2020		90,633
2021		93,352
2022		96,152
2023		65,458
	\$	538,398

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Rent expense for the year ended December 31, 2018 and 2017 was \$251,814 and \$215,436 respectively.

## **Note 7 – Long Term Debt**

### Note Payable

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 paid all arrears interest over 7 months at \$3,910 per month. In addition, the Company agreed to make monthly interest payments at \$1,553 per month with the principal balance of \$350,000 payable on April 30, 2016. The Company stopped making interest only payments on October 25, 2018. There has been no default notice from the bank. The Company is in the process of renegotiating a final settlement.

### Notes Payable – Related Party

In 2018, The Company refinanced this note payable along with all of its then outstanding leases into a new lease agreement with Systems Trading. At December 31, 2018 and 2017 the balance due under this obligation was \$0 and \$286,821.

## **Note 8 - Investment in Subsidiary**

The Company has an 80% controlling ownership interest in Nexxis Inc., a majority-owned subsidiary of the Company. The entity was formed to provide VOIP services.

## **Note 9 - 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 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.

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, 2013. There are 462,071 options outstanding under this plan as of December 31, 2018.

#### **2010 Incentive Award Plan**

The Company has reserved 5,000,000 shares of common stock for issuance under the terms of the DSC 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, 2013, the Board of Directors of the Company amended and restated the DSC 2010 Plan. The 2010 Plan, as amended and restated, has been renamed the "Amended and Restated DSC 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.

On June 20, 2017 the board approved to increase the number of available stock options for distribution from the current 5,000,000 shares to 8,000,000 shares.

There are 5,303,448 options outstanding under this plan as of December 31, 2018.

There are 2,696,553 shares available for future grants under the plans.

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

	Number of Shares Under Options	Range of Option Price Per Share	Weighted Average Exercise Price
Options Outstanding at January 1, 2017	6,741,660	\$ 0.02 - 0.85	\$ 0.28
Options Granted	2,017,447	0.35	0.35
Expire/Cancelled	(3,706,959)	0.02 - 0.41	0.27
Options Outstanding at December 31, 2017	5,052,148	0.02 - 0.85	0.26
Options Granted	1,022,004	0.04	0.04
Expire/Cancelled	(308,633)	0.05 - .35	0.29
Options Outstanding at December 31, 2018	5,765,519	\$ 0.02 - 0.65	\$ 0.18
Options Exercisable at December 31, 2018	3,096,464	\$ 0.02 - 0.65	\$ 0.29

Share-based compensation expense for options totaling \$32,003 was recognized in our results for the year ended December 31, 2018 is based on awards vested.

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 options 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 December 31, 2018, there was \$23,200 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 year.

The weighted average fair value of options granted, and the assumptions used in the Black-Scholes model during the year ended December 31, 2018 are set forth in the table below.

	2018
Weighted average fair value of options granted	\$ 0.05
Risk-free interest rate	2.86%
Volatility	85%
Expected life (years)	10
Dividend yield	0.00%

### Common Stock Warrants

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

	Number of Shares Under Warrants	Range of Warrants Price Per Share	Weighted Average Exercise Price
Warrants Outstanding at January 1, 2017	133,334	\$ 0.01	\$ 0.01
Warrants Granted	—	—	—
Warrants Outstanding at December 31, 2017	133,334	\$ 0.01	\$ 0.01
Warrants Granted	—	—	—
Warrants Outstanding at December 31, 2018	<u>133,334</u>	<u>\$ 0.01</u>	<u>\$ 0.01</u>
Warrants Exercisable at December 31, 2018	<u>133,334</u>	<u>\$ 0.01</u>	<u>\$ 0.01</u>

### Preferred Stock

#### Liquidation preference

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

#### Conversion

The number of shares of Common Stock to which a share of Series A Preferred Stock may be converted shall be the product obtained by dividing the Original Issue Price of such share of Series A Preferred Stock by the then-effective Conversion Price (as defined herein) for such share of Series A Preferred Stock. The Conversion Price for the Series A Preferred Stock shall initially be equal to \$0.02 and shall be adjusted from time to time.

#### Voting

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

## Dividends

Each share of Series A Preferred Stock, in preference to the holders of all Common Stock (as defined below), shall entitle its holder to receive, but only out of funds that are legally available therefore, cash dividends at the rate of ten percent (10%) per annum from the Original Issue Date on the Original Issue Price for such share of Series A Preferred Stock, compounding annually unless paid by the Corporation. Accrued dividends at December 31, 2018 and 2017 were \$861,744 and \$733,673, respectively.

## Note 10 - Income Taxes

Due to losses, the Company did not have current income tax expense.

The components of deferred taxes are as follows:

Deferred Tax Assets :

	<u>2018</u>	<u>2017</u>
Net operating loss carry-forward	\$ 1,369,024	\$ 1,438,243
Less: valuation allowance	<u>(1,369,024)</u>	<u>(1,438,243)</u>
Net deferred tax asset	<u>\$ —</u>	<u>\$ —</u>

The Company had federal and state net operating tax loss carry-forwards of \$5,005,116, and \$4,478,175, respectively as of December 31, 2018. The tax loss carry-forwards are available to offset future taxable income with the federal and state carry-forwards beginning to expire in 2028.

In 2018 and 2017, net deferred tax assets did not change due to the full allowance. The gross amount of the asset is entirely due to the Net operating loss carry forward. The realization of the tax benefits is subject to the sufficiency of taxable income in future years. The combined deferred tax assets represent the amounts expected to be realized before expiration.

The Company periodically assesses the likelihood that it will be able to recover its deferred tax assets. The Company considers all available evidence, both positive and negative, including historical levels of income, expectations and risks associated with estimates of future taxable income and ongoing prudent and feasible profits. As a result of this analysis of all available evidence, both positive and negative, the Company concluded that it is more likely than not that its net deferred tax assets will ultimately not be recovered and, accordingly, a valuation allowance was recorded as of December 31, 2018 and 2017.



The difference between the expected income tax expense (benefit) and the actual tax expense (benefit) computed by using the Federal statutory rate of 21% is as follows:

	Year Ended December 31,	
	2018	2017
Expected income tax benefit (loss) at statutory rate of 21%	\$ 44,303	\$ 124,982
State and local tax benefit, net of federal	14,979	26,099
Change in valuation account	(59,282)	(151,081)
Income tax expense (benefit)	\$ —	\$ —

#### Note 11 - Litigation

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.

#### Note 12 - Subsequent Events

In January 2019, the Company entered into two new lease agreements with Systems Trading (a related party) to lease equipment. The first lease obligation is payable to Systems Trading with sixty monthly installments of \$29,592. This lease carries an interest rate of 6.76%. and the second lease obligation is payable to Systems Trading with thirty-six monthly installments of \$1,207. This lease carries an interest rate of 6.76%.

On November 5, 2018, the Company reported that Nexxis Inc. ("Nexxis"), a majority-owned subsidiary of the Company, entered into a Stock Purchase Agreement (the "SPA") with Todd A. Correll ("Correll"), Thomas J. Tharrington ("Tharrington" and together with Correll, "Seller"), and Broadsmart Florida, Inc. ("Broadsmart"), pursuant to which Nexxis purchased from Seller 100% of the issued and outstanding shares of common stock of Broadsmart (the "Broadsmart Acquisition").

On February 11, 2019, Nexxis, Seller and Broadsmart entered into an Agreement to Unwind and Mutual Release pursuant to which (i) the SPA and Broadsmart Acquisition were rescinded in their entirety and rendered null and void, and all consideration delivered by Nexxis and Seller was returned to the respective parties, and (ii) the parties mutually released and discharged each other from any and all claims or liability related to the SPA and Broadsmart Acquisition.

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

None.

#### ITEM 9A. CONTROLS AND PROCEDURES

##### Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this Annual 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.

##### Management's Report on Internal Control Over Financial Reporting

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

Management conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992. Management's assessment included an evaluation of the design of DSC's internal control over financial reporting and testing of the operational effectiveness of our internal control over financial reporting. Based on this evaluation, management has determined that as of December 31, 2018, there were material weaknesses in our internal control over financial reporting. The material weaknesses identified during management's assessment were (i) a lack of sufficient internal accounting expertise to provide reasonable assurance that our financial statements and notes thereto are prepared in accordance with GAAP and (ii) a lack of segregation of duties to ensure adequate review of financial statement preparation. In light of these material weaknesses, management has concluded that, as of December 31, 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 accounting and finance department.

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

This Annual Report does not include an attestation report of DSC's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by DSC's registered public accounting firm pursuant to rules of the SEC that permit DSC to provide only management's report in this Annual Report.

#### Changes in Internal Control over Financial Reporting

There have been no significant changes in DSC's internal control over financial reporting during the most recently completed fiscal quarter ended December 31, 2018 that have materially affected, or is reasonably likely to materially affect, DSC's internal control over financial reporting.

#### ITEM 9B. OTHER INFORMATION

### PART III

#### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The following table sets forth the names, ages, and positions of DSC's executive officers and directors as of the December 31, 2018. Executive officers are elected annually by DSC's Board of Directors. Each executive officer holds his office until he resigns, is removed by the Board, or his successor is elected and qualified. Each director holds his office until his successor is elected and qualified or his earlier resignation or removal.

