UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 8-K/A

(Amendment Number 1)

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): May 31, 2021

DATA STORAGE CORPORATION

(Exact name of registrant as specified in its charter)

Nevada	**001-35384**	**98-0530147**
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(IRS Employer Identification No.)

48 South Service Road
Melville, New York 11747
(Address of principal executive offices)

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

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.001 per share	DTST	The Nasdaq Capital Market
Warrants to purchase shares of Common Stock, par value $0.001 per shares	DTSTW	The Nasdaq Capital Market

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☐

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

Explanatory Note

On June 3, 2021, Data Storage Corporation (the "Company") filed a Current Report on Form 8-K (the "Original Filing") to report the completion of the merger (the "Merger") contemplated by that certain Agreement and Plan of Merger with Data Storage FL, LLC, a Florida limited liability company and the Company's wholly-owned subsidiary (the "Merger Sub"), Flagship Solutions, LLC, a Florida limited liability company ("Flagship"), and the owners of all of the issued and outstanding limited liability company membership interests in Flagship, pursuant to which the Company acquired Flagship through the merger of Merger Sub with and into Flagship, with Flagship being the surviving company in the Merger and becoming, as a result, the Company's wholly-owned subsidiary.

In the Original Filing, the Company stated that the required historical financial statements of Flagship and pro forma financial information would be filed with the Securities and Exchange Commission within the requisite filing period. This Current Report on Form 8-K/A is being filed to amend the Original Filing to provide the required historical financial statements of Flagship and the pro forma financial information described under Item 9.01 below. These financial statements and information are filed as Exhibit 99.1 and 99.2.

Item 9.01. Financial Statements and Exhibits.

(a) Financial Statements of Business Acquired

The unaudited consolidated financial statements of Flagship as of and for the three months ended March 31, 2021 and the audited financial statements of Flagship for the years ended December 31, 2020 and 2019, as well as the accompanying notes are being filed as Exhibit 99.1 to this Current Report on Form 8-K/A and are incorporated herein by reference.

(b) Pro Forma Financial Information.

The following unaudited pro forma financial information of the Company and Flagship is filed as Exhibit 99.2 to this Current Report on Form 8-K/A and are incorporated herein by reference:

Unaudited Pro Forma Condensed Combined Balance Sheet as of March 31, 2021 and December 31, 2020;

Unaudited Pro Forma Condensed Combined Statements of Operations for the three months ended March 31, 2021 and for the year ended December 31, 2020, and

Notes to Unaudited Pro Forma Condensed Combined Financial Statements.

(d) Exhibits

Exhibit No.	Exhibit
99.1	Unaudited condensed financial statements of Flagship for the three months ended March 31, 2021 and audited financial statements of Flagship for the years ended December 31, 2020 and 2019, together with the related notes to the condensed financial statements.
99.2	Unaudited pro forma condensed combined financial information for the three months ended March 31, 2021 and for the year ended December 31, 2020, reflecting the combined historical financial information of the Company and Flagship.

SIGNATURES

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

DATA STORAGE CORPORATION

Dated: August 12, 2021

By: */s/ Charles M. Piluso*
Charles M. Piluso
Chief Executive Officer

Exhibit 99.1

FLAGSHIP SOLUTIONS, LLC

d/b/a Flagship Solutions Group

FLAGSHIP SOLUTIONS, LLC
D/B/A FLAGSHIP SOLUTIONS GROUP

CONTENTS

INDEPENDENT AUDITORS' REVIEW REPORT

To Management
Flagship Solutions, LLC

We have reviewed the accompanying interim financial statements of Flagship Solutions, LLC, which comprise the balance sheet as of March 31, 2021, and the related statements of operations and members' deficit and cash flows for the three months ended March 31, 2021 and 2020, and the related notes to the interim financial statements.

Management's Responsibility for the Financial Information

Management is responsible for the preparation and fair presentation of the interim financial information in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in accordance with accounting principles generally accepted in the United States of America.

Auditor's Responsibility

Our responsibility is to conduct our review in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information as a whole. Accordingly, we do not express such an opinion.

Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial information for it to be in accordance with accounting principles generally accepted in the United States of America.

/s/ Rosenberg Rich Baker Berman, P.A

Somerset, New Jersey
July 28, 2021

FLAGSHIP SOLUTIONS, LLC
D/B/A FLAGSHIP SOLUTIONS GROUP
BALANCE SHEETS

		March 31, 2021 (unaudited)
ASSETS		
Current Assets		
Cash	$	93,023
Accounts receivable		3,202,830
Prepaid expenses		522,698
Total current assets		3,818,551
Equipment		
At cost, less accumulated depreciation		5,440
Other Assets		
Intangible - at cost, less accumulated amortization		33,553
Security deposit		22,500
Total other assets		56,053
Total assets	$	3,880,044
LIABILITIES AND MEMBERS' DEFICIT		
Current Liabilities		
Accounts payable	$	2,536,782
Accrued expenses		14,106
Sales tax payable		8,615
Line of credit		700,000
Deferred Revenue		70,476
Notes payable		300,405
Total current liabilities		3,630,384
Notes Payable - Long-Term Portion		516,795
Members' Deficit		(267,135)
Total liabilities and members' deficit	$	3,880,044

See independent auditors' review report and notes to the financial statements.

FLAGSHIP SOLUTIONS, LLC
D/B/A FLAGSHIP SOLUTIONS GROUP
STATEMENTS OF OPERATIONS AND MEMBERS' DEFICIT (unaudited)

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Revenues	$ 3,911,081	$ 2,854,671
Cost of Revenues	3,315,273	2,229,688
Gross Profit	595,808	624,983
General and Administrative Expenses	626,205	595,729
Income (Loss) From Operations	(30,397)	29,254
Other Expenses		
Interest expense	7,927	20,190
Net Income (Loss)	(38,324)	9,064
Members' Deficit - Beginning	(228,811)	(132,507)
Members' draws	—	—
Members' Deficit - Ending	$ (267,135)	$ (123,443)

See independent auditors' review report and notes to the financial statements.

