

Data Storage Corp  
Form 10-K  
April 18, 2017

UNITED STATES

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-K**

(Mark One)

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

For the fiscal year ended December 31, 2016

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)

Edgar Filing: Data Storage Corp - Form 10-K

Nevada 98-0530147  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

68 South Service Road  
**Melville, N.Y.** 11747  
(Address of principal executive offices) (Zip Code)

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

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

**None**

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

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

Title of each class registered:

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

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Edgar Filing: Data Storage Corp - Form 10-K

Yes  No

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

Yes  No

As of June 30, 2016, the last business day of the Registrant's most recently completed second fiscal quarter, the market value of our common stock held by non-affiliates was \$215,969.08.

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Do not check if a smaller reporting company Smaller reporting company

The number of shares of the registrant's common stock outstanding as of April 17, 2017 was 132,139,722

Data Storage Corporation

Table of Contents

|   |    |
|---|----|
| <u>PART I</u>   | 2  |
| <u>ITEM 1. DESCRIPTION OF BUSINESS</u>  | 2  |
| <u>ITEM 1A. RISK FACTORS</u>  | 7  |
| <u>ITEM 1B. UNRESOLVED STAFF COMMENTS</u>   | 7  |
| <u>ITEM 2. DESCRIPTION OF PROPERTY</u>  | 7  |
| <u>ITEM 3. LEGAL PROCEEDINGS</u>  | 7  |
| <u>ITEM 4. MINE SAFETY DISCLOSURES</u>  | 7  |
| <u>PART II</u>  | 8  |
| <u>ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u> | 8  |
| <u>ITEM 6. SELECTED FINANCIAL DATA</u>  | 8  |
| <u>ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION</u>                         | 9  |
| <u>ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>  | 12 |
| <u>ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>  | 13 |
| <u>ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>                         | 31 |
| <u>ITEM 9A. CONTROLS AND PROCEDURES</u>   | 31 |
| <u>ITEM 9B. OTHER INFORMATION</u>   | 32 |
| <u>PART III</u>   | 32 |
| <u>ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u>  | 32 |
| <u>ITEM 11. EXECUTIVE COMPENSATION</u>  | 35 |

|  |    |
|--|----|
| <u>ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u> | 39 |
| <u>ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTION, AND DIRECTOR INDEPENDENCE</u>                       | 40 |
| <u>ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>   | 40 |
| <u>PART IV</u>   | 41 |
| <u>ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES</u>  | 41 |

## PART I

### ITEM 1. DESCRIPTION OF BUSINESS

#### Overview

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

Data Storage Corporation (“DSC” or “the Company”) focuses on cyber security solutions, cloud and compliance. DSC provides Infrastructure as a Service, Disaster Recovery as a Service and Email Archival and Compliance Solutions. Our mission: Protecting our client’s data, ensuring business continuity, assisting in their compliance requirements and providing better control over their digital information. We continue to pivot in this dynamic industry with new solutions and service offerings. The October 2016 acquisition of the assets of ABC Services, Inc. and ABC Services II, Inc. (collectively, “ABC”), and the remaining 50% of Secure Infrastructure and Services LLC supports our acquisition strategy. These acquisitions accelerated our strategy into managed services, expanded cyber security solutions and our hybrid cloud solutions with the ability to provide equipment and expanded technical support.

DSC is a 16-year veteran in cloud storage and cloud computing providing data protection, 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.

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

#### Our Continuing Strategy

## Edgar Filing: Data Storage Corp - Form 10-K

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

In 2010, we expanded solutions based on the asset acquisition of SafeData, a provider of disaster recovery and business continuity for IBM's mid-range servers, Power i.

In October 2012, we purchased the software and assets of Message Logic, an email archival and compliance software.

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

DSC deliver's their solutions over a highly reliable, redundant and secure fiber optic networks with separate and diverse routes to the internet from their data centers.

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

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

Our objective with acquisitions is to reduce costs through economies of scale while increasing market share and consolidating efforts.

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

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

recognizable premiere brand.



## DESCRIPTION OF SERVICES AND SOLUTIONS

Data Storage Corporation (“DSC” or “the Company”) focuses on cyber security solutions, cloud and compliance. DSC provides Infrastructure as a Service, Disaster Recovery as a Service and Email Archival and Compliance Solutions.

### ***BUSINESS CONTINUITY SOLUTIONS: Disaster Recovery as a Service***

DSC offers a fully automated service designed to reduce the overall costs associated with backup and recovery of application and file servers that enables organizations to centralize and streamline their data protection process. Business critical data can be backed up any time while servers are up and running.

The essence of data backup is the scheduled movement of “point-in-time” snapshots of data across a network to a remote location. DSC’s disk-to-disk backup and recovery solution is reliable and easy to use. As part of this service, DSC offers Continuous Data Protection (“CDP”), delta block processing, data de-duplication and large volume protection.

*Significant advantages over traditional backup software:*

- Immediate off-site backup
- Reduced backup windows
- Elimination of tape management issues
- Minimized costs associated with distributed backups
- Elimination of human intervention
- Encryption of all backed up data
- Optimized bandwidth de-duplication and compression

### **Data Archiving – Lifecycle Management**

Backup data must be managed throughout its life cycle to provide the best data protection, meet compliance regulations and to improve recovery time objectives (“RTO”). DSC offers policy based file archiving and manages archiving and restoration of data from backup sessions, reducing the cost of inactive files on-line. DSC creates restorable point in time copies of backup sets for historical reference to meet compliance objectives and creates

Certificates of Destruction. All of an enterprise's data can be placed into one of two categories. Critical information which is needed for day-to-day operations and resides in the system's primary storage for fast access. Important information is the historical, legal and regulatory information that can safely be archived to secondary storage, lower cost disk or tapes stored offsite.

#### Continuous Data Protection (“CDP”)

*What if a database is corrupted in the middle of the workday? As data continually mounts in today's fast paced business environment, organizations need to protect their systems on an ongoing basis, or risk losing mission critical data, information, and transactions, as well as associated business revenue. CDP solutions employ sophisticated I/O, CPU, and network throttling to achieve efficiency and reliability. Moreover, to protect against connectivity failures and interruptions, CDP features an auto resume mechanism that sustains replication and adapts according to the environment to achieve optimal and predictable performance.*

Our technology will identify and propagate only that sector of data to the disaster recovery site, effectively reducing bandwidth and storage consumption. CDP also employs data compression and encryption to maximize network bandwidth utilization and ensure end-to-end security between the primary and DR site.

## Disaster Recovery for Intel Windows and IBM Power i

Organizations may not require real-time recovery. For those with recovery time objectives of 10 hours or less, DSC's Disaster Recovery subscription-based service is a viable option requiring little or no initial capital expenditure.

Available for all IBM Power System's iSeries, AIX, Linux and Windows operating systems. Instantly transfers data off-site to one of DSC's secure data centers. All data is encrypted prior to transmission and remains encrypted "in-flight" and "at rest" to ensure protection and to meet today's compliance standards.

### *Benefits of DR include:*

Fast recovery times (in hours, not days)  
No tapes to get lost or damaged  
Virtual recovery that fully protects your server investment  
Eliminate data recovery burden on IT resources

## High Availability / Replication for both Windows and IBM Power i

Our cloud-based HA services provide businesses with cost effective access to best-in-class replication technologies for organizations of all sizes, operating in Windows, IBM Power Systems iSeries/AS400, MS Windows, Linux and AIX environments. For those companies that have recovery time objectives of 1 hour or less, DSC's HA solution meets the high availability demands of their business. DSC's HA solution is a subscription-based high availability offering. For a monthly subscription fee and long-term contract, DSC creates and maintains a mirror of its clients' mission critical systems and data at a secure off-site data center ensuring their business is "switch ready." During either planned or unplanned downtime, DSC's HA solution ensures the business will continue to operate, by providing an essential Infrastructure as a Service (IaaS), switchable "mirror" of a client's data and applications.

In the event of an outage, the DSC system becomes the client's production system. When the client's production system is again operational, the DSC server updates the client's system with any new data. When downtime is planned, the customer can switch to the DSC server and run its production applications.

### *Benefits of DSC's HA include:*

Data and application availability in one hour or less

Cost-effective

Easy to implement and manage

Reliable backup and recovery

**Cloud Based IBM Power i IaaS:**

A fully managed service, offering “capacity on demand” for IBM Power Systems (AS400/IBM i, AIX) and Windows based applications. Infrastructure as a Service is both secure and a reliable solution for enterprises. IBM Power i servers are turned up in hours instead of weeks, as well as On Demand. Services are provided through our global partnership network. DSC helps mid-market firms built on IBM hardware platforms to deploy new levels of reliable and cost-effective computing and high availability solutions, leveraging the cloud and the benefits of Infrastructure as a Service (IaaS).

## Message Logic

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

Message Logic is distributed through IBM's cloud marketplace and Amazon Web Services marketplace.

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

## Benefit of MLArchiver

### Ease of Use, Affordable

Intuitive design for ease of use yet the features are advanced and powerful.

### Records Management

Good record keeping is essential for any organization. MLArchiver captures all emails full-text indexes the message and attachment, applies retention policies and turns emails into non-alterable records.

### Regulatory & Litigation Process

MLArchiver make responding to regulatory or litigation search requests quick and easy. We meet the Federal Rules of Civil Procedure process for legal discovery and have advanced searching, dynamic folders, tagging, legal hold management and exporting options.

## Compliant

Nearly all industries have one or more regulations which require them to treat emails as corporate records and produce them when requested. ML is a fully compliant solution.

## Analytics

50 custom and standard analytics to let management “Know what is being archived” with real-time alerts. Identify and report on business-critical information.

## Employee Access & Email Storage Cost

Emails older than six months are infrequently accessed. MLArchiver provides tools for employee access via web interface or Outlook. Archive storage is lower cost storage for cost reductions.

## Cyber Security

DSC, with the acquisition of ABC, offers end to end Cyber Security Services including risk assessment, design, fulfillment, implementation, monitoring, management and compliance reporting. Security and networking solutions include firewall, VPN, anti-malware, intrusion prevention, application control, Web filtering, anti-spam, DLP, WAN acceleration, WLAN control, subscription monitoring and management services available in the cloud and/or on premise.

## IBM Equipment and Storage

The ABC assets which we recently acquired, has been an established IBM Premier Business Partner for over 20 years. We actively collaborate with IBM to deliver significant client value through innovative solutions. Together, we offer clients the highest quality service for IBM products, specifically Power and Flex Systems. As an IBM Premier Partner, we bring the benefits of experts on all of IBM's latest Power8 System services and solutions for i, p, x and

Flex platforms.

5

## COMPETITION

Several of the companies we compete with have substantially greater name recognition, benefit of cross selling to their client base and financial resources, although we continue to compete through unique marketing efforts.

### High Availability and Virtual Disaster Recovery Services

The following vendors compete with DSC within the HA and virtual DR services sector: HP Services, IBM Business Continuity and Recovery Services, and SunGard. Recently these companies have expanded into data vaulting to target smaller clients.

