

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

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended **June 30, 2023**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-35384

**DATA STORAGE CORPORATION**

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of  
incorporation or organization)

**98-0530147**

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

**48 South Service Road  
Melville, NY**

(Address of principal executive offices)

**11747**

(Zip Code)

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

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 share | DTSTW             | The Nasdaq Capital Market                 |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

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

Large Accelerated Filer

Non-Accelerated Filer

Accelerated Filer

Smaller Reporting Company

Emerging Growth Company

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

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

The number of shares of the registrant's common stock, \$0.001 par value per share, outstanding as of August 11, 2023, was 6,834,627.

**DATA STORAGE CORPORATION**  
**FORM 10-Q**  
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**DATA STORAGE CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

|   | <u>June 30, 2023</u> | <u>December 31, 2022</u> |
|---|----------------------|--------------------------|
|   | <u>(Unaudited)</u>   |                          |
| <b>ASSETS</b>   |                      |                          |
| Current Assets:   |                      |                          |
| Cash and cash equivalents   | \$ 1,437,039         | \$ 2,286,722             |
| Accounts receivable (less allowance for credit losses of \$39,622 and \$27,250 in 2023 and 2022, respectively)                                      | 2,221,602            | 3,502,836                |
| Marketable securities   | 9,230,254            | 9,010,968                |
| Prepaid expenses and other current assets   | 736,386              | 584,666                  |
| <b>Total Current Assets</b>   | <u>13,625,281</u>    | <u>15,385,192</u>        |
| Property and Equipment:   |                      |                          |
| Property and equipment  | 7,458,932            | 7,168,488                |
| Less—Accumulated depreciation   | (4,531,811)          | (4,956,698)              |
| <b>Net Property and Equipment</b>   | <u>2,927,121</u>     | <u>2,211,790</u>         |
| Other Assets:   |                      |                          |
| Goodwill  | 4,238,671            | 4,238,671                |
| Operating lease right-of-use assets   | 124,475              | 226,501                  |
| Other assets  | 48,436               | 48,437                   |
| Intangible assets, net  | 1,836,378            | 1,975,644                |
| <b>Total Other Assets</b>   | <u>6,247,960</u>     | <u>6,489,253</u>         |
| <b>Total Assets</b>   | <u>\$ 22,800,362</u> | <u>\$ 24,086,235</u>     |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |                      |                          |
| Current Liabilities:  |                      |                          |
| Accounts payable and accrued expenses   | \$ 2,088,477         | \$ 3,207,577             |
| Deferred revenue  | 314,066              | 281,060                  |
| Finance leases payable  | 279,461              | 359,868                  |
| Finance leases payable related party  | 368,433              | 520,623                  |
| Operating lease liabilities short term  | 117,627              | 160,657                  |
| <b>Total Current Liabilities</b>  | <u>3,168,064</u>     | <u>4,529,785</u>         |
| Operating lease liabilities   | 9,226                | 71,772                   |
| Finance leases payable  | 125,167              | 281,242                  |
| Finance leases payable related party  | 100,426              | 256,241                  |
| <b>Total Long-Term Liabilities</b>  | <u>234,819</u>       | <u>609,255</u>           |
| <b>Total Liabilities</b>  | <u>3,402,883</u>     | <u>5,139,040</u>         |
| Commitments and contingencies (Note 6)  |                      |                          |
| Stockholders' Equity:   |                      |                          |
| Preferred stock, Series A par value \$.001; 10,000,000 shares authorized; 0 and 0 shares issued and outstanding in 2023 and 2022, respectively      | —                    | —                        |
| Common stock, par value \$.001; 250,000,000 shares authorized; 6,847,127 and 6,822,127 shares issued and outstanding in 2023 and 2022, respectively | 6,847                | 6,822                    |
| Additional paid in capital  | 39,191,598           | 38,982,440               |
| Accumulated deficit   | (19,609,889)         | (19,887,378)             |
| <b>Total Data Storage Corp Stockholders' Equity</b>   | <u>19,588,556</u>    | <u>19,101,884</u>        |
| Non-controlling interest in consolidated subsidiary   | (191,077)            | (154,689)                |
| <b>Total Stockholder's Equity</b>   | <u>19,397,479</u>    | <u>18,947,195</u>        |
| <b>Total Liabilities and Stockholders' Equity</b>   | <u>\$ 22,800,362</u> | <u>\$ 24,086,235</u>     |

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

DATA STORAGE CORPORATION AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

|   | <b>Three Months Ended June 30,</b> |                       | <b>Six Months Ended June 30,</b> |                     |
|---|------------------------------------|-----------------------|----------------------------------|---------------------|
|   | <b>2023</b>                        | <b>2022</b>           | <b>2023</b>                      | <b>2022</b>         |
| Sales   | \$ 5,904,391                       | \$ 4,827,749          | \$ 12,784,114                    | \$ 13,484,948       |
| Cost of sales   | <u>3,325,637</u>                   | <u>3,269,187</u>      | <u>8,115,615</u>                 | <u>9,280,476</u>    |
| Gross Profit  | 2,578,754                          | 1,558,562             | 4,668,499                        | 4,204,472           |
| Selling, general and administrative                         | <u>2,472,010</u>                   | <u>2,594,204</u>      | <u>4,602,769</u>                 | <u>5,054,070</u>    |
| Income (Loss) from Operations                               | <u>106,744</u>                     | <u>(1,035,642)</u>    | <u>65,730</u>                    | <u>(849,598)</u>    |
| Other Income (Expense)                                      |                                    |                       |                                  |                     |
| Interest income (expense), net                              | 99,294                             | (113,664)             | 175,371                          | (156,324)           |
| Total Other Income (Expense)                                | <u>99,294</u>                      | <u>(113,664)</u>      | <u>175,371</u>                   | <u>(156,324)</u>    |
| Income (Loss) before provision for income taxes             | 206,038                            | (1,149,306)           | 241,101                          | (1,005,922)         |
| Benefit from income taxes                                   | <u>—</u>                           | <u>—</u>              | <u>—</u>                         | <u>—</u>            |
| Net Income (Loss)   | 206,038                            | (1,149,306)           | 241,101                          | (1,005,922)         |
| Loss in Non-controlling interest of consolidated subsidiary | <u>20,785</u>                      | <u>10,207</u>         | <u>36,388</u>                    | <u>22,833</u>       |
| Net Income (Loss) attributable to Data Storage Corp         | <u>\$ 226,823</u>                  | <u>\$ (1,139,099)</u> | <u>\$ 277,489</u>                | <u>\$ (983,089)</u> |
| Earnings per Share – Basic                                  | <u>\$ 0.03</u>                     | <u>\$ (0.17)</u>      | <u>\$ 0.04</u>                   | <u>\$ (0.15)</u>    |
| Earnings per Share – Diluted                                | <u>\$ 0.03</u>                     | <u>\$ (0.17)</u>      | <u>\$ 0.04</u>                   | <u>\$ (0.15)</u>    |
| Weighted Average Number of Shares - Basic                   | <u>6,834,627</u>                   | <u>6,758,238</u>      | <u>6,828,446</u>                 | <u>6,727,108</u>    |
| Weighted Average Number of Shares - Diluted                 | <u>7,022,275</u>                   | <u>6,758,238</u>      | <u>7,016,094</u>                 | <u>6,727,108</u>    |

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

**DATA STORAGE CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**FOR THE THREE MONTHS ENDED JUNE 30, 2023 AND 2022**

|                              | Preferred Stock |             | Common Stock     |                 | Additional<br>Paid-in<br>Capital | Accumulated<br>Deficit | Non-<br>Controlling<br>Interest | Total<br>Stockholders'<br>Equity |
|------------------------------|-----------------|-------------|------------------|-----------------|----------------------------------|------------------------|---------------------------------|----------------------------------|
|                              | Shares          | Amount      | Shares           | Amount          |                                  |                        |                                 |                                  |
| <b>Balance April 1, 2022</b> | —               | \$ —        | 6,697,127        | \$ 6,697        | \$ 38,314,591                    | \$ (15,374,566)        | \$ (115,254)                    | \$ 22,831,468                    |
| Stock-based compensation     | —               | —           | 125,000          | 125             | 485,262                          | —                      | —                               | 485,387                          |
| Net Income (Loss)            | —               | —           | —                | —               | —                                | (1,139,099)            | (10,207)                        | (1,149,306)                      |
| <b>Balance June 30, 2022</b> | <u>—</u>        | <u>\$ —</u> | <u>6,822,127</u> | <u>\$ 6,822</u> | <u>\$ 38,799,853</u>             | <u>\$ (16,513,665)</u> | <u>\$ (125,461)</u>             | <u>\$ 22,167,549</u>             |
| <b>Balance April 1, 2023</b> | —               | \$ —        | 6,834,627        | \$ 6,835        | \$ 39,068,896                    | \$ (19,836,712)        | \$ (170,292)                    | 19,068,727                       |
| Stock-based compensation     | —               | —           | 12,500           | 12              | 122,702                          | —                      | —                               | 122,714                          |
| Net Income (Loss)            | —               | —           | —                | —               | —                                | 226,823                | (20,785)                        | 206,038                          |
| <b>Balance June 30, 2023</b> | <u>—</u>        | <u>\$ —</u> | <u>6,847,127</u> | <u>\$ 6,847</u> | <u>\$ 39,191,598</u>             | <u>\$ (19,609,889)</u> | <u>\$ (191,077)</u>             | <u>\$ 19,397,479</u>             |

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

**DATA STORAGE CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2023 AND 2022**  
(Unaudited)

|                                | <u>Preferred Stock</u> |               | <u>Common Stock</u> |                 | <u>Additional<br/>Paid-in<br/>Capital</u> | <u>Accumulated<br/>Deficit</u> | <u>Non-<br/>Controlling<br/>Interest</u> | <u>Total<br/>Stockholders'<br/>Equity</u> |
|--------------------------------|------------------------|---------------|---------------------|-----------------|---|--------------------------------|--|---|
|                                | <u>Shares</u>          | <u>Amount</u> | <u>Shares</u>       | <u>Amount</u>   |   |                                |  |   |
| <b>Balance January 1, 2022</b> | —                      | \$ —          | 6,693,793           | \$ 6,694        | \$ 38,241,155                             | \$ (15,530,576)                | \$ (102,628)                             | \$ 22,614,645                             |
| Stock options exercise         | —                      | —             | 3,334               | 3               | 6,931                                     | —                              | —  | 6,934                                     |
| Stock-based compensation       | —                      | —             | 125,000             | 125             | 551,767                                   | —                              | —  | 551,892                                   |
| Net Income (Loss)              | —                      | —             | —                   | —               | —   | (983,089)                      | (22,833)                                 | (1,005,922)                               |
| <b>Balance June 30, 2022</b>   | <u>—</u>               | <u>\$ —</u>   | <u>6,822,127</u>    | <u>\$ 6,822</u> | <u>\$ 38,799,853</u>                      | <u>\$ (16,513,665)</u>         | <u>\$ (125,461)</u>                      | <u>\$ 22,167,549</u>                      |
| <b>Balance January 1, 2023</b> | —                      | \$ —          | 6,822,127           | \$ 6,822        | \$ 38,982,440                             | \$ (19,887,378)                | \$ (154,689)                             | \$ 18,947,195                             |
| Stock-based compensation       | —                      | —             | 25,000              | 25              | 209,158                                   | —                              | —  | 209,183                                   |
| Net Income (Loss)              | —                      | —             | —                   | —               | —   | 277,489                        | (36,388)                                 | 241,101                                   |
| <b>Balance June 30, 2023</b>   | <u>—</u>               | <u>\$ —</u>   | <u>6,847,127</u>    | <u>\$ 6,847</u> | <u>\$ 39,191,598</u>                      | <u>\$ (19,609,889)</u>         | <u>\$ (191,077)</u>                      | <u>\$ 19,397,479</u>                      |