FLAGSHIP SOLUTIONS, LLC
D/B/A FLAGSHIP SOLUTIONS GROUP
STATEMENTS OF CASH FLOWS (unaudited)

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Cash Flows From Operating Activities		
Net income (loss)	$ (38,324)	$ 9,064
Adjustments to reconcile net income (loss) to net cash used in operations:		
Depreciation and amortization	1,507	1,900
Changes in assets and liabilities:		
Increase in accounts receivable	(1,532,818)	(696,523)
Increase decrease in prepaid expense	(508,925)	(7,367)
Increase in accounts payable	1,893,863	655,138
Increase in accrued expenses	1,575	—
Decrease in sales tax payable	(2,303)	(78,378)
Increase in deferred revenue	(146,844)	—
Net Cash Used in Operating Activities	(332,269)	(116,166)
Cash Flows From Financing Activities		
Payments on note payable	—	(62,500)
Net borrowings on line of credit	325,000	45,000
Net Cash Provided (Used) by Financing Activities	325,000	(17,500)
Net Increase (Decrease) in Cash and Cash Equivalents	(7,269)	(133,666)
Cash - Beginning	100,292	228,687
Cash - Ending	$ 93,023	$ 95,021
Supplementary Cash Flow Information:		
Cash paid for interest	$ 7,927	$ 15,292

See independent auditors' review report and notes to the financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Flagship Solutions, LLC d/b/a Flagship Solutions Group (the "Company") is located in Boca Raton, Florida and is a leader in cloud computing providing cross platform solutions, and managed services worldwide. These include data center strategic planning and hybrid cloud implementations based on a wide range of assessments that look at virtualization, server consolidation, security, and infrastructure-focused integration. The Company's managed services include multiple cloud-based server monitoring and management, 24×7 helpdesk support, and data center infrastructure management through their trademarked Infralytics™ set of offerings. In addition, the Company is providing IoT solutions consisting of weather related and IBM Watson capabilities.

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 revenues and expenses during the reporting period. The items which are subject to significant estimation include the provision of an allowance for doubtful receivable accounts, and capitalization and amortization of intangible assets. Actual results could differ from those estimates.

Cash

Cash includes cash on-hand and cash in banks. At times during the year cash balances have exceeded FDIC limits. The Company believes there is no significant risk with respect to these deposits.

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 trade accounts receivable. The Company's cash is maintained at major U.S. financial institutions. Deposits in these institutions may exceed the amount of insurance provided on such deposits.

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.

As of March 31, 2021, the Company had one customer with an accounts receivable balance representing 91% of total accounts receivable.

For the three months ended March 31, 2021, the Company had two customers that accounted for 65% of revenue. For the three months ended March 31, 2020, the Company had two customer that accounted for 61% of revenue.

See independent auditors' review report.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 typically 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. In the opinion of management, substantially all account receivables are considered to be realizable at the amounts stated in the accompanying balance sheets and no allowance for doubtful accounts is considered necessary. During the three months ended March 31, 2021 and 2020, $2,295 and $8,288, of bad debt has been charged to expense, respectively.

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:

Managed Services

The Company delivers a diverse portfolio of services, including network, application, infrastructure and security, via ongoing and regular support and active administration on customers' premises. These services can occur in the managed service provider's data center (hosting), or in a third-party data center. The Company also provides outsourced monitoring and management of security devices and systems. Common security service offerings include managed firewall, intrusion detection, virtual private network, vulnerability scanning and anti-viral services. The Company has a Cloud Operations Center (CLOC) that is a 24x7 high-availability cyber operations center.

The Company delivers an innovative new service capability, Infralytics™. Infralytics™ is the marriage of Infrastructure plus Analytics. It is designed to provide businesses with the ability to proactively understand their internal IT infrastructure resource utilization, performance, and capacity, in relation to the needs of the business. These services are provided in real time and delivered as a service billed as a monthly or annual, multi-year agreement.

Managed Software as a Service (MSaaS) focuses on supporting clients' IT infrastructure through comprehensive IT contract management services for hardware and software contracts. The Company is able to provide high level solutions to its clients in process, maintenance, and support. In addition, the Company is uniquely able to offer clients access to Renewalytics, a vendor-agnostic dashboard that houses equipment and contract data, providing users with more intelligent and actionable views of their IT enterprise.

See independent auditors' review report.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Revenue Recognition – Continued

Equipment and Software Revenue

The Company provides a broad portfolio of technology solutions to unify, manage, modernize and protect data across hybrid and multi cloud environments. These solutions can be resold directly to the end user or be provided as a service in an outsourced capability. The Company provides customers with virtualized and scalable computing environments for the IBM Power and Storage platforms, in addition to Watson AI and other hybrid cloud capabilities. The Company also focuses on Red Hat, IBM's 32-billion-dollar acquisition, leading customers' transition to the Cloud. The Company provisions the required capacities and specifications and monitor, manage, and maintain physical infrastructure required to deliver the services.

Disaggregation of revenue

In the following table, revenue is disaggregated by major product line, geography, and timing of revenue recognition.

	Three Months Ended March 31,	
	2021	**2020**
Equipment and software	$ 197,890	$ 337,213
Managed services	3,713,191	2,517,458
Total revenue	$ 3,911,081	$ 2,854,671

	Three Months Ended March 31,	
Timing of revenue recognition	**2021**	**2020**
Products transferred at a point in time	3,183,733	2,068,097
Products and services transferred over time	727,348	786,574
Total revenue	$ 3,911,081	$ 2,854,671

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.

Most of the Company's revenue is derived from contract fees related to managed services. Managed services are generally sold as non-recurring projects; however, certain plans are also offered as monthly, annual, or multi-year subscriptions. Subscription revenue is generally recognized ratably over the contractual service term.

See independent auditors' review report.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Revenue Recognition – Continued

The Company has the following performance obligations:

1) Equipment Sales – power infrastructure systems, servers, storage, and computer related equipment.
2) Software Sales – granting SSL certificates, IT infrastructure, and other licenses.
3) Managed Services - infrastructure analytics, weather analytics, cloud services, back up and disaster recovery, storage, and maintenance.

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).

Software Licenses – 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 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.

Managed Services
In the case of managed services performance obligation, the control of the product transfers either at point in time or over time depending on the terms of the contract. Whereas if the Company is the primary obligator, control is transferred over time. The Company uses the output method for measuring progress toward complete satisfaction of the performance obligation. The output method recognizes revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or services promised under the contract.

Payment terms
The terms of the contracts typical range from 12 to 36 months with auto-renew options. The Company invoices clients one month in advance for its services plus any overages or additional services provided. Invoices are typically due in 30 days.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Revenue Recognition – Continued

Warranties
The Company offers assurance-type warranties from 30 days to 1 year on its products. The Company estimates the costs associated with the warranty obligation using historical data of warranty claims and costs incurred to satisfy those claims. The Company estimates, based upon a review of historical warranty claim experience, the costs that may be incurred under our warranties and record a liability in the amount of such estimate at the time a product is sold. Factors that affect our warranty liability include the number of units sold, historical and anticipated rates of warranty claims, and cost per claim. We periodically assess the adequacy of our recorded warranty liability and adjust the accrual as claims data and historical experience warrants. The Company has assessed the costs of fulfilling its existing assurance-type warranties and has determined that the estimated outstanding warranty obligation on March 31, 2021 are immaterial to the Company's financial statements.

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.

Advertising Expenses
Advertising and promotion costs are expensed as incurred and are included in general and administrative expenses. Advertising expenses for the three months ended March 31, 2021 and 2020 were $8,060 and $16,487, respectively.

Income Taxes
The Company files its income taxes on the accrual basis as a partnership for Federal income tax purposes, and thus no income tax expense has been recorded in the statements. Income from the partnership is taxed to the members in their individual returns on their share of the Company's earnings. The Company's net income or loss is allocated among the members in accordance with the Operating Agreement of the Company.