### Email Archival and Data Analytics:

Message Logic provides software, a cloud managed service, appliance and a virtual appliance as options for our clients:

Software competitors: GFI, Mimecast, Symantec Enterprise Vault

Cloud Managed Service: Sonian, Smarsh, Global Relay

Appliance: Barracuda Networks, ArcMail, Jatheon

### Data Vaulting

**Information Management and Protection Vendors:** Vendors include EMC, i365, Symantec and CommVault.

**Specialized Vendors:** Venyu, which focuses on SMBs in the U.S.



**Technology Providers / Service providers.** OEM-focused vendors may or may not be service providers, but they have access to a large business based on licensing their technology to other vendors. This includes vendors such as CommVault and i365. Symantec acquired online backup provider SwapDrive. i365, A Seagate Company, acquired EVault in January 2007, renaming it i365. Connected Backup has an established enterprise customer base. IBM Global Technology Services acquired Arsenal Digital Solutions in 2007, adding a range of Online backup services to its portfolio and rebranding it IBM Information Protection Services to Managed Data Vault. Venyu offers two online backup and recovery services: AmeriVault-AV and AmeriVault-EV. Its services protect PCs and servers, and while it focuses mostly on SMBs, it can also support Enterprises.

## CORPORATE HISTORY

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

In November 2012, DSC also entered into agreements with Amazon AWS to offer its Message Logic email archiving software through the AWS marketplace and to offer stand-by-server and storage solutions.

In December 2012, DSC was accepted as an IBM Service provider for cloud solutions and Message Logic is available on the IBM cloud marketplace.

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

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

#### ITEM 1A. RISK FACTORS

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

#### ITEM 1B. UNRESOLVED STAFF COMMENTS

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

#### ITEM 2. PROPERTIES

Our principal office is located at 68 South Service Road, Suite 100, Melville, NY 11747. Our other properties include office space at 48 South Service Road, Suite LL90, Melville, NY 11747 and 535 Centerville Road, Warwick, RI 02886, and a data center located at 115 Second Avenue Waltham, MA 02451. Our corporate telephone number is (212) 564-4922. We believe the current facilities are adequate for the near future.

#### ITEM 3. LEGAL PROCEEDINGS

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

#### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

**LIMITED PUBLIC MARKET FOR COMMON STOCK**

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

| Quarterly ended    | Low Price | High Price |
|--------------------|-----------|------------|
| March 31, 2015     | \$ 0.02   | \$ 0.10    |
| June 30, 2015      | \$ 0.04   | \$ 0.06    |
| September 30, 2015 | \$ 0.03   | \$ 0.05    |
| December 31, 2015  | \$ 0.03   | \$ 0.03    |
| March 31, 2016     | \$ 0.02   | \$ 0.02    |
| June 30, 2016      | \$ 0.02   | \$ 0.02    |
| September 30, 2016 | \$ 0.02   | \$ 0.02    |
| December 31, 2016  | \$ 0.06   | \$ 0.06    |

**HOLDERS OF OUR COMMON STOCK**

As of April 17, 2017, we had 52 shareholders of record of our Common Stock.

**DIVIDEND POLICY**

DSC has not declared or paid dividends on common stock since its formation, and do not anticipate paying dividends in the foreseeable future. The declaration or payment of dividends, if any, in the future, will be at the discretion of

DSC's Board and will depend on the then current financial condition, results of operations, capital requirements and other factors deemed relevant by the Board. There are no contractual restrictions on our ability to declare or pay dividends. Preferred dividends are accrued quarterly. No Preferred dividends have been paid to date.

#### EQUITY COMPENSATION PLAN INFORMATION

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

#### EQUITY COMPENSATION PLAN INFORMATION

During the past fiscal year, we have issued unregistered shares of common stock and options for the purchase of common stock in the following transactions in reliance on an exemption from registration pursuant to Section 4(2) of the Securities Act :

On March 8, 2016, an employee was issued 250,000 stock options at an exercise price of \$0.35 with an expiration date of March 8, 2026.

On October 25, 2016, the Company, through its wholly-owned subsidiary (the "Subsidiary"), entered into and closed two Asset Purchase Agreements (collectively, the "Purchase Agreements") with ABC Services Inc. ("ABC I"), a New York corporation, and ABC Services II Inc. ("ABC II" and collectively with ABCI, "ABC"), a New York Corporation, pursuant to which the Subsidiary purchased certain assets from ABC, including tangible assets and service agreements, in consideration of an aggregate 64,669,936 shares of common stock of the Company (the "Shares"). The Closing occurred on October 25, 2016. Harold J. Schwartz and Thomas C. Kempster, officer and directors of the Company, are the sole shareholders of ABC.

In addition, on October 26, 2016 (the "Effective Date"), the Company entered into three Conversion Agreements with three affiliates (collectively, the "Affiliates") of the Company pursuant to which the Company and the Affiliates converted an aggregate of \$2,678,124 in debt owed by the Company to the Affiliates into shares of common stock of the Company at a conversion price of \$0.10 per share (the "Conversion Price") resulting in the issuance of an aggregate of 26,781,242 shares of common stock of the Company to the Affiliates. Specifically, the Company and Charles Piluso converted \$1,802,521 into 18,025,210 shares of common stock of the Company, John Coghlan converted \$138,822 into 1,388,220 shares of common stock of the Company and Clifford Stein converted \$736,781 into 7,367,812 shares of common stock of the Company.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.

8

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

**COMPANY OVERVIEW**

Data Storage Corporation ("DSC" or "the Company") focuses on cyber security solutions, cloud and compliance. DSC provides Infrastructure as a Service, Disaster Recovery as a Service and Email Archival and Compliance Solutions. Our mission: Protecting our client's data, ensuring business continuity, assisting in their compliance requirements and providing better control over their digital information. We continue to pivot in this dynamic industry with new solutions and service offerings. The October 2016 acquisition of the assets of ABC Services, Inc. and ABC Services II, Inc. (collectively, "ABC"), and the remaining 50% of Secure Infrastructure and Services LLC supports our acquisition strategy. These acquisitions accelerated our strategy into managed services, expanded cyber security solutions and our hybrid cloud solutions with the ability to provide equipment and expanded technical support.

The Company sells their services through direct sales and distributors. DSC owns intellectual property with our proprietary email archival and data analytics software, Message Logic. We provide Recovery Cloud solutions and Infrastructure as a Service. Our distributors, typically Managed Service Providers, have a lower barrier of entry to provide these solutions to their client base.

DSC is a 16-year veteran in cloud storage and cloud computing providing data protection, 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; 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.

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

## Edgar Filing: Data Storage Corp - Form 10-K

DSC derives its revenues from the sale and subscription of services and solutions, managed services and equipment and sales provisioning. DSC has infrastructure and storage equipment in several technical centers in New York State and Massachusetts.

DSC services clients from its staffed technical offices in New York and Rhode Island, which consist of modern offices and a technology suite adapted to meet the needs of a technology based business. DSC's mission is to provide a high level of service to our clients.

DSC varies its use of resource, technology and work processes to meet the changing opportunities and challenges presented by the market and the internal customer requirements.

## RESULTS OF OPERATIONS

### Year ended December 31, 2016 as compared to December 31, 2015

**From October 27 through December 31, 2016, the activity for the acquisition of ABC Services Inc. and ABC Services II Inc. is also accounted for in the year ended December 31, 2016.**

*Net Sales.* Net sales for the year ended December 31, 2016 were \$4,384,930 an increase of \$393,579 or 10%, compared to \$3,991,351 for the year ended December 31, 2015. The increase is attributable to the acquisition of ABC Services Inc. and ABC Services II Inc.

*Cost of Sales.* For the year ended December 31, 2016, cost of sales were \$3,104,014 an increase of \$601,460 from \$2,502,524 for the year ended December 31, 2015. The increase is attributable to the acquisition of ABC Services Inc. and ABC Services II Inc. The Company's gross margin is 32.7% for the year ended December 31, 2016 as compared to 29.2% for the year ended December 31, 2015.

*Operating Expenses.* For the year ended December 31, 2016, operating expenses were \$1,881,478 an increase of \$381 as compared to \$1,881,097 for the year ended December 31, 2015. The net increase is a result of the combined expenses of the entities net of the synergies which were achieved in the combination.

*Other Income (Expense)* Interest income for year ended December 31, 2016 and 2015 remained the same at \$2. Interest expense for the year ended December 31, 2016 decreased \$59,675 to \$228,277 from \$287,652 as compared to the year ended December 31, 2015.

*Net Loss.* Net loss for the year ended December 31, 2016 was \$893,390 an increase of \$199,050 as compared to net loss of \$694,340 for the year ended December 31, 2015. DSC's loss was primarily a result of the acquisition of ABC Services Inc. and ABC Services II Inc.

## 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. DSC has been funded by Mr. Charles M Piluso, DSC’s Chief Executive Officer and largest shareholder combined with private placements of DSC’s common stock. DSC has been successful in raising money as needed. There is no guarantee that Mr. Piluso will continue to fund the Company. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through future issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common stock. Any debt financing that we secure in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. We may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support our business growth and to respond to business challenges could be impaired, and our business may be harmed. Further it is the intention of management to continue to raise money through stock issuances and to fund DSC on an as needed basis. In 2017, we intend to continue to work to increase our presence in the IBM Power i and email compliance marketplaces utilizing our increased technical expertise, capacity for data storage and managed services.

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.

During the year ended December 31, 2016, DSC's cash increased \$188,772 to \$255,817 from \$67,045 at December 31, 2015. Net cash of \$57,144 was provided by DSC's operating activities and cash of \$241,583 was provided by investing activities. Net cash of (\$109,955) was used in financing activities. This result is attributable to the acquisition of assets of ABC Services Inc. and ABC Services II, Inc.

DSC's working capital deficit was \$2,491,976 at December 31, 2016, decreasing \$685,101 from \$3,177,077 at December 31, 2015. The decrease is attributable to the acquisition of the assets of ABC Services Inc. and ABC Services II Inc. and the conversion of short-term convertible debt of \$902,000.

## Share Based Compensation

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

The valuation methodology used to determine the fair value of the options issued during the year was the Black-Scholes option-pricing model. The Black-Scholes model requires the use of a number of assumptions including volatility of the stock price, the average risk-free interest rate, and the weighted average expected life of the options. The risk-free interest rate assumption is based upon observed interest rates on zero coupon U.S. Treasury bonds whose maturity period is appropriate for the term of the warrants and is calculated by using the average daily historical stock prices through the day preceding the grant date.

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

## Off-Balance Sheet Arrangements

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

## CRITICAL ACCOUNTING POLICIES

DSC's financial statements and related public financial information are based on the application of GAAP. GAAP requires the use of estimates assumptions, judgments and subjective interpretations of accounting principles that have an impact on the assets, liabilities, revenue, and expense amounts reported. These estimates can also affect supplemental information contained in our external disclosures including information regarding contingencies, risk and financial condition. We believe our use of estimates and underlying accounting assumptions adhere to GAAP and

are consistently and conservatively applied. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ materially from these estimates under different assumptions or conditions. We continue to monitor significant estimates made during the preparation of our financial statements.

