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 March 31, 2020

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

For the transition period from ___________ to ___________

Commission File No. 001-35384

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

NEVADA	**98-0530147**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
48 South Service Road **Melville, NY**	**11747**
(Address of principal executive offices)	(Zip Code)

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

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

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

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

Large Accelerated Filer ☐	Accelerated Filer ☐
Non-Accelerated Filer ☐	Smaller Reporting Company ☒
	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 ☒

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

Title of each class	**Trading Symbol(s)**	**Name of each exchange on which registered**
None	N/A	N/A

The number of shares of the registrant's common stock, $0.001 par value per share, outstanding as of May 19, 2020, was 128,539,418

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DATA STORAGE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2020 (Unaudited)	December 31, 2019
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 328,182	$ 326,561
Accounts receivable (less allowance for doubtful accounts of $30,000 in 2020 and 2019)	836,957	691,436
Prepaid expenses and other current assets	110,385	80,728
Total Current Assets	1,275,524	1,098,725
Property and Equipment:		
Property and equipment	7,287,064	6,894,087
Less—Accumulated depreciation	(4,898,414)	(4,705,256)
Net Property and Equipment	2,388,650	2,188,831
Other Assets:		
Goodwill	3,015,700	3,015,700
Operating lease right-of-use assets	304,200	324,267
Other assets	65,433	65,433
Intangible assets, net	601,435	649,934
Total Other Assets	3,986,768	4,055,334
Total Assets	$ 7,650,942	$ 7,342,890
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities:		
Accounts payable and accrued expenses	$ 1,030,607	$ 906,716
Dividend payable	1,005,183	970,997
Deferred revenue	546,843	432,942
Line of credit	24	75,000
Finance leases payable related party	1,004,149	833,148
Operating lease liabilities short term	102,251	101,505
Note payable	350,000	350,000
Total Current Liabilities	4,039,057	3,670,308
Operating lease liabilities long term	211,373	231,312
Finance leases payable related party, long term	1,708,575	1,713,122
Total Long Term Liabilities	1,919,948	1,944,434
Total Liabilities	5,959,005	5,614,742
Stockholders' Equity:		
Preferred stock, Series A par value $.001; 10,000,000 shares authorized; 1,401,786 shares issued and outstanding in each year	1,402	1,402
Common stock, par value $.001; 250,000,000 shares authorized; 128,539,418 and 128,439,418 shares issued and outstanding in 2020 and 2019, respectively	128,539	128,439
Additional paid in capital	17,494,779	17,456,431
Accumulated deficit	(15,858,672)	(15,790,076)
Total Data Storage Corp Stockholders' Equity	1,766,048	1,796,196
Non-controlling interest in consolidated subsidiary	(74,111)	(68,048)
Total Stockholder's Equity	1,691,937	1,728,148
Total Liabilities and Stockholders' Equity	$ 7,650,942	$ 7,342,890

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

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

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Sales	$ 2,098,710	$ 2,001,281
Cost of sales	1,216,117	1,076,543
Gross Profit	882,593	924,738
Selling, general and administrative	876,626	822,868
Income from Operations	5,967	101,870
Other Income (Expense)		
Interest income	20	87
Interest expense	(46,460)	(49,419)
Total Other Income (Expense)	(46,440)	(49,332)
Income (Loss) before provision for income taxes	(40,473)	52,538
Provision for income taxes	—	—
Net Income (Loss)	(40,473)	52,538
Non-controlling interest in consolidated subsidiary	6,063	10,323
Net Income (Loss) attributable to Data Storage Corp	(34,410)	62,861
Preferred Stock Dividends	(34,186)	(31,078)
Net Income (Loss) Attributable to Common Stockholders	$ (68,596)	$ 31,783
Earning (Loss) per Share – Basic	$ 0.00	$ 0.00
Earning (Loss) per Share – Diluted	$ 0.00	$ 0.00
Weighted Average Number of Shares - Basic	128,486,085	128,139,418
Weighted Average Number of Shares - Diluted	128,486,085	131,939,979

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 MARCH 31, 2019 AND FOR THE THREE MONTHS ENDED MARCH 31, 2020
(Unaudited)

	Preferred Stock		Common Stock		Additional Paid-in	Accumulated	Non-Controlling	Total Stockholders'
	Shares	Amount	Shares	Amount	Capital	Deficit	Interest	Equity
Balance, January 1, 2019	1,401,786	$ 1,402	128,139,418	$ 128,139	$ 17,409,989	$ (15,735,624)	$ (27,511)	$ 1,776,395
Stock-based compensation	—	—	—	—	2,175	—	—	2,175
Net Income	—	—	—	—	—	62,861	(10,323)	52,538
Preferred Stock	—	—	—	—	—	(31,078)	—	(31,078)
Balance March 31, 2019	1,401,786	$ 1,401,786	128,139,418	$ 128,139	$ 17,412,164	$ (15,703,841)	$ (37,834)	1,800,030
Balance January 1, 2020	1,401,786	1,402	128,439,418	128,439	17,456,431	(15,790,076)	(68,048)	1,728,148
Stock Options Issued as Compensation	—	—	—	—	33,048	—	—	33,048
Stock Options Exercise	—	—	100,000	100	5,300	—	—	5,400
Net Loss	—	—	—	—	—	(34,410)	(6,063)	(40,473)
Preferred Stock	—	—	—	—	—	(34,186)	—	(34,186)
Balance, March 31, 2020	1,401,786	$ 1,402	128,539,418	$ 128,539	$ 17,494,779	$ (15,858,672)	$ (74,111)	$ 1,691,937

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)