The Company does not have any uncertain tax positions which must be considered for disclosure.

The Federal income tax returns of the Company for 2020, 2019, and 2018 are subject to examination by the IRS, generally for a period of three years from the date they are filed. There are no examinations currently in process.

NOTE 2 - EQUIPMENT

Acquisitions of furniture, equipment or improvements not expected to be consumed within one year of purchase are capitalized at cost. Depreciation is computed for financial statement purposes on the straight-line method over the estimated useful lives of the related assets, which range from five to seven years. A schedule of equipment follows:

NOTE 2 – EQUIPMENT (continued)

		March 31, 2021
Computer equipment	$	17,616
Furniture and fixtures		13,572
Sub-total		31,188
Less: accumulated depreciation		25,748
Total net of accumulated depreciation	$	5,440

Depreciation for the three months ended March 31, 2021 and 2020 amounted to $681 and $1,366, respectively.

NOTE 3 – INTANGIBLE ASSETS

During the course of business, the Company's website was created. Other intangible assets are amortized over a ten-year period and expensed to operations. The amounts are amortized using the straight-line method.

		March 31, 2021
Website design	$	43,030
Less: accumulated amortization		9,477
Total net of accumulated amortization	$	33,553

Amortization for the three months ended March 31, 2021 and 2020 amounted to $826 and $534, respectively.

NOTE 4 – LINE OF CREDIT

On March 24, 2017, the Company entered into a revolving demand note with a bank for an amount not to exceed $750,000. The line of credit may be cancelled by either party at any time for any reason by written notice to the other and is collateralized by all assets of the Company and the personal guarantee of two members of the Company. The stated interest rate is adjustable with interest equal to the Prime Rate plus four percent per annum. Repayment terms consist of interest only due monthly with all principal and remaining interest due on demand. The line of credit balance outstanding as of March 31, 2021 was $700,000.

See independent auditors' review report.

NOTE 5 – NOTES PAYABLE

	March 31, 2021
Note payable for the Paycheck Protection Program received through the Small Business Administration (SBA) to support payroll and other qualified expenses. The funds are expected to be forgiven during the year ended December 31, 2021.	307,300
Economic Injury Disaster Loan from the Small Business Administration, payable $2,437 monthly, including interest at 3.75% through September 2049. Payments begin April 2021, but still accrue interest from the date of receipt in April 2020.	509,900
Subtotal	817,200
Less: current portion of long-term debt	300,405
Long-term debt, net of current portion	$ 516,795

The approximate amounts of notes payable due during the successive years ending December 31, are as follows:

2021 (nine months)	$	245,435
2022		79,246
2023		10,962
2024		11,380
2025		11,814
2026 and thereafter		458,363
Total	$	817,200

Interest expense for the three months ended March 31, 2021 and 2020 amount to $7,927 and $20,190, respectively.

See independent auditors' review report.

NOTE 6 – LEASES

The Company leases its facilities from an unrelated third party in Boca Raton, Florida under an operating lease effective August 1, 2017 through July 31, 2020. The minimum base rent under the lease terms is $4,080 per month rent plus taxes, expenses, and utilities. The agreement has been extended through July 31, 2021 with a monthly base rent of $2,828 monthly. Total rent expense for the three months ended March 31, 2021 and 2020 amounted to $20,028 and $25,827, respectively.

Future approximate minimum lease payments of the non-cancelable operating lease for the years ended December 31, are as follows:

2021 (nine months)	$ 19,796

NOTE 7 – RISKS AND UNCERTAINTIES

Risks inherent in this highly competitive industry include, but are not limited to, product obsolescence, patent or proprietary right infringement.

COVID 19

The COVID-19 pandemic has created significant worldwide uncertainty, volatility, and economic disruption. The extent to which COVID-19 will adversely impact our business, financial condition and results of operations is dependent upon numerous factors, many of which are highly uncertain, rapidly changing, and uncontrollable. These factors include, but are not limited to: (i) the duration and scope of the pandemic; (ii) governmental, business and individual actions that have been and continue to be taken in response to the pandemic, including travel restrictions, quarantines, social distancing, work-from-home and shelter-in-place orders and shut-downs; (iii) the impact on U.S. and global economies and the timing and rate of economic recovery; (iv) potential adverse effects on the financial markets and access to capital; (v) potential goodwill or other impairment charges; (vi) increased cybersecurity risks as a result of pervasive remote working conditions; and (vii) our ability to effectively carry out our operations due to any adverse impacts on the health and safety of our employees and their families.

Vendors, such as Flagship, that provide essential services or products, including logistics and technology support are deemed to be essential businesses. As a result of the pandemic, all employees, including the Company's specialized technical staff, are working remotely or in a virtual environment. The Company always maintains the ability for team members to work virtual and the Company will continue to stay virtual, until the State and or the Federal government indicate the environment is safe to return to work. The significant increase in remote working, particularly for an extended period of time, could exacerbate certain risks to the Company's business, including an increased risk of cybersecurity events and improper dissemination of personal or confidential information, though the Company does not believe these circumstances have, or will, materially adversely impact its internal controls or financial reporting systems. If the COVID-19 pandemic should worsen, the Company may experience disruptions to our business including, but not limited to equipment, to its workforce, or to its business relationships with other third parties.

See independent auditors' review report.

NOTE 7 – RISKS AND UNCERTAINTIES - Continued

The extent to which COVID-19 impacts the Company’s operations or those of its third-party partners will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration of the outbreak, new information that may emerge concerning the severity of COVID-19 and the actions to contain COVID-19 or treat its impact, among others. Any such disruptions or losses we incur could have a material adverse effect on the Company’s financial results and our ability to conduct business as expected.

NOTE 8 – SUBSEQUENT EVENTS

On May 31, 2021, the Company and the owners (collectively, the “Equityholders”) of all of the issued and outstanding membership interests has been acquired by Data Storage Corporation (“DSC”), pursuant to the completed merger (the “Merger”) contemplated by Agreement and Plan of Merger (the “Merger Agreement”) with Data Storage Corporation (“DSC”) and Data Storage FL, LLC, a Florida limited liability company. The Company being the surviving company in the Merger and becoming, as a result, Data Storage Corporation’s wholly owned subsidiary.

See independent auditors’ review report.

FLAGSHIP SOLUTIONS, LLC

d/b/a Flagship Solutions Group

December 31, 2020 and 2019

FLAGSHIP SOLUTIONS, LLC

C O N T E N T S

INDEPENDENT AUDITOR'S REPORT

To the Management
of Flagship Solutions, LLC

We have audited the accompanying financial statements of Flagship Solutions, LLC, which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of operations, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Flagship Solutions, LLC as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

/s/ Rosenberg Rich Baker Berman, P.A.