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

**DATA STORAGE CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

|  | Six Months Ended June 30, |                      |
|--|---------------------------|----------------------|
|  | 2023                      | 2022                 |
| Cash Flows from Operating Activities:  |                           |                      |
| Net Income (Loss)  | \$ 241,101                | \$ (1,005,922)       |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |                           |                      |
| Depreciation and amortization  | 589,660                   | 640,589              |
| Stock based compensation   | 209,183                   | 551,892              |
| Changes in Assets and Liabilities:   |                           |                      |
| Accounts receivable  | 1,281,234                 | (100,490)            |
| Other assets   | —                         | (211)                |
| Prepaid expenses and other current assets  | (151,720)                 | (438,444)            |
| Right of use asset   | 102,026                   | 96,573               |
| Accounts payable and accrued expenses  | (1,119,100)               | 261,052              |
| Deferred revenue   | 33,006                    | (117,377)            |
| Operating lease liability  | (105,576)                 | (95,744)             |
| Net Cash Provided by (Used in) Operating Activities  | <u>1,079,814</u>          | <u>(208,082)</u>     |
| Cash Flows from Investing Activities:  |                           |                      |
| Capital expenditures   | (1,165,724)               | (51,220)             |
| Purchase of marketable securities  | (219,286)                 | —                    |
| Net Cash Used in Investing Activities  | <u>(1,385,010)</u>        | <u>(51,220)</u>      |
| Cash Flows from Financing Activities:  |                           |                      |
| Repayments of finance lease obligations related party  | (308,005)                 | (487,403)            |
| Repayments of finance lease obligations  | (236,482)                 | (181,597)            |
| Cash received for the exercised of options   | —                         | 6,935                |
| Net Cash Used in Financing Activities  | <u>(544,487)</u>          | <u>(662,065)</u>     |
| Decrease in Cash and Cash Equivalents  | (849,683)                 | (921,367)            |
| Cash and Cash Equivalents, Beginning of Period   | <u>2,286,722</u>          | <u>12,135,803</u>    |
| Cash and Cash Equivalents, End of Period   | <u>\$ 1,437,039</u>       | <u>\$ 11,214,436</u> |
| Supplemental Disclosures:  |                           |                      |
| Cash paid for interest   | <u>\$ 41,062</u>          | <u>\$ 76,874</u>     |
| Cash paid for income taxes   | <u>\$ —</u>               | <u>\$ —</u>          |
| Non-cash investing and financing activities:   |                           |                      |
| Assets acquired by finance lease   | <u>\$ —</u>               | <u>\$ 1,094,051</u>  |

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

**DATA STORAGE CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2023**  
**(Unaudited)**

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

Data Storage Corporation (“DSC” or the “Company”) headquartered in Melville, NY, provides cloud based solutions and IT services to businesses within the healthcare, banking and finance, distribution services, manufacturing, construction, education, and government industries. DSC derives its revenues from subscription managed cloud services and solutions, IT managed services, equipment, software and maintenance, and onboarding implementation. DSC maintains cloud based infrastructure and storage equipment in seven technical centers in New York, Massachusetts, Texas, Florida, North Carolina and Canada.

On May 31, 2021, the Company completed an acquisition of Flagship Solutions, LLC (“Flagship”) (a Florida limited liability company) and its wholly-owned subsidiary, Data Storage FL, LLC. Flagship is a provider of Hybrid Cloud solutions, IT managed services and equipment.

On January 27, 2022, We formed Information Technology Acquisition Corporation a special purpose acquisition company for the purpose of entering into a merger, capital stock exchange, asset acquisition, stock purchase, recapitalization, reorganization or other similar business combination with one or more businesses or entities.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the Company’s financial statements for interim periods in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”). The information included in this quarterly report on Form 10-Q should be read in conjunction with the audited consolidated financial statements and the accompanying notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2022 (“2022 Form 10-K”). The Company’s accounting policies are described in the “Notes to Consolidated Financial Statements” in the 2022 Form 10-K and are updated, as necessary, in this Form 10-Q. The December 31, 2022 condensed consolidated balance sheet data presented for comparative purposes was derived from the audited financial statements but does not include all disclosures required by U.S. GAAP. The results of operations for the three and six months ended June 30, 2023, are not necessarily indicative of the operating results for the full year or for any other subsequent interim period.

**Note 2 – Summary of Significant Accounting Policies**

*Principles of Consolidation*

The Consolidated Financial statements include the accounts of the Company and its wholly-owned subsidiaries, (i) CloudFirst Technologies Corporation, a Delaware corporation, (ii) Data Storage FL, LLC, a Florida limited liability company, (iii) Flagship Solutions, LLC, a Florida limited liability company, (iv) Information Technology Acquisition Corporation, a Delaware Corporation, and (v) its majority-owned subsidiary, Nexxis Inc, a Nevada corporation. All inter-company transactions and balances have been eliminated in consolidation.

*Use of Estimates*

The preparation of financial statements in conformity with US GAAP 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 fair value measurement disclosures are grouped into three levels based on valuation factors:

- Level 1 – quoted prices in active markets for identical investments
- Level 2 – other significant observable inputs (including quoted prices for similar investments and market corroborated inputs)
- Level 3 – significant unobservable inputs (including our own assumptions in determining the fair value of investments)

The Company’s Level 1 assets/liabilities include cash, accounts receivable, marketable securities, accounts payable, prepaid, and other current assets. Management believes the estimated fair value of these accounts at June 30, 2023 approximate their carrying value as reflected in the balance sheets due to the short-term nature of these instruments.



The Company's Level 2 assets/liabilities include certain of the Company's operating lease right-of-use assets. Their carrying value approximates 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.

The Company's Level 3 assets/liabilities include goodwill and intangible assets. Inputs to determine fair value are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques, including discounted cash flow models. Unobservable inputs used in the models are significant to the fair values of the assets and liabilities.

Our marketable equity securities are publicly traded stocks measured at fair value using quoted prices for identical assets in active markets and classified as Level 1 within the fair value hierarchy. Marketable equity securities as of June 30, 2023 and December 31, 2022 are \$9,230,254 and \$9,010,968 respectively.

*Recently adopted accounting standards:*

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The FASB subsequently issued amendments to ASU 2016-13, which have the same effective date and transition date of January 1, 2023. These standards replace the existing incurred loss impairment model with an expected credit loss model and require a financial asset measure at amortized cost to be presented at the net amount expected to be collected. The Company determined that this change does not have a material impact to the financial statements or financial statement disclosures.

*Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis*

Certain assets and liabilities are measured at fair value on a nonrecurring basis. Assets and liabilities recognized or disclosed at fair value on the consolidated financial statements on a nonrecurring basis include items such as property, plant and equipment, operating lease right-of-use assets, goodwill and other intangible assets. These assets are measured using Level 3 inputs, if determined to be impaired.

*Cash and Cash Equivalents*

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.

*Investments*

The Company invests in equity securities and reports them in accordance with ASU 2016-01. Equity securities are reported at fair value with unrealized gains and losses, net of the related tax effect, reflected as a gain or loss on the statement of operations. Dividends and interest are recognized when earned.

The following table sets forth a summary of the changes in equity investments, at cost that are measured at fair value on a non-recurring basis:

|                                | <b>For the Six Months Ended June<br/>30, 2023</b> |
|--------------------------------|---|
|                                | <b>Total</b>                                      |
| As of January 1, 2023          | \$ 9,010,968                                      |
| Purchase of equity investments | 103,423   |
| As of March 31, 2023           | 9,114,391   |
| Purchase of equity investments | 115,863   |
| As of June 30, 2023            | <u>\$ 9,230,254</u>                               |

*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.

As of June 30, 2023, DSC had one customer with an accounts receivable balance representing 52% of total accounts receivable. As of December 31, 2022, the Company had two customers with an accounts receivable balance representing 23% and 14% of total accounts receivable.

For the three months ended June 30, 2023, the Company had two customers that accounted for 19% and 10% of revenue. For the three months ended June 30, 2022, the Company had two customers that accounted for 12% and 11% of revenue. For the six months ended June 30, 2023, the Company had one customer that accounted for 18% of revenue. For the six months ended June 30, 2022, the Company had two customers that accounted for 24% and 17% of revenue.

### *Accounts Receivable/Allowance for Credit Losses*

The Company sells its services to customers on an open credit basis. Accounts receivables are uncollateralized, non-interest-bearing customer obligations. Accounts receivables are typically due within 30 days. The allowance for credit losses reflects the estimated accounts receivable that will not be collected due to credit losses. 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.

### *Property and Equipment*

Property and equipment are 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 five to seven 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.

### *Goodwill and Other Intangibles*

The Company tests goodwill and other intangible assets for impairment on at least an annual basis. Impairment exists if the carrying value of a reporting unit exceeds its estimated fair value. To determine the fair value of goodwill and 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.

The Company tests goodwill for impairment on an annual basis on December 31, or more frequently if events occur or circumstances change indicating that the fair value of the goodwill may be below its carrying amount. The Company has four reporting units. The Company uses an income-based approach to determine the fair value of the reporting units. This approach uses a discounted cash flow methodology and the ability of our reporting units to generate cash flows as measures of fair value of our reporting units.

### *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) *Cloud Infrastructure and Disaster Recovery Revenue*

Cloud Infrastructure provides clients with the ability to migrate their on-premises computing and digital storage to DSC's enterprise-level technical compute and digital storage assets located in Tier 3 data centers. Data Storage Corporation owns the assets and provides a turnkey solution whereby achieving reliable and cost-effective, multi-tenant IBM Power compute, x86/intel, flash digital storage, while providing disaster recovery and cyber security while eliminating client capital expenditures. The client pays a monthly fee and can increase capacity as required.

Clients can subscribe to an array of disaster recovery solutions. Product offerings provided directly from DSC are High Availability, Data Vaulting and retention solutions, including standby servers which allows clients to centralize and streamline their mission-critical digital information and technical environment while ensuring business continuity if they experience a cyber-attack or natural disaster Client's data is vaulted, at two data centers with the maintenance of retention schedules for corporate governance and regulations all to meet their back to work objective in a disaster.

2) *Managed Services*

These services are performed at the inception and continue through the term of the agreement. The Company provides professional assistance to its clients during the implementation 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 supplementing the client's staff.

The Company also derives both one-time and subscription-based revenue, from providing support, management and renewal of software, hardware, third party maintenance contracts and third-party cloud services to clients. The managed services include help desk, remote access, operating system and software patch management, annual recovery tests and manufacturer support for equipment and on-going monitoring of client system performance.

3) *Equipment and Software*

The Company provides equipment and software and actively participates in collaboration with IBM and other equipment manufacturers and software companies to provide innovative business solutions to clients.

4) Nexxis Voice over Internet and Direct Internet Access

The Company provides VoIP, Internet access and data transport services to ensure businesses are fully connected to the internet from any location, remote and on premise. The Company provides Hosted VoIP solutions with equipment options for IP phones and internet speeds of up to 10Gb delivered over fiber optics.