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

#### RECENTLY ISSUED AND NEWLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In June 2015, FASB issued Accounting Standards Update (ASU) No. 2015-12 Compensation - Stock Compensation (Topic 718), Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. A performance target in a share-based payment that affects vesting and that could be achieved after the requisite service period should be accounted for as a performance condition under Accounting Standards Codification (ASC) 718, Compensation - Stock Compensation. As a result, the target is not reflected in the estimation of the award's grant date fair value. Compensation cost would be recognized over the required service period, if it is probable that the performance condition will be achieved. The guidance is effective for annual periods beginning after December 15, 2015 and interim periods within those annual periods. Early adoption is permitted. Management has reviewed the ASU and believes that they currently account for these awards in a manner consistent with the new guidance therefore the current year adoption of this standard did not have a significant effect on the consolidated financial statements.

On August 2015, FASB issued Accounting Standards Update No. 2014-15, Presentation of Financial Statements - Going Concerns (Subtopic 205-40): Disclosures of Uncertainties about an Entity's Ability to continue as a Going Concern. The amendments require management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. Specifically, the amendments (1) provide a definition of the term substantial doubt, (2) require an evaluation every reporting period including interim periods, (3) provide principles for considering the mitigating effect of management's plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, (5) require an express statement and other disclosures when substantial doubt is not alleviated, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). The amendments in this Update are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The adoption of ASU 2014-15 did not have a material impact on our financial position or results of operations.

In April 2015, the Financial Accounting Standards Board (FASB) issued ASU 2015-05, "Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." This ASU provides clarification on whether a cloud computing arrangement includes a software license. If a software license is included, the customer should account for the license consistent with its accounting of other software licenses. If a software license is not included, the arrangement should be accounted for as a service contract. This ASU is effective for annual reporting periods beginning after December 15, 2015, and interim periods within those years. Early adoption is permitted. The adoption of ASU 2015-05 did not have a material impact on our financial position or results of operations.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" (Topic 606). This ASU provides guidance for revenue recognition and affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets and supersedes the revenue recognition requirements in Topic 605, "Revenue Recognition," and most industry specific guidance. The standard's core principle is the recognition of revenue when a company transfers promised goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under the current guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers" (Topic 606): Deferral of the Effective Date, which deferred the effective date of ASU 2014-09 to fiscal years beginning after December 15, 2017, including interim reporting periods within that reporting period. Early adoption is permitted for fiscal years beginning after December 15, 2016. The adoption is not expected to have a material impact on our financial position or results of operations.

We have reviewed all FASB issued Accounting Standards Update ("ASU") accounting pronouncements and interpretations thereof that have effectiveness dates during the periods reported and in future periods. The Company has carefully considered the new pronouncements that alter previous generally accepted accounting principles and does not believe that any new or modified principles will have a material impact on the corporation's reported financial position or operations in the near term. The applicability of any standard is subject to the formal review of our

financial management and certain standards are under consideration.

Management does not believe there would have been a material effect on the accompanying consolidated financial statements had any other recently issued, but not yet effective, accounting standards been adopted in the current period.

#### OFF-BALANCE SHEET TRANSACTIONS

DSC has no off-balance sheet arrangements.

#### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

##### **Interest Rate Sensitivity**

Interest due on the Company's loans is based upon the applicable stated fixed contractual rate with the lender. Interest earned on DSC bank accounts is linked to the applicable base interest rate. For the years ended December 31, 2016 and 2015, DSC had interest expense, net of interest income, of \$228,277 and \$287,652, respectively. DSC believes that its results of operations are not materially affected by changes in interest rates.

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

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

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

| Index to the Consolidated Financial Statements                 | Page |
|--|------|
| <u>Report of Independent Registered Public Accounting Firm</u> | 14   |
| <u>Consolidated Balance Sheets</u>                             | 15   |
| <u>Consolidated Statements of Operations</u>                   | 16   |
| <u>Consolidated Statements of Cash Flows</u>                   | 17   |
| <u>Consolidated Statements of Stockholders' (Deficit)</u>      | 18   |
| <u>Notes to Consolidated Financial Statements</u>              | 19   |

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and  
Stockholders of Data Storage Corporation

We have audited the accompanying consolidated balance sheets of Data Storage Corporation as of December 31, 2016 and 2015, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the years in the two-year period ended December 31, 2016. Data Storage Corporation's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Data Storage Corporation and Subsidiary as of December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America.

/s/ Rosenberg Rich Baker Berman & Company

Somerset, New Jersey

April 18, 2017





## DATA STORAGE CORPORATION AND SUBSIDIARY

## CONSOLIDATED BALANCE SHEETS

|   | December 31,<br>2016 | December 31,<br>2015 |
|---|----------------------|----------------------|
| <b>ASSETS</b>   |                      |                      |
| Current Assets:   |                      |                      |
| Cash and cash equivalents   | \$ 255,817           | \$ 67,045            |
| Accounts receivable (less allowance for doubtful accounts of \$90,000 in 2016 and \$15,000 in 2015) | 807,515              | 118,619              |
| Prepaid expenses and other current assets   | 231,432              | 231,443              |
| Total Current Assets  | 1,294,764            | 417,107              |
| Property and Equipment:   |                      |                      |
| Property and equipment  | 3,401,251            | 3,375,958            |
| Less—Accumulated depreciation   | (3,222,591 )         | (3,064,492 )         |
| Net Property and Equipment  | 178,660              | 311,466              |
| Other Assets:   |                      |                      |
| Goodwill  | 3,985,700            | 2,201,828            |
| Employee loans  | -                    | 85,800               |
| Other assets  | 54,503               | 6,060                |
| Intangible assets, net  | 329,242              | 350,433              |
| Investment in joint venture – at equity   | -                    | 20,117               |
| Total Other Assets  | 4,369,445            | 2,664,238            |
| Total Assets  | 5,842,870            | 3,392,811            |
| <b>LIABILITIES AND STOCKHOLDERS' (DEFICIT)</b>  |                      |                      |
| Current Liabilities:  |                      |                      |
| Accounts payable and accrued expenses   | 1,219,247            | 1,051,349            |
| Revolving credit facility   | 50,412               | 99,292               |
| Accounts payable from acquisition   | 374,762              |                      |
| Dividend payable  | 619,138              | 513,073              |
| Deferred revenue  | 919,103              | 436,563              |
| Leases payable  | 254,078              | 241,983              |
| Note payable – Enterprise Bank  | 350,000              | 350,000              |
| Convertible debt – related parties, net of discount   | -                    | 901,924              |
| Total Current Liabilities   | 3,786,740            | 3,594,184            |
| Deferred rental obligation  | 1,904                | 1,251                |
| Convertible debt – related parties  | -                    | 1,189,439            |
| Note payable related party  | 190,000              | 12,000               |
| Leases payable long-term  | 133,825              | 346,583              |

Edgar Filing: Data Storage Corp - Form 10-K

|  |               |               |
|--|---------------|---------------|
| Total Long-Term Liabilities  | 325,729       | 1,549,273     |
| Total Liabilities  | 4,112,469     | 5,143,457     |
| Commitments and contingencies  | -             | -             |
| Stockholders' Equity (Deficit):  |               |               |
| Preferred stock, Series A par value \$.001; 10,000,000 shares authorized; 1,401,786 shares issued and outstanding in each period | 1,402         | 1,402         |
| Common stock, par value \$0.001; 250,000,000 shares authorized; 128,039,418 shares issued and outstanding in each period         | 128,039       | 36,588        |
| Additional paid in capital   | 17,194,383    | 12,805,332    |
| Accumulated deficit  | (15,593,423 ) | (14,593,968 ) |
| Total Stockholders' Equity(Deficit)  | 1,730,401     | (1,750,646 )  |
| Total Liabilities and Stockholders' Equity(Deficit)  | \$ 5,842,870  | \$ 3,392,811  |

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

## DATA STORAGE CORPORATION AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF OPERATIONS

|   | Years Ended<br>December 31, |              |
|---|-----------------------------|--------------|
|   | 2016                        | 2015         |
| Sales   | \$4,384,930                 | \$3,991,351  |
| Cost of Sales   | 3,104,014                   | 2,502,524    |
| Gross Profit  | 1,280,916                   | 1,488,827    |
| Selling, General and Administrative                   | 1,881,478                   | 1,881,097    |
| Loss from Operations                                  | (600,562 )                  | (392,270 )   |
| Other Income (Expense)                                |                             |              |
| Interest income                                       | 2                           | 2            |
| Other income  | 1,876                       | -            |
| Loss on sale and abandoned equipment                  | -                           | (6,338 )     |
| Net gain on equity method investment                  | 17,863                      | 4,418        |
| Loan Impairment                                       | (85,800 )                   |              |
| Other expense – litigation settlement                 | -                           | (12,500 )    |
| Bad debt recovery                                     | 1,508                       | -            |
| Interest expense                                      | (228,277 )                  | (287,652 )   |
| Total Other (Expense)                                 | (292,828 )                  | (302,070 )   |
| Loss Before Provision for Income Taxes                | (893,390 )                  | (694,340 )   |
| Provision for Income Taxes                            | -                           | -            |
| Net Income (Loss)                                     | (893,390 )                  | (694,340 )   |
| Preferred Stock Dividend                              | (106,065 )                  | (96,013 )    |
| Net Income (Loss) Available to Common Shareholders    | \$(999,455 )                | \$(790,353 ) |
| Earnings (Loss) per Share – Basic and Diluted         | \$(0.02 )                   | \$(0.02 )    |
| Weighted Average Number of Shares - Basic and Diluted | 53,375,169                  | 36,588,240   |

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



## DATA STORAGE CORPORATION AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | Years Ended<br>December 31, |              |
|---|-----------------------------|--------------|
|   | 2016                        | 2015         |
| Net loss  | \$(893,390)                 | \$(694,340 ) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: |                             |              |
| Depreciation and amortization   | 189,289                     | 504,499      |
| Amortization of debt discount   |                             | -            |
| Non-cash interest expense   |                             | 209,136      |
| Net (gain) loss on equity method investment   | (17,863 )                   | (4,418 )     |
| Net (gain) loss on sale of equipment  |                             | 6,699        |
| Bad Debt  | 22,157                      |              |
| Impairment of employee loans  | 85,800                      |              |
| Stock-based compensation  | 48,560                      | 126,521      |
| Changes in Assets and Liabilities:  |                             |              |
| Accounts receivable   | (254,934)                   | (4,063 )     |
| Other assets  | 22,430                      | (450 )       |
| Prepaid expenses and other current assets   | 12                          | (112,675 )   |
| Employee loan   | -                           | (9,700 )     |
| Accounts payable and accrued expenses   | 701,747                     | 100,817      |
| Deferred revenue  | 152,683                     | (33,704 )    |
| Deferred rent   | 653                         | 653          |
| Net Cash Provided by (Used in) Operating Activities                                       | 57,144                      | 88,975       |
| Cash Flows from Investing Activities:   |                             |              |
| Cash acquired in acquisition  | 241,583                     | -            |
| Net Cash Provided by Investing Activities   | 241,583                     | -            |
| Cash Flows from Financing Activities:   |                             |              |
| Issuance of convertible debt  | -                           | 92,000       |
| Repayments of capital lease obligations   | (200,663)                   | (223,378 )   |
| Repayments of credit line   | (99,292 )                   | (1,000 )     |
| Proceeds from related party loans   | 190,000                     |              |
| Net Cash Provided by (Used in) Financing Activities                                       | (109,955)                   | (132,378 )   |
| Increase (Decrease) in Cash and Cash Equivalents  | 188,772                     | (43,403 )    |
| Cash and Cash Equivalents, Beginning of Year  | 67,045                      | 110,448      |
| Cash and Cash Equivalents, End of Year  | \$255,817                   | \$           |