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Cash Flows from Operating Activities:		
Net Income (Loss)	$ (40,473)	$ 52,538
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	241,658	224,806
Stock based compensation	33,048	2,175
Changes in Assets and Liabilities:		
Accounts receivable	(145,521)	49,257
Prepaid expenses and other current assets	(29,657)	87,626
Right of use asset	20,067	(340,522)
Accounts payable and accrued expenses	123,890	(172,651)
Deferred revenue	113,901	(3,016)
Operating lease liability	(19,193)	327,552
Net Cash Provided by Operating Activities	297,720	227,765
Cash Flows from Investing Activities:		
Capital expenditures	(56,812)	(17,570)
Net Cash Used in Investing Activities	(56,812)	(17,570)
Cash Flows from Financing Activities:		
Repayments of capital lease obligations	(169,711)	(183,590)
Cash received for the exercised of options	5,400	—
Repayment of line of credit	(74,976)	—
Net Cash Used in Financing Activities	(239,287)	(183,590)
Increase in Cash and Cash Equivalents	1,621	26,605
Cash and Cash Equivalents, Beginning of Period	326,561	228,790
Cash and Cash Equivalents, End of Period	$ 328,182	$ 255,395
Supplemental Disclosures:		
Cash paid for interest	$ 177,451	$ 50,621
Cash paid for income taxes	$ —	$ —
Non-cash investing and financing activities:		
Accrual of preferred stock dividend	$ 34,186	$ 31,078
Assets acquired by finance lease	$ 336,165	$ 1,502,844

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

Note 1 - Basis of Presentation, Organization and Other Matters

Data Storage Corporation ("DSC" or the "Company") provides subscription based, long term agreements for disaster recovery solutions, Infrastructure as a Service (IaaS) and VoIP type solutions.

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

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

Going Concern Analysis

Under ASU 2014-15 Presentation of Financial Statements-Going Concern (Subtopic 205-40) (“ASC 205-40”), the Company has the responsibility to evaluate whether conditions and/or events raise substantial doubt about its ability to meet its future financial obligations as they become due within one year after the date that the financial statements are issued. As required by ASC 205-40, this evaluation shall initially not take into consideration the potential mitigating effects of plans that have not been fully implemented as of the date the financial statements are issued. Management has assessed the Company’s ability to continue as a going concern in accordance with the requirement of ASC 205-40.

As reflected in the Condensed Consolidated Financial statements, the Company had a net income (loss) available to shareholders of $(68,596) and $31,783 for the three months ended March 31, 2020 and 2019, respectively. As of March 31, 2020, DSC had cash of $328,182 and a working capital deficiency of $2,763,533. As a result, these conditions raised substantial doubt regarding our ability to continue as a going concern.

During the three months ended March 31, 2020, the Company provided cash from operations of $297,720 with continued revenue growth of subscription solutions. Further, the Company has no capital expenditure commitments and the company’s offices have been consolidated and fully staffed and with sufficient room for growth.

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

As a result of the current favorable trends of improving cash flow, the Company concluded that the initial conditions which raised substantial doubt regarding the ability to continue as a going concern has been mitigated.

Note 2 - Summary of Significant Accounting Policies

Principles of Consolidation

The Condensed Consolidated Financial statements include the accounts of (i) the Company, (ii) its wholly-owned subsidiary, Data Storage Corporation, a Delaware corporation, and (iii) its majority-owned subsidiary, Nexxis Inc, a Nevada corporation. All significant inter-company transactions and balances have been eliminated in consolidation.

Business combinations.

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

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

Reclassifications

Certain prior year amounts in the consolidated financial statements and the notes thereto have been reclassified where necessary to conform to the current year presentation. These reclassifications did not affect the prior period total assets, total liabilities, stockholders’ deficit, net loss or net cash used in operating activities.

Recently Issued and Newly Adopted Accounting Pronouncements

In January 2017, the FASB issued ASU 2017-04 Intangibles-Goodwill and Other (“ASC 350”): Simplifying the Accounting for Goodwill Impairment (“ASU 2017-04”). ASU 2017-04 simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under ASU 2017-04, an entity should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax-deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. ASU 2017-04 is effective for annual or any interim goodwill impairment tests for fiscal years beginning after December 15, 2019 and an entity should apply the amendments of ASU 2017-04 on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The adoption of ASU 2017-04 did not have a material impact on its condensed consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement - Disclosure Framework (Topic 820). The updated guidance improves the disclosure requirements for fair value measurements. We do not believe the updated guidance, which is effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2019. The adoption of ASU 2018-13 did not have a material impact on its condensed consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, Intangibles-Goodwill and Other - Internal Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract. This guidance requires companies to apply the internal-use software guidance in Accounting Standards Codification ("ASC") 350-40 to implementation costs incurred in a hosting arrangement that is a service contract to determine whether to capitalize certain implementation costs or expense them as incurred. We do not believe the new guidance, which is effective for fiscal years beginning after December 15, 2019. The adoption of ASU 2018-153 did not have a material impact on its condensed consolidated financial statements.

In December 2019, the FASB issued authoritative guidance intended to simplify the accounting for income taxes (ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes"). This guidance eliminates certain exceptions to the general approach to the income tax accounting model and adds new guidance to reduce the complexity in accounting for income taxes. This guidance is effective for annual periods after December 15, 2020, including interim periods within those annual periods. The Company is currently evaluating the potential impact of this guidance on its Condensed Consolidated Financial statements.

Use of Estimates

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

Estimated Fair Value of Financial Instruments

The Company's financial instruments include cash, accounts receivable, accounts payable, line of credit and due to related parties. Management believes the estimated fair value of these accounts at March 31, 2020 approximate their carrying value as reflected in the balance sheets due to the short-term nature of these instruments or the use of market interest rates for debt instruments. The carrying values of certain of the Company's notes payable and capital lease obligations approximate their fair values based upon a comparison of the interest rate and terms of such debt given the level of risk to the rates and terms of similar debt currently available to the Company in the marketplace.

Cash, Cash Equivalents and Short-Term Investments

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

Concentration of Credit Risk and Other Risks and Uncertainties

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

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

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

For the three months ended March 31, 2020, DSC had two customers with an accounts receivable balance representing 30% of total accounts receivable. For the three months ended March 31, 2019, DSC had two customers with an accounts receivable balance representing 38% of total accounts receivable.

For the three months ended March 31, 2020 the company had one client that accounted for 14% of revenue. For the three months ended March 31, 2019 the Company had two clients that accounted for 21% of revenue.

Accounts Receivable/Allowance for Doubtful Accounts

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

Property and Equipment

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

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. At March 31, 2020 and December 31, 2019, the Company had a full valuation allowance against its deferred tax assets.