**Disaggregation of revenue**

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

**For the Three Months  
Ended June 30, 2023**

|  | United States       | International    | Total               |
|--|---------------------|------------------|---------------------|
| Infrastructure & Disaster Recovery/Cloud Service | \$ 2,227,838        | \$ 51,584        | \$ 2,279,422        |
| Equipment and Software                           | 2,379,822           | —                | 2,379,822           |
| Managed Services                                 | 930,579             | 34,927           | 965,506             |
| Nexxis VoIP Services                             | 240,712             | —                | 240,712             |
| Other  | 38,929              | —                | 38,929              |
| <b>Total Revenue</b>                             | <b>\$ 5,817,880</b> | <b>\$ 86,511</b> | <b>\$ 5,904,391</b> |

**For the Three Months  
Ended June 30, 2022**

|  | United States       | International    | Total               |
|--|---------------------|------------------|---------------------|
| Infrastructure & Disaster Recovery/Cloud Service | \$ 1,974,980        | \$ 38,826        | \$ 2,013,806        |
| Equipment and Software                           | 1,913,208           | —                | 1,913,208           |
| Managed Services                                 | 641,666             | 40,731           | 682,397             |
| Nexxis VoIP Services                             | 188,926             | —                | 188,926             |
| Other  | 29,412              | —                | 29,412              |
| <b>Total Revenue</b>                             | <b>\$ 4,748,192</b> | <b>\$ 79,557</b> | <b>\$ 4,827,749</b> |

**For the Three Months  
Ended June 30,**

|   | 2023                | 2022                |
|---|---------------------|---------------------|
| Timing of revenue recognition               |                     |                     |
| Products transferred at a point in time     | \$ 2,418,750        | \$ 1,093,916        |
| Products and services transferred over time | 3,485,641           | 3,733,833           |
| <b>Total Revenue</b>                        | <b>\$ 5,904,391</b> | <b>\$ 4,827,749</b> |

**For the Six Months  
Ended June 30, 2023**

|  | United States        | International     | Total                |
|--|----------------------|-------------------|----------------------|
| Infrastructure & Disaster Recovery/Cloud Service | \$ 4,365,155         | \$ 103,908        | \$ 4,469,063         |
| Equipment and Software                           | 5,902,381            | —                 | 5,902,381            |
| Managed Services                                 | 1,789,239            | 70,034            | 1,859,273            |
| Nexxis VoIP Services                             | 472,484              | —                 | 472,484              |
| Other  | 80,913               | —                 | 80,913               |
| <b>Total Revenue</b>                             | <b>\$ 12,610,172</b> | <b>\$ 173,942</b> | <b>\$ 12,784,114</b> |

**For the Six Months  
Ended June 30, 2022**

|  | United States        | International     | Total                |
|--|----------------------|-------------------|----------------------|
| Infrastructure & Disaster Recovery/Cloud Service | \$ 3,863,367         | \$ 76,289         | \$ 3,939,656         |
| Equipment and Software                           | 7,633,059            | —                 | 7,633,059            |
| Managed Services                                 | 1,390,777            | 74,038            | 1,464,815            |
| Nexxis VoIP Services                             | 383,860              | —                 | 383,860              |
| Other  | 63,558               | —                 | 63,558               |
| <b>Total Revenue</b>                             | <b>\$ 13,334,621</b> | <b>\$ 150,327</b> | <b>\$ 13,484,948</b> |

**For the Six Months  
Ended June 30,**

|   | <b>2023</b>          | <b>2022</b>          |
|---|----------------------|----------------------|
| Timing of revenue recognition               |                      |                      |
| Products transferred at a point in time     | \$ 5,983,294         | \$ 6,383,582         |
| Products and services transferred over time | 6,800,820            | 7,101,366            |
| <b>Total Revenue</b>                        | <b>\$ 12,784,114</b> | <b>\$ 13,484,948</b> |

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) Data Vaulting: Subscription-based cloud service that encrypts and transfers data to a secure Tier 3 data center and further replicates the data to a second Tier 3 DSC technical center where it remains encrypted. Ensuring client retention schedules for corporate compliance and disaster recovery. Provides for twenty-four (24) hour or less recovery time and utilizes advanced data reduction, deduplication technology to shorten back-up and restore time.
- 2) High Availability: A managed cloud subscription-based service that provides cost-effective mirroring software replication technology and provides one (1) hour or less recovery time for a client to be back in business.
- 3) Cloud Infrastructure: Subscription-based cloud service provides for “capacity on-demand” for IBM Power and X86 Intel server systems.
- 4) Internet: Subscription-based service, offering continuous internet connection combined with FailSAFE which provides disaster recovery for both a clients’ voice and data environments.
- 5) Support and Maintenance: Subscription based service offers support for clients on their servers, firewalls, desktops or software. Services are provided 24x7x365 to our clients.
- 6) Implementation / Set-Up Fees: Onboarding and set-up for cloud infrastructure and disaster recovery as well as Cyber Security.
- 7) Equipment sales: Sale of servers and data storage equipment to the client.
- 9) License: Granting SSL certificates and licenses.

Disaster Recovery and Business Continuity Solutions

Subscription services allow clients to access data or receive services for a predetermined period of time. As the client obtains access at a point in time and 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 satisfied ratably over the contract term. As the performance obligation is satisfied evenly across the term of the contract, revenue is recognized on a straight-line basis over the contract term.

Initial Set-Up Fees

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

### Equipment Sales

The obligation for the equipment sales is such that the control of the product transfer is 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, the performance obligation is considered satisfied at a point in time 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

Performance obligations as it relates to licensing means that the control of the product transfers, either at a point in time or over time, depending on the nature of the license. The revenue standard identifies two types of licenses of IP: (i) a right to access IP; and (ii) 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 recognizes revenue at the point in time the license is granted and/or renewed for a new period.

### Payment Terms

The typical terms of subscription contracts range from 12 to 36 months, with auto-renew options extending the contract for an additional term. The Company invoices clients one month in advance for its services, in addition to any contractual data overages or for additional services. Equipment, software and managed services are typically invoiced on net 30 day terms and are non subscription based.

### Warranties

The Company offers guaranteed service levels and service guarantees on some of its contracts. These warranties are not sold separately and are accounted as "assurance warranties".

### Significant Judgement

In the instance 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 market data for similar services as well as the Company's historical pricing of each individual service. The sum of each performance obligation is calculated to determine the aggregate price for the individual services. The proportion of each individual service to the aggregate price is determined. The ratio is applied to the total contract price in order to allocate the transaction price to each performance obligation.

### Impairment of Long-Lived Assets

The Company reviews its 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 un-discounted future cash flows.

### Advertising Costs

The Company expenses the costs associated with advertising as they are incurred. The Company incurred \$226,142 and \$316,062 for advertising costs for the three months ended June 30, 2023, and 2022, respectively. The Company incurred \$416,020 and \$405,793 for advertising costs for the six months ended June 30, 2023 and 2022, respectively.

### Stock-Based Compensation

The Company follows the requirements of FASB ASC 718-10-10, *Share-Based Payments* with regards to stock-based compensation issued to employees and non-employees. The Company 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 Company has a relatively low forfeiture rate of stock-based compensation and forfeitures are recognized as they occur.

The valuation methodology used to determine the fair value of the options issued during the period is the Black-Scholes option-pricing model. The Black-Scholes model requires the use of a number of assumptions including the volatility of the stock price, the average risk-free interest rate, and the weighted average expected life of the options. Risk-free interest rates are calculated based on continuously compounded risk-free rates for the appropriate term. The dividend yield is assumed to be zero as the Company has never paid or declared any cash dividends on its Common Stock and does not intend to pay dividends on its Common Stock in the foreseeable future. The expected forfeiture rate is estimated based on management's best assessment.

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. The Company's calculation of estimated volatility is based on historical stock prices over a period equal to the expected life of the awards.

*Net Income (Loss) Per Common Share*

Basic income per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing net income 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 three and six months ended June 30, 2023, and 2022:

|  | For the Three Months Ended<br>June 30, |                | For the Six Months Ended<br>June 30, |              |
|--|--|----------------|--------------------------------------|--------------|
|  | 2023                                   | 2022           | 2023                                 | 2022         |
| Net Income (Loss) Available to Common Shareholders | \$ 226,823                             | \$ (1,139,099) | \$ 277,489                           | \$ (983,089) |
| Weighted average number of common shares - basic   | 6,834,627                              | 6,758,238      | 6,828,446                            | 6,727,108    |
| Dilutive securities                                |  |                |                                      |              |
| Options  | 185,981                                | —              | 185,981                              | —            |
| Warrants   | 1,667                                  | —              | 1,667                                | —            |
| Weighted average number of common shares - diluted | 7,022,275                              | 6,758,238      | 7,016,094                            | 6,727,108    |
| Earnings (Loss) per share, basic                   | \$ 0.03                                | \$ (0.17)      | \$ 0.04                              | \$ (0.15)    |
| Earnings (Loss) per share, diluted                 | \$ 0.03                                | \$ (0.17)      | \$ 0.04                              | \$ (0.15)    |

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

|          | Three Months Ended June 30, |           | Six Months Ended June 30, |           |
|----------|-----------------------------|-----------|---------------------------|-----------|
|          | 2023                        | 2022      | 2023                      | 2022      |
| Options  | 393,540                     | 306,243   | 393,540                   | 306,243   |
| Warrants | 2,415,860                   | 2,419,193 | 2,415,860                 | 2,419,193 |
|          | 2,809,400                   | 2,725,436 | 2,809,400                 | 2,725,436 |

**Note 3 - Prepaids and other current assets**

Prepaids and other current assets consist of the following:

|  | June 30,<br>2023 | December 31,<br>2022 |
|--|------------------|----------------------|
| Prepaid Marketing & Promotion          | \$ 18,391        | \$ 4,465             |
| Prepaid Subscriptions and Licenses     | 581,489          | 439,088              |
| Prepaid Maintenance                    | 39,835           | 45,216               |
| Prepaid Insurance                      | 59,076           | 54,564               |
| Other                                  | 37,595           | 41,333               |
| Total prepaid and other current assets | \$ 736,386       | \$ 584,666           |

**Note 4- Property and Equipment**

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

|                                | June 30,<br>2023 | December 31,<br>2022 |
|--------------------------------|------------------|----------------------|
| Storage equipment              | \$ 60,288        | \$ 60,288            |
| Furniture and fixtures         | 20,860           | 20,860               |
| Leasehold improvements         | 20,983           | 20,983               |
| Computer hardware and software | 112,916          | 93,062               |
| Data center equipment          | 7,243,885        | 6,973,295            |
|                                | 7,458,932        | 7,168,488            |
| Less: Accumulated depreciation | (4,531,811)      | (4,956,698)          |
| Net property and equipment     | \$ 2,927,121     | \$ 2,211,790         |

Depreciation expense for the three months ended June 30, 2023, and 2022 was \$231,415 and \$219,520, respectively. Depreciation expense for the six months ended June 30, 2023, and 2022 was \$450,394 and \$501,128, respectively.

#### Note 5 - Goodwill and Intangible Assets

Goodwill and intangible assets consisted of the following:

|  | Estimated life in<br>years | Gross amount        | December 31, 2022,<br>Accumulated<br>Amortization | Net                 |
|--|----------------------------|---------------------|---|---------------------|
| <b>Intangible assets not subject to amortization</b>       |                            |                     |   |                     |
| Goodwill   | Indefinite                 | \$ 4,238,671        | \$ —  | \$ 4,238,671        |
| Trademarks   | Indefinite                 | 514,268             | —   | 514,268             |
| <b>Total intangible assets not subject to amortization</b> |                            | <b>4,752,939</b>    | <b>—</b>  | <b>4,752,939</b>    |
| <b>Intangible assets subject to amortization</b>           |                            |                     |   |                     |
| Customer lists   | 7                          | 2,614,099           | 1,167,075   | 1,447,024           |
| ABC acquired contracts                                     | 5                          | 310,000             | 310,000   | —                   |
| SIAS acquired contracts                                    | 5                          | 660,000             | 660,000   | —                   |
| Non-compete agreements                                     | 4                          | 272,147             | 272,147   | —                   |
| Website and Digital Assets                                 | 3                          | 33,002              | 18,650  | 14,352              |
| <b>Total intangible assets subject to amortization</b>     |                            | <b>3,889,248</b>    | <b>2,427,872</b>                                  | <b>1,461,376</b>    |
| <b>Total Goodwill and Intangible Assets</b>                |                            | <b>\$ 8,642,187</b> | <b>\$ 2,427,872</b>                               | <b>\$ 6,214,315</b> |

|  | Estimated life in<br>years | Gross amount        | June 30, 2023,<br>Accumulated<br>Amortization | Net                 |
|--|----------------------------|---------------------|---|---------------------|
| <b>Intangible assets not subject to amortization</b>       |                            |                     |   |                     |
| Goodwill   | Indefinite                 | \$ 4,238,671        | \$ —  | \$ 4,238,671        |
| Trademarks   | Indefinite                 | 514,268             | —   | 514,268             |
| <b>Total intangible assets not subject to amortization</b> |                            | <b>4,752,939</b>    | <b>—</b>                                      | <b>4,752,939</b>    |
| <b>Intangible assets subject to amortization</b>           |                            |                     |   |                     |
| Customer lists   | 7                          | 2,614,099           | 1,300,647                                     | 1,313,452           |
| ABC acquired contracts                                     | 5                          | 310,000             | 310,000                                       | —                   |
| SIAS acquired contracts                                    | 5                          | 660,000             | 660,000                                       | —                   |
| Non-compete agreements                                     | 4                          | 272,147             | 272,147                                       | —                   |
| Website and digital assets                                 | 3                          | 33,002              | 24,344  | 8,658               |
| <b>Total intangible assets subject to amortization</b>     |                            | <b>3,889,248</b>    | <b>2,567,138</b>                              | <b>1,322,110</b>    |
| <b>Total Goodwill and Intangible Assets</b>                |                            | <b>\$ 8,642,187</b> | <b>\$ 2,567,138</b>                           | <b>\$ 6,075,049</b> |

Scheduled amortization over the next five years are as follows:

| <b>Twelve months ending June 30,</b> |  |                     |
|--------------------------------------|--|---------------------|
| 2024                                 |  | \$ 275,800          |
| 2025                                 |  | 267,143             |
| 2026                                 |  | 267,143             |
| 2027                                 |  | 267,143             |
| 2028                                 |  | 133,571             |
| Thereafter                           |  | 111,310             |
| <b>Total</b>                         |  | <b>\$ 1,322,110</b> |

Amortization expense for the three months ended June 30, 2023, and 2022 was \$69,535 and \$139,461 respectively. Amortization expense for the six months ended June 30, 2023, and 2022 was \$139,266 and \$139,461 respectively.