Name	Age	Position
Charles M. Piluso	65	Chairman of the Board, Chief Executive Officer, Chief Financial Officer
Harold J. Schwartz	53	Director, Treasurer, President
Thomas C. Kempster	51	Director, Corporate Secretary, President of Technical Operations
John Argen	64	Director
Joseph B. Hoffman	61	Director
Lawrence A. Maglione Jr.	56	Director
Cliff Stein	61	Director
John Coghlan	63	Director

**Charles M. Piluso, President.** Mr. Piluso is DSC's Chief Executive Officer, Chief Financial Officer and Chairman of the Board. Prior to founding DSC in 2001, Mr. Piluso founded North American Telecommunication Corporation a facilities-based Competitive Local Exchange Carrier licensed by the Public Service Commission in ten states, serving as the company's Chairman and President from 1997 to 2000.

Between 1990 and 1997, Mr. Piluso served as Chairman & Founder of International Telecommunications Corporation ("ITC"), a facilities-based international carrier licensed by the Federal Communications Commission. Mr. Piluso founded ITC in 1990 and grew it from two employees to 135 employees. ITC participated in a roll up strategy that went public in 1997 for 800 million dollars. ITC had operations and agreements in countries including Russia, Israel, Ukraine, United Kingdom, Dominican Republic, Chile and Canada. During his tenure as president, Mr. Piluso grew the company to the fifth largest international facilities-based carrier in the USA. Mr. Piluso's career in the telecommunications industry began in 1978 when he joined ITT Corporation ("ITT"). Over the years, Mr. Piluso was promoted from an entry level sales position to Sales Management, Marketing and Business Development in ITT's Long-Distance Division until 1984. He left ITT to become the General Manager of the New York region for United Technologies Communications Corporation. In that position, Mr. Piluso managed union technicians, sales, installation and customer service. Mr. Piluso holds a bachelor's degree, a Master of Arts in Political Science and Public Administration and a Masters of Business Administration all from St. John's University. He was an Instructor Professor at St. John's University, College of Business from 1986 through 1988. From 2001 to 2013, Mr. Piluso served on the Board of Trustees of Molloy College. Mr. Piluso served on the Board of Governors at St. John's University from 2001 to 2016 and is now Governor Emeritus; and, is currently serving on the Board of Advisors for the Nassau County Police Department Foundation.

**John Argen.** Mr. Argen has been a Director since 2008. Mr. Argen is a Business Consultant and Developer specializing in the information technology, telecommunications and construction industries. He is a seasoned professional that brings 30 years of experience and entrepreneurial success from working with small business owners to Fortune 500 firms. From 1992 to 2003, Mr. Argen was the CEO and founder of DCC Systems, a privately held nationwide Technology Design / Build Construction Development and Consulting Solutions firm. Mr. Argen built DCC Systems from the ground up, re-engineering the firm several times to meet the needs of its clientele and enabled DCC Systems to produce gross revenues exceeding 100 million dollars in 2000. Mr. Argen has been a guest speaker at numerous corporate seminars and industry shows. He has been featured on NBC's "Business Now" which accredited his Technology Construction Management methodology as an innovative process for implementing high tech projects on time and within budget. Prior to DCC Systems Mr. Argen held senior management positions at ITT/Metromedia (15 years) and was VP of Engineering & Operations at DataNet, a Wilcox & Gibbs company (2 years). Throughout his corporate tenure, he has worked in Operations, Marketing, Systems Engineering, Telecommunications and Information Technology. In a career that spans 30 years he has had full responsibility for technology related and construction projects worth over a billion dollars. Mr. Argen graduated Pace University with a BPS in Finance. His commitment to continued education is reflected in his completion to over 2000 hours of corporate sponsored courses. Mr. Argen also holds a Federal Communication Commission (FCC) Radio Telephone 1st Class License.

**Joseph B. Hoffman.** Mr. Hoffman has been a Director since 2008. Mr. Hoffman is a partner at Kelley Drye & Warren LLP in the firm's Washington, D.C. office. His commercial practice focuses on real estate and corporate transactions cutting across a wide range of industries. Mr. Hoffman's real estate practice involves developers, borrowers, lenders, buyers, sellers, landlords and tenants. Mr. Hoffman's corporate experience includes the purchase and sale of assets and companies as well as venture capital, equipment leasing and institutional financing transactions. Mr. Hoffman represents telecommunications companies, real estate developers, lenders, venture capital funds, emerging growth companies, thoroughbred horse industry interests and high net-worth individuals. Mr. Hoffman received his Bachelors' of Science, *cum laude*, from the University of Maryland and his Juris Doctor degree, with honors, from the George Washington University Law School.

**Lawrence A. Maglione.** Mr. Maglione has been a Director since 2008. Mr. Maglione is a partner in the accounting firm Eisner & Maglione CPAs, LLC. Mr. Maglione, a co-founder of DSC, LLC, is a financial management veteran with more than 30 years of experience. Prior to joining DSC, LLC Mr. Maglione was a co-founder of North American Telecommunications Corporation, a local phone service provider which provides local and long-distance telephone services and data connectivity to small and medium sized businesses. At North American Telecommunications Corporation Mr. Maglione was Chief Financial Officer, Executive Vice President and was responsible for all finance, legal and administration. During his tenure (September 1997-January 2001) Mr. Maglione successfully raised over \$100 million in debt and equity funding for North American Telecommunications Corporation. Prior to North American Telecommunications Corporation Mr. Maglione spent over 14 years in public accounting and he brings a broad range of experience related to companies in the technology, retail services and manufacturing industries. Mr. Maglione is a member of the New York State Society of CPAs. He holds a Bachelor of Science degree in Accountancy; a Master of Science in Taxation and is a Certified Public Accountant.

**Cliff Stein.** Mr. Stein has been a Director since 2010. Mr. Stein founded Savitar in 1988 as a real estate advisory company providing assistance to beleaguered lenders and financial institutions on their nonperforming real estate assets. Mr. Stein has acted as an expert witness in countless litigation matters involving real estate transactions and has been appointed as a Receiver, Examiner, and Trustee in State and Federal Courts. Mr. Stein is an attorney and a member of the Florida Bar Association since 1982. He received his Juris Doctor Degree from the University of Miami. He was graduated with honors by American University with Bachelor of Science Degrees in finance and accounting. From September 1982 through 1984, he served as a law clerk to the Honorable Joseph A. Gassen, U.S. Bankruptcy Judge for the Southern District of Florida. In 1988, Mr. Stein formed Savitar Realty Advisors, as a real estate advisory and management organization, whose clients were primarily financial institutions and government agencies. Savitar (or Cliff Stein) has been appointed Receiver, Examiner, or Trustee in numerous foreclosures or bankruptcies and has been retained as advisor to financial institutions in connection with their troubled assets or their intended acquisition of portfolios of troubled assets. Mr. Stein currently serves as Chairman and Chief Executive Officer of Savitar. Mr. Stein served as a member of the Board of Directors of Cenvill Development, formerly a \$500 million, publicly-traded real estate concern, having been appointed to the Board by the FDIC to represent its interest as the single-largest shareholder. Mr. Stein was appointed in 1993 by the Governor of Florida to serve as a Commissioner on the Florida Real Estate Commission, which appointment was subsequently ratified by the Florida Senate. In January 1996, Mr. Stein was elected to be the Chairman of the Commission. Mr. Stein recently concluded his second and final term.

**John Coghlan.** Mr. Coghlan has been a Director since 2011. Mr. Coghlan was a managing director with Lehman Brothers Bank, a global investment bank based in New York City, for 27 years. He served in numerous management capacities in the firm's fixed income and prime brokerage divisions. Mr. Coghlan was a member of both the firm's fixed income and equity division's management committees. From September of 2008 to July 2010 Mr. Coghlan worked in the prime broker division at Barclays Capital. Mr. Coghlan is a past chairperson of the Bond Market Association's funding division. Mr. Coghlan is a former board member of Lehman Brothers bank and is currently a board member of Molloy College. He has also served on the boards of the Dorothy Rodbell Cohen foundation for Sarcoma Research, the Friends of Mercy Hospital, and the Rockville Centre 911 Fund. Mr. Coghlan received an undergraduate degree from Massachusetts College of Liberal Arts in 1978 as well as an Honorary Doctor of Laws in 2002. He also has an EdM from Harvard University.

**Harold J. Schwartz.** Mr. Schwartz was appointed to serve as a director on July 6, 2015. Since 1995, Mr. Schwartz has served as vice president of ABC Services, Inc., which he co-founded, where he was 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, Inc., 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.

**Thomas C. Kempster.** Mr. Kempster serves as President of the Technical Services Group at Data Storage Corporation, prior to the acquisition Tom founded and developed ABC Services into one of New York's oldest and most trusted solutions providers specializing in IBM power environments since 1994. As President, Tom was the company's visionary and is responsible for developing strategic partnerships with many industry leaders such as IBM, Microsoft, and VMware to build a successful solution-driven business. ABC Services, with the help of its strategic partnerships works with organizations across the United States and continues to expand its reach. Tom began his career in 1985 as a computer technician at Systems Configuration Services (SCS) where he was trained on IBM System 3x hardware and software operating systems. In 1989, he was hired by Diversified Data Corp. as their general manager to assist in building a Technical Division to support IBM-specific sales. Tom spearheaded the service division into a successful and profitable entity within 36 months. He then joined CAC Leasing where his business development experiences further inspired his vision to form ABC Services.

#### **Term of Office**

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

#### **Audit Committee**

During the fiscal year ended December 31, 2018 the Company had an audit committee consisting of non-executive directors. The audit committee members include: John Coghlan and Cliff Stein. Although the Board of Directors does have an audit committee comprised of independent directors, the audit committee does not have an audit committee financial expert at this time. DSC believes that the financial experience and combined skill set of the members of our audit committee are sophisticated enough for performance of the duties of the audit committee financial expert. In addition, DSC's securities are not listed on a national exchange securities and are not subject to the special corporate governance requirements of any such exchanges. However, DSC does intend to search for a qualified individual to fill the role of the audit committee financial expert.