Somerset, New Jersey

April 14, 2021

FLAGSHIP SOLUTIONS, LLC
BALANCE SHEETS

	December 31, 2020	December 31, 2019
ASSETS		
Current Assets		
Cash	$ 100,292	$ 228,687
Accounts receivable	1,670,012	1,584,849
Prepaid expenses	13,773	321,066
Total current assets	1,784,078	2,134,602
Equipment		
At cost, less accumulated depreciation	6,121	10,730
Other Assets		
Intangible - at cost, less accumulated amortization	34,379	6,515
Security deposit	22,500	22,500
Total other assets	56,879	29,015
Total assets	$ 1,847,077	$ 2,174,347
LIABILITIES AND MEMBERS' DEFICIT		
Current Liabilities		
Accounts payable	$ 642,918	$ 991,631
Accrued expenses	12,531	—
Sales tax payable	10,918	20,687
Line of credit	375,000	700,000
Deferred Revenue	217,320	420,402
Member loans	—	50,000
Notes payable	245,435	124,134
Total current liabilities	1,504,123	2,306,854
Notes Payable - Long-Term Portion	571,765	—
Members' Deficit	(228,811)	(132,507)
Total liabilities and members' deficit	$ 1,847,077	$ 2,174,347

Flagship Solutions, LLC

STATEMENT OF EARNINGS

See Independent Accountant's Compilation Report

	Year Ended December 31, 2020	2019
Revenues	$ 8,851,260	$ 12,128,999
Cost of Revenues	6,469,914	10,117,258
Gross Profit	2,381,346	2,011,741
General and Administrative Expenses	2,300,547	2,303,098
Income (Loss) From Operations	80,799	(291,357)
Other Expenses		
Interest expense	44,958	92,070
Net Income (Loss)	35,841	(383,427)
Members' Equity (Deficit) - Beginning	(132,507)	250,920
Members' draws	(132,145)	—
Members' Deficit - Ending	$ (228,811)	$ (132,507)

Flagship Solutions, LLC

STATEMENT OF CASH FLOWS

See Independent Accountant's Compilation Report

	Year Ended December 31, 2020	2019
Cash Flows From Operating Activities		
Net income (loss)	$ 35,841	$ (383,427)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operations:		
Depreciation and amortization	6,746	6,559
Changes in assets and liabilities:		
Increase in accounts receivable	(85,163)	(261,130)
(Increase) decrease in prepaid expense	307,293	(14,472)
Increase (decrease) in accounts payable	(348,713)	361,786
Increase in accrued expenses	12,531	—
Increase (decrease) in sales tax payable	(9,769)	18,480
Increase (decrease) in deferred revenue	(203,082)	420,402
Net Cash Provided by (Used in) Operating Activities	(284,316)	148,198
Cash Flows From Investing Activities		
Purchase of intangible asset	(30,000)	—
Cash Flows From Financing Activities		
Proceeds from Small Business Association loans	817,200	—
(Payments) Proceeds on note payable	(124,134)	124,134
Payments on member loan	(50,000)	(20,000)
Net payments on line of credit	(325,000)	(25,000)
Member distributions	(132,145)	—
Net Cash Provided by Financing Activities	185,921	79,134
Net Increase (Decrease) in Cash and Cash Equivalents	(128,395)	227,332
Cash - Beginning	228,687	1,355
Cash - Ending	$ 100,292	$ 228,687
Supplementary Cash Flow Information:		
Cash paid for interest	$ 32,733	$ 92,070

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Flagship Solutions, LLC d/b/a Flagship Solutions Group (the "Company") is located in Boca Raton, Florida and is a leader in cloud computing providing cross platform solutions, and managed services worldwide. These include data center strategic planning and hybrid cloud implementations based on a wide range of assessments that look at virtualization, server consolidation, security, and infrastructure-focused integration. The Company's managed services include multiple cloud-based server monitoring and management, 24×7 helpdesk support, and data center infrastructure management through their trademarked Infralytics™ set of offerings. In addition, the Company is providing IoT solutions consisting of weather related and IBM Watson capabilities.

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 revenues and expenses during the reporting period. The items which are subject to significant estimation include the provision of an allowance for doubtful receivable accounts, and capitalization and amortization of intangible assets. Actual results could differ from those estimates.

Cash

Cash includes cash on-hand and cash in banks. At times during the year cash balances have exceeded FDIC limits. The Company believes there is no significant risk with respect to these deposits.

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 trade accounts receivable. The Company's cash is maintained at major U.S. financial institutions. Deposits in these institutions may exceed the amount of insurance provided on such deposits.

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, 2020, the Company had four customers with an accounts receivable balance representing 65% of total accounts receivable. For the year ended December 31, 2019, the Company had two customers with an accounts receivable balance representing 67% 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 typically 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. In the opinion of management, substantially all account receivables are considered to be realizable at the amounts stated in the accompanying balance sheets and no allowance for doubtful accounts is considered necessary. During the year ended December 31, 2020 and 2019, $8,288 and $7,013, of bad debt has been charged to expense, respectively.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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:

Managed Services

The Company delivers a diverse portfolio of services, including network, application, infrastructure and security, via ongoing and regular support and active administration on customers' premises. These services can occur in the managed service provider's data center (hosting), or in a third-party data center. The Company also provides outsourced monitoring and management of security devices and systems. Common security service offerings include managed firewall, intrusion detection, virtual private network, vulnerability scanning and anti-viral services. The Company has a Cloud Operations Center (CLOC) that is a 24x7 high-availability cyber operations center.

The Company delivers an innovative new service capability, Infralytics™. Infralytics™ is the marriage of Infrastructure plus Analytics. It is designed to provide businesses with the ability to proactively understand their internal IT infrastructure resource utilization, performance, and capacity, in relation to the needs of the business. These services are provided in real time and delivered as a service billed as a monthly or annual, multi-year agreement.

Managed Software as a Service (MSaaS) focuses on supporting clients' IT infrastructure through comprehensive IT contract management services for hardware and software contracts. The Company is able to provide high level solutions to its clients in process, maintenance and support. In addition, the Company is uniquely able to offer clients access to Renewalytics, a vendor-agnostic dashboard that houses equipment and contract data, providing users with more intelligent and actionable views of their IT enterprise.

Equipment and Software Revenue

The Company provides a broad portfolio of technology solutions to unify, manage, modernize and protect data across hybrid and multi cloud environments. These solutions can be resold directly to the end user or be provided as a service in an outsourced capability. The Company provides customers with virtualized and scalable computing environments for the IBM Power and Storage platforms, in addition to Watson AI and other hybrid cloud capabilities. The Company also focuses on Red Hat, IBM's 32-billion-dollar acquisition, leading customers' transition to the Cloud. The Company provisions the required capacities and specifications and monitor, manage, and maintain physical infrastructure required to deliver the services.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Revenue Recognition – Continued

Disaggregation of revenue

In the following table, revenue is disaggregated by major product line and timing of revenue recognition.

	Year Ended December 31, 2020	Year Ended December 31, 2019
Equipment and software	$ 1,067,908	$ 4,268,831
Managed services	7,783,352	7,860,168
Total revenue	$ 8,851,260	$ 12,128,999

Timing of revenue recognition	Year Ended December 31, 2020	Year Ended December 31, 2019
Products transferred at a point in time	$ 5,946,376	$ 9,916,580
Products and services transferred over time	2,904,885	2,212,419
Total revenue	$ 8,851,260	$ 12,128,999

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.