Per FASB ASC 740-10, disclosure is not required of an uncertain tax position unless it is considered probable that a claim will be asserted and there is a more-likely-than-not possibility that the outcome will be unfavorable. Using this guidance, as of December 31, 2019 and 2018, the Company has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The Company's 2018, 2017 and 2016 Federal and State tax returns remain subject to examination by their respective taxing authorities. Neither of the Company's Federal or State tax returns are currently under examination.

In response to the COVID-19 pandemic, the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") was signed into law in March 2020. The CARES Act lifts certain deduction limitations originally imposed by the Tax Cuts and Jobs Act of 2017 ("2017 Tax Act"). Corporate taxpayers may carryback net operating losses (NOLs) originating between 2018 and 2020 for up to five years, which was not previously allowed under the 2017 Tax Act. The CARES Act also eliminates the 80% of taxable income limitations by allowing corporate entities to fully utilize NOL carryforwards to offset taxable income in 2018, 2019 or 2020. Taxpayers may generally deduct interest up to the sum of 50% of adjusted taxable income plus business interest income (30% limit under the 2017 Tax Act) for 2019 and 2020. The CARES Act allows taxpayers with alternative minimum tax credits to claim a refund in 2020 for the entire amount of the credits instead of recovering the credits through refunds over a period of years, as originally enacted by the 2017 Tax Act.

In addition, the CARES Act raises the corporate charitable deduction limit to 25% of taxable income and makes qualified improvement property generally eligible for 15-year cost-recovery and 100% bonus depreciation. The enactment of the CARES Act did not result in any material adjustments to our income tax provision.

Goodwill and Other Intangibles

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

Revenue Recognition

Nature of goods and services

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

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

Subscription services such as Infrastructure as a Service, Platform as a Service and Disaster Recovery, High Availability, Data Vault Services and DRaaS type solutions (cloud) allows clients to centralize and streamline their technical and mission critical digital information and technical environment. Client's data can be backed up, replicated, archived and restored to meet their back to work objective in a disaster. Infrastructure as a Service (IaaS) assist clients to achieve reliable and cost-effective computing and high availability solutions while eliminating or supplementing Capex.

2) Managed Services

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

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

3) Equipment and Software Revenue

The Company provides equipment and software and actively participate in collaboration with IBM to provide innovative business solutions to clients. The company is a partner of IBM and the various software solutions provided to clients.

Disaggregation of revenue

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

For the Three Months Ended March 31, 2020	United States	International	Total
Infrastructure & Disaster Recovery/Cloud Service	$ 1,359,921	$ 33,799	$ 1,393,720
Equipment and Software	328,733	—	328,733
Managed Services	220,475	—	220,475
Nexxis VoIP Services	153,197	—	153,197
Other	2,585	—	2,585
Total Revenue	$ 2,064,911	$ 33,799	$ 2,098,710

For the Three Months Ended March 31, 2019	United States	International	Total
Infrastructure & Disaster Recovery/Cloud Service	$ 1,236,447	$ 30,600	$ 1,267,047
Equipment and Software	428,511	—	428,511
Managed Services	213,925	—	213,925

Nexxis VoIP Services	90,703	—	90,703
Other	1,095	—	1,095
Total Revenue	$ 1,970,681	$ 30,600	$ 2,001,281

	For the Three Months Ended March 31,	
Timing of revenue recognition	**2020**	**2019**
Products transferred at a point in time	$ 328,733	$ 428,511
Products and services transferred over time	1,769,977	1,572,770
Total Revenue	$ 2,098,710	$ 2,001,281

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)<u>Disaster Recovery ("DR")</u>: subscription-based service that instantly encrypted and transfers data to secure location further replicates the data to a second DSC data center where it remains encrypted. Provides 10 hour or less recovery time

2)<u>Data Vaulting</u>: subscription-based cloud backup solution that uses advanced data reduction technology to shorten restore time

3)<u>High Availability ("HA")</u>: subscription-based service which offers cost-effective mirroring replication technology and provides one (1) hour or less recovery time

4)<u>Infrastructure as a Service ("IaaS")</u>: subscription-based service offers "capacity on-demand" for IBM Power and Intel server systems

5)<u>Message Logic</u>: subscription-based service offers cost effective email archiving, data analytics, compliance monitoring and retrieval of email messages which cannot be deleted

6)<u>Internet</u>: subscription-based service offers continuous internet connection in the event of outages

7)<u>Support and Maintenance</u>: subscription-based service offers support for servers, firewalls, desktops or software and ad hoc support and help desk

8)<u>Initial Set-Up Fees</u>: on boarding and set-up services

9)<u>Equipment sales</u>: sale of servers to the end user

10)<u>License</u>: granting SSL certificates and other licenses

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

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

<u>Initial Set-Up Fees</u>

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

<u>Equipment sales</u>

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

<u>License – granting SSL certificates and other licenses</u>

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

Payment terms

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

Warranties

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

Significant judgement

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

Impairment of Long-Lived Assets

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

Advertising Costs

The Company expenses the costs associated with advertising as they are incurred. The Company incurred a net impact of $65,380 and $33,963 for advertising costs for the three months ended March 31, 2020 and 2019, respectively.

Stock Based Compensation

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

The valuation methodology used to determine the fair value of the options issued during the year was the Black-Scholes option-pricing model. The Black-Scholes model requires the use of a number of assumptions including volatility of the stock price, the average risk- free interest rate, and the weighted average expected life of the options. 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 estimate.

Estimated volatility is a measure of the amount by which DSC's stock price is expected to fluctuate each year during the expected life of the award. DSC's calculation of estimated volatility is based on historical stock prices of these entities over a period equal to the expected life of the awards. DSC uses the historical volatility of peer entities due to the lack of sufficient historical data of its stock price.

Net Income (Loss) Per Common Share

In accordance with FASB ASC 260-10-5 Earnings Per Share, basic income (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing net income (loss) adjusted for income or loss that would result from the assumed conversion of potential common shares from contracts that may be settled in stock or cash by the weighted average number of shares of common stock, common stock equivalents and potentially dilutive securities outstanding during each period.