## Family Relationships

One part-time employee, reporting to our controller, is the wife of the President of Technical Services and there is no direct report relationship.

## Compliance with Section 16(A) of the Exchange Act.

Section 16(a) of the Exchange Act requires the Company's officers and directors, and persons who beneficially own more than 10% of a registered class of the Company's equity securities, to file reports of ownership and changes in ownership with the SEC and are required to furnish copies to the Company. Several officers and directors are currently behind their Section 16(a) filings. They are working to make sure the filings are completed in the near future.

## Code of Ethics

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

## ITEM 11. EXECUTIVE COMPENSATION

### Compensation of Executive Officers

The following summary compensation table sets forth all compensation awarded to, earned by, or paid to the named executive officers paid by us during the fiscal years ended December 31, 2018 and 2018, in all capacities for the accounts of our executive officers, including the Chief Executive Officer (CEO).

*Summary Compensation Table*

Name & Principal Position	Year	Salary	Bonus	Stock Awards	Option Awards (1)	Non-Equity Incentive Plan Compensation	All Other Compensation	Total
Charles M. Piluso, Chief Executive Officer, and Chairman of the Board	2018	\$ 54,666	—	—	\$ —	—	—	\$ 54,666
Harold Schwartz - President	2018	\$ 54,666	—	—	\$ —	—	—	\$ 54,666
Tom Kempster - President of Operations	2018	\$ 70,191	—	—	\$ —	—	—	70,191

- (1) The amounts shown in these columns represent the aggregate grant date fair value of stock and option awards computed in accordance with FASB ASC Topic 718. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Share Based Compensation" on page 28 for a discussion of the assumptions made in the valuation of stock and option awards.

### Employment Agreements

The Company has an employment agreement in place with John Camello, President of Nexxis Inc.

### 2008 Equity Incentive Plan

In October 2008, the Board adopted, the Euro Trend, Inc. 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, 2017” table below, 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, 2013. There are 462,071 options outstanding under this plan as of December 31, 2017.

#### 2010 Incentive Award Plan

The 2010 Incentive Award Plan was amended and restated by the Board of Directors of Data Storage Corporation on April 23, 2013 and was renamed the “Amended and Restated Data Storage Corporation Incentive Award Plan” (Restated Plan). The Company has reserved 8,000,000 shares of common stock for issuance under the terms of the Data Storage Corporation Restated Plan. The Restated 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 Restated 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 Restated Plan for 10 years from the Effective Date. From time to time, we may issue Incentive Awards pursuant to the Restated Plan. Each of the awards will be evidenced by and issued under a written agreement. There are 5,303,447 options outstanding under this plan as of December 31, 2018.

If an incentive award granted under the Restated Plan expires, terminates, is unexercised or is forfeited, or if any shares are surrendered to us in connection with an incentive award, the shares subject to such award and the surrendered shares will become available for future awards under the Restated Plan. The number of shares subject to the Restated Plan, and the number of shares and terms of any Incentive Award may be adjusted in the event of any change in our outstanding common stock by reason of any stock dividend, spin-off, stock split, reverse stock split, recapitalization, reclassification, merger, consolidation, liquidation, business combination or exchange of shares, or similar transaction.

#### Outstanding Equity Awards at Fiscal Year-End December 31, 2018

Name	Option Approval Date	Option Awards (1) (2)			
		Number of Securities Underlying Unexercised Options (#) Exercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price (\$)	Option Expiration Date
Charles M. Piluso	5/26/2009	23,058	0	0.32	5/25/2019
	12/15/2009	250,000	0	0.36	12/14/2019
	12/31/2009	13,888	0	0.36	12/30/2019
	12/16/2010	14,286	0	0.35	12/15/2020
(3)	3/6/2013	548,780	0	0.394	6/17/2022
	6/18/2013	357,143	0	0.394	6/17/2022
	12/13/2013	33,333	0	0.15	12/12/2023
	12/22/2015	66,666	0	0.35	12/21/2025
	12/14/2017	22,222	44,444	0.05	12/14/2027

- (1) All of the options to purchase shares of our common stock awarded to Mr. Piluso (a “Participant”) under the 2008 Plan were unvested on the date of grant. Twenty percent (20%) of the stock options vested after the Participant remained continuously providing services to the Company through the one (1) year anniversary of the date of the grant. Thereafter, an additional one and two-thirds percent (1.67%) of the options vest upon the end of each calendar month thereafter provided that the Participant has been continuously providing services to the Company from the date of the grant through and including such calendar month. Upon the termination of a Participant’s engagement with the Company for any reason, the vesting of all options shall immediately cease upon such termination, and all unvested options as of the time of such termination shall immediately expire and be forfeited. Upon the termination of the Participant’s engagement with the Company for (A) Participant’s failure, neglect or refusal to perform his duties to the Company, (B) any conduct of the Participant constituting fraud, material dishonesty or breach of trust in connection with the Participant’s performance of his duties to the Company or any material breach by the Participant of any statutory or common law duty of loyalty to the Company; (C) the commission by the Participant of a felony or of any crime involving theft, dishonesty or moral turpitude, or (D) any other act or omission that, in the reasonable determination of the Board, has caused or is likely to cause detrimental notoriety or other comparable material harm to the Company, all vested options shall expire and be forfeited immediately at the time notice of such termination is given. Upon the termination of the Participant’s engagement with the Company due to the Participant’s death or disability, all vested options shall expire and be forfeited immediately at the close of business on the ninetieth (90th) day following the date of termination. Upon any termination of the Participant’s engagement with the Company other than as provided in the foregoing, all vested options shall expire and be forfeited immediately at the close of business on the first (1st) anniversary of the date of termination. In the event of a “Sale of the Company” (as defined in the 2008 Plan), the Board may modify any grant to provide for the effect of a “Sale of the Company”.
- (2) The Company has no unvested shares of restricted stock outstanding.
- (3) The stock grants awarded to Mr. Piluso consists of 571,429 shares of common stock valued at \$200,000, based on the closing bid price of \$0.35 on the issuance date of March 23, 2011. Mr. Piluso received these shares in lieu of a salary for 2010. All of the shares were fully vested on the date of grant. These shares were issued pursuant to the 2008 Plan (described below). This issuance was reversed and replaced with options to purchase 548,780 shares of common stock valued at \$192,073 at an exercise price of \$0.394 per share on June 18, 2012. Mr. Piluso also received options to purchase 337,143 shares of common stock valued at \$118,000 at an exercise price of \$0.394 per share on June 18, 2012.

### **Compensation of Directors**

None

- (1) The only compensation awarded to directors for their service on the Board in respect of fiscal year 2013 included non-qualified stock options, which were granted in 2013. The 2013 stock options were awarded pursuant to the 2010 Incentive Award Plan. It was determined that the Board members would receive \$5,000 each for participating in Board meetings as scheduled and participating on various committees. The stock options were granted on December 13, 2013, with an exercise price of \$0.15 per share.
- (2) The amounts shown in these columns represent the aggregate grant date fair value of stock and option awards computed in accordance with FASB ASC Topic 718. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Share Based Compensation” on page 12 for a discussion of the assumptions made in the valuation of option awards. The \$5,000 option award to the directors in the table above represent 33,333 options to purchase our common stock with a strike price of \$0.15 per share of common stock. All the non-qualified stock options above shall vest in accordance with the following schedule: thirty three point thirty-three percent (33.33%) of the options shall vest if the person remains continuously engaged as a director of the Company from the grant date (which was December 11, 2013) through and including the one (1) month anniversary of the grant date, and an additional thirty-three point thirty-three percent (33.33%) of the options shall vest upon the end of each calendar month thereafter provided that the person has been continuously engaged as a director of the Company from the grant date through and including such calendar month. The vesting of the options may be accelerated upon, among other things, consolidations or mergers of the Company or the sale of all or substantially all of our assets to another entity.

## Securities Authorized for Issuance Under Equity Compensation Plans

The Company has two share-based equity compensation plans, the 2008 Plan and the 2010 Plan which was amended, restated and renamed the “Amended and Restated Data Storage Corporation Incentive Award Plan”. Neither of these plans has been approved by the security holders of the Company. Descriptions of these plans are presented in “Executive Compensation—2008 Equity Incentive Plan” and “Executive Compensation—2010 Incentive Award Plan” beginning on page 43.

As of the end of 2018 we had the following securities authorized for issuance under our equity compensation plans:

Plan Category	Number of securities to be issued upon exercise of outstanding options and warrants	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	—	—	—
Equity compensation plans not approved by security holders	5,765,519 <sup>(1)</sup>	\$ 0.29	3,096,464
<b>Total</b>	<b>5,765,519</b>	<b>\$ 0.29</b>	<b>3,096,464</b>

(1) In October 2008, our Board adopted the 2008 Plan. As of the end of fiscal year 2018, we had 2,462,071 shares of our common stock issuable upon the exercise of outstanding options granted pursuant to the 2008 Plan. As of end of fiscal year, 2018, there were warrants outstanding to purchase 133,334 shares of common stock at a weighted average exercise price of \$0.001, none of which were granted pursuant to the 2008 Plan or the 2010 Plan. In October 2010, our Board adopted the 2010 Plan. In April 2013, our Board amended and restated the 2010 Plan and it was renamed the “Amended and Restated DSC Incentive Award Plan”. In March 2013, our Board approved the continuation of the 2010 plan. As of the end of fiscal year 2018, we had 5,303,448 shares of our common stock issuable upon the exercise of outstanding options granted pursuant to the 2010 plan.