Edgar Filing: Data Storage Corp - Form 10-K

|  |           |             |
|--|-----------|-------------|
| Cash paid for interest   | \$228,276 | \$78,518    |
| Cash paid for income taxes   | \$-       | \$-         |
| Non-cash investing and financing activities: Accrual of preferred stock dividend         | \$106,065 | -           |
| Acquisition of equipment under capital lease in connection with asset purchase agreement | 25,292    |             |
| Conversion of due to related party to convertible debt                                   | \$-       |             |
| Conversion of due to officer to convertible debt   | \$-       | \$1,065,762 |
| Stock issued in connection with Asset Purchase Agreement                                 | \$64,670  | \$-         |
| Stock issued in connection with convertible debt conversion                              | \$26,781  | \$-         |

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

## DATA STORAGE CORPORATION AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

| Description                       | Preferred Stock |          | Common Stock |            | Additional<br>Paid in<br>Capital | Accumulated<br>Deficit | Total        |
|-----------------------------------|-----------------|----------|--------------|------------|----------------------------------|------------------------|--------------|
|                                   | Shares          | Amount   | Shares       | Amount     |                                  |                        |              |
| Balance January 1,<br>2015        | 1,401,786       | 1,402    | 36,588,240   | 36,588     | 12,678,811                       | (13,803,615)           | (1,086,814)  |
| Stock-based<br>compensation       | -               | -        | -            | -          | 126,521                          | -                      | 126,521      |
| Stock option exercised            | -               | -        | -            | -          | -                                | -                      | -            |
| Net loss                          | -               | -        | -            | -          | -                                | (694,340 )             | (694,340 )   |
| Preferred stock<br>dividend       | -               | -        | -            | -          | -                                | (96,013 )              | (96,013 )    |
| Balance December 31,<br>2015      | 1,401,786       | 1,402    | 36,588,240   | 36,588     | 12,805,332                       | (14,593,968)           | (1,750,646)  |
| Stock-based<br>compensation       | -               | -        | -            | -          | 48,560                           | -                      | 48,560       |
| Capital Stock Issued              |                 |          | 64,669,936   | 64,670     | 1,699,282                        |                        | 1,763,952    |
| Conversion of<br>Convertible debt |                 |          | 26,781,241   | 26,781     | 2,641,209                        |                        | 2,667,990    |
| Net Loss                          | -               | -        | -            | -          | -                                | (893,390 )             | (893,390 )   |
| Preferred stock<br>dividend       | -               | -        | -            | -          | -                                | (106,065 )             | (106,065 )   |
| Balance December 31,<br>2016      | 1,401,786       | \$ 1,402 | 128,039,418  | \$ 128,039 | \$ 17,194,384                    | \$(15,593,423)         | \$ 1,730,401 |

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





DATA STORAGE CORPORATION AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

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

Headquartered in Melville, NY, Data Storage Corporation (“DSC” or the “Company”) offers its solutions and services to businesses within the healthcare, banking and finance, distribution services, manufacturing, construction, education, and government sectors.

DSC derives revenues from long term subscription services and professional services related to the implementation of subscription services that provide businesses in the education, government and healthcare industries protection of critical computerized data. In 2009, the Company’s revenues consisted primarily of offsite data backup, de-duplication, continuous data protection and Cloud Disaster Recovery solutions and protecting information for our clients. In 2010, DSC expanded its solutions based on the asset acquisition of SafeData. In 2012, DSC continued to assimilate organizations, expanded its technology as well as its technical group and positioned the new organization for growth. In October 2012, DSC purchased the software and assets of Message Logic. In October 2016, DSC purchased the assets of ABC including the remaining 50% of Secure Infrastructure and Services.

DSC maintains equipment for cloud storage and cloud computing in our data centers in New York State and Massachusetts DSC delivers its solutions over highly reliable, redundant and secure fiber optic networks with separate and diverse routes to the Internet. DSC’s network and geographical diversity is important to clients seeking storage hosting and disaster recovery solutions, ensuring protection of data and continuity of business in the case of a network interruption.

*Liquidity*

The financial statements have been prepared using accounting principles generally accepted in the United States of America applicable for a going concern, which assumes that the Company will realize its assets and discharge its liabilities in the ordinary course of business. For the year ended December 31, 2016, the Company generated revenues of \$4,384,930 but has incurred a net loss attributable to common shareholders of (\$1,017,318). Its ability to continue as a going concern is dependent upon achieving sales growth, reduction of operation expenses and ability of the Company to obtain the necessary financing to meet its obligations and pay its liabilities arising from normal business

operations when they come due, and upon profitable operations. The Company has been funded by the Mr. Charles M. Piluso, the Company's Chief Executive Officer ("CEO") and largest shareholder since inception as well as several Directors. It is the intention of Mr. Piluso to continue to fund the Company on an as needed basis.

## Note 2 - Summary of Significant Accounting Policies

### *Stock Based Compensation*

The Company follows the requirements of FASB ASC 718-10-10, *Share-Based Payments* with regard to stock-based compensation issued to employees. The Company has stock-based incentives for consultants and employees that over achieve. This plan is discretionary. The expense for this stock-based compensation is equal to the fair value of the stock that was determined by using closing price on the day the stock was awarded multiplied by the number of shares awarded. The Company records its options at fair value using the Black-Scholes valuation model.

### *Recently Issued and Newly Adopted Accounting Pronouncements*

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"), which requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. The new guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In July 2015, the FASB voted to delay the effective date of ASU 2014-09 by one year to the first quarter of 2018 to provide companies sufficient time to implement the standards. Early adoption will be permitted, but not before the first quarter of 2017. Adoption can occur using one of two prescribed transition methods. In March and April 2016, the FASB issued ASU 2016-08, "Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net)" and ASU 2016-10, "Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing" which provide supplemental adoption guidance and clarification to ASC 2014-09. ASU 2016-08 and ASU 2016-10 must be adopted concurrently with the adoption of ASU 2014-09. The adoption is not expected to have a material impact on our statement of financial position.

In June 2015, FASB issued Accounting Standards Update (ASU) No. 2015-12 Compensation - Stock Compensation (Topic 718), Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. A performance target in a share-based payment that affects vesting and that could be achieved after the requisite service period should be accounted for as a performance condition under Accounting Standards Codification (ASC) 718, Compensation - Stock Compensation. As a result, the target is not reflected in the estimation of the award's grant date fair value. Compensation cost would be recognized over the required service period, if it is probable that the performance condition will be achieved. The guidance is effective for annual periods beginning after December 15, 2015 and interim periods within those annual periods. Early adoption is permitted. Management has reviewed the ASU and believes that they currently account for these awards in a manner consistent with the new guidance therefore there is no anticipation of any effect to the consolidated financial

statements.

On August 2015, FASB issued Accounting Standards Update No. 2014-15, Presentation of Financial Statements - Going Concerns (Subtopic 205-40): Disclosures of Uncertainties about an Entity's Ability to continue as a Going Concern. The amendments require management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. Specifically, the amendments (1) provide a definition of the term substantial doubt, (2) require an evaluation every reporting period including interim periods, (3) provide principles for considering the mitigating effect of management's plans, (4) require certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, (5) require an express statement and other disclosures when substantial doubt is not alleviated, and (6) require an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). The amendments in this Update are effective for the annual period ending after December 15, 2016, and for annual periods and interim periods thereafter. Early application is permitted. The adoption of ASU 2014-15 did not have a material impact on our financial position or results of operations.

In April 2015, the Financial Accounting Standards Board (FASB) issued ASU 2015-05, "Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." This ASU provides clarification on whether a cloud computing arrangement includes a software license. If a software license is included, the customer should account for the license consistent with its accounting of other software licenses. If a software license is not included, the arrangement should be accounted for as a service contract. This ASU is effective for annual reporting periods beginning after December 15, 2015, and interim periods within those years. The adoption is permitted.

During February 2016, the FASB issued ASU No. 2016-02, "Leases" ("ASU 2016-02"). The standard requires lessees to recognize a lease liability and a lease asset for all leases, including operating leases, with a term greater than 12 months on its balance sheet. The update also expands the required quantitative and qualitative disclosures surrounding leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact of the new standard.

In March 2016, FASB issued ASU No. 2016-09, "Improvements to Employee Share-based Payment Accounting" ("ASU 2016-09"). ASU 2016-09 simplifies several aspects of the accounting for employee share-based payment transactions for both public and nonpublic entities, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Early adoption is permitted. The Company is currently evaluating the standard and the impact on its consolidated financial statements and footnote disclosures.

In January 2017, FASB issued ASU No. 2017-04, "Intangibles—Goodwill and Other Simplifying the Accounting for Goodwill" (ASU 2017-04) requires goodwill impairment loss to be measured as the excess of a reporting unit's carrying amount over its fair value (not to exceed the total goodwill allocated to that reporting unit). The new guidance eliminates Step 2, which an entity used to measure goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. "In computing the implied fair value of goodwill

under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination,” the ASU states. “Instead, under the amendments in this update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount.”

We have reviewed all FASB issued Accounting Standards Update (“ASU”) accounting pronouncements and interpretations thereof that have effectiveness dates during the periods reported and in future periods. The Company has carefully considered the new pronouncements that alter previous generally accepted accounting principles and does not believe that any new or modified principles will have a material impact on the corporation’s reported financial position or operations in the near term. The applicability of any standard is subject to the formal review of our financial management and certain standards are under consideration.

Management does not believe there would have been a material effect on the accompanying consolidated financial statements had any other recently issued, but not yet effective, accounting standards been adopted in the current period.

#### *Principles of Consolidation*

The consolidated financial statements include the accounts of the Company. All significant inter-company transactions and balances have been eliminated in consolidation. Operations for the year ended December 31, 2016 include the operations of ABC Services, Inc., ABC Services II, Inc. and Secure Infrastructure and Services, LLC from October 26, 2016 to December 31, 2016

#### *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.

### *Reclassification*

Certain amounts reported in previous years have been reclassified to conform to the 2015 presentation.

### *Equity Investments*

Equity investments in which the Company exercises significant influence but does not control and is not the primary beneficiary are accounted for using the equity method. The Company's share of its equity method investee's earnings or losses is included in other income in the accompanying Consolidated Statements of Operations.

### *Use of Estimates*

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

### *Estimated Fair Value of Financial Instruments*

The Company's financial instruments include cash, accounts receivable, accounts payable, line of credit and due to related parties. Management believes the estimated fair value of these accounts at December 31, 2016 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 years ended December 31, 2016 and 2015 DSC did not have any customer concentrations.

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

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

#### *Property and Equipment*

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

#### *Income Taxes*

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. At December 31, 2016, 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, 2016, the Company has no uncertain tax positions that qualify for either recognition or

disclosure in the financial statements. The Company's 2015, 2013 and 2012 Federal and State tax returns remain subject to examination by their respective taxing authorities. Neither of the Company's Federal or State tax returns are currently under examination.

### *Goodwill and Other Intangibles*

In 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.

In September 2011, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2011-08, "Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment", to allow entities to use a qualitative approach to test goodwill for impairment. ASU 2011-08 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. The Company adopted ASU 2011-08 in fiscal 2013 and thus performed a qualitative assessment.