The following table sets forth the information needed to compute basic and diluted earnings per share for the three months ended March 31, 2020 and 2019:

	March 31, 2020	March 31, 2019
Net Income (Loss) Available to Common Shareholders	$ (68,596)	$ 31,783
Weighted average number of common shares - basic	128,486,085	128,139,418
Dilutive securities		
Options	-	3,667,227
Warrants	-	133,334
Weighted average number of common shares - diluted	128,486,085	131,939,979
Earnings (Loss) per share, basic	$ 0.00	$ 0.00
Earnings (Loss) per share, diluted	$ 0.00	$ 0.00

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

	March 31, 2020	March 31, 2019
Options	8,325,824	2,098,292
Warrants	133,334	-
	8,459,158	2,098,292

Note 3 - Property and Equipment

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

	March 31, 2020	December 31, 2019
Storage equipment	$ 756,236	$ 756,236
Website and software	533,417	533,417
Furniture and fixtures	27,131	27,131
Leasehold improvements	16,846	16,846
Computer hardware and software	1,218,464	1,218,464
Data center equipment	4,734,970	4,341,993
	7,287,064	6,894,087
Less: Accumulated depreciation	(4,898,414)	(4,705,256)
Net property and equipment	$ 2,388,650	$ 2,188,831

Depreciation expense for the three months ended March 31, 2020 and 2019 was $193,158 and $175,472, respectively.

Note 4 - Goodwill and Intangible Assets

Goodwill and intangible assets consisted of the following:

		March 31, 2020		
	Estimated life in years	Gross amount	Accumulated Amortization	Net
Intangible assets not subject to amortization				
Goodwill	Indefinite	$ 3,015,700	$ —	$ 3,015,700
Trademarks	Indefinite	294,268	—	294,268
Total intangible assets not subject to amortization		3,309,968	—	3,309,968
Intangible assets subject to amortization				
Customer lists	5-15	897,274	897,274	-
ABC acquired contracts	5	310,000	211,833	98,167
SIAS acquired contracts	5	660,000	451,000	209,000
Non-compete agreements	4	272,147	272,147	-
Total intangible assets subject to amortization		2,139,421	1,832,254	307,167
Total Goodwill and Intangible Assets		$ 5,449,389	$ 1,832,254	$ 3,617,135

Scheduled amortization over the next two years as follows:

Twelve months ending March 31,	
2020	$ 194,000
2021	113,167
Total	$ 307,167

Amortization expense for the years ended March 31, 2020 and 2019 were $48,500 and $49,334 respectively.

Note 5 –Leases

Operating Leases

The Company currently has three leases for office space, with two offices located in Melville, NY, and one office in Warwick, RI.

A lease for office space in Melville, NY, was entered into on November 20, 2017, which commenced on April 2, 2018. The term of this lease is five years and three months at $86,268 per year with an escalation of 3% per year with an ending date of July 31, 2023.

The Company entered into a lease agreement for a technology lab in Melville, NY that commenced on September 1, 2019. The term of this lease is for three years and 11 months and runs co-terminus with our existing lease in the same building. The base annual rent is $10,764 payable in equal monthly installments of $897.

The lease for office space in Warwick, RI, calls for monthly payments of $2,324 which commenced February 1, 2015 which escalated to $2,460 on February 1, 2017. This lease expired on January 31, 2019. The Company extended this lease until January 31, 2021. The annual base rent shall be $31,176 payable in equal monthly installments of $2,598.

The Company leases rack space in New York, Massachusetts and North Carolina. These leases are month to month and the monthly rent is approximately $25,000.

Finance Lease Obligations – Related Party

On April 1, 2018, the Company entered into a lease agreement with Systems Trading Inc. (“Systems Trading”) to refinance all leases into one lease. This lease obligation is payable to Systems Trading with bi-monthly installments of $23,475. The lease carries an interest rate of 5% and is a four -year lease. The term of the lease ends April 16, 2022. Systems Trading is owned and operated by the Company’s President, Hal Schwartz.

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 April 1, 2019, the Company entered into two lease agreements with Systems Trading to add new data center equipment. The first lease calls for monthly payments of $1,328 and expires on March 1, 2022. It carries an interest rate of 7%. The second lease calls for monthly payments of $461 and expires on March 1, 2022. It carries an interest rate of 6.7%.

On January 1, 2020, the Company entered into a new lease agreement with Systems Trading Inc. to lease equipment. The lease obligation is payable to Systems Trading with monthly installments of $10,534. The lease carries an interest rate of 6% and is a three-year lease. The term of the lease ends January 1, 2023.

We determine if an arrangement contains a lease at inception. ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our 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. Our lease term includes options to extend the lease when it is reasonably certain that we 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 noted above. ROU assets and liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. We recognize lease expense for these leases on a straight-line basis over the lease term. We recognize 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 7% was used in preparation of the ROU asset and operating liabilities.

The components of lease expense were as follows:

		Three Months Ended March 31, 2020
Finance lease:		
Amortization of assets, included in depreciation and amortization expense	$	24,905
Interest on lease liabilities, included in interest expense		5,713
Operating lease:		
Amortization of assets, included in total operating expense		223,845
Interest on lease liabilities, included in total operating expense		42,381
Total net lease cost	$	296,844

Supplemental balance sheet information related to leases was as follows

Operating Leases

Operating lease ROU asset	$	304,200
Current operating lease liabilities		102,251
Noncurrent operating lease liabilities		211,373
Total operating lease liabilities	$	313,624

		March 31, 2020
Finance leases:		
Property and equipment, at cost	$	3,596,400
Accumulated amortization		(1,549,457)
Property and equipment, net		2,046,943
Current obligations of finance leases	$	1,004,149
Finance leases, net of current obligations,		1,708,575
Total finance lease liabilities	$	2,712,724

Supplemental cash flow and other information related to leases was as follows:

		Three Months Ended March 31, 2020
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows related to operating leases	$	19,193
Financing cash flows related to finance leases	$	169,711
Weighted average remaining lease term (in years):		
Operating leases		2.22
Finance leases		2.17
Weighted average discount rate:		
Operating leases		7%
Finance leases		6%

Long-term obligations under the operating and finance leases at March 31, 2020 mature as follows:

For the Twelve Months Ended March 31,		Operating Leases	Finance Leases
2021	$	102,251	888,652
2022		105,319	1,066,382
2023		108,535	674,434
2024		37,046	355,104
2025		-	-
Total lease payments		353,151	2,984,572
Less: Amounts representing interest		(39,527)	(271,848)
Total lease obligations		313,624	2,712,724
Less: Current		(102,251)	(1,004,149)
	$	211,373	1,708,575

As of March 31, 2020, we had no additional significant operating or finance leases that had not yet commenced. Rent expense under all operating leases for the three months ended March 31, 2020 and 2019 was $24,905 and $42,337, respectively.