**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The following table sets forth each person known by us to be the beneficial owner of five percent or more of the Company's Common Stock on April 1, 2019 all directors individually and all directors and officers of the Company as a group. Except as noted, each person has sole voting and investment power with respect to the shares shown.

Name and Address of Beneficial Owner (1)(2)	Amount and Nature of Beneficial Ownership	Percent of Class (3)
Charles Piluso (4) (13)	41,279,357	31.89%
Cliff Stein (5) (13)	10,927,219	8.52%
Harold J. Schwartz (6) (13)	32,434,967	25.31%
Thomas C. Kempster (11) (13) (12)	32,381,634	25.27%
John Coghlan (7) (13)	6,162,496	4.80%
Lawrence A. Maglione, Jr. (8) (13)	317,735	*
John Argen (9) (13)	251,230	*
Joseph Hoffman (10) (13)	251,230	*
All Executive Officers and Directors as a group (8 people)	124,005,868	96.42%

\* Less than 1%

- (1) The address for each person is 48 South Service Road, Melville, New York 11747.
- (2) Under the rules of the SEC, a person is deemed to be the beneficial owner of a security if such person has or shares the power to vote or direct the voting of such security or the power to dispose or direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities if that person has the right to acquire beneficial ownership within 60 days of April 1, 2019. Unless otherwise indicated by footnote, the named entities or individuals have sole voting and investment power with respect to the shares of common stock beneficially owned.
- (3) Based upon 128,139,418 shares of common stock issued and outstanding as of April 1, 2019 and options that can be acquired within 60 days of April 1, 2019. Unless otherwise indicated in the footnotes to the above table and subject to community property laws where applicable, we believe that each shareholder named in the above table has sole or shared voting and investment power with respect to the shares indicated as beneficially owned.
- (4) Includes (i) 18,226,486 shares of common stock held individually, (ii) 3,269,863 shares of common stock held by Piluso Family Associates, (iii) 9,204,614 shares of common stock held by The Bella Vita 2012 Trusts, (iv) 9,204,614 shares of common stock held by The Lasata 2012 Trusts, (v) options to acquire 1,373,820 shares of common stock and (vi) a common stock purchase warrant exercisable for 66,667 shares of common stock. Mr. Piluso is the co-manager and has shared voting control over the shares of common stock of the Company held by Piluso Family Associates, LLC. Mr. Piluso and his wife are the trustees of the trusts.
- (5) Includes (i) 10,717,301 shares of common stock and (ii) 209,918 shares of common stock issuable upon exercise of stock options.
- (6) Includes (i) 32,334,968 shares of common stock and (ii) 99,999 shares of common stock issuable upon exercise of stock options.
- (7) Includes (i) 5,862,330 shares of common stock held individually, (ii) options to acquire 233,499 shares of common stock and (iii) a common stock purchase warrant exercisable for 66,667 shares of common stock.
- (8) Includes (i) 33,172 shares of common stock held individually and (ii) options to acquire 284,563 shares of common stock.
- (9) Includes options to acquire 251,230 shares of common stock.
- (10) Includes options to acquire 251,230 shares of common stock.
- (11) Includes (i) 32,334,968 shares of common stock and (ii) 66,666 shares of common stock issuable upon exercise of stock options.
- (12) Mr. Kempster made open market sales of an aggregate of 20,000 shares of common stock between January and February 2019.
- (13) Officer and/or director of the Company.

Jan Burman holds 1,401,786 shares of Series A Preferred Stock representing 100% of the Series A Preferred Stock outstanding. The Series A Preferred Stock is convertible into 1,401,786 shares of common stock.

### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The Board of Directors has determined, after considering all the relevant facts and circumstances, that during the fiscal year ended December 31, 2018 each of Messrs. Argen, Hoffman, Coghlan, and Stein were independent directors, as “independence” is defined in the federal securities laws and the Nasdaq Marketplace Rules.

### **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

#### **Audit Fees**

DSC's fiscal years ended December 31, 2018 and 2017 was billed approximately \$70,500 and \$69,500 for professional services rendered for the audit and review of its financial statements.

#### **Audit Related Fees**

For audit related services for the years ended December 31, 2018 and 2017 will be billed approximately \$15,000.

#### **Tax Fees**

For DSC's fiscal years ended December 31, 2018 and 2017, it was billed approximately \$7,500 and \$8,500 respectively for professional services rendered for tax compliance, tax advice, and tax planning.

#### **All Other Fees**

DSC incurred other fees related to services rendered by its principal accountant for the fiscal years ended December 31, 2018 and 2017 and will be billed approximately \$22,000 and \$20,000.

Our audit committee pre-approves all services provided by our independent auditors. All of the above services and fees were reviewed and approved by the entire audit committee either before or after the respective services were rendered.

## **PART IV**

### **ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.**

- a) Documents filed as part of this Annual Report
  - 1. Consolidated Financial Statements
  - 2. Financial Statement Schedules
  - 3. Exhibits

The exhibits listed in the following table have been filed with, or incorporated by reference into, this Report. The exhibits listed in the following table have been filed with this report.

## EXHIBIT INDEX

Exhibits #	Description
<a href="#">3.1</a>	<a href="#">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"))</a> .
<a href="#">3.2</a>	<a href="#">Certificate of Amendment to Articles of Incorporation (incorporated by reference to Exhibit 3.1 to Form 8-K filed on October 24, 2008)</a> .
<a href="#">3.3</a>	<a href="#">Certificate of Amendment to Articles of Incorporation (incorporated by reference to Exhibit 3.1.1 on Form 8-K filed on January 6, 2009)</a> .
<a href="#">3.4</a>	<a href="#">Bylaws (incorporated by reference to Exhibit 3.2 to the SB-2)</a> .
<a href="#">3.5</a>	<a href="#">Amended Bylaws (incorporated by reference to Exhibit 3.2 to Form 8-K filed on October 24, 2008)</a> .
<a href="#">4.1</a>	<a href="#">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)</a> .
<a href="#">4.2</a>	<a href="#">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)</a> .
<a href="#">4.3</a>	<a href="#">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)</a> .
<a href="#">4.4</a>	<a href="#">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)</a> .
<a href="#">4.5</a>	<a href="#">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-O filed on May 20, 2013)</a> .
<a href="#">4.6</a>	<a href="#">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-O filed on May 20, 2013)</a> .
<a href="#">4.7</a>	<a href="#">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-O filed on May 20, 2013)</a> .
<a href="#">4.8</a>	<a href="#">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))</a> .
<a href="#">4.9</a>	<a href="#">10% Convertible Promissory Note due April 30, 2015 (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))</a> .
<a href="#">4.10</a>	<a href="#">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))</a> .
<a href="#">10.1</a>	<a href="#">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)</a> .
<a href="#">10.2</a>	<a href="#">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)</a> .
<a href="#">10.3</a>	<a href="#">Term Sheet for Acquisition by Data Storage Corporation of 80% of the Equity of e-ternity Business Continuity Consultants, Inc., dated May 16, 2013 (incorporated by reference to Exhibit 99.1 to Form 8-K, filed on May 30, 2013)</a> .

- 10.4 [Term Sheet for Acquisition by Data Storage Corporation of Message Logic, Inc., dated August 31, 2013 \(incorporated by reference to Exhibit 99.1 to Form 8-K filed on September 4, 2013\).](#)
- 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, 2013, 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, 2013, by and between Data Storage Corporation and Zojax Group, LLC \(incorporated by reference to Exhibit 10.1 to Form 8-K filed on November 7, 2013\).](#)
- 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 \(incorporated by reference to Exhibit 10.1 to Form 8-K filed on April 26, 2013\).](#)
- 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, 2013, by and between Data Storage Corporation and John F. Coghlan \(incorporated by reference to Exhibit 2.1 to Form 8-K filed on September 13, 2013\).](#)
- 10.13 [Stock Purchase Agreement, dated September 7, 2013, by and between Data Storage Corporation and Clifford Stein \(incorporated by reference to Exhibit 2.2 to Form 8-K filed on September 13, 2013\).](#)
- 10.14 [Stock Purchase Agreement, dated September 18, 2013, by and between Data Storage Corporation and Jan Burman \(incorporated by reference to Exhibit 2.1 to Form 8-K filed on September 21, 2013\).](#)
- 10.15 [Stock Purchase Agreement, dated September 18, 2013, by and between Data Storage Corporation and Charles M. Piluso \(incorporated by reference to Exhibit 2.2 to Form 8-K filed on September 21, 2013\).](#)
- 10.16 [Stock Purchase Agreement, dated September 18, 2013, by and between Data Storage Corporation and Piluso Family Associates \(incorporated by reference to Exhibit 2.3 to Form 8-K filed on September 21, 2013\).](#)
- 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 \(incorporated by reference to Exhibit 10.1 to Form 8K filed on October 31, 2016\)](#)
- 10.17 [Asset Purchase Agreement by and between ABC Services II Inc., and Data Storage Corporation Inc. and Data Storage Corporation as of October 25, 2016 \(incorporated by reference to Exhibit 10.2 to Form 8K filed on October 31, 2016\)](#)
- 10.19 [Conversion Agreement by and between Data Storage Corporation and Charles M. Piluso dated October 25, 2016 \(incorporated by reference to Exhibit 10.3 to Form 8K filed on October 31, 2016\)](#)
- 10.20 [Conversion Agreement by and between Data Storage Corporation and John F. Coghlan dated October 25, 2016 \(incorporated by reference to Exhibit 10.4 to Form 8K filed on October 31, 2016\)](#)
- 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 Stockholder Agreement by and between Data Storage Corporation, Nexxis Inc., and John Camello dated November 13, 2018 \(incorporated by reference to Exhibit 10.22 to Form 10Q filed November 19, 2018\).](#)
- 10.23 [Form of Employment Agreement by and between Data Storage Corporation, Nexxis Inc., and John Camello dated November 13, 2017 \(incorporated by reference to Exhibit 10.23 to Form 10Q filled November 19, 2018\).](#)
- 10.24 [Form of Stock Purchase Agreement by and between Data Storage Corporation and Broadsmart Florida, Inc. dated November 5, 2018](#)
- 10.25 [Form of Agreement to Unwind and Mutual Release by and between Data Storage Corporation and Broadsmart Florida, Inc. dated](#)
- 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 \(incorporated by reference to Exhibit 21 to the Registration Statement on Form S-1 filed on February 6, 2013\).](#)
- 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.](#)