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

The Company's revenues consist principally of cloud storage and cloud computing revenues, SaaS and IaaS. Storage revenues consist of monthly charges related to the storage of materials or data (generally on a per unit basis). Sales are generally recorded in the month the service is provided. For customers who are billed on an annual basis, deferred revenue is recorded and amortized over the life of the contract. Set up fees charged in connection with storage contracts are deferred and recognized on a straight-line basis over the life of the contract.

*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 \$52,699 and \$84,423 for advertising costs for the years ended December 31, 2016 and 2015, respectively.

*Net Income (Loss) Per Common Share*

In accordance with FASB ASC 260-10-5 Earnings Per Share, basic income (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing net income (loss) adjusted for income or loss that would result from the assumed conversion of potential common shares from contracts that may be settled in stock or cash by the weighted average number of shares of common stock, common stock equivalents and potentially dilutive securities outstanding during each period. The inclusion of the potential common shares to be issued would have an anti-dilutive effect on diluted loss per share and therefore they are not included in the calculation. Potentially dilutive securities at December 31, 2016 include 6,741,660 options and 133,334 warrants.

## Note 3 - Property and Equipment

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

|                                | December 31, |             |
|--------------------------------|--------------|-------------|
|                                | 2016         | 2015        |
| Storage equipment              | \$2,100,931  | \$2,075,639 |
| Website and software           | 533,418      | 533,418     |
| Furniture and fixtures         | 14,037       | 14,037      |
| Computer hardware and software | 86,184       | 86,184      |
| Data center equipment          | 666,680      | 666,680     |
|                                | 3,375,958    | 3,375,958   |
| Less: Accumulated depreciation | 3,222,591    | 3,064,492   |
| Net property and equipment     | \$178,660    | \$311,466   |

Depreciation expense for the years ended December 31, 2016 and 2015 was \$158,044 and \$405,655, respectively.

**Note 4 - Goodwill and Intangible Assets**

Goodwill and intangible assets consisted of the following:

|   | Estimated life<br>in years | December 31, 2016 |                             |
|---|----------------------------|-------------------|-----------------------------|
|   |                            | Gross<br>amount   | Accumulated<br>Amortization |
| Goodwill                                      | Indefinite                 | \$3,985,700       | -                           |
| Intangible Assets                             |                            |                   |                             |
| Intangible assets not subject to amortization |                            |                   |                             |
| Trademarks                                    | Indefinite                 | 294,268           | -                           |
| Intangible assets subject to amortization     |                            |                   |                             |
| Customer list                                 | 5 - 15                     | 897,274           | 872,300                     |
| Non-compete agreements                        | 4                          | 272,147           | 262,147                     |
| Total Intangible Assets                       |                            | 1,463,689         | 1,134,447                   |

Edgar Filing: Data Storage Corp - Form 10-K

Total Goodwill and Intangible Assets \$5,449,389 \$ 1,134,447

Scheduled amortization over the next five years as follows:

| Years ending December 31, |          |
|---------------------------|----------|
| 2017                      | 28,863   |
| 2018                      | 3,333    |
| 2019                      | 2,778    |
| Total                     | \$34,974 |

Amortization expense for the years ended December 31, 2016 and 2015 were \$31,191 and \$98,844 respectively.

**Note 5 – Capital Lease Obligations**

The company entered into a new lease agreement with Systems Trading, Inc. on May 1, 2015 to refinance all outstanding leases into one capital lease. This lease obligation is payable to Systems Trading, Inc. with monthly installments of \$21,826 from June 1, 2015 through May 1, 2018. This lease is secured with the computer equipment and has been capitalized. Pursuant to Accounting Standards Codification (“ASC”) 470-50-40, Debt Modifications and Extinguishments-Derecognition, the Company determined that modification accounting applied to the refinancing. The new capital lease obligation has an effective interest rate of 7.22%.

On July 10, 2015, the Company entered into a lease with Systems Trading, Inc. The lease is for \$14,443, calls for monthly payments of \$420 and expires on August 1, 2018. It carries an interest rate of 3%. On November 1, 2015, the Company added to the existing lease with Systems Trading. The lease addendum totaled \$7,998, calls for monthly payments of \$258 and expires on August 1, 2018. It carries no interest.

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

|  |            |
|--|------------|
| As of December 31, 2016                                  | \$405,958  |
| Less amount representing interest                        | (18,056 )  |
| Total obligations under capital leases                   | 387,902    |
| Less current portion of obligations under capital leases | (254,078)  |
| Long-term obligations under capital leases               | \$ 133,824 |

Long-term obligations under capital leases at December 31, 2016 mature as follows:

Year ending December 31,

|      |           |
|------|-----------|
| 2017 | \$254,078 |
| 2018 | 133,824   |
|      | -         |
|      | -         |
|      | \$387,902 |

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

|                                |             |
|--------------------------------|-------------|
| Equipment                      | \$1,361,995 |
| Less: accumulated depreciation | 1,150,597   |
|                                | \$211,398   |

**Note 6 - Commitments and Contingencies**

*Revolving Credit Facility*

On January 31, 2008, the Company entered into a revolving credit line with a bank. The credit facility provides for \$100,000 at prime plus 0.5%, 3.75% at December 31, 2016, and is secured by all assets of the Company and personally guaranteed by the Company's principal shareholder. As of December 31, 2016, the Company has paid this in full.

*Operating Leases*

The Company currently leases office space in Melville, NY, and Warwick, RI.

The lease for office space in Melville, NY calls for monthly payments of \$3,498 beginning July 1, 2016. This lease commenced on June 1, 2016 and continues through December 31, 2017.

A second location that was part of the acquisition is also located in Melville, calls for monthly payments of \$8,138 with a lease terminating in August 31, 2019.

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

Minimum obligations under these lease agreements are as follows:

For the Year Ending December 31,

|      |          |
|------|----------|
| 2017 | 29,384   |
| 2018 | 29,520   |
| 2019 | 2,460    |
|      | \$61,364 |

Rent expense for the year ended December 31, 2016 and 2015 was \$147,808 and \$132,136 respectively.

**Note 7 - Acquisition of business**

On October 25, 2016, the Company, through its wholly-owned subsidiary (the "Subsidiary"), entered into and closed two Asset Purchase Agreements (collectively, the "Purchase Agreements") with ABC Services Inc. ("ABC I"), a New York corporation, and ABC Services II Inc. ("ABC II" and collectively with ABCI, "ABC"), a New York



## Edgar Filing: Data Storage Corp - Form 10-K

Corporation, pursuant to which the Subsidiary purchased certain assets from ABC, including tangible assets and service agreements, in consideration of an aggregate 64,669,936 shares of common stock of the Company (the "Shares"). The Closing occurred on October 25, 2016

On October 25, 2016, the Company acquired the assets of ABC of Melville, N Y for a preliminary purchase price of \$1.75 million in the Company's common stock. The purchase price is preliminary pending final purchase accounting adjustments, and the stock consideration to the seller was approved and executed by the Company's board of directors.

ABC Services was a leading server and network solutions provider empowering their customers with innovative business technology, and helping them to prosper and surpass their competition with the ability and resources to meet all their IT systems integration needs, quickly and cost effectively.

Through October 25, 2016, the Company had a 50% non-controlling ownership interest in Secure Infrastructure & Services, LLC who provides Infrastructure-as-a-Service (IaaS) for IBM iSeries and AIX v7 systems, Power HA services and network infrastructure hardware and services as needed to support the IaaS and PowerHA implementation and ongoing needs for customers and services sold under the Company. The Company acquired control over the other 50% owner, so it now owns the JV 100% since the acquisition date.

The acquisition was accounted for as a business combination using the acquisition method. The Company is in the process of obtaining an independent appraisal. Therefore, a preliminary allocation of the purchase price to the acquired assets, liabilities, and goodwill is presented in the table below.

|                               |             |
|-------------------------------|-------------|
| Cash                          | \$241,583   |
| Accounts receivable           | 433,963     |
| Prepaid and other assets      | 41,448      |
| Property, plant and equipment | 25,292      |
| Intangible assets             | 10,000      |
| Goodwill                      | 1,783,872   |
| Current liabilities           | (772,206 )  |
| Purchase price                | \$1,763,952 |

## Edgar Filing: Data Storage Corp - Form 10-K

Goodwill is calculated as the excess of the purchase price over the fair value of the net assets recognized. The goodwill recorded as part of the acquisition primarily reflects the value of the potential to expand. A portion of the goodwill balance is expected to be deductible for income tax purposes. The Company recognized approximately \$45,000 of transaction costs related to the acquisition and the charges were reported in selling, general and administrative expense in the Company's Consolidated Statements of Operations.

Operating results for this acquisition have been included in the Company's Consolidated Statements of Operations from the date of acquisition.

|  | 2016       | 2015       |
|--|------------|------------|
| Revenue                                      | 8,474,143  | 8,143,567  |
| Loss from operations                         | (591,393 ) | (614,410 ) |
| Net Loss                                     | (692,667 ) | (614,410 ) |
| Preferred dividend                           | (106,065 ) | (96,013 )  |
| Net loss attributable to common shareholders | (798,732 ) | (710,423 ) |
| Net loss per share                           | (0.01 )    | (0.01 )    |

### Note 8 –Conversion of Convertible Debt

In addition, on October 25, 2016 (the "Effective Date"), the Company entered into three Conversion Agreements with three affiliates (collectively, the "Affiliates") of the Company pursuant to which the Company and the Affiliates converted an aggregate of \$2,678,124 in debt owed by the Company to the Affiliates into shares of common stock of the Company at a conversion price of \$0.10 per share (the "Conversion Price") resulting in the issuance of an aggregate of 26,781,242 shares of common stock of the Company to the Affiliates. Specifically, the Company and Charles Piluso converted \$1,802,521 into 18,025,210, the Company, John Coghlan converted \$138,822 into 1,388,220 shares of common stock of the Company and the Company and Clifford Stein converted \$736,781 into 7,367,812 shares of common stock of the Company.

**Note 9 – Note Payable – Enterprise Bank**

There has been no default notice from Enterprise Bank. Enterprise Bank has requested that we move from an interest only payment to a self-amortized arrangement. We are in the process of a recommendation in the first half of 2017 for a new payment schedule. Interest only payments have been paid with the last monthly payment made in February 2017. The interest on this note was 5.32% and the maturity date was extended to April 30, 2016.

**Note 10 - Stockholders' (Deficit)**

*Capital Stock*

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

Note 11 Subsequent Events

Employee Chuck Paolillo was promoted to Chief Technology Officer after the merger. The board approved for Mr. Paolillo to receive 7% of his salary in stock options, subject to a company valuation.

*Common Stock Options*

2008 Equity Incentive Plan

In October 2008, the Company's board of directors (the "Board") adopted, the 2008 Equity Incentive Plan (the "2008 Plan). Under the 2008 Plan, we may grant options (including incentive stock options) to purchase our common stock or restricted stock awards to our employees, consultants or non-employee directors. The 2008 Plan is administered by the Board. Awards may be granted pursuant to the 2008 Plan for 10 years from the date the Board approved the 2008 Plan. Any grant under the 2008 Plan may be repriced, replaced or regranted at the discretion of the Board.