## **Note 6-Leases**

### *Operating Leases*

The Company currently maintains two leases for office space located in Melville, NY.

The first lease for office space in Melville, NY commenced on September 1, 2019. The term of this lease is for three years and eleven months and runs co-terminus with our existing lease in the same building. The base annual rent is \$11,856 payable in equal monthly installments of \$988.

A second 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 five years and three months at \$86,268 per year with an escalation of 3% per year and expires on July 31, 2023.

On July 31, 2021, the Company signed a three-year lease for approximately 2,880 square feet of office space at 980 North Federal Highway, Boca Raton, FL. The commencement date of the lease was August 2, 2021. The monthly rent is approximately \$4,965.

The Company leases cages and racks for technical space in Tier 3 data centers in New York, Massachusetts, North Carolina and Florida. These leases are month to month. The monthly rent is approximately \$39,000. The Company also leases technical space in Dallas, TX. The lease term is thirteen months and monthly payments are \$1,403. The lease term expires on July 31, 2023.

On January 1, 2022, the Company entered into a lease agreement for office space with WeWork in Austin, TX. The lease term is six months and requires monthly payments of \$1,470 and expired on June 30, 2022. Subsequent to June 30, 2022, the Company is on a \$3,073 month-to-month lease with WeWork in Austin, TX.

Subsequent to June 30, 2022, and for the six months ended June 30, 2023, the Company leased the space for \$3,073 a month under a month-to-month lease.

### *Finance Lease Obligations*

On June 1, 2020, the Company entered into a lease agreement with a finance company to lease technical equipment. The lease obligation is payable in monthly installments of \$5,008. The lease carries an interest rate of 7% and is a three-year lease. The term of the lease ended June 1, 2023.

On June 29, 2020, the Company entered into a lease agreement for technical equipment with a finance company. The lease obligation is payable in monthly installments of \$5,050. The lease carried an interest rate of 7% and is a three-year lease. The term of the lease ended June 29, 2023.

On July 31, 2020, the Company entered into a lease agreement for technical equipment with a finance company. The lease obligation is payable in monthly installments of \$4,524. The lease carried an interest rate of 7% and is a three-year lease. The term of the lease ends July 31, 2023.

On November 1, 2021, the Company entered into a lease agreement with a finance company for technical equipment. The lease obligation is payable in monthly installments of \$3,152. The lease carries an interest rate of 6% and is a three-year lease. The term of the lease ends November 1, 2024.

On January 1, 2022, the Company entered into a lease agreement with a finance company for technical equipment. The lease obligation is payable in monthly installments of \$17,718. The lease carries an interest rate of 5% and is a three-year lease. The term of the lease ends February 1, 2025.

On January 1, 2022, the Company entered into a technical equipment lease with a finance company. The lease obligation is payable in monthly installments of \$2,037. The lease carries an interest rate of 6% and is a three-year lease. The term of the lease ends January 1, 2025.

### *Finance Lease Obligations – Related Party*

On January 1, 2019, the Company entered into a lease agreement with Systems Trading. This lease obligation is payable to Systems Trading with monthly installments of \$29,592. The lease carries an interest rate of 6.75% and is a five-year lease. The term of the lease ends December 31, 2023.



On January 1, 2020, the Company entered into a lease agreement with Systems Trading to lease equipment. The lease obligation is payable to Systems Trading with monthly installments of \$10,534. The lease carried an interest rate of 6% and is a three-year lease. The term of the lease ended December 31, 2022.

On March 4, 2021, the Company entered into a lease agreement with Systems Trading effective April 1, 2021. This lease obligation is payable to Systems Trading with monthly installments of \$1,567 and expires on June 30, 2024. The lease carries an interest rate of 8%.

On January 1, 2022, the Company entered into a lease agreement with Systems Trading effective January 1, 2022. This lease obligation is payable to Systems Trading with monthly installments of \$7,145 and expires on February 1, 2025. The lease carries an interest rate of 8%.

On April 1, 2022, the Company entered into a lease agreement with Systems Trading effective May 1, 2022. This lease obligation is payable to Systems Trading with monthly installments of \$6,667 and expires on January 1, 2025. The lease carries an interest rate of 8%.

The Company determines if an arrangement contains a lease at inception. Right of Use "ROU" assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. The Company's lease term includes options to extend the lease when it is reasonably certain that it will exercise that option. Leases with a term of 12 months or less are not recorded on the balance sheet, per the election of the practical expedient. ROU assets and liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. The Company recognizes lease expense for these leases on a straight-line basis over the lease term. The Company recognizes variable lease payments in the period in which the obligation for those payments is incurred. Variable lease payments that depend on an index or a rate are initially measured using the index or rate at the commencement date, otherwise variable lease payments are recognized in the period incurred. A discount rate of 5% was used in preparation of the ROU asset and operating liabilities.

The components of lease expense were as follows and included both related party and non-related finance leases combined:

|   | <b>Three Months Ended<br/>June 30, 2022</b> |
|---|---|
| <b>Finance leases:</b>  |   |
| Amortization of assets, included in depreciation and amortization expense | \$ 264,933                                  |
| Interest on lease liabilities, included in interest expense               | 16,199                                      |
| <b>Operating lease:</b>   |   |
| Amortization of assets, included in total operating expense               | 57,711                                      |
| Interest on lease liabilities, included in total operating expense        | 250   |
| <b>Total net lease cost</b>   | <b>\$ 339,093</b>                           |

|   | <b>Six Months Ended June 30, 2023</b> |
|---|---------------------------------------|
| <b>Finance leases:</b>  |                                       |
| Amortization of assets, included in depreciation and amortization expense | \$ 436,708                            |
| Interest on lease liabilities, included in interest expense               | 41,062                                |
| <b>Operating lease:</b>   |                                       |
| Amortization of assets, included in total operating expense               | 109,623                               |
| Interest on lease liabilities, included in total operating expense        | 2,706                                 |
| <b>Total net lease cost</b>   | <b>\$ 590,099</b>                     |

Supplemental balance sheet information related to leases was as follows:

|  |                   |
|--|-------------------|
| <b>Operating Leases:</b>                 |                   |
| Operating lease right-of-use asset       | \$ 124,475        |
| Current operating lease liabilities      | \$ 117,627        |
| Noncurrent operating lease liabilities   | 9,226             |
| <b>Total operating lease liabilities</b> | <b>\$ 126,853</b> |

|  | <b>As of June 30, 2023</b> |
|--|----------------------------|
| <b>Finance leases:</b>                       |                            |
| Property and equipment, at cost              | \$ 5,521,716               |
| Accumulated amortization                     | (3,959,520)                |
| Property and equipment, net                  | \$ 1,562,196               |
| <b>Current obligations of finance leases</b> |                            |
| Finance leases, net of current obligations   | \$ 225,593                 |
| Total finance lease liabilities              | \$ 873,487                 |

Supplemental cash flow and other information related to leases were as follows and included both related party and non-related finance leases combined:

|  | <b>Six Months Ended June 30, 2023</b> |
|--|---------------------------------------|
| <b>Cash paid for amounts included in the measurement of lease liabilities:</b> |                                       |
| Operating cash flows related to operating leases                               | \$ 105,576                            |
| Financing cash flows related to finance leases                                 | \$ 544,487                            |
| <b>Weighted average remaining lease term (in years):</b>                       |                                       |
| Operating leases   | 1.01                                  |
| Finance leases   | 2.80                                  |
| <b>Weighted average discount rate:</b>   |                                       |
| Operating leases   | 4%                                    |
| Finance leases   | 7%                                    |

Long-term obligations under the operating and finance leases at June 30, 2023, mature as follows and included both related party and non-related finance leases combined:

| <b>For the Twelve Months Ended June 30,</b> | <b>Operating Leases</b> | <b>Finance Leases</b> |
|---|-------------------------|-----------------------|
| 2023  | \$ 120,238              | \$ 649,356            |
| 2024  | 9,255                   | 263,826               |
| Total lease payments                        | 129,493                 | 913,182               |
| Less: Amounts representing interest         | (2,640)                 | (39,695)              |
| Total lease obligations                     | 126,853                 | 873,487               |
| Less: long-term obligations                 | (9,226)                 | (225,593)             |
| Total current                               | \$ 117,627              | \$ 647,894            |

As of June 30, 2023, the Company had no additional significant operating or finance leases that had not yet commenced. Rent expense under all operating leases for the three months ended June 30, 2023, and 2022 was \$74,695 and \$71,026, respectively. Rent expense under all operating leases for the six months ended June 30, 2023, and 2022 was \$135,267 and \$105,245, respectively.

#### Note 7 - Commitments and Contingencies

As part of the Flagship acquisition the Company acquired a licensing agreement for marketing related materials with a National Football League team. The Company has approximately \$1.3 million in payments over the next 5 years.

#### Note 8 – Stockholders’ (Deficit)

##### Capital Stock

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

##### Common Stock Options

On June 2, 2023 the Company registered an additional 700,000 shares of common stock under the 2021 Stock Incentive Plan.

A summary of the Company’s options activity and related information follows:

|  | Number of<br>Shares<br>Under<br>Options | Range of<br>Option Price<br>Per Share | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Contractual<br>Life |
|--|---|---------------------------------------|--|--|
| Options Outstanding at January 1, 2023 | 301,391                                 | \$ 15.76-1.48                         | \$ 3.46                                  | 7.45                                       |
| Options Granted                        | 307,343                                 | 1.96-1.52                             | 1.83                                     | 10.00                                      |
| Exercised                              | —                                       | —                                     | —  | —  |
| Expired/Cancelled                      | (29,213)                                | 5.80-2.16                             | 3.76                                     | —  |
| Options Outstanding at June 30, 2023   | 579,521                                 | \$ 14.00-1.48                         | \$ 2.58                                  | 8.30                                       |
| Options Exercisable at June 30, 2023   | 236,584                                 | \$ 14.00-1.48                         | \$ 3.24                                  | 6.76                                       |

Share-based compensation expense for options totaling \$75,270 and \$75,320 was recognized in our results for the three months ended June 30, 2023, and 2022, respectively. Share-based compensation expense for options totaling \$129,704 and \$141,825 was recognized in our results for the six months ended June 30, 2023, and 2022, respectively.

The valuation methodology used to determine the fair value of the options issued during the year was the Black-Scholes option-pricing model. The Black-Scholes model requires the use of a number of assumptions including the 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.