## SIGNATURES

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

### DATA STORAGE CORPORATION

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

Dated April 1, 2019

### POWER OF ATTORNEY

Know all persons by these presents that each individual whose signature appears below constitutes and appoints Charles M. Piluso, our Chief Executive Officer as a true and lawful attorney-in-fact and agent, with full power of substitution and re-substitution, for him and in his name, place and stead, in any and all capacities, to (i) act on, sign and file with the Securities and Exchange Commission any and all amendments to this Report together with all schedules and exhibits thereto, (ii) act on, sign and file with the Securities and Exchange Commission any and all exhibits to this Report and any and all exhibits and schedules thereto, (iii) act on, sign and file any and all such certificates, notices, communications, reports, instruments, agreements and other documents as may be necessary or appropriate in connection therewith and (iv) take any and all such actions which may be necessary or appropriate in connection therewith, granting unto such agent, proxy and attorney-in-fact, full power and authority to do and perform each and every act and thing necessary or appropriate to be done, as fully for all intents and purposes as he might or could do in person, and hereby approving, ratifying and confirming all that such agent, proxy and attorney-in-fact, or any of his or their substitute or substitutes may lawfully do or cause to be done by virtue hereof.

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Charles M. Piluso</u> <b>Charles M. Piluso</b>	Chief Executive Officer, Chief Financial Officer, Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer	April 1, 2019
<u>/s/ John Argen</u> <b>John Argen</b>	Director	April 1, 2019
<u>/s/ Joseph B. Hoffman</u> <b>Joseph B. Hoffman</b>	Director	April 1, 2019
<u>/s/ Lawrence A. Maglione Jr.</u> <b>Lawrence A. Maglione Jr.</b>	Director	April 1, 2019
<u>/s/ John Coghlan</u> <b>John Coghlan</b>	Director	April 1, 2019
<u>/s/ Cliff Stein</u> <b>Cliff Stein</b>	Director	April 1, 2019
<u>/s/ Harold J. Schwartz</u> <b>Harold J. Schwartz</b>	Director	April 1, 2019
<u>/s/ Thomas C. Kempster</u> <b>Thomas C. Kempster</b>	Director	April 1, 2019

## STOCK PURCHASE AGREEMENT

STOCK PURCHASE AGREEMENT (this "Agreement") made as of this 5 day of November 2018 (the "Effective Date"), by and between TODD A. CORRELL, with an address located at c/o Broadsmart Florida, Inc., 1314 E. Las Olas Blvd. Suite 1044, Fort Lauderdale, FL 33301 ("Correll"), THOMAS J. THARRINGTON, with an address located at c/o Broadsmart Florida, Inc., 1314 E. Las Olas Blvd. Suite 1044, Fort Lauderdale, FL 33301 ("Tharrington" and together with Correll, "Seller"), and Broadsmart Florida, Inc., a corporation organized under the laws of the State of Florida with its principal address located at 1314 E. Las Olas Blvd. Suite 1044, Fort Lauderdale, FL 33301 (the "Company"), on one side, and NEXXIS INC., with an address located at 48 South Service Road, Melville, NY 11747 ("Buyer"), on the other side.

### WITNESSETH:

WHEREAS, Seller is the holder of an aggregate of 100 shares of common stock (collectively, the "Shares") of Broadsmart;

WHEREAS, the Shares represent one hundred percent (100%) of the issued and outstanding shares of common stock of the Company;

WHEREAS, Buyer desires to purchase from Seller, and Seller desires to sell to Buyer, the Shares upon the terms and conditions hereinafter set forth.

NOW THEREFORE, in consideration of the mutual covenants and promises herein contained and upon the terms and conditions hereinafter set forth, the parties hereto, intending to be legally bound, agree as follows:

1 . **PURCHASE AND SALE OF THE SHARES.** Upon the terms and conditions herein contained, on the Closing Date (as hereinafter defined), Seller agrees to sell to Buyer the Shares and Buyer agrees to purchase the Shares from Seller.

1.1 **Purchase Price.** The purchase price (collectively, the "Purchase Price") to be paid to Seller by Buyer for the purchase of the Shares shall be:

(a) A cash payment of \$12,500 (the "Cash Purchase Price") on the Closing Date by wire transfer of immediately available funds to accounts identified by Seller to Buyer in equal amounts for Correll and Tharrington; and

(b) Fifteen percent (15%) of the customer billing of the Company, not including any taxes billed on client invoices, to be paid on a monthly basis following the Closing Date during the respective terms of each of the Company's customer agreements for existing services provided the Company to its customers (the "Profit-Sharing Purchase Price"); *provided, however*, that in the event there is no customer agreement the Profit-Sharing Purchase Price shall be paid for no more than five (5) years. The Profit-Sharing Purchase Price shall be paid by wire transfer of immediately available funds to accounts identified by Seller to Buyer in equal amounts for Correll and Tharrington.

(c) **Adjustments to Purchase Price** Buyer will be entitled to offset any losses relating to breaches of the representations, warranties and agreements of Seller contained herein. The initial payment may be true-up and adjusted based on the initial first month of billing, as represented in **Exhibit A** attached hereto.

1.2 Intentionally Left Blank.

2. Intentionally Left Blank.

3. **CLOSING.**

3.1 Time of Closing. The sale and purchase of the Shares (the "Closing") shall take place on or before November 5, 2018 (the "Closing Date"), unless extended by mutual consent of the parties. On the Closing Date, Seller shall deliver certificate(s) representing the Shares in the name of the Buyer (the "Certificate"). Upon receipt of the Certificate, the Buyer shall pay the Cash Purchase Price to the Seller by wire transfer on the Closing Date.

3.2 Closing Deliverables. Seller shall deliver to Buyer within 30 days of the Closing Date those certain closing deliverables as set forth on Exhibit B attached hereto.

4. **REPRESENTATIONS, WARRANTIES AND AGREEMENTS OF SELLER AND COMPANY.** Seller and Company hereby represent and warrant to Buyer:

4.1 That Seller is the sole beneficial owner of the Shares.

4.2 The Shares sold hereunder have been duly authorized by the appropriate corporate action of the Company.

4.3 Seller shall transfer title, in and to the Shares to Buyer free and clear of all liens, security interests, pledges, encumbrances, charges, restrictions, demands and claims, of any kind and nature whatsoever, whether direct or indirect or contingent.

4.4 Broker' or Finders' Fees. No agent, broker, person or firm acting on behalf of Seller is, or will be, entitled to any commission or brokers' or finders' fees from any party in connection with any of the transactions contemplated by this Agreement.

4.5 This Agreement has been duly authorized, executed and delivered by or on behalf of Seller and, assuming due authorization, execution and delivery by the Seller, constitute the valid and legally binding agreements of Seller, enforceable against Seller in accordance with its terms.

4.6 Organization. The Company is a corporation duly organized and validly existing under the laws of the state of Florida, with full power and authority to own and operate the Company. The Company is duly qualified and in good standing and is authorized to do business in those jurisdictions in which it operates and such jurisdictions are the only jurisdictions in which such qualification or authorization is required as a result of the operations of the Company, and there has not been any claim by any other jurisdiction to the effect that the Company is required to qualify or otherwise be authorized to do business therein. Schedule 4.6 attached hereto lists each person that owns any equity ownership interest in the Company, and accurately describes such person's capital stock or equity ownership interest in the Company.

4.7 Contracts. Schedule 4.7 lists all Contracts (oral or written) which relate to or impact the Company or the purchased Shares, or to which the Company is a party (in its own name or as successor in interest to any predecessor), including, without limitation, any: (a) employment, management, consulting, independent contractor or similar Contract; (b) Contract with any labor or trade union or association; (c) bonus, pension, profit-sharing, retirement, stock purchase, phantom stock, hospitalization, insurance or deferred compensation Contract or any other Contract providing for or related to employee benefits of any kind; (d) Contract with respect to the lease of property, whether real, personal or mixed, whether as lessor or lessee; (e) Contract for the future purchase or disposition of materials, assets, supplies, equipment or services; (f) Contract evidencing or relating to any Indebtedness or creating any Liability or any Lien on any Company asset or the Company; (g) Contract with respect to any Proprietary Rights; (h) Contract not to compete in any line of business or in any geographic area or otherwise restricting Company's ability to compete or engage in any type of business or other activity; (i) Contract for capital expenditures; (j) Contract relating to the acquisition of any business or assets or relating to the sale or disposition of any business or any assets (excluding the purchase and sale of assets in the ordinary course of business); (k) Contract evidencing ownership or other interest in real property or any Contract for the purchase or sale of any interest in real property; (l) Contract of any kind involving an amount in excess of Ten Thousand Dollars (\$10,000); (m) consignment, distributor, dealer, manufacturer's representative, sales agency, advertising representative or advertising or public relations Contract; and (n) any other material Contract or any Contract not made in the ordinary course of the business.