The material terms of options granted under the 2008 Plan (all of which have been nonqualified stock options) are consistent with the terms described in the footnotes to the "Outstanding Equity Awards at Fiscal Year-End December 31, 2011," including five-year graded vesting schedules and exercise prices equal to the fair market value of our common stock on the date of grant. Stock grants made under the 2008 Plan have not been subject to vesting requirements. The 2008 Plan was terminated with respect to the issuance of new awards as of February 3, 2013. There are 2,140,429 options outstanding under this plan as of December 31, 2016.

## 2010 Incentive Award Plan

The Company has reserved 5,000,000 shares of common stock for issuance under the terms of the DSC 2010 Incentive Award Plan (the “2010 Plan”). The 2010 Plan is intended to promote the interests of the Company by attracting and retaining exceptional employees, consultants, directors, officers and independent contractors (collectively referred to as the “Participants”), and enabling such Participants to participate in the long-term growth and financial success of the Company. Under the 2010 Plan, the Company may grant stock options, which are intended to qualify as “incentive stock options” under Section 422 of the Internal Revenue Code of 1986, as amended, non-qualified stock options, stock appreciation rights and restricted stock awards, which are restricted shares of common stock (collectively referred to as “Incentive Awards”). Incentive Awards may be granted pursuant to the 2010 Plan for 10 years from the Effective Date. From time to time, we may issue Incentive Awards pursuant to the 2010 Plan. Each of the awards will be evidenced by and issued under a written agreement.

On April 23, 2013, the Board of Directors of the Company amended and restated the DSC 2010 Plan. The 2010 Plan, as amended and restated, has been renamed the “Amended and Restated DSC Incentive Award Plan”. The new plan provides for flexibility in vesting periods and includes a limit of \$100,000 per employee per year for incentive stock options.

There are 3,754,487 options outstanding under this plan as of December 31, 2016.

There were 245,513 shares available for future grants under the plans.

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

|  | Number of<br>Shares<br>Under Options | Range of<br>Option Price<br>Per Share | Weighted<br>Average<br>Exercise Price |
|--|--------------------------------------|---------------------------------------|---------------------------------------|
| Options Outstanding at January 1, 2015   | 6,854,802                            | \$0.02 - 0.85                         | \$ 0.28                               |
| Options Exercised                        | -                                    | 0.02                                  | 0.02                                  |
| Options Outstanding at December 31, 2015 | 6,854,802                            | 0.02 - 0.85                           | 0.26                                  |
| Options Granted                          | 250,000                              | 0.35 - 0.65                           | 0.37                                  |
| Options Forfeited                        | (363,142 )                           | 0.02 - 0.41                           | 0.27                                  |
| Options Outstanding at December 31, 2016 | 6,741,660                            | \$0.02 - 0.85                         | \$ 0.28                               |
| Options Exercisable at December 31, 2016 | 5,645,127                            | \$0.02 - 0.85                         | \$ 0.27                               |

Share-based compensation expense for options totaling \$48,560 was recognized in our results for the year ended December 31, 2016 is based on awards vested.

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

The risk-free interest rate assumption is based upon observed interest rates on zero coupon U.S. Treasury bonds whose maturity period is appropriate for the term of the Warrants and is calculated by using the average daily historical stock prices through the day preceding the grant date.

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

As of December 31, 2016, there was \$12,410 of total unrecognized compensation expense related to unvested employee options granted under the Company's share based compensation plans that is expected to be recognized over a weighted average period of approximately 1.25 years.

## Edgar Filing: Data Storage Corp - Form 10-K

The weighted average fair value of options granted and the assumptions used in the Black-Scholes model during the year ended December 31, 2016 are set forth in the table below.

|  | 2016    |
|--|---------|
| Weighted average fair value of options granted | \$0.03  |
| Risk-free interest rate                        | 2.24 %  |
| Volatility                                     | 229.13% |
| Expected life (years)                          | 10      |
| Dividend yield                                 | 0.00 %  |

*Common Stock Warrants*

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

|   | Number of<br>Shares Under<br>Warrants | Range of<br>Warrants<br>Price<br>Per Share | Weighted<br>Average<br>Exercise Price |
|---|---------------------------------------|--|---------------------------------------|
| Warrants Outstanding at January 1, 2015   | 133,334                               | \$ 0.02                                    | \$ 0.01                               |
| Warrants Granted                          | -                                     | 0.01                                       | 0.01                                  |
| Warrants Cancelled                        | -                                     | 0.02                                       | 0.02                                  |
| Warrants Outstanding at December 31, 2015 | 133,334                               | \$ 0.01                                    | \$ 0.01                               |
| Warrants Granted                          | -                                     | -  | -                                     |
| Warrants Outstanding at December 31, 2016 | 133,334                               | \$ 0.01                                    | \$ 0.01                               |
| Warrants Exercisable at December 31, 2016 | 133,334                               | \$ 0.01                                    | \$ 0.01                               |

**Note 11 - Litigation**

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

*Preferred Stock*

## Liquidation preference

Upon any liquidation, dissolution, or winding up of the Corporation, whether voluntary or involuntary, before any distribution or payment shall be made to the holders of any Common Stock, the holders of Series A Preferred Stock shall be entitled to be paid out of the assets of the Corporation legally available for distribution to stockholders, for each share of Series A Preferred Stock held by such holder, an amount per share of Series A Preferred Stock equal to



the Original Issue Price for such share of Series A Preferred Stock plus all accrued and unpaid dividends on such share of Series A Preferred Stock as of the date of the Liquidation Event.

#### Conversion

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

#### Voting

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

## Dividends

Each share of Series A Preferred Stock, in preference to the holders of all Common Stock (as defined below), shall entitle its holder to receive, but only out of funds that are legally available therefore, cash dividends at the rate of ten percent (10%) per annum from the Original Issue Date on the Original Issue Price for such share of Series A Preferred Stock, compounding annually unless paid by the Corporation. Accrued dividends at December 31, 2016 and 2013 were \$619,138 and \$513,073, respectively.

**Note 12 - Income Taxes –**

The components of the provision (benefit) for income taxes are as follows:

|                               | Years Ended December 31, |      |
|-------------------------------|--------------------------|------|
|                               | 2016                     | 2015 |
| <b>CURRENT</b>                |                          |      |
| Federal                       | \$-                      | \$-  |
| State                         | -                        | -    |
| Total current tax provision   | -                        | -    |
| <b>DEFERRED</b>               |                          |      |
| Federal                       | -                        | -    |
| State                         | -                        | -    |
| Total deferred tax provision  | -                        | -    |
| Total tax provision (benefit) | \$-                      | \$-  |

The components of deferred taxes are as follows:

## Deferred Tax Assets:

|                                  |                 |                 |
|----------------------------------|-----------------|-----------------|
| Net operating loss carry-forward | \$ (2,570,982 ) | \$ (2,139,554 ) |
| Less: valuation allowance        | (2,570,982 )    | (2,139,554 )    |
| Deferred tax assets              | -               | -               |
| Deferred tax liabilities         | -               | -               |
| Net deferred tax asset           | \$-             | \$-             |

The Company had federal and state net operating tax loss carry-forwards of \$6,338,261 and \$5,221,045, respectively as of December 31, 2016. The tax loss carry-forwards are available to offset future taxable income with the federal

and state carry-forwards beginning to expire in 2028.

In 2015 and 2016, net deferred tax assets did not change due to the full allowance. The gross amount of the asset is entirely due to the Net operating loss carry forward. The realization of the tax benefits is subject to the sufficiency of taxable income in future years. The combined deferred tax assets represent the amounts expected to be realized before expiration.

The Company periodically assesses the likelihood that it will be able to recover its deferred tax assets. The Company considers all available evidence, both positive and negative, including historical levels of income, expectations and risks associated with estimates of future taxable income and ongoing prudent and feasible profits. As a result of this analysis of all available evidence, both positive and negative, the Company concluded that it is more likely than not that its net deferred tax assets will ultimately not be recovered and, accordingly, a valuation allowance was recorded as of December 31, 2016 and 2015.

The difference between the expected income tax expense (benefit) and the actual tax expense (benefit) computed by using the Federal statutory rate of 34% is as follows:

|   | Year Ended December 31, |            |
|---|-------------------------|------------|
|   | 2016                    | 2015       |
| Expected income tax benefit (loss) at statutory rate of 34% | \$ 293,316              | \$ 117,505 |
| State and local tax benefit, net of federal                 | 61,251                  | 24,538     |
| Change in valuation account                                 | (354,567 )              | (142,043 ) |
| Income tax expense (benefit)                                | \$ -                    | \$ -       |

### Note 13 - Subsequent Events

None.

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

None.

### ITEM 9A. CONTROLS AND PROCEDURES

#### Evaluation of Disclosure Controls and Procedures

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

Exchange Commission's (the "SEC") rules based on the material weakness described below.

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

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

Management conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992. Management's assessment included an evaluation of the design of DSC's internal control over financial reporting and testing of the operational effectiveness of our internal control over financial reporting. Based on this evaluation, management has determined that as of December 31, 2016, there were material weaknesses in our internal control over financial reporting. The material weaknesses identified during management's assessment were (i) a lack of sufficient internal accounting expertise to provide reasonable assurance that our financial statements and notes thereto are prepared in accordance with GAAP and (ii) a lack of segregation of duties to ensure adequate review of financial statement preparation. In light of these material weaknesses, management has concluded that, as of December 31, 2016, DSC did not maintain effective internal control over financial reporting. As defined by the Public Company Accounting Oversight Board Auditing Standard No. 5, a material weakness is a deficiency or a combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected. In order to ensure the effectiveness of DSC's disclosure controls in the future, DSC intends on adding financial staff resources to our accounting and finance department.

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

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

#### Changes in Internal Control over Financial Reporting

There have been no significant changes in DSC's internal control over financial reporting during the most recently completed fiscal quarter ended December 31, 2016 that have materially affected, or is reasonably likely to materially affect, DSC's internal control over financial reporting.

#### ITEM 9B. OTHER INFORMATION

Harold J. Schwartz engaged as President of the Company.

On December 13, 2016, Harold J. Schwartz was appointed to serve as Treasurer of the Company.

Thomas C. Kempster was engaged as President of Technical Operations of the Company.

On December 13, 2016, Thomas C. Kempster was appointed to serve as the Corporate Secretary and a director of the Company.

#### PART III

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

The following table sets forth the names, ages, and positions of DSC's executive officers and directors as of the March 31, 2017. Executive officers are elected annually by DSC's Board of Directors. Each executive officer holds his office until he resigns, is removed by the Board, or his successor is elected and qualified. Each director holds his office until his successor is elected and qualified or his earlier resignation or removal.

| <b>Name</b>              | <b>Age</b> | <b>Position</b>   |
|--------------------------|------------|---|
| Charles M. Piluso        | 63         | Chairman of the Board, Chief Executive Officer, Chief Financial Officer |
| Harold J. Schwartz       | 51         | Director, Treasurer, President  |
| Thomas C. Kempster       | 49         | Director, Corporate Secretary, President of Technical Operations        |
| John Argen               | 62         | Director  |
| Joseph B. Hoffman        | 59         | Director  |
| Lawrence A. Maglione Jr. | 55         | Director  |
| Cliff Stein              | 59         | Director  |
| John Coghlan             | 61         | Director  |
| Todd Correll             | 49         | Director  |

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

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

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

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

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



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

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

**Todd Correll.** Mr. Correll has served as the CEO and co-founder of North American Telecommunications Corporation, a Florida Corporation, d/b/a Broadsmart, from 2001 through the present. Todd grew Broadsmart from a small reseller of telecom services to nationwide facilities based VoIP company creating significant value. In 2016, the company was sold to Magic Jack. Currently Todd serves as CEO. Mr. Correll prior to his current role was vice president and general manager of Southeast Telephone Company; he holds a bachelor degree for Syracuse University in New York.