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 calculation of estimated volatility is based on historical stock prices of the Company over a period equal to the expected life of the awards.

As of June 30, 2023, there was \$682,611 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 2.6 years.

The weighted average fair value of options granted, and the assumptions used in the Black-Scholes model during the three months ended June 30, 2023, and 2022, are set forth in the table below.

|  | 2023        | 2022          |
|--|-------------|---------------|
| Weighted average fair value of options granted | \$ 1.69     | \$ 4.45       |
| Risk-free interest rate                        | 3.41%-4.01% | 1.63% – 2.32% |
| Volatility                                     | 195%-199%   | 204% – 214%   |
| Expected life (years)                          | 10 years    | 10 years      |
| Dividend yield                                 | \$ —%       | \$ —%         |

*Share-based awards, restricted stock award (“RSAs”)*

On March 1, 2023, the Company granted certain employees an aggregate of 73,530 RSA's. Compensation as a group amount to \$130,883. The shares vest one third each year for three years after issuance.

On March 28, 2023, the Company granted certain employees an aggregate of 44,942 RSA's. Compensation as a group amount to \$72,357. The shares vest one third each year for three years after issuance.

On March 31, 2023, the Board resolved that the Company shall issue to Board members an aggregate of 12,500 RSA's. Compensation as a group amount of \$22,750. The shares vest one year after issuance.

On April 10, 2023, the Company granted certain employees an aggregate of 50,000 RSA's. Compensation as a group amount to \$90,000. The shares vest one third each year for three years after issuance.

On June 30, 2023, the Board resolved that the Company shall pay issue to Board members and aggregate of 12,500 RSAs each member of the Board compensation as a group amount of \$29,125. The shares vest one year after issuance.

A summary of the activity related to RSU's for the three months ended June 30, 2023, is presented below:

| <b>Restricted Stock Units (RSU's)</b> | <b>Total Shares</b> | <b>Grant Date Fair Value</b> |
|---------------------------------------|---------------------|------------------------------|
| RSU's non-vested at January 1, 2023   | 50,000              | \$ 1.48-3.23                 |
| RSU's granted                         | 193,472             | \$ 1.61-2.33                 |
| RSU's vested                          | (25,000)            | \$ 2.45-3.23                 |
| RSU's forfeited                       | —                   | \$ —                         |
| RSU's non-vested June 30, 2023        | 218,472             | \$ 1.48-2.33                 |

Stock-based compensation for RSU's has been recorded in the consolidated statements of operations and totaled \$47,624 and \$10,066 for the three months ended June 30, 2023 and 2022 respectively. Stock-based compensation for RSU's has been recorded in the consolidated statements of operations and totaled \$80,051 and \$10,066 for the three months ended June 30, 2023 and 2022 respectively.

**Note 9 – 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 10 – Related Party Transactions**

*Nexxis Capital LLC*

Charles M. Piluso (Chairman and CEO) and Harold Schwartz (President) collectively own 100% of Nexxis Capital LLC (“Nexxis Capital”). Nexxis Capital was formed to purchase equipment and provide leases to Nexxis Inc.'s customers. The Company received funds of \$15,681 and \$14,036 during the three months ended June 30, 2023, and 2022 respectively.

## Note 11 – Segment Information

We operate in three reportable segments: Nexxis, Flagship Solutions Group, and CloudFirst. Our segments were determined based on our internal organizational structure, the manner in which our operations are managed, and the criteria used by our Chief Operating Decision Maker (CODM) to evaluate performance, which is generally the segment's operating income or losses.

| <b>Operations of:</b>               | <b>Products and services provided:</b>  |
|-------------------------------------|---|
| CloudFirst Technologies Corporation | CloudFirst, provides services from CloudFirst technological assets deployed in six Tier 3 data centers throughout the USA and Canada. This technology has been developed by CloudFirst. Clients are invoiced for cloud infrastructure and disaster recovery on the CloudFirst platform. Services provided to clients are provided on a subscription basis on long term contracts.               |
| Flagship Solutions, LLC             | Flagship Solutions Group (FSG) is a managed service provider. FSG invoices clients primarily for services that assist the clients' technical teams. FSG has few technical assets and utilizes the assets or software of other cloud providers, whereby managing 3rd party infrastructure. FSG has maintains technical assets on one data center. FSG periodically sells equipment and software. |
| Nexxis Inc.                         | NEXXIS is a single-source solution provider that delivers fully-managed cloud-based voice services, data transport, internet access, and SD-WAN solutions focused on business continuity for today's modern business environment.   |

The following tables present certain financial information related to our reportable segments and Corporate:

As of June 30, 2023

|  | CloudFirst<br>Technologies | Flagship Solutions<br>LLC | Nexxis Inc.      | Corporate            | Total                |
|--|----------------------------|---------------------------|------------------|----------------------|----------------------|
| Accounts receivable                        | \$ 559,958                 | \$ 1,602,958              | \$ 52,686        | \$ 6,000             | \$ 2,221,602         |
| Prepaid expenses and other current assets  | 466,801                    | 126,839                   | 24,254           | 118,492              | 736,386              |
| Net Property and Equipment                 | 2,897,408                  | 23,879                    | 3,331            | 2,503                | 2,927,121            |
| Intangible assets, net                     | 279,268                    | 1,557,110                 | —                | —                    | 1,836,378            |
| Goodwill                                   | 3,015,700                  | 1,222,971                 | —                | —                    | 4,238,671            |
| Operating lease right-of-use assets        | 8,612                      | 115,863                   | —                | —                    | 124,475              |
| All other assets                           | —                          | —                         | —                | 10,715,729           | 10,715,729           |
| <b>Total Assets</b>                        | <b>\$ 7,227,747</b>        | <b>\$ 4,649,620</b>       | <b>\$ 80,271</b> | <b>\$ 10,842,724</b> | <b>\$ 22,800,362</b> |
| Accounts payable and accrued expenses      | \$ 1,202,846               | \$ 598,799                | \$ 53,527        | \$ 233,305           | \$ 2,088,477         |
| Deferred revenue                           | 151,437                    | 162,629                   | —                | —                    | 314,066              |
| Total Finance leases payable               | 404,628                    | —                         | —                | —                    | 404,628              |
| Total Finance leases payable related party | 468,859                    | —                         | —                | —                    | 468,859              |
| Total Operating lease liabilities          | 9,274                      | 117,579                   | —                | —                    | 126,853              |
| <b>Total Liabilities</b>                   | <b>\$ 2,237,044</b>        | <b>\$ 879,007</b>         | <b>\$ 53,527</b> | <b>\$ 233,305</b>    | <b>\$ 3,402,883</b>  |

As of December 31, 2022

|  | CloudFirst<br>Technologies | Flagship Solutions<br>LLC | Nexxis Inc.      | Corporate            | Total                |
|--|----------------------------|---------------------------|------------------|----------------------|----------------------|
| Accounts receivable                        | \$ 1,543,749               | \$ 1,924,184              | \$ 34,903        | \$ —                 | \$ 3,502,836         |
| Prepaid expenses and other current assets  | 285,306                    | 213,826                   | 16,799           | 68,735               | 584,666              |
| Net Property and Equipment                 | 2,192,085                  | 19,705                    | —                | —                    | 2,211,790            |
| Intangible assets, net                     | 279,268                    | 1,696,376                 | —                | —                    | 1,975,644            |
| Goodwill                                   | 3,015,700                  | 1,222,971                 | —                | —                    | 4,238,671            |
| Operating lease right-of-use assets        | 58,740                     | 167,761                   | —                | —                    | 226,501              |
| All other assets                           | —                          | —                         | —                | 11,346,127           | 11,346,127           |
| <b>Total Assets</b>                        | <b>\$ 7,374,848</b>        | <b>\$ 5,244,823</b>       | <b>\$ 51,702</b> | <b>\$ 11,414,862</b> | <b>\$ 24,086,235</b> |
| Accounts payable and accrued expenses      | \$ 1,069,278               | \$ 1,563,408              | \$ 40,091        | \$ 534,800           | \$ 3,207,577         |
| Deferred revenue                           | 115,335                    | 165,725                   | —                | —                    | 281,060              |
| Total Finance leases payable               | 641,110                    | —                         | —                | —                    | 641,110              |
| Total Finance leases payable related party | 776,864                    | —                         | —                | —                    | 776,864              |
| Total Operating lease liabilities          | 62,960                     | 169,469                   | —                | —                    | 232,429              |
| <b>Total Liabilities</b>                   | <b>\$ 2,665,547</b>        | <b>\$ 1,898,602</b>       | <b>\$ 40,091</b> | <b>\$ 534,800</b>    | <b>\$ 5,139,040</b>  |

For the Three Months Ended June 30, 2023

|   | CloudFirst<br>Technologies | Flagship Solutions<br>LLC | Nexxis Inc. | Corporate | Total        |
|---|----------------------------|---------------------------|-------------|-----------|--------------|
| Sales   | \$ 3,151,825               | \$ 2,487,485              | \$ 265,081  | \$ —      | \$ 5,904,391 |
| Cost of sales                                   | 1,627,281                  | 1,541,703                 | 156,653     | —         | 3,325,637    |
| Gross Profit                                    | 1,524,544                  | 945,782                   | 108,428     | —         | 2,578,754    |
| Selling, general and administrative             | 744,534                    | 644,178                   | 169,328     | 613,020   | 2,171,060    |
| Depreciation and amortization                   | 229,523                    | 71,052                    | 208         | 167       | 300,950      |
| Total operating expenses                        | 974,057                    | 715,230                   | 169,536     | 613,187   | 2,472,010    |
| Income (Loss) from Operations                   | 550,487                    | 230,552                   | (61,108)    | (613,187) | 106,744      |
| Interest expense, net                           | (16,570)                   | —                         | —           | 115,864   | 99,294       |
| Other expense                                   | —                          | —                         | —           | —         | —            |
| Total Other Income (Expense)                    | (16,570)                   | —                         | —           | 115,864   | 99,294       |
| Income (Loss) before provision for income taxes | 533,917                    | 230,552                   | (61,108)    | (497,323) | 206,038      |

For the Three Months Ended June 30, 2022

|   | CloudFirst<br>Technologies | Flagship Solutions<br>LLC | Nexxis Inc. | Corporate    | Total          |
|---|----------------------------|---------------------------|-------------|--------------|----------------|
| Sales   | \$ 2,822,367               | \$ 1,783,521              | \$ 221,861  | \$ —         | \$ 4,827,749   |
| Cost of sales                                   | 1,411,652                  | 1,717,243                 | 140,292     | —            | 3,269,187      |
| Gross Profit                                    | 1,410,715                  | 66,278                    | 81,569      | —            | 1,558,562      |
| Selling, general and administrative             | 679,868                    | 1,027,693                 | 88,749      | 507,278      | 2,303,588      |
| Depreciation and amortization                   | 219,925                    | 70,691                    | —           | —            | 290,616        |
| Total operating expenses                        | 899,793                    | 1,098,384                 | 88,749      | 507,278      | 2,594,204      |
| Income (Loss) from Operations                   | 510,922                    | (1,032,106)               | (7,180)     | (507,278)    | (1,035,642)    |
| Interest expense, net                           | (37,206)                   | (75,510)                  | —           | (948)        | (113,664)      |
| Loss on disposal of equipment                   | —                          | —                         | —           | —            | —              |
| Gain on forgiveness of debt                     | —                          | —                         | —           | —            | —              |
| All other expenses                              | —                          | —                         | —           | —            | —              |
| Total Other Income (Expense)                    | (37,206)                   | (75,510)                  | —           | (948)        | (113,664)      |
| Income (Loss) before provision for income taxes | \$ 473,716                 | \$ (1,107,616)            | \$ (7,180)  | \$ (508,226) | \$ (1,149,306) |