4.8 Financial Statements. Seller has delivered to Buyer the financial statements and information described on Schedule 4.8-A (collectively, the "Financial Statements"). The Financial Statements: (i) are complete, accurate and not misleading with respect to the Company; (ii) accurately and fairly present the financial position, results of operation of the Company as of the dates of such Financial Statements; and (iii) are prepared in accordance with U.S. Generally Accepted Accounting Principles. Except as set forth on Schedule 4.8-B, Company has no Liability, Indebtedness or obligation, absolute or contingent (individually or in the aggregate), except Liabilities, Indebtedness and obligations: (i) accurately disclosed in the Financial Statements; or (ii) both (A) incurred in the ordinary course of business, consistent with past practice, and (B) not individually in excess of Ten Thousand Dollars (\$10,000) or in the aggregate in excess of Fifty Thousand Dollars (\$50,000). For purposes of this Agreement, the term "Indebtedness" shall mean: (a) all Liabilities (whether for interest, principal, fees, prepayment or other penalties or otherwise) for borrowed money or indebtedness, or issued in substitution or exchange for indebtedness or borrowed money, (b) all Liabilities evidenced by a promissory note, bond, debenture, other debt security or any similar obligation, (c) any lease payments under capital leases for which a person is liable, contingently or otherwise, and any obligation, contingent or otherwise, for any deferred purchase price, and (d) all guarantees (including, without limitation, guarantees in the form of an agreement to repurchase or reimburse), endorsements and other contingent Liabilities with respect to any indebtedness or Liabilities described above; in each case, whether or not the same is or should be reflected in a person's financial statements.

4.9 Litigation; Compliance with Laws. There are no (and have not in the past three (3) years been any) pending actions, suits, claims or proceedings pending before any federal, state, local or foreign court, governmental department, agency, regulatory authority, body, arbitrator, mediator or any other similar authority (the "Governmental Authority") to which the Company is a party and which relates to the Company or the purchased Shares, or which could otherwise reasonably be expected to result in a MAC if adversely decided, and to Seller's Knowledge, no such action, suit, claim or proceeding is threatened. The Company is not subject to any unsatisfied judgment or award, order, writ, injunction or decree of any Governmental Authority. The Company is not in violation of and has not in the past violated any Law or Authorization, and the Company and its products comply with and have all times in the past complied with all Laws and Authorizations. Company has received no notification or allegation from any person or Governmental Authority alleging or suggesting a violation by Company or the Company of any Law. Schedule 4.9 lists all notices and correspondence related to the Company that were received by Company from any Governmental Authority within the last three (3) years.



4.10 Taxes. (a) The Company has filed all returns, declarations, reports and statements required to be filed or sent by it prior to the Closing Date relating to all federal, state, local and foreign taxes (“Taxes”), including, without limitation, income, property, sales, use, franchise, added value, Employees’ income withholding and social security taxes (collectively, the “Returns”); (b) all Returns were and are complete and correct in all respects, and prepared and filed in accordance with applicable Law; (c) Company has timely paid all Taxes shown as due and payable on the Returns or otherwise due from Company, together with any interest, penalties, assessments or deficiencies related thereto; (d) there are no unpaid Taxes in any material amount claimed to be due by the taxing authority of any jurisdiction as of the Effective Date, and the officers of the Company know of no basis for any such claim; and (e) none of the Company’s tax returns is presently being audited by any taxing authority. The Company has not executed a waiver with respect to the statute of limitations relating to the assessment or collection of any foreign, federal, state or local tax. All monies required to be withheld by the Company from its Employees for income taxes, social security and other payroll taxes have been collected or withheld and either paid to the appropriate governmental agencies, set aside in accounts for such purpose or accrued, reserved against and entered upon the books of the Company.

4.10 Insurance. Schedule 4.10 lists and describes (including, without limitation, the nature of coverage, limits, deductibles, premiums and the loss experience with respect to each type of coverage) all policies of insurance maintained by the Company with respect to product recalls and product liability claims related to Company (the “Insurance Policies”). Such Insurance Policies are valid, outstanding and enforceable in accordance with their terms and all premiums due thereon have been paid. Schedule 4.10 sets forth a summary of information pertaining to all claims made by the Company at any time within the past three (3) years under any Insurance Policy, and all claims which are currently pending under any Insurance Policy. Except as set forth on Schedule 4.10, all of such claims have been satisfied or are being defended by an insurance carrier.

4.11 Confidentiality.

(a) Seller hereby agrees that it shall: (i) treat all Confidential Information in a confidential manner; (ii) take all precautions with the Confidential Information that it takes with its own confidential information, which, at a minimum, shall be taking all steps reasonably necessary to insure the maintenance of confidentiality; (iii) not use any of the Confidential Information for its own or a third party’s benefit; (iv) keep strictly confidential the terms of this Agreement and the related documents and (v) not communicate or disclose, orally or in writing, any of the Confidential Information to any person, either directly or indirectly, under any circumstances without the prior written consent of Buyer. As used in this Agreement, the term “Confidential Information” shall mean all information, data, studies, forecasts, compilations, reports, interpretations, records, statements, documents, notes, intellectual property, processes, ideas, techniques, methods, products, services, research, development, distribution, purchasing, marketing, selling, customers, suppliers or trade secrets (whether oral, written or electronic) related to Buyer, the Company, or the purchased Shares. Additionally, all information which Seller has a reasonable basis to believe to be Confidential Information, or which Seller has a reasonable basis to believe Buyer treats as Confidential Information, shall be deemed to be Confidential Information. Notwithstanding the foregoing, information shall not be deemed to be Confidential Information if it is generally known and publicly available, without the fault of Seller. Notwithstanding the foregoing, Seller may use Confidential Information to the extent necessary to create financial statements for the pre-Closing periods, distribute such financial information to Seller’s directors, officer, stockholders, and professional advisors, and complete and file any tax returns that require the use of such Confidential Information.

(b) Seller hereby acknowledges that a violation of the confidentiality provisions in this section of the Agreement would result in irreparable harm to Buyer, and that damages would be an inadequate remedy. Seller, therefore, agrees that in addition to all remedies at law, the Buyer shall be entitled to equitable relief, including, but not limited to, the right to obtain an injunction to secure the specific performance of the confidentiality provisions in this section of the Agreement and/or to prevent a breach or contemplated breach of the confidentiality provisions in this section of the Agreement, without any requirement that Buyer post a bond as a condition of such relief.

4.12 Intellectual Property. Schedule 4.12 contains a complete and accurate list of: (a) all Proprietary Rights owned or used by the Company; and (b) all licenses and other rights granted by the Company to any third party with respect to any Proprietary Rights, and all licenses and rights granted by any third party to the Company with respect to any Proprietary Rights. The Company owns or has the right to use pursuant to a valid and enforceable license all Proprietary Rights. The Company has taken all necessary actions to maintain and protect the Proprietary Rights which it owns or uses. Seller has no Knowledge that the owners of any Proprietary Rights licensed to the Company have not taken all necessary actions to maintain and protect the Proprietary Rights which are subject to such licenses. The Company has not infringed any patents, trademarks, copyrights, other intellectual property, other proprietary rights or other similar items of any third party, and to the Knowledge of Seller, no third party has infringed any Proprietary Rights of the Company. There are no claims pending against the Company asserting the invalidity, misuse, unenforceability or ownership of any Proprietary Rights owned or used by the Company, and (to Seller's Knowledge) no such claims are threatened. For purposes of this Agreement, the term "Proprietary Rights" shall mean all of the following: (a) patents, patent applications, patent disclosures and inventions (whether or not patentable and whether or not reduced to practice) and any reissues, continuations, continuations-in-part, revisions, extensions or reexaminations thereof; (b) trademarks, service marks, trade dress, trade names and corporate names and registrations, renewals and applications for registration thereof, together with all goodwill associated therewith; (c) copyrights and renewals and applications for registrations thereof; (d) computer software (including all databases, data, documentation and source code); (e) trade secrets and other confidential information; (f) applications and registrations for any of the foregoing; (g) any other proprietary rights or intellectual property rights; (h) copies and tangible embodiments thereof, in whatever form or medium; and (i) the right to sue and collect for past infringement, wrongful disclosure, or misappropriation of the foregoing.

4.13 Customers and Suppliers. Set forth on Schedule 4.13 is a list of the names and addresses of the Company's top ten (10) customers and suppliers for the year-to-date and prior two (2) calendar years. There exists no actual or, to the Knowledge of Seller, threatened termination, cancellation or limitation of, or any significant modification or change in, the business relationship of the Company with any customer or supplier of the Company.

4.14 Permits and Licenses. The Company possesses all filings, permits, consents, authorizations, waivers, licenses, orders, franchises, certifications, approvals and similar items of all third parties, including, without limitation, all Governmental Authorities (collectively, the “Authorizations”), required for it to own its assets and carry on its operations as currently conducted. All such Authorizations are in full force and effect, and to Seller’s Knowledge, no suspension or cancellation of any of them is threatened. Seller has no Knowledge that any Authorization is likely to be cancelled or suspended or that any additional Authorizations are likely to be necessary to be obtained by the Company after the Closing. The Company is in compliance with all requirements, standards and procedures related to such Authorizations. The Company has no Authorizations other than its authority to do business in the State of New York.

4.15 Products Liability. There exists no pending or, to the Knowledge of Seller, threatened action, suit, inquiry, proceeding or investigation by any person or by or before any Governmental Authority relating to any product manufactured, distributed or sold by the Company, and alleged to have been defective or improperly designed or manufactured or in breach of any express or implied product warranty. Schedule 4.15 lists and describes in detail all actual or threatened actions, suits, inquiries, proceedings and investigations occurring at any time in the five (5) years preceding the Closing Date by any person or by or before any Governmental Authority relating to any product manufactured, distributed or sold by the Company, and alleged to have been defective or improperly designed or manufactured or in breach of any express or implied product warranty. Schedule 4.15 contains (a) a specimen copy of each form of written warranty covering products sold by the Company which has not yet expired; and (b) a summary of the warranty expense incurred by the Company during each of its last five (5) years. The Company has not made or granted any oral warranties of any kind.