**Harold J. Schwartz.** Mr. Schwartz was appointed to serve as a director on July 6, 2015. Since 1995, Mr. Schwartz has served as vice president of ABC Services, Inc., which he co-founded, where he was responsible for the strategic direction of the company, operations, business development and sales. Over the past two decades, Mr. Schwartz has honed his expertise in IBM business systems, business continuity and helping organizations increase IT performance while reducing costs. In addition, Mr. Schwartz is the founder of Systems Trading Incorporated, a technology leasing company established in 1997, where Mr. Schwartz serves as the company's CEO and president. Prior to founding these two businesses, Mr. Schwartz was with CAC Leasing for six years, where he started a lease asset sales division in 1991. This division was established shortly after Mr. Schwartz earned his Bachelor's degree in business from California State University in San Bernardino. Since 2010, Mr. Schwartz has served on the Board of Advisors for Data Storage Corporation.

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

#### Term of Office

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

#### Audit Committee

During the fiscal year ended December 31, 2016 the Company had an independent audit committee consisting of non-executive directors. The audit committee members include: John Coghlan and Cliff Stein. Although the Board of Directors does have an audit committee comprised of independent directors, the audit committee does not have an audit committee financial expert at this time. DSC believes that the financial experience and combined skill set of the members of our audit committee are sophisticated enough for performance of the duties of the audit committee financial expert. In addition, DSC's securities are not listed on a national exchange securities and are not subject to the special corporate governance requirements of any such exchanges. However, DSC does intend to search for a qualified individual to fill the role of the audit committee financial expert.

## Family Relationships

One part-time employee, reporting to our controller, is the wife of the president of technical services and there is no direct report relationship.

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

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

## Code of Ethics

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

## ITEM 11. EXECUTIVE COMPENSATION

### Compensation of Executive Officers

The following summary compensation table sets forth all compensation awarded to, earned by, or paid to the named executive officers paid by us during the fiscal years ended December 31, 2016 and 2015, in all capacities for the accounts of our executive officers, including the Chief Executive Officer (CEO).

### *Summary Compensation Table*

Edgar Filing: Data Storage Corp - Form 10-K

| Name &<br>Principal<br>Position  | Year | Salary    | Bonus | Stock<br>Awards | Option<br>Awards (1) | Non-Equity<br>Incentive<br>Plan<br>Compensation | All Other<br>Compensation | Total     |
|--|------|-----------|-------|-----------------|----------------------|---|---------------------------|-----------|
| Charles M. Piluso,<br>President, Chief Executive<br>Officer, and Chairman of<br>the<br>Board | 2016 | \$99,203  | -     | -               | \$ -                 | -   | -                         | \$99,203  |
|  | 2015 | \$148,973 | -     | -               | \$ 23,333            | -   | -                         | \$172,306 |

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

Employment Agreements

The Company has no employment agreements in place.

**2008 Equity Incentive Plan**

In October 2008, the Board adopted, the Euro Trend, Inc. 2008 Equity Incentive Plan (the “2008 Plan”). Under the 2008 Plan, we may grant options (including incentive stock options) to purchase our common stock or restricted stock awards to our employees, consultants or non-employee directors. The 2008 Plan is administered by the Board. Awards may be granted pursuant to the 2008 Plan for 10 years from the date the Board approved the 2008 Plan. Any grant under the 2008 Plan may be repriced, replaced or regranted at the discretion of the Board. From time to time, we may issue awards pursuant to the 2008 Plan.

The material terms of options granted under the 2008 Plan (all of which have been nonqualified stock options) are consistent with the terms described in the footnotes to the "Outstanding Equity Awards at Fiscal Year-End December 31, 2016" table below, including five-year graded vesting schedules and exercise prices equal to the fair market value of our common stock on the date of grant. Stock grants made under the 2008 Plan have not been subject to vesting requirements. The 2008 Plan was terminated with respect to the issuance of new awards as of February 3, 2013. There are 2,140,429 options outstanding under this plan as of December 31, 2016.

#### 2010 Incentive Award Plan

The 2010 Incentive Award Plan was amended and restated by the Board of Directors of Data Storage Corporation on April 23, 2013 and was renamed the "Amended and Restated Data Storage Corporation Incentive Award Plan" (Restated Plan). The Company has reserved 5,000,000 shares of common stock for issuance under the terms of the Data Storage Corporation Restated Plan. The Restated Plan is intended to promote the interests of the Company by attracting and retaining exceptional employees, consultants, directors, officers and independent contractors (collectively referred to as the "Participants"), and enabling such Participants to participate in the long-term growth and financial success of the Company. Under the Restated Plan, the Company may grant stock options, which are intended to qualify as "incentive stock options" under Section 422 of the Internal Revenue Code of 1986, as amended, non-qualified stock options, stock appreciation rights and restricted stock awards, which are restricted shares of common stock (collectively referred to as "Incentive Awards"). Incentive Awards may be granted pursuant to the Restated Plan for 10 years from the Effective Date. From time to time, we may issue Incentive Awards pursuant to the Restated Plan. Each of the awards will be evidenced by and issued under a written agreement. There are 4,714,373 options outstanding under this plan as of December 31, 2016.

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

#### Outstanding Equity Awards at Fiscal Year-End December 31, 2016

Option Awards (1) (2)  
Equity  
Incentive  
Plan

Edgar Filing: Data Storage Corp - Form 10-K

| Name                         | Option Approval Date | Number of Awards:                             |  | Option Exercise Price (\$) | Option Expiration Date |
|------------------------------|----------------------|---|--|----------------------------|------------------------|
|                              |                      | Underlying Securities Unexercised Options (#) | Underlying Securities Unexercised Unearned Options (#) |                            |                        |
| Charles M. Piluso<br><br>(3) | 5/26/2009            | 23,058  | 0  | 0.32                       | 5/25/2019              |
|                              | 12/15/2009           | 250,000                                       | 0  | 0.36                       | 12/14/2019             |
|                              | 12/31/2009           | 13,888  | 0  | 0.36                       | 12/30/2019             |
|                              | 12/16/2010           | 14,286  | 0  | 0.35                       | 12/15/2020             |
|                              | 3/6/2013             | 548,780                                       | 0  | 0.394                      | 6/17/2022              |
|                              | 6/18/2013            | 357,143                                       | 0  | 0.394                      | 6/17/2022              |
|                              | 12/13/2013           | 17,778  | 15,555   | 0.15                       | 12/12/2023             |
|                              | 12/22/2015           | 0   | 66,666   | 0.35                       | 12/21/2025             |

All of the options to purchase shares of our common stock awarded to Mr. Piluso (a “Participant”) under the 2008 Plan were unvested on the date of grant. Twenty percent (20%) of the stock options vested after the Participant remained continuously providing services to the Company through the one (1) year anniversary of the date of the grant. Thereafter, an additional one and two-thirds percent (1.67%) of the options vest upon the end of each calendar month thereafter provided that the Participant has been continuously providing services to the Company from the date of the grant through and including such calendar month. Upon the termination of a Participant’s engagement with the Company for any reason, the vesting of all options shall immediately cease upon such termination, and all unvested options as of the time of such termination shall immediately expire and be forfeited. Upon the termination of the Participant’s engagement with the Company for (A) Participant’s failure, neglect or refusal to perform his duties to the Company, (B) any conduct of the Participant constituting fraud, material dishonesty or breach of trust in connection with the Participant’s performance of his duties to the Company or any material breach by the Participant of any statutory or common law duty of loyalty to the Company (1) (C) the commission by the Participant of a felony or of any crime involving theft, dishonesty or moral turpitude, or (D) any other act or omission that, in the reasonable determination of the Board, has caused or is likely to cause detrimental notoriety or other comparable material harm to the Company, all vested options shall expire and be forfeited immediately at the time notice of such termination is given. Upon the termination of the Participant’s engagement with the Company due to the Participant’s death or disability, all vested options shall expire and be forfeited immediately at the close of business on the ninetieth (90th) day following the date of termination. Upon any termination of the Participant’s engagement with the Company other than as provided in the foregoing, all vested options shall expire and be forfeited immediately at the close of business on the first (1st) anniversary of the date of termination. In the event of a “Sale of the Company” (as defined in the 2008 Plan), the Board may modify any grant to provide for the effect of a “Sale of the Company”.

(2) The Company has no unvested shares of restricted stock outstanding.

The stock grants awarded to Mr. Piluso consists of 571,429 shares of common stock valued at \$200,000, based on the closing bid price of \$0.35 on the issuance date of March 23, 2011. Mr. Piluso received these shares in lieu of a salary for 2010. All of the shares were fully vested on the date of grant. These shares were issued pursuant to the (3) 2008 Plan (described below). This issuance was reversed and replaced with options to purchase 548,780 shares of common stock valued at \$192,073 at an exercise price of \$0.394 per share on June 18, 2012. Mr. Piluso also received options to purchase 337,143 shares of common stock valued at \$118,000 at an exercise price of \$0.394 per share on June 18, 2012.

#### Compensation of Directors

None

(1)



The only compensation awarded to directors for their service on the Board in respect of fiscal year 2013 included non-qualified stock options, which were granted in 2013. The 2013 stock options were awarded pursuant to the 2010 Incentive Award Plan. It was determined that the Board members would receive \$5,000 each for participating in Board meetings as scheduled and participating on various committees. The stock options were granted on December 13, 2013, with an exercise price of \$0.15 per share.

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

Securities Authorized for Issuance Under Equity Compensation Plans

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

As of the end of 2015, we had the following securities authorized for issuance under our equity compensation plans:

| Plan Category  | Number of securities to be issued upon exercise of outstanding options and warrants (a) | Weighted-average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c) |
|--|---|---|---|
| Equity compensation plans approved by security holders     | -   | -   | -   |
| Equity compensation plans not approved by security holders | 6,741,660   | (1) \$ 0.28   | 285,627   |
| Total  | 6,741,660   | \$ 0.28   | 285,627   |

(1) In October 2008, our Board adopted the 2008 Plan. As of the end of fiscal year 2015, we had 2,140,429 shares of our common stock issuable upon the exercise of outstanding options granted pursuant to the 2008 Plan. As of end of fiscal year, 2015, there were warrants outstanding to purchase 133,334 shares of common stock at a weighted average exercise price of \$0.001, none of which were granted pursuant to the 2008 Plan or the 2010 Plan. In

October 2010, our Board adopted the 2010 Plan. In April 2013, our Board amended and restated the 2010 Plan and it was renamed the “Amended and Restated DSC Incentive Award Plan”. In March 2013, our Board approved the continuation of the 2010 plan. As of the end of fiscal year 2015, we had 4,714,373 shares of our common stock issuable upon the exercise of outstanding options granted pursuant to the 2010 plan.