Most of the Company's revenue is derived from recurring contract fees related to managed services. Managed services are generally sold as monthly subscriptions; however, certain plans are also offered as annual or multi-year subscriptions. Subscription revenue is generally recognized ratably over the contractual service term.

The Company has the following performance obligations:

1) Equipment Sales – power infrastructure systems, servers, storage, and computer related equipment.
2) Software Sales – granting SSL certificates, IT infrastructure, and other licenses.
3) Managed Services - infrastructure analytics, weather analytics, cloud services, back up and disaster recovery, storage, and maintenance.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Revenue Recognition – Continued

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).

Software Sales
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 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.\

Managed Services
In the case of managed services performance obligation, the control of the product transfers either at point in time or over time depending on the terms of the contract. Whereas if the Company is the primary obligator, control is transferred over time. The Company uses the output method for measuring progress toward complete satisfaction of the performance obligation. The output method recognize revenue on the basis of direct measurements of the value to the customer of the goods or services transferred to date relative to the remaining goods or services promised under the contract.

Payment terms
The terms of the contracts typical range from 12 to 36 months with auto-renew options. The Company invoices clients one month in advance for its services plus any overages or additional services provided. Invoices are typically due in 30 days.

Warranties
The Company offers assurance-type warranties from 30 days to 1 year on its products. The Company estimates the costs associated with the warranty obligation using historical data of warranty claims and costs incurred to satisfy those claims. The Company estimates, based upon a review of historical warranty claim experience, the costs that may be incurred under our warranties and record a liability in the amount of such estimate at the time a product is sold. Factors that affect our warranty liability include the number of units sold, historical and anticipated rates of warranty claims, and cost per claim. We periodically assess the adequacy of our recorded warranty liability and adjust the accrual as claims data and historical experience warrants. The Company has assessed the costs of fulfilling its existing assurance-type warranties and has determined that the estimated outstanding warranty obligation on December 31, 2020 and 2019 are immaterial to the Company's financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Revenue Recognition – Continued

Significant judgement
In instances where contracts have multiple performance obligations, the Company uses judgment to establish a stand- alone price for each performance obligation. The price for each performance obligation is determined by reviewing the Company's historical pricing of each individual service. The proportion of each performance obligation compared to the contract price would be used to allocate the transaction price to each performance obligation.

Advertising Expenses
Advertising and promotion costs are expensed as incurred and are included in general and administrative expenses. Advertising expenses for the year ended December 31, 2020 and 2019 were $100,348 and $285,758, respectively.

Income Taxes
The Company files its income taxes on the accrual basis as a partnership for Federal income tax purposes, and thus no income tax expense has been recorded in the financial statements. Income from the partnership is taxed to the members in their individual returns on their share of the Company's earnings. The Company's net income or loss is allocated among the members in accordance with the Operating Agreement of the Company.

The Company does not have any uncertain tax positions which must be considered for disclosure.

The Federal income tax returns of the Company for 2019, 2018, and 2017 are subject to examination by the taxing authorities, generally for a period of three years from the date they are filed. There are no examinations currently in process.

NOTE 2 - EQUIPMENT
Acquisitions of furniture, equipment or improvements not expected to be consumed within one year of purchase are capitalized at cost. Depreciation is computed for financial statement purposes on the straight-line method over the estimated useful lives of the related assets, which range from five to seven years. A schedule of equipment follows:

	December 31, 2020	December 31, 2019
Computer equipment	$ 17,616	$ 17,616
Furniture and fixtures	13,572	13,572
Sub-total	31,188	31,188
Less: accumulated depreciation	25,068	20,458
Total net of accumulated depreciation	$ 6,121	$ 10,730

Depreciation for the years ended December 31, 2020 and 2019 amounted to $4,610 and $5,256, respectively.

NOTE 3 – INTANGIBLE ASSETS

During the course of business, the Company's website was created. Other intangible assets are amortized over a ten- year period and expensed to operations. The amounts are amortized using the straight-line method.

	December 31, 2020		December 31, 2019	
Website design	$	43,030	$	13,030
Less: accumulated amortization		8,651		6,515
Total net of accumulated amortization	$	34,379	$	6,515

Amortization for the years ended December 31, 2020 and 2019 amounted to $2,136 and $1,303, respectively.

NOTE 4 – LINE OF CREDIT

On March 24, 2017, the Company entered into a revolving demand note with a bank for an amount not to exceed $750,000. The line of credit may be cancelled by either party at any time for any reason by written notice to the other and is collateralized by all assets of the Company and the personal guarantee of two members of the Company. The stated interest rate is adjustable with interest equal to the Prime Rate plus one percent per annum. Repayment terms consist of interest only due monthly with all principal and remaining interest due on demand. The rate at December 31, 2020 was 4.25%. The line of credit is due on demand and the balance outstanding as of December 31, 2020 and 2019 was $375,000 and $700,000, respectively.

NOTE 5 – NOTES PAYABLE

Note payable to finance company to provide short-term financing, payable $5,962 weekly including interest at 10.14% through April 2020. Secured by all Company assets and the personal

	Year Ended December 31, 2020	2019
Note payable to finance company to provide short-term financing, payable $5,962 weekly including interest at 10.14% through April 2020. Secured by all Company assets and the personal guarantee of one of the members of the Company.	$ —	$ 124,134
Note payable to members, payable on demand, no stated interest rate	—	50,000
Note payable for the Paycheck Protection Program received through the Small Business Administration (SBA) to support payroll and other qualified expenses. The funds are expected to be forgiven during the year ended December 31, 2021.	307,300	—
Economic Injury Disaster Loan from the Small Business Administration, payable $2,437 monthly, including interest at 3.75% through September 2049. Payments begin April 2021, but still accrue interest from the date of receipt in April 2020.	509,900	—
Subtotal	817,200	174,134
Less: current portion of long-term debt	245,435	174,134
Long-term debt, net of current portion	$ 571,765	$ —

The approximate amounts of notes payable coming due during the years following December 31, 2020 are as follows:

2021	$	245,435
2022		79,246
2023		10,962
2024		11,380
2025		11,814
2026 and thereafter		458,363
Total	$	817,200

Interest expense for the years ended December 31, 2020 and 2019 amount to $44,958 and $92,070, respectively.

NOTE 6 – LEASES

The Company leases its facilities from an unrelated third party in Boca Raton, Florida under an operating lease effective August 1, 2017 through July 31, 2020. The minimum base rent under the lease terms is $4,080 per month rent plus taxes, expenses, and utilities. The agreement has been extended through July 31, 2021 with a monthly base rent of $2,828. Total rent expense for the years ended December 31, 2020 and 2019 amounted to $92,876 and $100,244, respectively.