Note 6 - Commitments and Contingencies

COVID 19 Disclosure

Business interruptions, including any interruptions resulting from COVID-19, could significantly disrupt our operations and could have a material adverse impact on DSC if the situation continues. Under NYS Executive Order 202.6, "Essential Business," DSC is an "Essential Business" based on the following in the Executive order number 2: Essential infrastructure including telecommunications and data centers; and, number 12: Vendors that provide essential services or products, including logistics and technology support.

Further, all employees, including our specialized technical staff, are working from home or in a virtual environment. DSC always maintains the ability for team members to work virtual and we will continue to stay virtual, until the State and or the Federal government indicate the environment is safe to return to work.

The ongoing coronavirus outbreak which began in China at the beginning of 2020 has impacted various businesses throughout the world, including travel restrictions and the extended shutdown of certain businesses in impacted geographic regions. If the coronavirus outbreak situation should worsen, we may experience disruptions to our business including, but not limited to equipment, to our workforce, or to our business relationships with other third parties.

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

Revolving Credit Facility

On January 31, 2008, the Company entered into a revolving credit line with a bank. The credit facility provides for $100,000 at prime plus 0.5% and is secured by all assets of the Company and personally guaranteed by the Company's CEO. As of March 31, 2020 and December 31, 2019 the balance was $24 and $75,000 respectively.

Note 7 – Long Term Debt

Note Payable

In connection with the 2012 acquisition of Message Logic, LLC, the Company acquired software subject to a UCC filing in the amount of $350,000 plus accrued interest. On September 5, 2014 the Company entered into an agreement whereby the Company paid all arrears interest over 7 months at $3,910 per month. In addition, the Company agreed to make monthly interest payments at $1,553 per month with the principal balance of $350,000 payable on April 30, 2016. The Company stopped making interest only payments on October 25, 2018. There has been no default notice from the bank. The Company is in the process of negotiating a final settlement.

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.

During the three months ended March 31, 2020, the Company received cash of $5,400 from the exercise of 100,000 options.

Common Stock Options

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

	Number of Shares Under Options		Range of Option Price Per Share		Weighted Average Exercise Price
Options Outstanding at December 31, 2019	8,425,824	$	0.05 – 0.65	$	0.17
Options Granted	250,000		0.13		0.13
Exercised	(100,000)		0.54		0.54
Expire/Cancelled	(250,000)		0.36		0.36
Options Outstanding at March 31, 2020	8,325,824	$	0.05 – 0.65	$	0.20
Options Exercisable at March 31, 2020	4,441,433	$	0.05 – 0.65	$	0.20

Share-based compensation expense for options totaling $33,048 was recognized in our results for the three months ended March 31, 2020 based on awards vested.

The valuation methodology used to determine the fair value of the options issued during the year was the Black-Scholes option-pricing model. The Black-Scholes model requires the use of a number of assumptions including volatility of the stock price, the average risk-free interest rate, and the weighted average expected life of the options.

The risk-free interest rate assumption is based upon observed interest rates on zero coupon U.S. Treasury bonds whose maturity period is appropriate for the term of the options.

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 these peer entities over a period equal to the expected life of the awards. The Company uses the historical volatility of peer entities due to the lack of sufficient historical data of its stock price.

As of March 31, 2020, there was $377,797 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 3 year.

The weighted average fair value of options granted, and the assumptions used in the Black-Scholes model during the three months ended March 31, 2020 are set forth in the table below.

		2020
Weighted average fair value of options granted	$	0.13
Risk-free interest rate		0.83%
Volatility		223%
Expected life (years)		10
Dividend yield		0.00%

Dividends

Each share of Series A Preferred Stock, in preference to the holders of all Common Stock (as defined below), shall entitle its holder to receive, but only out of funds that are legally available therefore, cash dividends at the rate of ten percent (10%) per annum from the Original Issue Date on the Original Issue Price for such share of Series A Preferred Stock, compounding annually unless paid by the Corporation. Accrued dividends at March 31, 2020 were $1,005,183.

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

Finance Lease Obligations – Related Party

During the three months ended March 31, 2020 the Company entered into one related party finance lease obligations. See Note 5 for details.

Nexxis Capital LLC

Charles Piluso and Harold Schwartz 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 did not receive any funds from Nexxis Capital during the three months ended March 31, 2020 and 2019.

Note 11 - Subsequent Events

On April 2, 2020 the Company entered into a new lease agreement with Arrow Capital Solutions, Inc. to lease equipment. The lease obligation is payable to Arrow Capital Solutions with monthly installments of $5,008. The lease carries an interest rate of 6% and is a three-year lease.

On May 14, 2020, the Company was granted a loan from Signature bank, in the principal amount of $481,977 (the "Loan"), pursuant to the Paycheck Protection Program (the "PPP") under Division A, Title I of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), which was enacted on March 27, 2020. The Loan, which was in the form of a Note dated April 30, 2020, matures on April 30, 2022 and bears interest at a fixed rate of 1.00% per annum, payable monthly commencing on November 5, 2020. Funds from the loan may only be used to retain workers and maintain payroll or make mortgage payments, lease payments and utility payments. Management intends to use the entire Loan amount for qualifying expenses. Under the terms of the PPP, certain amounts of the Loan may be forgiven if they are used for qualifying expenses as described in the CARES Act.