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

The following table sets forth each person known by us to be the beneficial owner of five percent or more of the Company's Common Stock on April 17, 2017 all directors individually and all directors and officers of the Company as a group. Except as noted, each person has sole voting and investment power with respect to the shares shown.

| <b>Name and Address of<br/>Beneficial Owner (1)(2)</b>     | <b>Amount and Nature of<br/>Beneficial Ownership</b> | <b>Percent of Class (3)</b> |   |
|--|--|-----------------------------|---|
| Charles Piluso (4) (12)                                    | 41,279,398   | 31.90                       | % |
| Cliff Stein (5) (12)                                       | 10,860,553   | 8.47                        | % |
| Harold J. Schwartz (6) (12)                                | 32,368,301   | 25.27                       | % |
| Thomas C. Kempster (12)                                    | 32,334,968   | 25.25                       | % |
| John Coghlan (7) (12)                                      | 6,095,830  | 4.75                        | % |
| Lawrence A. Maglione, Jr. (8) (12)                         | 251,069  | *                           |   |
| John Argen (9) (12)  | 184,564  | *                           |   |
| Joseph Hoffman (10) (12)                                   | 184,564  | *                           |   |
| Todd Correll (11) (12)                                     | 116,666  | *                           |   |
| All Executive Officers and Directors as a group (9 people) | 123,617,740  | 96.18                       | % |

\* Less than 1%

(1) The address for each person is 68 South Service Road, Melville, New York 11530.

Under the rules of the SEC, a person is deemed to be the beneficial owner of a security if such person has or shares the power to vote or direct the voting of such security or the power to dispose or direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities if that person has the right to acquire (2) beneficial ownership within 60 days of April 17, 2017. Unless otherwise indicated by footnote, the named entities or individuals have sole voting and investment power with respect to the shares of common stock beneficially owned.

Based upon 128,039,418 shares of common stock issued and outstanding as of April 17, 2017 and options that can (3) be acquired within 60 days of April 17, 2017. Unless otherwise indicated in the footnotes to the above table and subject to community property laws where applicable, we believe that each shareholder named in the above table has sole or shared voting and investment power with respect to the shares indicated as beneficially owned.

- (4) Includes (i) 18,226,486 shares of common stock held individually, (ii) 3,269,863 shares of common stock held by Piluso Family Associates, (iii) 9,204,614 shares of common stock held by The Bella Vita 2012 Trusts, (iv) 9,204,614 shares of common stock held by The Lasata 2012 Trusts, (v) options to acquire 1,307,154 shares of common stock and (vi) a common stock purchase warrant exercisable for 66,667 shares of common stock. Mr. Piluso is the co-manager and has shared voting control over the shares of common stock of the Company held by Piluso Family Associates, LLC. Mr. Piluso and his wife are the trustees of the trusts.
- (5) Includes (i) 10,717,301 shares of common stock and (ii) 143,252 shares of common stock issuable upon exercise of stock options.
- (6) Includes (i) 32,334,968 shares of common stock and (ii) 33,333 shares of common stock issuable upon exercise of stock options.
- (7) Includes (i) 5,862,330 shares of common stock held individually, (ii) options to acquire 166,833 shares of common stock and (iii) a common stock purchase warrant exercisable for 66,667 shares of common stock.
- (8) Includes (i) 33,172 shares of common stock held individually and (ii) options to acquire 217,897 shares of common stock.
- (9) Includes options to acquire 184,564 shares of common stock.
- (10) Includes options to acquire 184,564 shares of common stock.
- (11) Includes (i) options to acquire 91,666 shares of common stock and (ii) 25,000 shares of common stock.
- (12) Officer and/or director of the Company.

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

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

The Board of Directors has determined, after considering all the relevant facts and circumstances, that during the fiscal year ended December 31, 2016 each of Messrs. Argen, Hoffman, Coghlan, and Stein were independent directors, as “independence” is defined in the federal securities laws and the Nasdaq Marketplace Rules.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

**Audit Fees**

DSC’s fiscal years ended December 31, 2016 and 2015 was billed approximately \$55,000 and \$55,000 for professional services rendered for the audit and review of its financial statements.

Audit Related Fees

There were no fees for audit related services for the years ended December 31, 2016 and 2015.

#### Tax Fees

For DSC's fiscal years ended December 31, 2016 and 2015, it was billed approximately \$4,500 and \$4,500 respectively for professional services rendered for tax compliance, tax advice, and tax planning.

#### All Other Fees

DSC did not incur any other fees related to services rendered by its principal accountant for the fiscal years ended December 31, 2016 and 2015.

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

## PART IV

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

#### a) Documents filed as part of this Annual Report

1. Consolidated Financial Statements
2. Financial Statement Schedules
3. Exhibits

Edgar Filing: Data Storage Corp - Form 10-K

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



EXHIBIT INDEX

**Exhibits**

| <b>#</b> | <b>Description</b>   |
|----------|--|
| 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, 2015 (incorporated by reference to Exhibit 2.4 of Schedule 13D/A No. 1 filed by Charles M. Piluso on August 14, 2013 (File No. 005-84248)).  |
| 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, 2013 (incorporated by reference to Exhibit 99.1 to Form 8-K,   |

filed on May 30, 2013).

- 10.4 Term Sheet for Acquisition by Data Storage Corporation of Message Logic, Inc., dated August 31, 2013 (incorporated by reference to Exhibit 99.1 to Form 8-K filed on September 4, 2013).
- 10.5 Asset Purchase Agreement, dated June 17, 2010, between SafeData, LLC and Data Storage Corporation (incorporated by reference to Exhibit 10.1 to Form 8-K filed on June 23, 2010).
- 10.6 Asset Purchase Agreement, dated October 31, 2013, by and between Data Storage Corporation and Message Logic, Inc. (incorporated by reference to Exhibit 2.1 to Form 8-K filed on January 30, 2013).
- 10.7 Stock Purchase Agreement, dated October 31, 2013, by and between Data Storage Corporation and Zojax Group, LLC (incorporated by reference to Exhibit 10. 1 to Form 8-K filed on November 7, 2013).
- 10.8 Form of Employment Agreement between Peter Briggs and Data Storage Corporation (incorporated by reference to Exhibit 10.2 to Form 8-K filed on June 23, 2010).
- 10.9 Data Storage Corporation 2010 Incentive Award Plan (incorporated by reference to Exhibit 10.1 on Form S-8/A filed on October 25, 2010).
- 10.10 Amended and Restated Data Storage Corporation 2010 Incentive Award Plan (incorporated by reference to Exhibit 10.1 to Form 8-K filed on April 26, 2013).
- 10.11 Stock Purchase Agreement, dated as of March 1, 2011, by and between Data Storage Corporation and John F. Coghlan (incorporated by reference to Exhibit 10.1 to Form 8-K filed on March 7, 2011).
- 10.12 Stock Purchase Agreement, dated September 7, 2013, by and between Data Storage Corporation and John F. Coghlan (incorporated by reference to Exhibit 2.1 to Form 8-K filed on September 13, 2013).
- 10.13 Stock Purchase Agreement, dated September 7, 2013, by and between Data Storage Corporation and Clifford Stein (incorporated by reference to Exhibit 2.2 to Form 8-K filed on September 13, 2013).
- 10.14 Stock Purchase Agreement, dated September 18, 2013, by and between Data Storage Corporation and Jan Burman (incorporated by reference to Exhibit 2.1 to Form 8-K filed on September 21, 2013).
- 10.15 Stock Purchase Agreement, dated September 18, 2013, by and between Data Storage Corporation and Charles M. Piluso (incorporated by reference to Exhibit 2.2 to Form 8-K filed on September 21, 2013).
- 10.16 Stock Purchase Agreement, dated September 18, 2013, by and between Data Storage Corporation and Piluso Family Associates (incorporated by reference to Exhibit 2.3 to Form 8-K filed on September 21, 2013).
- 10.17 Asset Purchase Agreement by and between ABC Services Inc., and Data Storage Corporation Inc. and Data Storage Corporation as of October 25, 2016 (incorporated by reference to Exhibit 10.1 to Form 8K filed on October 31, 2016)
- 10.17 Asset Purchase Agreement by and between ABC Services II Inc., and Data Storage Corporation Inc. and Data Storage Corporation as of October 25, 2016 (incorporated by reference to Exhibit 10.2 to Form 8K filed on October 31, 2016)
- 10.19 Conversion Agreement by and between Data Storage Corporation and Charles M. Piluso dated October 25, 2016 (incorporated by reference to Exhibit 10.3 to Form 8K filed on October 31, 2016)
- 10.20 Conversion Agreement by and between Data Storage Corporation and John F. Coghlan dated October 25, 2016 (incorporated by reference to Exhibit 10.4 to Form 8K filed on October 31, 2016)
- 10.21 Conversion Agreement by and between Data Storage Corporation and Clifford Stein dated October 25, 2016 (incorporated by reference to Exhibit 10.5 to Form 8K filed on October 31, 2016).
- 14 Code of Ethics (incorporated by reference to Exhibit 14.1 to Form 10-K filed on March 31, 2009).
- 21 List of Subsidiaries of Data Storage Corporation (incorporated by reference to Exhibit 21 to the Registration Statement on Form S-1 filed on February 6, 2013).
- 31.1 Certification of President, Chief Executive Officer, Chief Financial Officer, Chairman of the Board of Directors Pursuant to Rule 13a-14(a) and Rule 15d-14(a) under the Exchange Act.
- 32.1 Certification of President, Chief Executive Officer, Chief Financial Officer, Chairman of the Board of Directors Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.



SIGNATURES

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

DATA STORAGE CORPORATION

By: */s/ Charles M. Piluso*

Chief Executive Officer

Chief Financial Officer

Principal Executive Officer

Principal Financial Officer

Principal Accounting Officer

**Dated** April 17, 2017

POWER OF ATTORNEY

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

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

Edgar Filing: Data Storage Corp - Form 10-K

| <b>Signature</b>  | <b>Title</b>  | <b>Date</b>    |
|---|---|----------------|
| /s/ Charles M. Piluso<br><b>Charles M. Piluso</b>               | Chief Executive Officer, Chief Financial Officer, Principal Executive Officer, Principal Financial Officer and Principal Accounting Officer | April 17, 2017 |
| /s/ John Argen<br><b>John Argen</b>                             | Director  | April 17, 2017 |
| /s/ Todd Correll<br><b>Todd Correll</b>                         | Director  | April 17, 2017 |
| /s/ Joseph B. Hoffman<br><b>Joseph B. Hoffman</b>               | Director  | April 17, 2017 |
| /s/ Lawrence A. Maglione Jr.<br><b>Lawrence A. Maglione Jr.</b> | Director  | April 17, 2017 |
| /s/ John Coghlan<br><b>John Coghlan</b>                         | Director  | April 17, 2017 |
| /s/ Cliff Stein<br><b>Cliff Stein</b>                           | Director  | April 17, 2017 |
| /s/ Harold J. Schwartz<br><b>Harold J. Schwartz</b>             | Director  | April 17, 2017 |
| /s/ Thomas C. Kempster<br><b>Thomas C. Kempster</b>             | Director  | April 17, 2017 |