Future approximate minimum lease payments of the non-cancelable operating lease are as follows:

2021	$	19,796

NOTE 7 – RISKS AND UNCERTAINTIES

Risks inherent in this highly competitive industry include, but are not limited to, product obsolescence, patent or proprietary right infringement.

COVID 19

The COVID-19 pandemic has created significant worldwide uncertainty, volatility and economic disruption. The extent to which COVID-19 will adversely impact our business, financial condition and results of operations is dependent upon numerous factors, many of which are highly uncertain, rapidly changing and uncontrollable. These factors include, but are not limited to: (i) the duration and scope of the pandemic; (ii) governmental, business and individual actions that have been and continue to be taken in response to the pandemic, including travel restrictions, quarantines, social distancing, work-from-home and shelter-in-place orders and shut-downs; (iii) the impact on U.S. and global economies and the timing and rate of economic recovery; (iv) potential adverse effects on the financial markets and access to capital; (v) potential goodwill or other impairment charges; (vi) increased cybersecurity risks as a result of pervasive remote working conditions; and (vii) our ability to effectively carry out our operations due to any adverse impacts on the health and safety of our employees and their families.

Vendors, such as Flagship, that provide essential services or products, including logistics and technology support are deemed to be essential businesses. As a result of the pandemic, all employees, including the Company's specialized technical staff, are working remotely or in a virtual environment. The Company always maintains the ability for team members to work virtual and the Company will continue to stay virtual, until the State and or the Federal government indicate the environment is safe to return to work. The significant increase in remote working, particularly for an extended period of time, could exacerbate certain risks to the Company's business, including an increased risk of cybersecurity events and improper dissemination of personal or confidential information, though the Company does not believe these circumstances have, or will, materially adversely impact its internal controls or financial reporting systems. If the COVID-19 pandemic should worsen, the Company may experience disruptions to its business including, but not limited to equipment, workforce, or to its business relationships with other third parties.

NOTE 7 – RISKS AND UNCERTAINTIES - Continued

The extent to which COVID-19 impacts the Company's operations or those of its third-party partners will depend on future developments, which are highly uncertain and cannot be predicted with confidence, including the duration of the outbreak, new information that may emerge concerning the severity of COVID-19 and the actions to contain COVID-19 or treat its impact, among others. Any such disruptions or losses we incur could have a material adverse effect on the Company's financial results and our ability to conduct business as expected.

NOTE 8 – SUBSEQUENT EVENTS

The Company has evaluated events and transactions through April 12, 2021, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements.

Exhibit 99.2

UNAUDITED PRO FORMA FINANCIAL STATEMENTS OF DATA STORAGE CORPORATION.

References to “Data Storage”, the “Company”, “we”, “us” and “our” mean Data Storage Corporation and its consolidated subsidiaries, unless the context otherwise requires.

On May 31, 2021, Data Storage Corporation (the “Company”) completed the merger (the “Merger”) contemplated by that certain Agreement and Plan of Merger (the “Merger Agreement”) with Data Storage FL, LLC, a Florida limited liability company and the Company’s wholly-owned subsidiary (the “Merger Sub”), Flagship Solutions, LLC (“Flagship”), a Florida limited liability company, and the owners (collectively, the “Equityholders”) of all of the issued and outstanding limited liability company membership interests in Flagship (collectively, the “Equity Interests”), pursuant to which the Company acquired Flagship through the merger of Merger Sub with and into Flagship (the “Closing”), with Flagship being the surviving company in the Merger and becoming as a result the Company’s wholly-owned subsidiary.

Pursuant to the Merger, all of the Equity Interests that were issued and outstanding on May 31, 2021 immediately prior to the effectiveness of the filing of the Articles of Merger by Flagship and Merger Sub with the Secretary of State of the State of Florida, were converted into the right to receive an aggregate amount equal to $11,099,343, consisting of $6,149,343, paid in cash, and up to $4,950,000, payable in shares of the Company’s common stock, subject to reduction by the amount by which the valuation of Flagship (the “Flagship Valuation”), as calculated based on Flagship’s unaudited pro forma 2018 financial statements and audited 2019 and 2020 financial statements (the “2020 Audit”), is less than $10,500,000. Within fifteen (15) days after completion of the audit of Flagship’s financial statements for its 2019, 2020 and 2021 fiscal years (the “2021 Audit”), we will pay the Equityholders up to $4,950,000, payable in shares of the Company’s common stock, the number of shares to be based on the amount by which the Flagship Valuation, as calculated based on the 2021 Audit, exceeds $5,550,000, subject to a cap of $4,950,000. The cash merger consideration paid by us to the Equityholders at Closing reflects adjustments made, on a dollar-for-dollar basis, for certain excluded liabilities assumed by us at Closing and for the amount by which Flagship’s estimated net working capital at Closing was more than the target working capital amount specified in the Merger Agreement.

The following unaudited pro forma condensed combined financial statements, which are referred to as the unaudited pro forma financial statements, have been prepared to assist in the analysis of financial effects of the Merger. The unaudited pro forma combined condensed statements of operations, which are referred to as the unaudited pro forma statements of operations, combine the historical consolidated statements of operations of Data Storage and Flagship, giving effect to the Merger, as if it had been completed on the first day of the period. The unaudited pro forma condensed combined statements of operations for the three months ended March 31, 2021 and for the year ended December 31, 2020 were derived from the condensed consolidated financial statements of Data Storage for the year ended December 31, 2020, and the condensed financial statements of Flagship for the three months ended March 31, 2021 and for the year ended December 31, 2020. The unaudited pro forma condensed combined balance sheet, which is known as the unaudited pro forma balance sheet, combines the historical balance sheets of Data Storage and Flagship as of March 31, 2021 and December 31, 2020, giving effect to the Merger, as if it had been completed on the first day of the period presented. The historical financial statements of Flagship have been adjusted to reflect certain reclassification and other conforming adjustments in order to align to Data Storage condensed financial statement presentation.

Assumptions and estimates underlying the adjustments to the unaudited pro forma financial statements, which are referred to as the pro forma adjustments, are described in the accompanying notes. The historical consolidated financial statements have been adjusted in the unaudited pro forma financial statements to give effect to pro forma events that are directly attributable to the (1) Merger; (2) reverse stock split; and (3) this public offering. The unaudited pro forma financial statements have been presented for illustrative purposes only and are not necessarily indicative of the operating results and financial position that would have been achieved had the Merger and other transactions occurred on the dates indicated. Further, the unaudited pro forma financial statements do not purport to project the future operating results or financial position of the combined company following the Merger. The unaudited pro forma financial statements include the assets and liabilities of Flagship adjusted for Data Storage's historical cost basis. The final purchase price allocation may be materially different than that reflected in the pro forma purchase price allocation presented herein.

The unaudited pro forma financial statements, although helpful in illustrating the financial characteristics of the combined company under one set of assumptions, do not reflect the benefits of expected synergies or cost savings (or associated synergies or costs to achieve such savings), opportunities to earn additional revenue, or other factors that may result as a consequence of the Merger and, accordingly, do not attempt to predict or suggest future results. Further, the unaudited pro forma financial statements do not reflect (i) any other acquisition subsequent to the balance sheet date presented or (ii) the effect of any regulatory actions that may impact the results of the combined partnership following the Merger.