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

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

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

COMPANY OVERVIEW

Data Storage Corporation ("DSC" or the "Company") provides subscription based, long term agreements for disaster recovery solutions, Infrastructure as a Service (IaaS) and VoIP and carrier type solutions. Approximately 16% of our revenue is derived from equipment sales for cyber security, storage, IBM Power i systems and managed service solutions.

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

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

DSC is a 19-year veteran in cloud storage and cloud computing providing disaster recovery, business continuity and compliance solutions that assist organizations in protecting their data, minimizing downtime while ensuring regulatory compliance. Serving the business continuity market, DSC's clients save time and money, gain more control and better access to data and enable a high level of security for their data. Solutions include: Infrastructure as a Service specializing in IBM Power; data backup recovery and restore, high availability data replication; email archival and compliance; and eDiscovery; continuous data protection; data de- duplication; and, virtualized system recovery. DSC has forged significant relationships with leading organizations creating valuable partnerships.

Our IBM Power and Intel IaaS Cloud ensures enterprise level equipment and support, focusing on iSeries, AIX, Power, AS400 and our high-processing power for Intel. Our Disaster Recovery services for both Intel and IBM has a guaranteed back-to-work window. DSC is a one-stop source for managed services from VoIP to providing the client with equipment and software, monitoring, help desk and a full array of business continuity solutions.

The Company provides its solutions through its business development team and contracted distribution channels. DSC's contracted approved distributors have the ability to provide our Recovery and IaaS solutions without capital investment thereby lowering their barrier of entry in providing these cloud solutions to their client base.

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

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

DSC services clients from its staffed technical offices in New York and Rhode Island, which consist of modern offices and a technology suite adapted to meet the needs of a technology-based business.

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

RESULTS OF OPERATIONS

Three months ended March 31, 2020 as compared to March 31, 2019

Total Revenue For the three months ended March 31, 2020 increase by $97,429. The increase is primarily attributed to three existing customers which increased their services for Infrastructure & Disaster Recovery/Cloud Service. Additionally, the Nexxis division increased its customer base which generated additional revenue. This was offset by a decrease in equipment and software for the quarter.

Revenue	**For the Three Months Ended March 31,**					
	2020		**2019**		**$ Change**	**% Change**
Infrastructure & Disaster Recovery/Cloud Service	$	1,393,720	$	1,267,047	$ 126,673	10%
Equipment and Software		328,733		428,511	(99,778)	(23)%
Managed Services		220,475		213,925	6,550	3%
Nexxis VoIP Services		153,197		90,703	62,494	69%
Other		2,585		1,095	1,490	136%
Total Revenue	$	2,098,710	$	2,001,281	$ 97,429	5%

Cost of Sales. For the three months ended March 31, 2020, cost of sales was $1,216,117, an increase of $139,574 or 13% compared to $1,076,543 for the three months ended March 31, 2019. The increase is primarily attributable to expenses associated with the data centers for infrastructure and disaster recovery cloud services.

Operating Expenses. For the three months ended March 31, 2020, operating expenses were $876,626, an increase of $53,758, or 7%, as compared to $822,868 for the three months ended March 31, 2019. The net increase is reflected in the chart below.

Operating Expenses	**For the Three Months Ended March 31,**					
	2020		**2019**		**$ Change**	**% Change**
Increase in Salaries	$	442,732	$	366,071	$ 76,661	21%
Decrease in Professional Fees		46,342		76,117	(29,775)	(39)%
Increase in Software as a Service Expense		34,768		1,995	32,773	1,643%
Increase in Advertising Expenses		65,380		33,963	31,417	93%
Decrease in Commissions Expense		185,868		186,971	(1,103)	(1)%
Decrease in T&E		9,784		24,265	(14,481)	(60)%
Decrease in all other Expenses		91,752		133,486	(41,74)	(31)%
Total Expenses	$	876,626	$	822,868	$ 53,758	7%

Salaries increased by $76,661 due to increases in administrative and finance salaries with an addition of two full-time employees. The company also awarded a stock based compensation of options valued at $33,050 to a current employee

S*oftware as a Service Expense (SaaS)* increased by $32,773. This is attributed to the expanding data gathering so management can make more informed decisions.

Advertising Expenses increased primarily due to additional marketing campaigns for both Data Storage Corporation and their subsidiary Nexxis.

Professional fees decreased primarily due to the company hiring a consultant as an employee and relying less on consultants for accounting services.

All Other Expenses decreased primarily due to the reduction of training expenses in the amount of approximately $12,700, rent expense in the amount of approximately $7,400 due to the company downsizing in office space, bad debt recovery of about approximately $10,000 and office supplies in the amount of approximately $4,700.

Other Income (Expense). Interest income (expense) for the three months ended March 31, 2020 increased $2,892 to $46,440 from $49,332 for the three months ended March 31, 2019.

Net Income (Loss). Net loss for the three months ended March 31, 2020 was $40,473, as compared to a net income of $52,538 for the three months ended March 31, 2019.

LIQUIDITY AND CAPITAL RESOURCES

The consolidated financial statements have been prepared using generally accepted accounting principles in the United States of America ("GAAP") applicable for a going concern, which assumes that DSC will realize its assets and discharge its liabilities in the ordinary course of business. In 2020, we intend to continue to work to increase our presence in the cloud and business continuity marketplace specializing in IBM Power i and disaster recovery / business continuity marketplace utilizing our technical expertise, software and our capacity in our data centers.

To the extent we are successful in growing our business, identifying potential acquisition targets and negotiating the terms of such acquisition, and the purchase price includes a cash component, we plan to use our working capital and the proceeds of any financing to finance such acquisition costs. Our opinion concerning our liquidity is based on current information. If this information proves to be inaccurate, or if circumstances change, we may not be able to meet our liquidity needs, which will require a renegotiation of related party capital equipment leases and / or major shareholders, such as senior management, entering into financing or stock purchase arrangements.

