

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2022

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

For the transition period from _____ to _____

Commission File Number: 001-35384

DATA STORAGE CORPORATION

(Exact name of registrant as specified in its charter)

Nevada

(State or other jurisdiction of
incorporation or organization)

98-0530147

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

48 South Service Road
Melville, NY

(Address of principal executive offices)

11747

(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: None

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

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

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

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

Large Accelerated Filer

Non-Accelerated Filer

Accelerated Filer

Smaller Reporting Company

Emerging Growth Company

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

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

Yes No

The number of shares of the registrant's common stock, \$0.001 par value per share, outstanding as of November 14, 2022, was 6,822,127.

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DATA STORAGE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	<u>September 30, 2022</u> <u>(Unaudited)</u>	<u>December 31, 2021</u>
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 11,281,703	\$ 12,135,803
Accounts receivable (less allowance for credit losses of \$12,476 and \$30,000 in 2022 and 2021, respectively)	2,011,166	2,384,367
Prepaid expenses and other current assets	868,019	536,401
Total Current Assets	<u>14,160,888</u>	<u>15,056,571</u>
Property and Equipment:		
Property and equipment	7,103,795	6,595,236
Less—Accumulated depreciation	(4,732,846)	(4,657,765)
Net Property and Equipment	<u>2,370,949</u>	<u>1,937,471</u>
Other Assets:		
Goodwill	6,560,671	6,560,671
Operating lease right-of-use assets	276,465	422,318
Other assets	166,248	103,226
Intangible assets, net	2,045,375	2,254,566
Total Other Assets	<u>9,048,759</u>	<u>9,340,781</u>
Total Assets	<u>\$ 25,580,596</u>	<u>\$ 26,334,823</u>
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 1,490,877	\$ 1,343,391
Deferred revenue	71,037	366,859
Finance leases payable	381,043	216,299
Finance leases payable related party	719,364	839,793
Operating lease liabilities short term	186,645	205,414
Total Current Liabilities	<u>2,848,966</u>	<u>2,971,756</u>
Operating lease liabilities	97,354	226,344
Finance leases payable	346,622	157,424
Finance leases payable related party	281,030	364,654
Total Long Term Liabilities	<u>725,006</u>	<u>748,422</u>
Total Liabilities	<u>3,573,972</u>	<u>3,720,178</u>
Commitments and contingencies		
Stockholders' Equity:		
Preferred stock, Series A par value \$.001; 10,000,000 shares authorized; 0 and 0 shares issued and outstanding in 2022 and 2021, respectively	—	—
Common stock, par value \$.001; 250,000,000 shares authorized; 6,822,127 and 6,693,793 shares issued and outstanding in 2022 and 2021, respectively	6,822	6,694
Additional paid in capital	38,891,891	38,241,155
Accumulated deficit	(16,759,284)	(15,530,576)
Total Data Storage Corp Stockholders' Equity	<u>22,139,429</u>	<u>22,717,273</u>
Non-controlling interest in consolidated subsidiary	(132,805)	(102,628)
Total Stockholder's Equity	<u>22,006,624</u>	<u>22,614,645</u>
Total Liabilities and Stockholders' Equity	<u>\$ 25,580,596</u>	<u>\$ 26,334,823</u>