4.16 Inventories; Accounts Receivable; Accounts Payable. The Inventory of the Company: (a) is in good, merchantable and useable condition; (b) is reflected in the books and records of the Company at cost on a first in first out basis; and (c) is of a quality and quantity useable in the ordinary course of the Company’s operations, consistent with past practice. The Inventory obsolescence, slow-moving or below standard quality policies of the Company are appropriate for the nature of the products sold and the marketing methods used by the Company, and the reserve for Inventory obsolescence, slow-moving and below standard quality taken into account in the preparation of the Financial Statements fairly reflects the amount of obsolete, slow-moving, below-standard quality and advanced shelf life Inventory, as of the respective dates of such Financial Statements. All of the Company’s accounts receivable are the result of bona fide purchase and sale transactions in the ordinary course of business consistent with past practice. As of the Effective Date there are no outstanding accounts payable owed by the Company.

4.17 No Material Changes. Since January 1, 2017, there has not been any change, event or condition suffered which has had or may have a material adverse effect on the Company, its assets, operations, or condition (financial or otherwise), properties, prospects, assets, liabilities or operations (a “MAC”).

4.18 Non-Competition; Non-Solicitation. Commencing on the date hereof and ending on the last day of the Restricted Period (as defined below), Seller covenants and agrees that it will not, without the Buyer’s prior written consent, directly or indirectly, either on behalf of itself or on behalf of any business venture, as an employee, consultant, partner, principal, stock holder, officer, director, trustee, agent, or otherwise (other than on behalf of the Buyer or its Affiliates):

(a) be employed by, engage or participate in the ownership, management, operation or control of, or act in any advisory, expert, consulting or other capacity for, any entity or individual that competes with the business of the Company as of the date hereof in the United States;

(b) solicit or divert any business or any customer from the Company or assist any person, firm, corporation or other entity in doing so or attempting to do so;

(c) cause or seek to cause any person, firm or corporation to refrain from dealing or doing business with the Company or assist any person, firm, corporation or other entity in doing so; or

(d) hire, solicit or divert from the Company any of their respective employees, consultants or agents who have, at any time during the immediately preceding one (1) year period from the date hereof or during the Restricted Period, been engaged by the Company, nor assist any person, firm, corporation or other entity in doing so.

As used in this Agreement, "Restricted Period" means the period commencing on the Closing Date and ending five (5) years from the Closing Date.

5. **REPRESENTATIONS, WARRANTIES AND ACKNOWLEDGEMENTS OF BUYER.** Buyer hereby represents, warrants and acknowledges to Seller:

5.1 That this Agreement has been duly authorized, executed, and delivered by or on behalf of the Buyer and, assuming due authorization, execution and delivery by Seller, constitutes the valid and legally binding agreement of the Buyer, enforceable against the Buyer in accordance with its terms. The Buyer has all requisite authority to enter into and perform its obligations under this Agreement.

6. **POST-CLOSING COVENANTS.**

6.1 **Further Assurances.** After the Closing, at the request of either party, the other party shall execute, acknowledge and deliver, without further consideration, all such further assignments, conveyances, endorsements, deeds, powers of attorney, consents and other documents and take such other action as may be reasonably requested to consummate the transactions contemplated by this Agreement.

6.2 **Disclosure Supplements.** Between the date of this Agreement and the Closing Date, the Company will promptly notify Buyer in writing (each, a "Disclosure Supplement") if the Company becomes aware of any fact or condition that causes or constitutes a breach of any of the Company's representations and warranties as of the date of this Agreement, or if the Company becomes aware of the occurrence after the date of this Agreement of any fact or condition that would (except as expressly contemplated by this Agreement) cause or constitute a breach of any such representation or warranty had such representation or warranty been made as of the time of occurrence or discovery of such fact or condition; provided, however, that no such notice shall be deemed to be a modification of any representation or warranty. During the same period, the Company will promptly notify Buyer of the occurrence of any breach of any covenant of the Company in this Section 6.

6.3 Corporate Existence. So long as Buyer beneficially owns any shares of common stock of the Company, the Company shall maintain its corporate existence.

## 7. INDEMNIFICATION.

7.1 Indemnification by Seller. Seller shall indemnify Buyer and its members, managers, shareholders, officers, directors, employees and agents (collectively, the "Buyer Indemnified Parties") against and hold them harmless from:

(a) All Liability resulting from, arising out of or related to: (i) any inaccuracy in or breach of any representation, warranty or agreement of Seller contained in this Agreement, any schedule to this Agreement, or any related document, including, without limitation, any representation, warranty, agreement or covenant contained in Sections 4 or 6 of this Agreement, or (ii) any breach by Seller of any agreement or covenant of Seller contained in this Agreement, any schedule to this Agreement, or any related document;

(b) Any imposition upon any of the Buyer Indemnified Parties of any Liability related to the operation of the Company prior to the Closing;

7.2 Indemnification by Buyer. Buyer shall indemnify Seller and its members, managers, shareholders, directors, officers, employees, and agents against and hold them harmless from:

All Liability resulting from, arising out of or related to: (i) any inaccuracy in or breach of any representation or warranty of Buyer contained in this Agreement, any schedule to this Agreement, or any related document, including, without limitation, any representation or warranty contained in Section 5 of this Agreement, or (ii) any breach by Buyer of any agreement or covenant of Buyer contained in this Agreement, any schedule to this Agreement, or any related document; and

7.3 Duration of Indemnification Except as provided in Section 7.4, the indemnification obligations set forth in this Section 7 shall survive the Closing indefinitely.

## MISCELLANEOUS

8.1 Binding Effect; Benefits. This Agreement shall inure to the benefit of, and shall be binding upon, the parties hereto and their respective successors and permitted assigns. Except as otherwise set forth herein, this Agreement may not be assigned by any party hereto without the prior written consent of the other party hereto. Except as otherwise set forth herein, nothing in this Agreement, expressed or implied, is intended to confer on any person other than the parties hereto or their respective successors and permitted assigns any rights, remedies, obligations or liabilities under or by reason of this Agreement.

8.2 Notices. All notices, requests, demands and other communications which are required to be or may be given under this Agreement shall be in writing and shall be deemed to have been duly given when delivered in person, or upon receipt after dispatch by certified or registered first class mail, postage prepaid, return receipt requested, to the party to whom the same is so given or made, to the addresses initially provided above (or such others as shall be provided in writing hereinafter).

8.3 Entire Agreement. This Agreement constitutes the entire agreement and supersedes all prior agreements and understandings, oral and written, between the parties hereto with respect to the subject matter hereof.

8.4 Headings. The section and other headings contained in this Agreement are for reference purposes only and shall not be deemed to be a part of this Agreement or to affect the meaning or interpretation of this Agreement.

8.5 Counterparts. This Agreement may be executed in any number of counterparts, each of which, when executed, shall be deemed to be an original and all of which together shall be deemed to be one and the same instrument.

8.6 Governing Law. This Agreement shall be construed as to both validity and performance and enforced in accordance with and governed by the laws of the State of Florida, without giving effect to the conflicts of law principles thereof. Any action brought by either party against the other concerning the transactions contemplated by this Agreement shall be brought only in the state courts of Florida or in the federal courts located in the State of Florida. Both parties and the individuals executing this Agreement agree to submit to the jurisdiction of such courts and waive trial by jury. In the event that any provision of this agreement or any related agreement delivered in connection herewith is invalid or unenforceable under any applicable statute or rule of law, then such provision shall be deemed inoperative to the extent that it may conflict therewith and shall be deemed modified to conform with such statute or rule of law. Any such provision which may prove invalid or unenforceable under any law shall not affect the validity or enforceability of any other provision of this Agreement.

8.7 Severability. If any term or provision of this Agreement shall to any extent be invalid or unenforceable, the remainder of this Agreement shall not be affected thereby, and each term and provision of the Agreement shall be valid and enforced to the fullest extent permitted by law.

8.8 Amendments. This Agreement may not be modified or changed except by an instrument or instruments in writing executed by the parties hereto.

8.9 Termination.

(a) This Agreement may, by notice given prior to or at the Closing, be terminated and the transactions contemplated herein may be abandoned:

(i) by Buyer or the Company if a material breach of any provision of this Agreement has been committed by the other party and such breach has not been waived or cured within ten (10) days after written notice thereof; or

(ii) by the mutual written consent of Buyer and Seller.

(b) Each Party's right of termination under Section 8(a) is in addition to any other rights it may have under this Agreement or otherwise, and the exercise of a right of termination will not be an election of remedies. If this Agreement is terminated pursuant to Section 8(a), all further obligations of the parties under this Agreement will terminate; provided, however, that if this Agreement is terminated by a party because of the breach of the Agreement by the other party or because one or more of the conditions to the terminating party's obligations under this Agreement is not satisfied as a result of the other party's failure to comply with its obligations under this Agreement, the terminating party's right to pursue all legal remedies will survive such termination unimpaired; provided, further, that this Section 8(b) shall survive any termination or expiration of this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the Effective Date first above written.

**SELLER:**

/s/Todd A. Correll  
Todd A. Correll

/s/Thomas J. Tharrington  
Thomas J. Tharrington

**COMPANY:**

BROADSMART FLORIDA, INC.

By: /s/Todd A. Correll  
Name: Todd A. Correll  
Title: CEO

**BUYER:**

NEXXIS INC.