For the Six Months Ended June 30, 2023

|   | CloudFirst<br>Technologies | Flagship Solutions<br>LLC | Nexxis Inc. | Corporate    | Total         |
|---|----------------------------|---------------------------|-------------|--------------|---------------|
| Sales   | \$ 6,310,564               | \$ 5,943,673              | \$ 529,877  | \$ —         | \$ 12,784,114 |
| Cost of sales                                   | 3,332,926                  | 4,447,915                 | 334,774     | —            | 8,115,615     |
| Gross Profit                                    | 2,977,638                  | 1,495,758                 | 195,103     | —            | 4,668,499     |
| Selling, general and administrative             | 1,350,986                  | 1,184,505                 | 294,078     | 1,183,540    | 4,013,109     |
| Depreciation and amortization                   | 447,145                    | 141,955                   | 279.00      | 281          | 589,660       |
| Total operating expenses                        | 1,798,131                  | 1,326,460                 | 294,357     | 1,183,821    | 4,602,769     |
| Income (Loss) from Operations                   | 1,179,507                  | 169,298                   | (99,254)    | (1,183,821)  | 65,730        |
| Interest expense, net                           | (43,916)                   | —                         | —           | 219,287      | 175,371       |
| Total Other Income (Expense)                    | (43,916)                   | —                         | —           | 219,287      | 175,371       |
| Income (Loss) before provision for income taxes | \$ 1,135,591               | \$ 169,298                | \$ (99,254) | \$ (964,534) | \$ 241,101    |

For the Six Months Ended June 30, 2022

|   | CloudFirst<br>Technologies | Flagship Solutions<br>LLC | Nexxis Inc. | Corporate    | Total          |
|---|----------------------------|---------------------------|-------------|--------------|----------------|
| Sales   | \$ 5,224,420               | \$ 7,826,743              | \$ 433,785  | \$ —         | \$ 13,484,948  |
| Cost of sales                                   | 2,764,719                  | 6,235,589                 | 280,168     | —            | 9,280,476      |
| Gross Profit                                    | 2,459,701                  | 1,591,154                 | 153,617     | —            | 4,204,472      |
| Selling, general and administrative             | 1,156,349                  | 2,115,233                 | 185,948     | 955,951      | 4,413,481      |
| Depreciation and amortization                   | 499,763                    | 140,826                   | —           | —            | 640,589        |
| Total operating expenses                        | 1,656,112                  | 2,256,059                 | 185,948     | 955,951      | 5,054,070      |
| Income (Loss) from Operations                   | 803,589                    | (664,905)                 | (32,331)    | (955,951)    | (849,598)      |
| Interest expense, net                           | (78,929)                   | (75,558)                  | —           | (1,837)      | (156,324)      |
| Loss on disposal of equipment                   | —                          | —                         | —           | —            | —              |
| Gain on forgiveness of debt                     | —                          | —                         | —           | —            | —              |
| All other expenses                              | —                          | —                         | —           | —            | —              |
| Total Other Income (Expense)                    | (78,929)                   | (75,558)                  | —           | (1,837)      | (156,324)      |
| Income (Loss) before provision for income taxes | \$ 724,660                 | \$ (740,463)              | \$ (32,331) | \$ (957,788) | \$ (1,005,922) |

## ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited consolidated financial statements and notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q and with our audited financial statements and notes thereto for the year ended December 31, 2022, included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 filed on March 31, 2023 (the “Annual Report”) with the U.S. Securities and Exchange Commission (the “SEC”). This Quarterly Report on Form 10-Q contains forward-looking statements, including without limitation, statements related to our plans, strategies, objectives, expectations, intentions and adequacy of resources. Investors are cautioned that such forward-looking statements involve risks and uncertainties including without limitation the following: (i) our plans, strategies, objectives, expectations and intentions are subject to change at any time at our discretion; (ii) our plans and results of operations will be affected by our ability to manage growth; and (iii) other risks and uncertainties indicated from time to time in our filings with the Securities and Exchange Commission.

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

### The Industry and Opportunity

Data Storage Corporation provides managed technologies across multiple platforms. Our technical assets are in geographically diverse, Tier 3 compliant data centers throughout the USA and Canada.

Hybrid and Multi-Cloud have become mainstream technological offerings of the Cloud infrastructure managed services industry as companies have moved away from legacy, on-premises technology solutions. This approach has grown more complex, as companies utilize disparate technical environments, including on-premises equipment and software, multi-clouds interfacing with Software as a Service providers.

Cloud Managed Service Providers assist businesses in achieving their desired cyber security levels, technical cloud infrastructure and financial objectives while optimizing the value of these technologies ensuring business continuity, governance, and operational efficiencies.

One subset and a highly focused segment of ours is the Power server, manufactured by IBM. This niche cloud infrastructure subset has a multi-billion-dollar addressable market. The marketplace is global. This addressable marketplace today is not a focus for AWS, Google, or Microsoft. It is estimated that mid and enterprise businesses in USA and Canada are operating over one million virtual IBM Power servers, with few qualified cloud service providers to assist in migration of their infrastructure to the cloud. According to the most recent information received from IBM, the typical industries utilizing IBM Power servers are finance, retail, healthcare, government, and distribution organizations with only 15% utilizing some type of cloud service.

We, through our CloudFirst subsidiary, are a leader in providing cloud infrastructure to this niche marketplace along with disaster recovery and has provided these unique offerings for over 15 years.

We believe businesses are increasingly under pressure to improve the efficiency of their information and storage systems accelerating the migration from self-managed technical equipment and solutions to fully managed multi-cloud technologies to reduce cost, protect capital, ensure disaster recovery, protect the custom applications developed for these systems, and compete effectively. These trends create an opportunity for cloud technology service providers.

The Company’s market opportunity is derived from the demand for fully managed cloud and cybersecurity services across all major operating systems.

The Company operates through three subsidiaries:

CloudFirst’s addressable market in the niche addressable marketplace is approximately \$3.6 billion in annual recurring revenue, if only one virtual infrastructure partition was provided, where most mid and enterprise level organizations run multiple partitions on one server. This unit has technical assets deployed in six Tier 3 data centers, with technical support and a distribution channel.

Our Flagship subsidiary provides business continuity and infrastructure solutions combining on-premises equipment and software with its value-added managed services to mid and enterprise level business customers. Flagship maintains strong partner relationships with some of the largest IT manufacturers, such as the IBM Corporation in supplying the technology behind the highly technical designs built for business customers. Flagship’s vision is to expand its multi-cloud infrastructure solutions with more managed services, highlighted by its expanding Cyber Security offerings to capture more of the marketplace outside of the CloudFirst sales and marketing programs.



Our Nexxis subsidiary is a voice and data solution provider that utilizes major nationwide carriers and providers. The subsidiary provides a suite of communications services including Hosted VoIP, Internet Access, Data Transport, and SD-WAN. The complete voice and data solution combines elements of services into a fully managed solution that delivers high reliability and is engineered to further enhance the clients' business continuity. Nexxis' goal is to provide a higher level of technology with simplified management and deliver cost savings wherever possible.

According to Fortune Business Insights, the Cloud Managed Services industry in North America was \$16.3 billion in 2019 and has been growing at a rate of 13.8% CAGR bringing us to \$24 billion by the end of 2022. Disaster Recovery is projected to be a \$3.6 billion in the US by the end of 2022 which is 35% of the \$10.3 billion globally based on Grandview Research Disaster Recovery Solutions Market Size report. Cyber Security, specifically the MDR segment, is an established market recognized by buyers. Gartner observed a 35% growth in end users' inquiries on the topic in the last year. Gartner estimates that by 2025, the MDR market will reach \$2.15 billion in revenue, up from \$1.03 billion in 2021, for a compound annual growth rate (CAGR) of 20.2%. The Company's VOIP solutions fit well into this steadily growing segment which is expected to reach \$90 billion worldwide in 2022 with a CAGR of 3.1% with \$17 billion in the US according to Globe Newswire Market Analysis and Insights: Global VoIP Market.

## Company Overview

Data Storage Corporation is headquartered in Melville, New York. Our common stock and warrants are traded on the Nasdaq under the ticker symbols "DTST" and "DTSTW". We operate through three subsidiaries; DSC, a Delaware corporation now referred to as CloudFirst Technologies Corporation; Flagship Solutions, LLC; and Nexxis Inc. These subsidiaries provide solutions and services to a broad range of clients in several industries including healthcare, banking and finance, distribution services, manufacturing, construction, education, and government. The subsidiaries maintain business development teams, as well as independent distribution channels.

We typically provide long-term subscription-based disaster recovery, and cloud infrastructure, cyber security, third party cloud management, managed services, dedicated internet access and UCaaS / VoIP services.

During 2022, based on the May 2021 capital raise and the up list to Nasdaq, we accelerated our organic growth strategies by adding distribution, marketing, and technical personnel. Management continues to be focused on building our sales and marketing strategy and expanding our technology assets throughout its data center network.

We believe businesses are increasingly under pressure to improve the reliability and efficiency of their information and storage systems accelerating the migration from self-managed technical equipment and solutions to fully managed multi-cloud technologies to reduce cost and compete effectively. Further, in today's environment, capital preservation is an encouragement to move from a capital-intensive, on-premises technology to a pay as you grow, CapEx to OpEx model. These trends create an opportunity for Cloud Technology Service providers.

Our market opportunity is derived from the demand for fully managed cloud and cybersecurity services across all major operating systems.

We have designed and built our solutions and services to support demand for cloud-based IBM Power System that support client critical workloads and custom in-house developed applications, manage hybrid cloud deployments and continue to provide solutions that keep data and workloads protected from disasters and security attacks.

Our business offices are located in New York, Florida and Texas. The New York and Florida offices include a technology center and labs adapted to meet the technical requirements of our clients. We maintain our own infrastructure, storage, and networking equipment required to provide subscription solutions in seven geographically diverse data centers located in New York, Massachusetts, Texas, Florida, North Carolina, and in Canada, Toronto, and Barrie, serving clients in the United States and Canada.

Our disaster recovery and business continuity solutions allow clients to quickly recover from system outages, human and natural disasters, and cyber security attacks, such as Ransomware. Our managed cloud services begin with migration to the cloud and provide ongoing system support and management that enables its clients to run their software applications and technical workloads in a multi-cloud environment. Our cyber security offerings include comprehensive consultation and a suite of data security, disaster recovery, and remote monitoring services and technologies that are incorporated into our cloud solutions or are delivered as a standalone managed security offering covering the client site endpoint devices, users, servers, and equipment.

Our solution architects and business development teams work with organizations identifying and solving critical business problems. We carefully plan and manage the migration and configuration process, continuing the relationship and advising our clients long after the services have been implemented. Reflecting on client satisfaction, our renewal rate on client subscription solutions is approximately 94% after their initial contract term expired.

## Growth Strategies

We will continue to drive revenues by expanding distribution channels while expanding digital and direct marketing programs. We will accelerate building upon our social and digital lead generation programs. Further, we will continue to seek synergetic acquisitions that expand distribution or companies that provide a leading technology trend.

We increase revenue and drive growth by developing and managing collaborative solutions as well as joint marketing initiatives. We have a diverse community of distribution partners, ranging from IBM Business Partners, Software Vendors, IT resellers, Managed Service Providers, application support providers, consultants, and other cloud infrastructure providers.

We believe there is a significant need for our solutions on a global basis and, accordingly, the opportunity for us to grow our business through international expansion as these markets increase their use of multi-cloud solutions.

Our Core Services: We provide an array of multi-cloud information technology solutions in highly secure, enterprise-level cloud services for companies using IBM Power Systems, Microsoft Windows, and Linux. Specifically, our support services cover:

### *Cyber Security Solutions:*

- **ezSecurity™** offers a suite of comprehensive cyber security solutions that can be utilized on systems at the client's location or on systems hosted by us. These solutions include fully managed endpoint (PCs and other user devices) security with active threat mitigation, system security assessments, risk analysis, and applications to ensure continuous security. ezSecurity™ contains a specialized offering for protecting and auditing IBM systems including a package designed to protect IBM systems against Ransomware attacks.