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

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

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Sales	\$ 4,419,285	\$ 3,860,258	\$ 17,904,233	\$ 9,963,198
Cost of sales	<u>2,566,984</u>	<u>2,317,668</u>	<u>11,847,460</u>	<u>5,805,368</u>
Gross Profit	1,852,301	1,542,590	6,056,773	4,157,830
Selling, general and administrative	<u>2,075,525</u>	<u>1,874,258</u>	<u>7,129,595</u>	<u>4,549,499</u>
Loss from Operations	<u>(223,224)</u>	<u>(331,668)</u>	<u>(1,072,822)</u>	<u>(391,669)</u>
Other Income (Expense)				
Interest expense, net	(29,739)	(15,726)	(186,063)	(97,392)
Loss on disposal of equipment	—	—	—	(29,732)
Gain on forgiveness of debt	—	481,977	—	789,277
Total Other Income (Expense)	<u>(29,739)</u>	<u>466,251</u>	<u>(186,063)</u>	<u>662,153</u>
Income (Loss) before provision for income taxes	(252,963)	134,583	(1,258,885)	270,484
Provision for income taxes	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net Income (Loss)	(252,963)	134,583	(1,258,885)	270,484
Non-controlling interest in consolidated subsidiary	<u>7,344</u>	<u>1,047</u>	<u>30,177</u>	<u>6,358</u>
Net Income (Loss) attributable to Data Storage Corp	(245,619)	135,630	(1,228,708)	276,842
Preferred Stock Dividends	<u>—</u>	<u>—</u>	<u>—</u>	<u>(63,683)</u>
Net Income (Loss) Attributable to Common Stockholders	<u>\$ (245,619)</u>	<u>\$ 135,630</u>	<u>\$ (1,228,708)</u>	<u>\$ 213,159</u>
Earnings per Share – Basic	<u>\$ (0.04)</u>	<u>\$ 0.02</u>	<u>\$ (0.18)</u>	<u>\$ 0.05</u>
Earning pers Share – Diluted	<u>\$ (0.04)</u>	<u>\$ 0.02</u>	<u>\$ (0.18)</u>	<u>\$ 0.05</u>
Weighted Average Number of Shares – Basic	<u>6,822,127</u>	<u>6,350,826</u>	<u>6,759,247</u>	<u>4,530,188</u>
Weighted Average Number of Shares – Diluted	<u>6,822,127</u>	<u>6,482,577</u>	<u>6,759,247</u>	<u>4,720,546</u>

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

DATA STORAGE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2021 AND 2022

	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Non- Controlling Interest</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>				
Balance July 1, 2021	—	\$ —	4,862,352	\$ 4,862	\$ 27,276,653	\$ (15,657,208)	\$ (100,016)	\$ 11,524,291
Proceeds from issuance of common stock and warrants	—	—	1,375,000	1,375	7,488,110	—	—	7,489,485
Stock Warrants Exercise	—	—	455,390	456	3,380,815	—	—	3,381,271
Stock-based compensation	—	—	—	—	44,032	—	—	44,032
Net Income (Loss)	—	—	—	—	—	135,630	(1,047)	134,583
Balance, September 30, 2021	<u>—</u>	<u>\$ —</u>	<u>6,692,742</u>	<u>\$ 6,693</u>	<u>\$ 38,189,610</u>	<u>\$ (15,521,578)</u>	<u>\$ (101,063)</u>	<u>\$ 22,573,662</u>
Balance July 1, 2022	—	\$ —	6,822,127	\$ 6,822	\$ 38,799,853	\$ (16,513,665)	\$ (125,461)	\$ 22,167,549
Stock-based compensation	—	—	—	—	92,038	—	—	92,038
Net (Loss)	—	—	—	—	—	(245,619)	(7,344)	(252,963)
Balance, September 30, 2022	<u>—</u>	<u>\$ —</u>	<u>6,822,127</u>	<u>\$ 6,822</u>	<u>\$ 38,891,891</u>	<u>\$ (16,759,284)</u>	<u>\$ (132,805)</u>	<u>\$ 22,006,624</u>