By: /s/Charles M. Piluso  
Name: Charles M. Piluso  
Title: CEO





**Exhibit B**

Closing Deliverables

## AGREEMENT TO UNWIND AND MUTUAL RELEASE

**THIS AGREEMENT TO UNWIND AND MUTUAL RELEASE** (the "Agreement"), dated as of February 11, 2019 (the "Effective Date"), is entered into between TODD A. CORRELL, with an address located at c/o Broadsmart Florida, Inc., 1314 E. Las Olas Blvd. Suite 1044, Fort Lauderdale, FL 33301 ("Correll"), THOMAS J. THARRINGTON, with an address located at c/o Broadsmart Florida, Inc., 1314 E. Las Olas Blvd. Suite 1044, Fort Lauderdale, FL 33301 ("Tharrington" and together with Correll, "Seller"), and Broadsmart Florida, Inc., a corporation organized under the laws of the State of Florida with its principal address located at 1314 E. Las Olas Blvd. Suite 1044, Fort Lauderdale, FL 33301 (the "Company" and together with Seller, "Broadsmart"), on one side, and NEXXIS INC., with an address located at 48 South Service Road, Melville, NY 11747 ("Buyer"), on the other side. Each of the parties to this Agreement is individually referred to herein as a "Party" and collectively, as the "Parties".

### RECITALS

**WHEREAS**, on November 5, 2018 (the "Closing Date"), Buyer entered into and closed that certain Stock Purchase Agreement (the "SPA ") with Seller and the Company pursuant to which Buyer acquired from Seller 100 shares of common stock (collectively, the "Shares") of the Company, representing 100% of the issued and outstanding shares of common stock of the Company, in consideration of (i) a cash payment of \$12,500 and (ii) 15% of the customer billing of the Company not including any taxes billed on client invoices (the "Broadsmart Acquisition");

**WHEREAS**, on January 30, 2019, Seller informed Buyer it learned that the Company's previous three (3) years of income tax filings with the State of Florida (collectively, the Invalid Tax Filings") were filed under an incorrect Federal Tax ID Number;

**WHEREAS**, the Invalid Tax Filings potentially pose certain tax and tariff liabilities to Buyer;

**WHEREAS**, in order to resolve the aforementioned disclosure failure and related potential tax and tariff liabilities to Buyer, the Parties have agreed to unwind and rescind the Broadsmart Acquisition whereby the SPA and the Broadsmart Acquisition shall be rescinded in their entirety and shall be considered null and void as if never entered into or closed.

**WHEREAS**, the Parties have, between themselves, negotiated a complete resolution of any and all disputes, claims or potential claims arising between them and intend, by the terms of this Agreement, to memorialize the resolution of all disputes, claims or potential claims between the Parties arising during their relationship.

**NOW, THEREFORE**, in consideration of the recitals stated above, which all Parties agree are accurate and complete, the agreements, promises and warranties set forth below and other good and valuable consideration, receipt of which is hereby acknowledged, the Parties agree as follows:

### TERMS OF AGREEMENT

1. The above Recitals are hereby made a part of this Agreement.
2. The Parties acknowledge and agree that the SPA, Broadsmart Acquisition and all transactions contemplated thereby, and any other contractual agreements between the Parties, whether oral or written, are rescinded in their entirety and shall be considered null and void upon the execution of this Agreement, and all consideration deliverable by Buyer and Seller shall be returned to the respective issuing and paying Parties.

**3.** Upon execution of this Agreement, the Parties release and forever discharge each other and their respective agents, servants, employees, proprietors, partners, officers, directors, shareholders, subsidiaries, attorneys, predecessors, successors, assigns, heirs, survivors and personal representatives of and from any and all known or unknown claims, debts, liabilities, demands, obligations, damages, losses, costs, expenses, attorney's fees, actions and causes of action, from the beginning of time to the effective date of this Agreement. From the date of this Agreement, the Parties agree that they will not initiate any complaint, suit, or action of any kind against each other, in law or equity, before a state court, federal court, foreign court, or administrative body; except as necessary to enforce the terms of this Agreement.

**4.** Each of the Parties hereby represents and warrants to the other that it has not heretofore assigned or transferred, or purported to assign or transfer, to any person or entity any claims, debts, liabilities, demands, obligations, damages, losses, costs, expenses, attorneys' fees, actions or causes of action discharged and/or released herein. Each of the Parties agrees to indemnify, hold harmless and defend (including the payment of actual attorneys' fees, costs and expenses) the other of and from any claims, debts, liabilities, demands, obligations, damages, losses, costs, expenses, attorneys' fees, actions or causes of action that are in any way based on or arise out of any such assignment or transfer.

**5.** The Parties each agree that they will not directly or indirectly make any negative or disparaging remarks or communications about or relating to the other Parties hereto, their members, operations, their business, their officers, Board members, their employees, their independent contractors or affiliates. The Parties specifically agrees that they will not directly or indirectly contact the press, will not make any statements for public dissemination, and will not respond to inquiries from the press regarding this Agreement or the other Parties.

**6.** Each of the Parties represents and warrants that it has been represented by separate legal counsel of its own choice throughout all of the negotiations that preceded the execution of this Agreement and in connection with the preparation and execution of this Agreement; that it has carefully and thoroughly reviewed this Agreement in its entirety with counsel and that it understands the terms used herein.

**7.** Each party has had the opportunity to investigate this matter, determine the advisability of entering into this Agreement and has entered into this Agreement freely and voluntarily. Each of the Parties acknowledges that in executing this Agreement they rely solely on their own judgment, belief and knowledge and on such advice as they may have received from their own counsel and that they have not been influenced by any representation or statements made by any of the other Parties or their counsel. No provision in this Agreement is to be interpreted for or against any of the Parties because that Party or its counsel drafted such provision.

**8.** This Agreement embodies the entire understanding and agreement of the Parties concerning the resolution of all disputes, claims or potential claims between them that arose during their working relationship and as such, it fully supersedes any other oral or written understandings, agreements, representations and warranties between them relating thereto.

**9.** The terms and conditions contained in this Agreement shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, survivors and personal representatives of each of the Parties.

**10.** The Parties, and each of them, agree to execute such other documents and take such other immediate action as may reasonably be necessary to accomplish the purpose of this Agreement.

**11.** In the event that any condition, covenant or other provision of this Agreement is held to be invalid or void by any court of competent jurisdiction, it shall be deemed severable from the remainder of this Agreement and shall in no way affect any other condition, covenant or other provision of this Agreement. If such condition, covenant or other provision is held to be invalid due to its scope or breadth, it is agreed that it shall be deemed to remain valid to the extent permitted by law.

**12.** No breach of any provision of this Agreement shall be deemed waived unless it is waived in writing. Waiver of any one breach shall not be deemed a waiver of any other breach of the same or any other provision of this Agreement.

**13.** This Agreement can only be amended or modified by a written agreement duly executed by all of the Parties.

**14.** Any corporation signing this Agreement represents and warrants that such execution is in compliance with any required resolution of its Board of Directors, duly adopted at a meeting of such Board of Directors. Any individual signing this Agreement on behalf of another individual, a corporation or a partnership represents and warrants that he or she has full authority to do so.

**15.** The Parties acknowledge that for the purpose of enforcing the terms of this Agreement or entering judgment appropriate jurisdiction and venue shall lie within the Jurisdiction of the State of Florida. This Agreement shall be governed by and construed and enforced under the laws of the State of Florida.

**16.** In the event either party commences any action in a court of law to enforce this Agreement or obtain damages for the breach of this Agreement, the prevailing Party shall be entitled to an award of its actual attorneys' fees and costs incurred in such action.

**17.** This Agreement may be executed in counterparts, and each counterpart shall be considered an original. This Agreement shall not be effective in any way as to any of the Parties until fully executed by all parties and until counsel for each of the Parties has been delivered a fully executed counterpart thereof.

**18.** The Parties agree that upon the execution of this Agreement they will return any and all confidential and proprietary business information in their possession belonging to any other Party including, but not limited to, any books and records, statements of account, individual member or shareholder information, business and marketing plans, customer lists and vendor lists.

**[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]**

**IN WITNESS WHEREOF**, the Parties hereto have caused this Agreement to be duly executed as of the Effective Date first above written.

**SELLER:**

\_\_\_\_\_  
Todd A. Correll

\_\_\_\_\_  
Thomas J. Tharrington

**COMPANY:**

BROADSMART FLORIDA, INC.

By: \_\_\_\_\_  
Name: Todd Correll  
Title: CEO

**BUYER:**

NEXXIS INC.

By: \_\_\_\_\_  
Charles M. Piluso  
Title: CEO

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

I, Charles M. Piluso, certify that:

1. I have reviewed this annual report on Form 10-K of Data Storage Corporation (the "Registrant");
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 present in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13-a-15(f) and 15d-15(f)) for the Registrant and 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 our 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 financing reporting that occurred during the Registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - 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 involved management or other employees who have a significant role in the registrant's internal control over financial reporting.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ Charles M. Piluso Charles M. Piluso	Chief Executive Officer, Chief Financial Officer, Principal Executive Officer, Principal Financial and Principal Accounting Officer	April 1, 2019

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
AND PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with this Annual Report of Data Storage Corporation (the "Company") on Form 10-K for the year ending December 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles M. Piluso, Chief Executive Officer of the Company, certifies to the best of his knowledge, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report 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 the Report fairly presents, in all material respects, the financial condition and results of operations of the Company

Signature	Title	Date
<i>/s/ Charles M. Piluso</i> Charles M. Piluso	Chief Executive Officer Chief Financial Officer, Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer	April 1, 2019