### *Data Protection and Recovery Solutions:*

- **ezVault™** solution is at the core of our data protection services and allows our clients to have their data protected and stored offsite with unlimited data retention in a secure location that uses encrypted, enterprise-grade storage which allows for remote recovery from system outages, human and natural disasters, and cyber security attacks like Ransomware and viruses allowing restoration of data from a known good point in time prior to an attack.
- **ezRecovery™** provides standby systems, networking, and storage in our cloud infrastructure that allows for faster recovery from client backups stored using ezVault™ at the same cloud based hosted location.
- **ezAvailability™** solution offers reliable real-time data replication for mission-critical applications with Recovery Time Objective under fifteen minutes and near-zero Recovery Point Objective, with optional, fully managed replication services. Our ezAvailability™ service consists 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 Service-Level Agreement ("SLA") to help assure performance, availability, and access.
- **ezMirror™** solution provides replication services that mirror the clients' data at the storage level and allows for similar near-zero Recovery Point Objective as ezAvailability with less application management and Recovery Time Objective under 1 hour.

**Cloud Hosted Production Systems:** ezHost™ solution provides managed cloud services that removes the burden of system management from its clients and ensures that their software applications and IT workloads are running smoothly. ezHost™ provides full-time, scalable compute, storage, and network infrastructure resources to run clients' workloads on our enterprise-class infrastructure. ezHost™ replaces the cost of support, maintenance, system administration, space, electrical power, and cooling of the typical hardware on-premises systems with a predictable monthly expense. Our ezHost services are backed by an SLA governing performance, availability, and access.

**Voice & Data Solutions:** Nexxis, our voice and data division, specializes in stand-alone and fully-managed VoIP, Internet Access, and Data Transport solutions that satisfy the requirements of the traditional corporate and modern remote workforce. Nexxis dedicated internet access services with speeds of up to 10 Gbps and data transport circuits are typically delivered over fiber-optic networks while shared internet access is typically delivered via fiber, coaxial, and wireless networks to help businesses stay fully connected from any location. SD-WAN options provide the ability for multi-site companies to prioritize their data traffic from site to site while FailSAFE, a Cloud-first SD-WAN solution, can be used by a single location to gain industry-leading connectivity to cloud services and the internet. Nexxis Hosted VoIP with Unified Communications is a full-featured cloud-based PBX solution with built-in redundancy that provides business continuity and includes the option to integrate with Microsoft Teams.

## RESULTS OF OPERATIONS

### **Three months ended June 30, 2023, as compared to June 30, 2022**

**Total Revenue.** For the three months ended June 30, 2023, total revenue was \$5,904,391, an increase of \$1,076,642 or 22% compared to \$4,827,749 for the three months ended June 30, 2022. The increase is attributed to an increase in all of our revenue streams during the current period.

**Revenue**

|  | <b>For the Three Months<br/>Ended June 30,</b> |                     |                     |                 |
|--|--|---------------------|---------------------|-----------------|
|  | <b>2023</b>                                    | <b>2022</b>         | <b>\$ Change</b>    | <b>% Change</b> |
| Infrastructure & Disaster Recovery/Cloud Service | \$ 2,279,422                                   | \$ 2,013,806        | \$ 265,616          | 13%             |
| Equipment and Software                           | 2,379,822                                      | 1,913,208           | 466,614             | 24%             |
| Managed Services                                 | 965,506  | 682,397             | 283,109             | 41%             |
| Nexxis VoIP Services                             | 240,712  | 188,926             | 51,786              | 27%             |
| Other  | 38,929   | 29,412              | 9,517               | 32%             |
| <b>Total Revenue</b>                             | <b>\$ 5,904,391</b>                            | <b>\$ 4,827,749</b> | <b>\$ 1,076,642</b> | <b>22%</b>      |

*Cost of Sales.* For the three months ended June 30, 2023, cost of sales was \$3,325,637, an increase of \$56,450 or 2% compared to \$3,269,187 for the three months ended June 30, 2022. The increase of 2% was mostly related to an increase in equipment related cost of sales.

*Selling, general and administrative expenses.* For the three months ended June 30, 2023, selling, general and administrative expenses were \$2,472,010, a decrease of \$122,194, or 5%, as compared to \$2,594,204 for the three months ended June 30, 2022. The net decrease is reflected in the chart below.

**Selling, general and administrative expenses**

|   | <b>For the Three Months<br/>Ended June 30,</b> |                     |                     |                 |
|---|--|---------------------|---------------------|-----------------|
|   | <b>2023</b>                                    | <b>2022</b>         | <b>\$ Change</b>    | <b>% Change</b> |
| Decrease in Salaries                              | \$ 1,240,822                                   | \$ 1,405,717        | \$ (164,895)        | (12)%           |
| Increase in Professional Fees                     | 287,079  | 200,542             | 86,537              | 43%             |
| Decrease in Software as a Service Expense         | 46,459   | 76,841              | (30,382)            | (40)%           |
| Decrease in Advertising Expenses                  | 226,142  | 314,920             | (88,778)            | (28)%           |
| Increase in Commissions Expense                   | 379,795  | 293,829             | 85,966              | 29%             |
| Increase in Amortization and Depreciation Expense | 74,167   | 73,536              | 631                 | 1%              |
| Decrease in Travel And Entertainment              | 38,539   | 77,395              | (38,856)            | (50)%           |
| Decrease in Rent and Occupancy                    | 49,029   | 55,047              | (6,018)             | (11)%           |
| Increase in Insurance                             | 30,934   | 14,431              | 16,503              | 114%            |
| Increase in all other Expenses                    | 99,044   | 81,946              | 17,098              | 21%             |
| <b>Total Expenses</b>                             | <b>\$ 2,472,010</b>                            | <b>\$ 2,594,204</b> | <b>\$ (122,194)</b> | <b>(5)%</b>     |

*Salaries.* Salaries decreased as a result of a reduction in personnel.

*Professional fees.* Professional fees increased primarily due to business development consulting fees and an increase in legal fees relating to updated employment agreements.

*Software as a Service Expense (SaaS).* SaaS decreased due to the completion of certain consulting engagements related to one of our CRM platforms.

*Advertising Expenses.* Advertising Expenses decreased due to non-renewal of a marketing program.

*Commissions Expense.* Commissions expense increased due to an increase in sales.

*Travel And Entertainment.* Travel And Entertainment expenses decreased due to less travel by executives and reduced number of corporate events.

*Other Income (Expense).* Other income for the three months ended June 30, 2023, increased \$212,958 to \$99,294 from \$(113,644) for the three months ended June 30, 2022. The increase in other income is primarily attributable to the increase in interest income from investment in marketable securities.

*Net Income (loss) before provision for income taxes.* Net income before provision for income taxes for the three months ended June 30, 2023 was \$206,038, as compared to a net loss of \$(1,149,306) for the three months ended June 30, 2022.

**Six months ended June 30, 2023, as compared to June 30, 2022**

*Total Revenue.* For the six months ended June 30, 2023, total revenue was \$12,784,114, a decrease of \$700,834 or 5% compared to \$13,484,948 for the six months ended June 30, 2022. The decrease is primarily attributed to a decrease in one-time equipment sales during the current period offset by increases in all other revenue sources.

| Revenue  | For the Six Months<br>Ended June 30, |                      |                     |             |
|--|--------------------------------------|----------------------|---------------------|-------------|
|  | 2023                                 | 2022                 | \$ Change           | % Change    |
| Infrastructure & Disaster Recovery/Cloud Service | \$ 4,469,063                         | \$ 3,939,656         | \$ 529,407          | 13%         |
| Equipment and Software                           | 5,902,381                            | 7,633,059            | (1,730,678)         | (23)%       |
| Managed Services                                 | 1,859,273                            | 1,464,815            | 394,458             | 27%         |
| Nexxis VoIP Services                             | 472,484                              | 383,860              | 88,624              | 23%         |
| Other  | 80,913                               | 63,558               | 17,355              | 27%         |
| <b>Total Revenue</b>                             | <b>\$ 12,784,114</b>                 | <b>\$ 13,484,948</b> | <b>\$ (700,834)</b> | <b>(5)%</b> |

*Cost of Sales.* For the six months ended June 30, 2023, cost of sales was \$8,115,615, a decrease of \$1,164,861 or 13% compared to \$9,280,476 for the six months ended June 30, 2022. The decrease of 13% was mostly related to a decrease in equipment sales.

*Selling, general and administrative expenses.* For the six months ended June 30, 2023, selling, general and administrative expenses were \$4,602,769, a decrease of \$451,301, or 9%, as compared to \$5,054,070 for the six months ended June 30, 2022. The net decrease is reflected in the chart below.

| Selling, general and administrative expenses      | For the Six Months<br>Ended June 30, |                     |                     |             |
|---|--------------------------------------|---------------------|---------------------|-------------|
|   | 2023                                 | 2022                | \$ Change           | % Change    |
| Decrease in Salaries                              | \$ 2,397,316                         | \$ 2,890,661        | \$ (493,345)        | (17)%       |
| Increase in Professional Fees                     | 507,906                              | 387,629             | 120,277             | 31%         |
| Decrease in Software as a Service Expense         | 86,434                               | 146,899             | (60,465)            | (41)%       |
| Increase in Advertising Expenses                  | 416,020                              | 405,793             | 10,227              | 3%          |
| Increase in Commissions Expense                   | 651,762                              | 639,093             | 12,669              | 2%          |
| Increase in Amortization and Depreciation Expense | 147,939                              | 146,947             | 992                 | 1%          |
| Decrease in Travel And Entertainment              | 89,786                               | 115,926             | (26,140)            | (23)%       |
| Increase in Rent and Occupancy                    | 110,837                              | 108,114             | 2,723               | 3%          |
| Increase in Insurance                             | 57,424                               | 39,858              | 17,566              | 44%         |
| Decrease in all other Expenses                    | 137,345                              | 173,150             | (35,805)            | (21)%       |
| <b>Total Expenses</b>                             | <b>\$ 4,602,769</b>                  | <b>\$ 5,054,070</b> | <b>\$ (451,301)</b> | <b>(9)%</b> |

*Salaries.* Salaries decreased as a result of a reduction in personnel and reduced costs relating to stock based compensation.

*Professional fees.* Professional fees increased primarily due to business development consulting fees and an increase in legal fees relating to updated employment agreements.

*Software as a Service Expense (SaaS).* SaaS decreased due to the completion of certain consulting engagements related to one of our CRM platforms.

*Advertising Expenses.* Advertising Expenses decreased due to non-renewal of a marketing program.

*Commissions Expense.* Commissions expense increased due to an increase in sales.

*Travel And Entertainment.* Travel And Entertainment expense decreased due to less travel by executives and reduced number of corporate events.

*All Other Expenses.* Other expenses decreased primarily due to reduction of bad debt expense, tax expense and reductions across all other expenses such as computer, training and dues and subscriptions.

*Other Income (Expense).* Other income for the six months ended June 30, 2023, increased \$331,695 to \$175,371 from \$(156,324) for the six months ended June 30, 2022. The increase in other income is primarily attributable to the increase in interest income from investment in marketable securities.

*Net Income before provision for income taxes.* Net income before provision for income taxes for the six months ended June 30, 2023 was \$241,101, as compared to a net loss of \$(1,005,922) for the six months ended June 30, 2022.

## 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 we will realize our assets and discharge our liabilities in the ordinary course of business.

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 may include 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, a reduction in advertising and marketing programs, and/or a reduction in salaries for officers that are major shareholders.

We have long-term contracts to supply our subscription-based solutions that are invoiced to clients monthly. We continue to see an uptick in client interest distribution channel expansion and in sales proposals. In 2023, we intend to continue to work to increase our presence in the IBM “Power I” infrastructure cloud and business continuity marketplace in the niche of IBM “Power” and in the disaster recovery global marketplace utilizing its technical expertise, data centers utilization, assets deployed in the data centers, 24 x 365 monitoring and software.