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

DATA STORAGE CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2022 AND 2021

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Non- Controlling Interest	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance January 1, 2021	1,401,786	\$ 1,402	3,213,486	\$ 3,213	\$ 17,745,785	\$ (15,734,737)	\$ (94,705)	\$ 1,920,958
Conversion of preferred series to stock	(1,401,786)	(1,402)	43,806	44	1,358	—	—	—
Proceeds from issuance of common stock and warrants	—	—	2,975,000	2,975	16,941,405	—	—	16,944,380
Stock Options Exercise	—	—	5,060	5	(5)	—	—	—
Stock warrants exercise	—	—	455,390	456	3,380,815	—	—	3,381,271
Stock-based compensation	—	—	—	—	120,252	—	—	120,252
Net Income (Loss)	—	—	—	—	—	276,842	(6,358)	270,484
Preferred stock dividends	—	—	—	—	—	(63,683)	—	(63,683)
Balance, September 30, 2021	<u>—</u>	<u>\$ —</u>	<u>6,692,742</u>	<u>\$ 6,693</u>	<u>\$ 38,189,610</u>	<u>\$ (15,521,578)</u>	<u>\$ (101,063)</u>	<u>\$ 22,573,662</u>
Balance January 1, 2021	—	\$ —	6,693,793	\$ 6,694	\$ 38,241,155	\$ (15,530,576)	\$ (102,628)	\$ 22,614,645
Stock options exercise	—	—	3,334	3	6,931	—	—	6,934
Stock-based compensation	—	—	125,000	125	643,805	—	—	643,930
Net (Loss)	—	—	—	—	—	(1,228,708)	(30,177)	(1,258,885)
Balance, September 30, 2022	<u>—</u>	<u>\$ —</u>	<u>6,822,127</u>	<u>\$ 6,822</u>	<u>\$ 38,891,891</u>	<u>\$ (16,759,284)</u>	<u>\$ (132,805)</u>	<u>\$ 22,006,624</u>

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

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

	Nine Months Ended September 30,	
	2022	2021
Cash Flows from Operating Activities:		
Net Income (Loss)	\$ (1,258,885)	\$ 270,484
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	932,328	947,669
Stock based compensation	643,930	120,252
Gain on forgiveness of debt	—	(789,277)
Loss on disposal of equipment	—	29,732
Changes in Assets and Liabilities:		
Accounts receivable	373,201	106,797
Other assets	(63,023)	(344)
Prepaid expenses and other current assets	(331,618)	(154,912)
Right of use asset	145,853	(227,732)
Accounts payable and accrued expenses	147,487	(206,385)
Deferred revenue	(295,822)	(151,103)
Deferred tax liability	—	(19,362)
Operating lease liability	(147,759)	227,226
Net Cash Provided by Operating Activities	145,692	153,045
Cash Flows from Investing Activities:		
Capital expenditures	(62,564)	(418,422)
Cash acquired in business acquisition	—	212,068
Cash consideration for business acquisition	—	(6,149,343)
Net Cash Used in Investing Activities	(62,564)	(6,355,697)
Cash Flows from Financing Activities:		
Proceeds from line of credit	—	50,000
Repayments of finance lease obligations related party	(644,209)	(886,189)
Repayments of finance lease obligations	(299,954)	(111,995)
Proceeds from issuance of common stock with warrants	—	16,944,380
Cash received for the exercised of warrants	—	3,381,271
Cash received for the exercised of options	6,935	—
Repayments of Dividend payable	—	(1,179,357)
Repayment of line of credit	—	(24)
Net Cash (Used in) Provided by Financing Activities	(937,228)	18,198,086
Increase (Decrease) in Cash and Cash Equivalents	(854,100)	11,995,434
Cash and Cash Equivalents, Beginning of Period	12,135,803	893,598
Cash and Cash Equivalents, End of Period	\$ 11,281,703	\$ 12,889,032
Supplemental Disclosures:		
Cash paid for interest	\$ 100,482	\$ 92,779
Cash paid for income taxes	\$ —	\$ —
Non-cash investing and financing activities:		
Accrual of preferred stock dividend	\$ —	\$ 63,683
Assets acquired by finance lease	\$ 1,094,051	\$ 50,000

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

DATA STORAGE CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTHS ENDED September 30, 2022
(Unaudited)

Note 1 - Basis of Presentation, Organization and Other Matters

Data Storage Corporation (“DSC” or the “Company”) provides subscription based, long term agreements for disaster recovery solutions, cloud infrastructure, Cyber Security and Voice and Data solutions.

Headquartered in Melville, NY, DSC offers solutions and services to businesses within the healthcare, banking and finance, distribution services, manufacturing, construction, education, and government industries. DSC derives its revenues from subscription services and solutions, managed services, software and maintenance, equipment and onboarding provisioning. DSC maintains infrastructure and storage equipment in seven technical centers in New York, Massachusetts, Texas, Florida, North Carolina and Canada.