During the three months ended March 31, 2020, DSC's cash increased $1,621 to $328,182 from $326,561 March 31, 2019. Net cash of $ 297,720 was provided by DSC's operating activities resulting primarily from the changes in assets and liabilities. Net cash of $56,812 was used in investing activities resulting from payments on capital expenditures. Net cash of $239,287 was used in financing activities resulting primarily from payments on capital lease obligations.

DSC's working capital deficit was $2,763,533 at March 31, 2020, increasing by $191,950 from $2,571,583 at December 31, 2019. The increase is primarily attributable to an increase of accounts payable, dividend payable and, related party financing notes in the amount of $329,078. The increase in short term liabilities was offset by an increase in accounts receivable and prepaid expenses of $175,178.

Off-Balance Sheet Arrangements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Sensitivity

Interest due on the Company's loans is based upon the applicable stated fixed contractual rate with the lender. Interest earned on DSC bank accounts is linked to the applicable base interest rate. For the three months ended March 31, 2020 and 2019, the Company had interest expense of $46,460 and $49,419 respectively. The Company believes that its results of operations are not materially affected by changes in interest rates.

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

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures.

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

The material weaknesses identified during management's assessment were (i) a lack of sufficient internal accounting expertise to provide reasonable assurance that our financial statements and notes thereto are prepared in accordance with GAAP and (ii) a lack of segregation of duties to ensure adequate review of financial statement preparation. In light of these material weaknesses, management has concluded that, as of March 31, 2020, DSC did not maintain effective internal control over financial reporting. As defined by the Public Company Accounting Oversight Board Auditing Standard No. 5, a material weakness is a deficiency or a combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected. In order to ensure the effectiveness of DSC's disclosure controls in the future DSC intends on adding financial staff resources to our internal accounting and finance department.

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

Changes in Internal Control Over Financial Reporting

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

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

We are currently not involved in any litigation that we believe could have a materially adverse effect on our financial condition or results of operations. There is no action, suit, proceeding, inquiry or investigation before or by any court, public board, government agency, self-regulatory organization or body pending or, to the knowledge of the executive officers of our company or any of our subsidiaries, threatened against or affecting DSC, its common stock, any of its subsidiaries or of DSC's or DSC's subsidiaries' officers or directors in their capacities as such, in which an adverse decision could have a material adverse effect.

Item 1A. Risk Factors.

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

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

None.

Item 3. Defaults Upon Senior Securities.

There were no defaults upon senior securities during the period ended March 31, 2020.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information.

None

Item 6. Exhibits

Exhibit No.	Description
3.1	Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form SB-2 filed on December 17, 2007 (the "SB-2")).
3.2	Certificate of Amendment to Articles of Incorporation (incorporated by reference to Exhibit 3.1 to Form 8-K filed on October 24, 2008).
3.3	Certificate of Amendment to Articles of Incorporation (incorporated by reference to Exhibit 3.1.1 on Form 8-K filed on January 6, 2009).
3.4	Bylaws (incorporated by reference to Exhibit 3.2 to the SB-2).
3.5	Amended Bylaws (incorporated by reference to Exhibit 3.2 to Form 8-K filed on October 24, 2008).
4.1	Share Exchange Agreement, dated October 20, 2008, by and among Euro Trend Inc., Data Storage Corporation and the shareholders of Data Storage Corporation named on the signature page thereto (incorporated by reference to Exhibit 10.1 to Form 8-K filed on October 24, 2008).
4.2	Share Exchange Agreement, dated October 20, 2008, by and among, Euro Trend Inc., Data Storage Corporation and the shareholders of Data Storage Corporation named on the signature page thereto (incorporated by reference to Exhibit 10.1 to Form 8-K/A filed on June 29, 2009).
4.3	Registration Rights Agreement, dated November 29, 2011, by and between Data Storage Corporation and Southridge Partners II, LP (incorporated herein by reference to Exhibit 10.2 to Form 8-K filed on December 2, 2011).
4.4	Equity Purchase Agreement, dated November 29, 2011, by and between Data Storage Corporation and Southridge Partners II, LP (incorporated herein by reference to Exhibit 10.2 to Form 8-K filed on December 2, 2011).
4.5	Convertible Promissory Note, dated February 28, 2013, by and between the Company and John F. Coghlan. (incorporated herein by reference to Exhibit 4.1 to Form 10-Q filed on May 20, 2013)
4.6	Warrant to Purchase Common Stock, dated February 28, 2013, by and between the Company and John F. Coghlan (incorporated herein by reference to Exhibit 4.2 to Form 10-Q filed on May 20, 2013)
4.7	Securities Purchase Agreement, dated February 28, 2013, by and between the Company and John F. Coghlan. (incorporated herein by reference to Exhibit 10.1 to Form 10-Q filed on May 20, 2013)
4.8	Securities Purchase Agreement between Charles M. Piluso and the Company dated as of August 9, 2013 (incorporated by reference to Exhibit 2.3 of Schedule 13D/A No. 1 filed by Charles M. Piluso on August 14, 2013 (File No. 005- 84248)).
4.9	10% Convertible Promissory Note due April 30, 2016 (incorporated by reference to Exhibit 2.4 of Schedule 13D/A No. 1 filed by Charles M. Piluso on August 14, 2013 (File No. 005-84248)).
4.10	Warrant to Purchase Common Stock dated as of August 9, 2013, (incorporated by reference to Exhibit 2.5 of Schedule 13D/A No. 1 filed by Charles M. Piluso on August 14, 2013 (File No. 005-84248)).
10.1	Asset Purchase Agreement dated November 10, 2008, by and between Novastor Corporation as Seller and Data Storage Corporation as Purchaser (incorporated by reference to Exhibit 10.1 to Form 8-K filed on November 12, 2008).
10.2	Joint Venture – Strategic Alliance Agreement, dated March 2, 2010, by and between Data Storage Corporation and United Telecomp, LLC (incorporated by reference to Exhibit 10.1 to Form 8-K filed on March 3, 2010).
10.3	Term Sheet for Acquisition by Data Storage Corporation of 80% of the Equity of e-ternity Business Continuity Consultants, Inc., dated May 16, 2012 (incorporated by reference to Exhibit 99.1 to Form 8-K, filed on May 30, 2012).
10.4	Term Sheet for Acquisition by Data Storage Corporation of Message Logic, Inc., dated August 31, 2012 (incorporated by reference to Exhibit 99.1 to Form 8-K filed on September 4, 2012).
10.5	Asset Purchase Agreement, dated June 17, 2010, between SafeData, LLC and Data Storage Corporation (incorporated by reference to Exhibit 10.1 to Form 8-K filed on June 23, 2010).
10.6	Asset Purchase Agreement, dated October 31, 2012, by and between Data Storage Corporation and Message Logic, Inc. (incorporated by reference to Exhibit 2.1 to Form 8-K filed on January 30, 2013).
10.7	Stock Purchase Agreement, dated October 31, 2012, by and between Data Storage Corporation and Zojax Group, LLC (incorporated by reference to Exhibit 10. 1 to Form 8-K filed on November 7, 2012).
10.8	Form of Employment Agreement between Peter Briggs and Data Storage Corporation (incorporated by reference to Exhibit 10.2 to Form 8-K filed on June 23, 2010).
10.9	Data Storage Corporation 2010 Incentive Award Plan (incorporated by reference to Exhibit 10.1 on Form S-8/A filed on October 25, 2010).