During the six months ended June 30, 2023, our cash decreased by \$849,683 to \$1,437,039 from \$2,286,722 on December 31, 2022. Net cash of \$1,079,814 was provided by our operating activities resulting primarily from the changes in assets and liabilities. Net cash of \$1,385,010 was used in investing activities from the purchase of equipment and short-term investments. Net cash of \$544,487 was used by financing activities resulting primarily from repayments on capital lease obligations.

The Company’s working capital was \$10,457,217 on June 30, 2023, decreasing by \$398,190 from \$10,855,407 at December 31, 2022. The decrease is primarily attributable to a decrease in cash and accounts receivable. This was offset by a decrease in accounts payable and finance and operating leases.

#### **Off-Balance Sheet Arrangements**

The Company does not have any off-balance sheet arrangements, financings, or other relationships with unconsolidated entities or other persons, also known as “special purpose entities”.

#### **Non-GAAP Financial Measures**

##### *Adjusted EBITDA*

To supplement our consolidated financial statements presented in accordance with GAAP and to provide investors with additional information regarding our financial results, we consider and are including herein Adjusted EBITDA, a Non-GAAP financial measure. We view Adjusted EBITDA as an operating performance measure and, as such, we believe that the GAAP financial measure most directly comparable to it is net income (loss). We define Adjusted EBITDA as net income adjusted for interest and financing fees, depreciation, amortization, stock-based compensation, and other non-cash income and expenses. We believe that Adjusted EBITDA provides us an important measure of operating performance because it allows management, investors, debtholders and others to evaluate and compare ongoing operating results from period to period by removing the impact of our asset base, any asset disposals or impairments, stock-based compensation and other non-cash income and expense items associated with our reliance on issuing equity-linked debt securities to fund our working capital.

Our use of Adjusted EBITDA has limitations as an analytical tool, and this measure should not be considered in isolation or as a substitute for an analysis of our results as reported under GAAP, as the excluded items may have significant effects on our operating results and financial condition. Additionally, our measure of Adjusted EBITDA may differ from other companies’ measure of Adjusted EBITDA. When evaluating our performance, Adjusted EBITDA should be considered with other financial performance measures, including various cash flow metrics, net income and other GAAP results. In the future, we may disclose different non-GAAP financial measures in order to help our investors and others more meaningfully evaluate and compare our future results of operations to our previously reported results of operations.

The following table shows our reconciliation of net income to adjusted EBITDA for the three months ended June 30, 2023 and 2022, respectively:

For the Three Months Ended June 30, 2023

|                                    | CloudFirst<br>Technologies | Flagship Solutions<br>LLC | Nexxis Inc.        | Corporate           | Total             |
|------------------------------------|----------------------------|---------------------------|--------------------|---------------------|-------------------|
| Net income                         | \$ 533,917                 | \$ 230,552                | \$ (61,108)        | \$ (497,323)        | \$ 206,038        |
| Non-GAAP adjustments:              |                            |                           |                    |                     |                   |
| Depreciation and amortization      | 227,221                    | 71,052                    | 279                | 167                 | 298,719           |
| Interest and letter of credit fees | 16,570                     | —                         | —                  | (115,863)           | (99,293)          |
| Stock based compensation           | 18,990                     | 29,691                    | 4,400              | 71,814              | 124,895           |
| Adjusted EBITDA                    | <u>\$ 796,698</u>          | <u>\$ 331,295</u>         | <u>\$ (56,429)</u> | <u>\$ (541,205)</u> | <u>\$ 530,359</u> |

For the Three Months Ended June 30, 2022

|                                    | CloudFirst<br>Technologies | Flagship Solutions<br>LLC | Nexxis Inc.       | Corporate           | Total               |
|------------------------------------|----------------------------|---------------------------|-------------------|---------------------|---------------------|
| Net income                         | \$ 473,716                 | \$ (1,107,616)            | \$ (7,180)        | \$ (508,226)        | \$ (1,149,306)      |
| Non-GAAP adjustments:              |                            |                           |                   |                     |                     |
| Flagship Acquisition Costs         | —                          | —                         | —                 | 165                 | 165                 |
| Depreciation and amortization      | 218,560                    | 70,691                    | —                 | —                   | 289,251             |
| Interest and letter of credit fees | 39,043                     | 75,510                    | —                 | 948                 | 115,501             |
| Stock based compensation           | 28,117                     | 431,007                   | 1,804             | 24,459              | 485,387             |
| Adjusted EBITDA                    | <u>\$ 759,436</u>          | <u>\$ (530,408)</u>       | <u>\$ (5,376)</u> | <u>\$ (482,654)</u> | <u>\$ (259,002)</u> |

The following table shows our reconciliation of net income to adjusted EBITDA for the six months ended June 30, 2023 and 2022, respectively:

For the Six Months Ended June 30, 2023

|                                    | CloudFirst<br>Technologies | Flagship Solutions<br>LLC | Nexxis Inc.        | Corporate             | Total             |
|------------------------------------|----------------------------|---------------------------|--------------------|-----------------------|-------------------|
| Net income                         | \$ 1,135,591               | \$ 169,298                | \$ (99,254)        | \$ (964,534)          | \$ 241,101        |
| Non-GAAP adjustments:              |                            |                           |                    |                       |                   |
| Depreciation and amortization      | 447,145                    | 141,955                   | 279                | 281                   | 589,660           |
| Interest and letter of credit fees | 43,916                     | —                         | —                  | (219,287)             | (175,371)         |
| Stock based compensation           | 35,059                     | 52,618                    | 4,400              | 117,105               | 209,182           |
| Adjusted EBITDA                    | <u>\$ 1,661,711</u>        | <u>\$ 363,871</u>         | <u>\$ (94,575)</u> | <u>\$ (1,066,435)</u> | <u>\$ 864,572</u> |

For the Six Months Ended June 30, 2022

|                                    | CloudFirst<br>Technologies | Flagship Solutions<br>LLC | Nexxis Inc.        | Corporate           | Total             |
|------------------------------------|----------------------------|---------------------------|--------------------|---------------------|-------------------|
| Net income                         | \$ 724,660                 | \$ (740,463)              | \$ (32,331)        | \$ (957,788)        | \$ (1,005,922)    |
| Non-GAAP adjustments:              |                            |                           |                    |                     |                   |
| Flagship Acquisition Costs         | —                          | —                         | —                  | 770                 | 770               |
| Depreciation and amortization      | 499,763                    | 140,826                   | —                  | —                   | 640,589           |
| Interest and letter of credit fees | 80,766                     | 75,558                    | —                  | 1,837               | 158,161           |
| Stock based compensation           | 53,801                     | 459,201                   | 3,556              | 35,334              | 551,892           |
| Adjusted EBITDA                    | <u>\$ 1,358,990</u>        | <u>\$ (64,878)</u>        | <u>\$ (28,775)</u> | <u>\$ (919,847)</u> | <u>\$ 345,490</u> |

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

As a smaller reporting company this item is not required.

**Item 4. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures.**

As of the end of the period covered by this Report, under the supervision and with the participation of DSC’s management, including its principal executive officer and principal financial officer, DSC conducted an evaluation of its disclosure controls and procedures, as such term is defined under Rule 13a-151 and Rule 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Rule 13a-15(e) under the Exchange Act defines “disclosure controls and procedures” as controls and other procedures of a company that are designed to ensure that the information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to a company’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective at the reasonable assurance level at June 30, 2023.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Due to 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. Accordingly, our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the objectives of our disclosure control system are met. As set forth above, our Chief Executive Officer and Chief Financial Officer have concluded, based on the evaluation as of the end of the period covered by this Report, that our disclosure controls and procedures were effective to provide reasonable assurance that the objectives of our disclosure control system were met.

**Changes in Internal Control Over Financial Reporting.**

There have been no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2023, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART –I - OTHER INFORMATION

### Item 1. Legal Proceedings.

From time to time, the Company may become involved in legal proceedings or be subject to claims arising in the ordinary course of its business. The Company is not presently a party to any legal proceedings that, if determined adversely to it, would individually or taken together have a material adverse effect on its business, operating results, financial condition, or cash flows. Regardless of the outcome, litigation can have an adverse impact on the Company because of defense and settlement costs, diversion of management resources and other factors.

### Item 1A. Risk Factors.

Our business, financial condition, results of operations, and cash flows may be impacted by a number of factors, many of which are beyond our control, including those set forth in our most recent Annual Report on Form 10-K for the year ended December 31, 2022, the occurrence of any one of which could have a material adverse effect on our actual results.

There have been no material changes to the Risk Factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2022.

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

There were no unregistered sales of the Company's equity securities during the period ended June 30, 2023, that were not previously reported in a Current Report on Form 8-K.

### Item 3. Defaults Upon Senior Securities.

There were no defaults upon senior securities during the period ended June 30, 2023.

### Item 4. Mine Safety Disclosures

Not Applicable.

### Item 5. Other Information.

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

### Item 6. Exhibits.

| Exhibit No. | Description  |
|-------------|--|
| 31.1*       | <a href="#">Certification by the Principal Executive Officer of Registrant pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a) or Rule 15d-14(a)).</a> |
| 31.2*       | <a href="#">Certification by the Principal Financial Officer of Registrant pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Rule 13a-14(a) or Rule 15d-14(a)).</a> |
| 32.1*       | <a href="#">Certification by the Principal Executive Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>            |
| 32.2*       | <a href="#">Certification by the Principal Financial Officer pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</a>            |
| 101.INS     | XBRL Instant Document  |
| 101.SCH     | XBRL Taxonomy Extension Schema Document  |
| 101.CAL     | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.DEF*    | XBRL Taxonomy Extension Definition Linkbase Document   |
| 101.LAB*    | XBRL Taxonomy Extension Label Linkbase Document  |
| 101.PRE*    | XBRL Taxonomy Extension Presentation Linkbase Document   |

\* Filed herewith.



## SIGNATURES

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

Date: August 14, 2023

### DATA STORAGE CORPORATION

By: /s/ Charles M. Piluso  
Charles M. Piluso  
Chief Executive Officer  
(Principal Executive Officer)

Date: August 14, 2023

By: /s/ Chris H. Panagiotakos  
Chris H. Panagiotakos  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 OF THE  
SARBANES-OXLEY ACT OF 2002**

I, Charles M. Piluso, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Data Storage Corporation;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer 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 controls over financial reporting (as defined in Exchange Act Rules 13a-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 for the period in which this quarterly 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;
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: August 14, 2023

By: /s/ Charles M. Piluso  
Charles M. Piluso  
Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL ACCOUNTING OFFICER  
PURSUANT TO SECTION 302 OF THE  
SARBANES-OXLEY ACT OF 2002**

I, Chris H. Panagiotakos, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Data Storage Corporation;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer 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 controls over financial reporting (as defined in Exchange Act Rules 13a-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 for the period in which this quarterly 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;
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: August 14, 2023

By: /s/ Chris H. Panagiotakos  
Chris H. Panagiotakos  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

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

In connection with this Quarterly Report of Data Storage Corporation (the "Company"), on Form 10-Q for the period ended June 30, 2023, as filed with the U.S. Securities and Exchange Commission on the date hereof, I, Charles M. Piluso, Chief Executive Officer of the Company, certify to the best of my knowledge, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) Such Quarterly Report on Form 10-Q for the period ended June 30, 2023, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in such Quarterly Report on Form 10-Q for the period ended June 30, 2023, fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 14, 2023

By: /s/ Charles M. Piluso  
Charles M. Piluso  
Chief Executive Officer  
(Principal Executive Officer)

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

In connection with this Quarterly Report of Data Storage Corporation (the "Company"), on Form 10-Q for the period ended June 30, 2023, as filed with the U.S. Securities and Exchange Commission on the date hereof, I, Chris Panagiotakos, Chief Financial Officer of the Company, certify to the best of my knowledge, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) Such Quarterly Report on Form 10-Q for the period ended June 30, 2023, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in such Quarterly Report on Form 10-Q for the period ended June 30, 2023, fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 14, 2023

By: /s/ Chris H. Panagiotakos  
Chris H. Panagiotakos  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

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