The unaudited pro forma financial statements have been developed from and should be read in conjunction with:

- the accompanying notes to the unaudited pro forma financial statements;
- the historical consolidated financial statements of Data Storage Corporation's for the three months ended March 31, 2021 and for the year ended December 31, 2020 filed as a part of the registration of which this prospectus forms a part; and
- the historical financial statements of Flagship for the three months ended March 31, 2021 and for the year ended December 31, 2020 filed as an exhibit to the registration statement of which this prospectus forms a part.

DATA STORAGE CORPORATION AND SUBSIDIARIES
PRO FORMA CONSOLIDATED BALANCE SHEETS
MARCH 31, 2021
(Unaudited)

	Data Storage Corporation And Subsidiaries	Flagship Solutions	Adjustments	Consolidated Balance
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 634,312	$ 93,023	$ 2,148,595(1)(3)	$ 2,875,930
Accounts receivable (less allowance for doubtful accounts of $30,000 in 2020 and 2019)	724,683	3,202,830	—	3,927,513
Prepaid expenses and other current assets	529,490	522,698	—	1,052,188
Total Current Assets	1,888,485	3,818,551	2,148,595	7,855,631
Property and Equipment:				
Property and equipment	8,152,661	31,188	(25,748)(1)	8,158,101
Less—Accumulated depreciation	(5,762,511)	(25,748)	25,748(1)	(5,762,511)
Net Property and Equipment	2,390,150	5,440	—	2,395,590
Other Assets:				
Goodwill	3,015,700	—	—	3,015,700
Intangibles yet to be allocated	—	—	10,156,578(1)	10,156,578
Operating lease right-of-use assets	220,419	—	—	220,419
Other assets	49,654	22,500	—	72,154
Intangible assets, net	407,435	33,553	—	440,988
Total Other Assets	3,693,208	56,053	10,156,578	13,905,839
Total Assets	$ 7,971,843	$ 3,880,044	$ 12,305,173	$ 24,157,060

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current Liabilities:				
Accounts payable and accrued expenses	$ 1,538,231	$ 2,559,503	$ —	$ 4,097,734
Contingent consideration	—	—	4,950,000(1)	4,950,000
Dividend payable	1,154,556	—	(1,154,556)(3)	—
Deferred revenue	402,404	70,476	—	472,880
Line of credit	24	700,000	(700,000)(1)	24
Finance leases payable	171,099	—	—	171,099
Finance leases payable related party	1,102,488	—	—	1,102,488
Operating lease liabilities short term	105,319	—	—	105,319
Note payable	455,200	300,405	—	755,605
Total Current Liabilities	4,929,321	3,630,384	3,095,444	11,655,149
Note payable long term	26,777	516,795	(509,900)(1)	33,672
Operating lease liabilities long term	125,391	—	—	125,391
Finance leases payable, long term	208,035	—	—	208,035
Finance leases payable related party, long term	757,733	—	—	757,733
Total Long Term Liabilities	1,117,936	516,795	(509,900)	1,124,831
Total Liabilities	6,047,257	4,147,179	2,585,544	12,779,980
Stockholders' Equity:				
Preferred stock,	1,402	—	(1,402)(3)	—
Common stock	3,213	—	1,644(3)	4,857
Additional paid in capital	17,787,956	—	9,452,252(3)	27,240,208
Accumulated deficit	(15,771,521)	(267,135)	267,135(1)	(15,771,521)
Total Data Storage Corp Stockholders' Equity	2,021,050	(267,135)	9,719,629	11,473,544
Non-controlling interest in consolidated subsidiary	(96,464)	—	—	(96,464)
Total Stockholder's Equity	1,924,586	(267,135)	9,719,629	11,377,080
Total Liabilities and Stockholders' Equity	$ 7,971,843	$ 3,880,044	$ 12,305,173	$ 24,157,060

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

DATA STORAGE CORPORATION AND SUBSIDIARIES
PRO FORMA CONSOLIDATED STATEMENTS OF OPERATIONS
Three Months Ended March 31, 2021
(Unaudited)

	Data Storage Corporation And Subsidiaries	Flagship Solutions	Adjustments	Consolidated Balance
Sales	$ 2,574,691	$ 3,911,081	$ —	$ 6,485,772
Cost of sales	1,420,899	3,315,273	—	4,736,172
Gross Profit	1,153,792	595,808	—	1,749,600
Selling, general and administrative	1,118,407	626,205	—	1,744,612
Income (loss) from Operations	35,385	(30,397)	—	4,988
Other Income (Expense)				
Interest income	2	—	—	2
Interest expense	(35,047)	(7,927)	7,927(1)	(35,047)
Gain on contingent liability	—	—	—	—
Other income	—	—	—	—
Total Other Income (Expense)	(35,045)	(7,927)	7,927	(35,045)
Income (loss) before provision for income taxes	340	(38,324)	7,927	(30,057)
Provision for income taxes	—	—	—	
Net Income	340	(38,324)	7,927	(30,057)
Non-controlling interest in consolidated subsidiary	1,759	—	—	—
Net Income attributable to Data Storage Corp	2,099	(38,324)	7,927	(30,057)
Preferred Stock Dividends	(38,883)	—	38,883(3)	—
Net Income (Loss) Attributable to Common Stockholders	$ (36,784)	$ (38,324)	$ 46,810	$ (30,057)
Earnings (Loss) per Share – Basic				$ (0.01)
Earnings (Loss) per Share – Diluted				$ (0.01)
Weighted Average Number of Shares - Basic				$ 4,857,291
Weighted Average Number of Shares - Diluted				$ 4,857,291

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

DATA STORAGE CORPORATION AND SUBSIDIARIES
PRO FORMA CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2020
(Unaudited)

	Data Storage Corporation And Subsidiaries	Flagship Solutions	Adjustments	Consolidated Balance
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 893,598	$ 100,292	$ 2,187,477(1)(3)	$ 3,181,367
Accounts receivable (less allowance for doubtful accounts of $30,000 in 2020 and 2019)	554,587	1,670,012	—	2,224,599
Prepaid expenses and other current assets	239,472	13,773	—	253,245
Total Current Assets	1,687,657	1,784,077	2,187,477	5,659,211
Property and Equipment:				
Property and equipment	7,845,423	31,189	(25,068)(1)	7,851,544
Less—Accumulated depreciation	(5,543,822)	(25,068)	25,068(1)	(5,543,822)
Net Property and Equipment	2,301,601	6,121	—	2,307,722
Other Assets:				
Goodwill	3,015,700	—	—	3,015,700
Intangibles yet to be allocated	—	—	10,443,254(1)	10,443,254
Operating lease right-of-use assets	241,911	—	—	241,911
Other assets	49,310	22,500	—	71,810
Intangible assets, net	455,935	34,379	—	490,314
Total Other Assets	3,762,856	56,879	10,443,254	14,262,989
Total Assets	$ 7,752,114	$ 1,847,077	$ 12,630,731	$ 22,229,922