10.10	Amended and Restated Data Storage Corporation 2010 Incentive Award Plan (incorporated by reference to Exhibit 10.1 to Form 8-K filed on April 26, 2012).
10.11	Stock Purchase Agreement, dated as of March 1, 2011, by and between Data Storage Corporation and John F. Coghlan (incorporated by reference to Exhibit 10.1 to Form 8-K filed on March 7, 2011).
10.12	Stock Purchase Agreement, dated September 7, 2012, by and between Data Storage Corporation and John F. Coghlan (incorporated by reference to Exhibit 2.1 to Form 8-K filed on September 13, 2012).
10.13	Stock Purchase Agreement, dated September 7, 2012, by and between Data Storage Corporation and Clifford Stein (incorporated by reference to Exhibit 2.2 to Form 8-K filed on September 13, 2012).
10.14	Stock Purchase Agreement, dated September 18, 2012, by and between Data Storage Corporation and Jan Burman (incorporated by reference to Exhibit 2.1 to Form 8-K filed on September 21, 2012).
10.15	Stock Purchase Agreement, dated September 18, 2012, by and between Data Storage Corporation and Charles M. Piluso (incorporated by reference to Exhibit 2.2 to Form 8-K filed on September 21, 2012).
10.16	Stock Purchase Agreement, dated September 18, 2012, by and between Data Storage Corporation and Piluso Family Associates (incorporated by reference to Exhibit 2.3 to Form 8-K filed on September 21, 2012).
10.17	Asset Purchase Agreement by and between ABC Services Inc., and Data Storage Corporation as of October 25, 2016 (incorporated by reference to Exhibit 10.1 to Form 8K filed on October 31, 2016) Asset Purchase Agreement by and between ABC Services II Inc., and Data Storage Corporation as of October 25, 2016 (incorporated by reference to Exhibit 10.2 to Form 8K filed on October 31, 2016) Conversion Agreement by and between Data Storage Corporation and Charles M. Piluso dated October 25, 2016
10.18	(incorporated by reference to Exhibit 10.3 to Form 8K filed on October 31, 2016) Conversion Agreement by and between Data Storage Corporation and John F. Coghlan dated October 25, 2016
10.19	(incorporated by reference to Exhibit 10.4 to Form 8K filed on October 31, 2016)
10.20	Conversion Agreement by and between Data Storage Corporation and Clifford Stein dated October 25, 2016(incorporated by reference to Exhibit 10.5 to Form 8K filed on October 31, 2016).
10.21	Conversion Agreement by and between Data Storage Corporation and Clifford Stein dated October 25, 2016 (incorporated by reference to Exhibit 10.5 to Form 8K filed on October 31, 2016).
10.22	Form of Stockholders Agreement by and between Data Storage Corporation, Nexxis Inc., and John Camello dated November 13, 2017.
10.23	Form of Employment Agreement between Data Storage Corporation, Nexxis Inc., and John Camello dated November 13, 2017.
14	Code of Ethics (incorporated by reference to Exhibit 14.1 to Form 10-K filed on September 30, 2009).
21	List of Subsidiaries of Data Storage Corporation (incorporated by reference to Exhibit 21 to the Registration Statement on Form S-1 filed on February 6, 2012).
31.1	Certification of President, Chief Executive Officer, Chief Financial Officer, Chairman of the Board of Directors Pursuant to Rule 13a-14(a) and Rule 15d-14(a) under the Exchange Act.
32.1	Certification of President, Chief Executive Officer, Chief Financial Officer, Chairman of the Board of Directors Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Press Release dated November 1, 2017 (incorporated by reference to Exhibit 99.1 to Form 8K filed on November 9, 2017)

SIGNATURES

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

Date: May 20, 2020

DATA STORAGE CORPORATION

By: /s/ *Charles M. Piluso*

Charles M. Piluso
Chief Executive Officer
Chief Financial Officer
(Principal Executive, Financial and Accounting Officer)

Exhibit 31.1

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

I, Charles M. Piluso, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Data Storage Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. As the registrant's certifying officer, I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and I have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

5. As the registrant's certifying officer, I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Data Storage Corporation

/s/Charles M. Piluso

Charles M. Piluso
Chief Executive Officer and Chief Financial Officer
(Principal Executive, Financial and Accounting Officer)

Date: May 20, 2020

Exhibit 32.1

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

In connection with the accompanying Quarterly Report on Form 10-Q of Data Storage Corporation, for the period ended March 31, 2020, I, Charles M. Piluso, Chief Executive Officer and Chief Financial Officer of Data Storage Corporation, hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief, that:

1. Such Quarterly Report on Form 10-Q for the period ended March 31, 2020, 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 March 31, 2020, fairly represents in all material respects, the financial condition and results of operations of Data Storage Corporation.

Data Storage Corporation

/s/Charles M. Piluso

Charles M. Piluso
Chief Executive Officer and Chief Financial Officer
(Principal Executive, Financial and Accounting Officer)

Date: May 20, 2020