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

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

Note 2 - Summary of Significant Accounting Policies

Principles of Consolidation

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

Basis of Presentation

The Condensed Consolidated Financial Statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP).

Certain information and note disclosures normally included in the financial statements prepared in accordance with US GAAP have been condensed. As such, the information included in these financial statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2021, included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021 (the “2021 Form 10-K”), as filed on March 31, 2022. In the opinion of the Company’s management, these condensed consolidated financial statements include all adjustments, which are of only a normal and recurring nature, necessary for a fair presentation of the statement of financial position of the Company as of September 30, 2022, statement of cash flows for the nine months ended September 30, 2022 and 2021 and the results of operations for the three and nine months ended September 30, 2022, are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2022.

Reclassifications

Certain prior period amounts in the condensed consolidated financial statements thereto have been reclassified where necessary to conform to the current year’s presentation. These reclassifications did not affect the prior period’s total assets, total liabilities, stockholders’ deficit, net loss or net cash used in operating activities. During the nine months ended September 30, 2022, we adopted a change in presentation on our condensed consolidated statements of operations in order to present technician salaries in cost of sales, the presentation of which is consistent with our peers. Prior periods have been revised to reflect this change in presentation.

Recently Issued and Newly Adopted Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments (“ASU-2016-13”). ASU 2016-13 affects loans, debt securities, trade receivables, and any other financial assets that have the contractual right to receive cash. The ASU requires an entity to recognize expected credit losses rather than incurred losses for financial assets. ASU 2016-13 is effective for the fiscal year beginning after December 15, 2022, including interim periods within that fiscal year. The Company expects that there would be no material impact on the Company’s consolidated financial statements upon the adoption of this ASU.

In November 2021, the FASB issued ASU No. 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers, issued by the Financial Accounting Standards Board. This ASU requires entities to recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The update will generally result in the recognition of contract assets and contract liabilities at amounts consistent with those recorded by the acquiree immediately before the acquisition date rather than at fair value. The adoption of ASU 2021-08 did not have a material impact on the consolidated financial statements.

Use of Estimates

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

Estimated Fair Value of Financial Instruments

The Company's financial instruments include cash, accounts receivable, accounts payable and, lease commitments. Management believes the estimated fair value of these accounts on September 30, 2022, approximate their carrying value as reflected in the balance sheet 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 and Cash Equivalents

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

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 maintains allowances for doubtful accounts on factors surrounding the credit risk of specific customers, historical trends, and other information.

As of September 30, 2022, DSC had two customers with an accounts receivable balance representing 18% and 14% of total accounts receivable. As of December 31, 2021, the Company had one customer with an accounts receivable balance representing 16% of total accounts receivable.

For the three months ended September 30, 2022, the Company had one customer that accounted for 14% of revenue. For the three months ended September 30, 2021, the Company had one customer that accounted for 13% of revenue.

For the nine months ended September 30, 2022, the Company had two customers that accounted for 20% and 14% of revenue. For the nine months ended September 30, 2021, the Company had one customer that accounted for 14% of revenue.

Accounts Receivable/Allowance for Credit Losses

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

Property and Equipment

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

Goodwill and Other Intangibles

The Company tests goodwill and other intangible assets for impairment on at least an annual basis. Impairment exists if the carrying value of a reporting unit exceeds its estimated fair value. To determine the fair value of goodwill and intangible assets, the Company uses many assumptions and estimates using a market participant approach that directly impact the results of the testing. In making these assumptions and estimates, the Company uses industry accepted valuation models and set criteria that are reviewed and approved by various levels of management.

Revenue Recognition

Nature of goods and services

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

1) *Cloud Infrastructure and Disaster Recovery Revenue*

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

Clients can subscribe to an array of disaster recovery solutions without subscribing to cloud infrastructure. Product offerings provided directly from DSC are High Availability, Data Vaulting and retention solutions, including standby servers which allows clients to centralize and streamline their mission-critical digital information and technical environment while ensuring business continuity if they experience a cyber-attack or natural disaster Client's data is vaulted, at two data centers with the maintenance of retention schedules for corporate governances and regulations all to meet their back to work objective in a disaster.