LIABILITIES AND STOCKHOLDERS' DEFICIT				
Current Liabilities:				
Accounts payable and accrued expenses	$ 979,552	$ 666,368	$ —	$ 1,645,920
Contingent consideration	—	—	4,950,000(1)	4,950,000
Dividend payable	1,115,674	—	(1,115,674)(3)	—
Deferred revenue	461,893	217,320	—	679,213
Line of credit	24	375,000	(375,000)(1)	24
Finance leases payable	168,139	—	—	168,139
Finance leases payable related party	1,149,403	—	—	1,149,403
Operating lease liabilities short term	104,549	—	—	104,549
Note payable	374,871	245,435	—	620,306
Total Current Liabilities	4,354,105	1,504,123	3,459,326	9,317,554
Note payable long term	107,106	571,765	(509,900)(1)	168,971
Operating lease liabilities long term	147,525	—	—	147,525
Finance leases payable, long term	247,677	—	—	247,677
Finance leases payable related party, long term	974,743	—	—	974,743
Total Long Term Liabilities	1,477,051	571,765	(509,900)	1,538,916
Total Liabilities	5,831,156	2,075,888	2,949,426	10,856,470
Stockholders' Equity:				
Preferred stock,	1,402	—	(1,402)(3)	—
Common stock	128,539	—	(123,682)(3)	4,857
Additional paid in capital	17,620,459	—	9,577,578(3)	27,198,037
Accumulated deficit	(15,734,737)	(228,811)	228,811(1)	(15,734,737)
Total Data Storage Corp Stockholders' Equity	2,015,663	(228,811)	9,681,305	11,468,157
Non-controlling interest in consolidated subsidiary	(94,705)	—	—	(94,705)
Total Stockholder's Equity	1,920,958	(228,811)	9,681,305	11,373,452
Total Liabilities and Stockholders' Equity	$ 7,752,114	$ 1,847,077	$ 12,630,731	$ 22,229,922

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

DATA STORAGE CORPORATION AND SUBSIDIARIES
PRO FORMA CONSOLIDATED STATEMENTS OF OPERATIONS
December 31, 2020
(Unaudited)

	Data Storage Corporation And Subsidiaries	Flagship Solutions	Adjustments	Consolidated Balance
Sales	$ 9,320,933	$ 8,851,260	$ —	$ 18,172,193
Cost of sales	5,425,205	6,469,914	—	11,895,119
Gross Profit	3,895,728	2,381,346	—	6,277,074
Selling, general and administrative	3,896,791	2,300,547	—	6,197,338
Income (loss) from Operations	(1,063)	80,799	—	79,736
Other Income (Expense)				
Interest income	24	—	—	24
Interest expense	(175,602)	(44,958)	44,958(1)	(175,602)
Gain on contingent liability	350,000	—	—	350,000
Other income	—	—	—	—
Total Other Income (Expense)	174,422	(44,958)	44,958	174,422
Income (loss) before provision for income taxes	173,359	35,841	44,958	254,158
Provision for income taxes	—	—	—	
Net Income	173,359	35,841	44,958	254,158
Non-controlling interest in consolidated subsidiary	26,657	—	—	—
Net Income attributable to Data Storage Corp	200,016	35,841	44,958	254,158
Preferred Stock Dividends	(144,677)	—	144,677(3)	—
Net Income (Loss) Attributable to Common Stockholders	$ 55,339	$ 35,841	$ 189,635	$ 254,158
Earnings (Loss) per Share – Basic				$ 0.05
Earnings (Loss) per Share – Diluted				$ 0.06
Weighted Average Number of Shares - Basic				7,270,156
Weighted Average Number of Shares - Diluted				6,216,413

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

DATA STORAGE CORPORATION AND SUBSIDIARIES
NOTES TO PROFORMA FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRO FORMA PRESENTATION

The unaudited pro forma consolidated balance sheet has been derived from the historical financial statements of Data Storage after giving effect to the acquisition of Flagship.

Historical financial information has been adjusted in the pro forma balance sheet and statements of operations to give effect to pro forma events that are: directly attributable to the (1) Merger; (2) reverse stock split; and (3) the public offering.

Under the terms of the Merger Agreement and in connection with the Merger, Data Storage acquired all assets of Flagship. As a result of the transaction, (i) Data Storage is the sole shareholder of Flagship, and Flagship has become a wholly-owned subsidiary of the Company; (ii) Flagship's financial statements has been consolidated with the Consolidated Financial Statements of Data Storage (collectively, the "Merger Transaction").

The unaudited pro forma consolidated statements do not necessarily represent the actual results that would have been achieved had the companies been combined at the beginning of the year, nor may they be indicative of future operations. These unaudited pro forma financial statements should be read in conjunction with the companies' respective historical financial statements and notes included thereto.

2. MERGER CONSIDERATION STRUCTURE

The following details the merger with Flagship:

- $6,149,343 was paid in cash to Equityholders at Closing, subject to: (1) reduction for Excluded Liabilities, and (2) adjustment in connection with a NWC adjustment pursuant to Section 1.9(a) (i.e., Closing NWC is more or less than Target NWC). Any Excluded Liabilities or downward NWC adjustment at Closing would reduce the $5,550,000 Closing cash payment on a dollar-for-dollar basis. The Closing cash payment is not subject to adjustment based on the 2020 Audit-related Company Valuation.
- Upon completion of the 2021 Audit, the Equityholders will receive additional shares of our common stock equal to the excess of: (1) the Company Valuation calculated based on 2021 Audit (up to a maximum of $10,500,000), over (2) the $5,550,000 base Closing cash payment (ignoring for this purpose any reduction relating to Excluded Liabilities or adjustment relating to a NWC adjustment).

Consideration from DSC		
Cash	$	6,149,343
Contingent consideration		4,950,000
Total Consideration		11,099,343
Allocation of purchase price		
Cash		212,068
Accounts receivable		1,389,263
Prepaid expenses		127,574
Equipment		4,986
Security deposit		22,500
Website and Digital Assets		33,002
Intangibles yet to be allocated		10,200,340
Accounts payable and accrued expenses		(514,355)
Note payable		(307,300)
Deferred Revenue		(68,736)
Total allocation of purchase price	$	11,099,343

3. PRO FORMA ADJUSTMENTS

The adjustments included in the pro forma balance sheet are as follows:

(1) To give effect to the Merger of Flagship that excludes Flagship's liabilities per the purchase agreement such as accounts payable and accrued expenses, line of credit, and note payable.

(2) To record the 1-for 40 reverse stock split.

(3) To record this offering where as the Company will be selling 1,600,000 shares of common stock for net proceeds of approximately $9,453,294, conversion of 1,401,786 shares of preferred stock into 43,806 shares of common stock, and cash payments for dividends payable and fees related to the equity raise.