2) Managed Services

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

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

3) Equipment and Software

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

4) Nexxis Voice over Internet and Direct Internet Access

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

Disaggregation of revenue

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

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

	United States	International	Total
Infrastructure & Disaster Recovery/Cloud Service	\$ 2,120,592	\$ 47,039	\$ 2,167,631
Equipment and Software	1,021,451	—	1,021,451
Managed Services	966,346	33,307	999,653
Nexxis VoIP Services	203,191	—	203,191
Other	27,359	—	27,359
Total Revenue	\$ 4,338,939	\$ 80,346	\$ 4,419,285

**For the Three Months
Ended September 30, 2021**

	United States	International	Total
Infrastructure & Disaster Recovery/Cloud Service	\$ 1,799,488	\$ 27,567	\$ 1,827,055
Equipment and Software	316,107	—	316,107
Managed Services	1,472,261	—	1,472,261
Nexxis VoIP Services	210,445	—	210,445
Other	34,390	—	34,390
Total Revenue	\$ 3,832,691	\$ 27,567	\$ 3,860,258

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

	2022	2021
Timing of revenue recognition		
Products transferred at a point in time	\$ 1,112,748	\$ 754,438
Products and services transferred over time	3,306,537	3,105,820
Total Revenue	\$ 4,419,285	\$ 3,860,258

**For the Nine Months
Ended September 30, 2022**

	United States	International	Total
Infrastructure & Disaster Recovery/Cloud Service	\$ 5,964,383	\$ 142,904	\$ 6,107,287
Equipment and Software	7,309,400	—	7,309,400
Managed Services	3,709,657	99,921	3,809,578
Nexxis VoIP Services	587,051	—	587,051
Other	90,917	—	90,917
Total Revenue	\$ 17,661,408	\$ 242,825	\$ 17,904,233

**For the Nine Months
Ended September 30, 2021**

	United States	International	Total
Infrastructure & Disaster Recovery/Cloud Service	\$ 5,115,212	\$ 97,354	\$ 5,212,566
Equipment and Software	1,541,441	—	1,541,441
Managed Services	2,508,515	—	2,508,515
Nexxis VoIP Services	588,889	—	588,889
Other	111,787	—	111,787
Total Revenue	\$ 9,865,844	\$ 97,354	\$ 9,963,198

**For the Nine Months
Ended September 30,**

	2022	2021
Timing of revenue recognition		
Products transferred at a point in time	\$ 7,400,316	\$ 2,230,873
Products and services transferred over time	10,503,917	7,732,325
Total Revenue	\$ 17,904,233	\$ 9,963,198

Contract receivables are recorded at the invoiced amount and are uncollateralized, non-interest-bearing client obligations. Provisions for estimated uncollectible accounts receivable are made for individual accounts based upon specific facts and circumstances including criteria such as their age, amount, and client standing.

Sales are generally recorded in the month the service is provided. For clients who are billed on an annual basis, deferred revenue is recorded and amortized over the life of the contract.

Transaction price allocated to the remaining performance obligations

The Company has the following performance obligations:

- 1) Data Vaulting: Subscription-based cloud service that encrypts and transfers data to a secure Tier 3 data center and further replicates the data to a second Tier 3 DSC technical center where it remains encrypted. Ensuring client retention schedules for corporate compliance and disaster recovery. Provides for twenty-four (24) hour or less recovery time and utilizes advanced data reduction, reduplication technology to shorten back-up and restore time.

- 2) High Availability: A managed cloud subscription-based service that provides cost-effective mirroring software replication technology and provides one (1) hour or less recovery time for a client to be back in business.
- 3) Cloud Infrastructure: subscription-based cloud service provides for “capacity on-demand” for IBM Power and X86 Intel server systems.
- 4) Internet: Subscription-based service, offering continuous internet connection combined with FailSAFE which provides disaster recovery for both a clients’ voice and data environments.
- 5) Support and Maintenance: Subscription based service offers support for clients on their servers, firewalls, desktops or software. Services are provided 24x7x365 to our clients.
- 6) Implementation / Set-Up Fees: Onboarding and set-up for cloud infrastructure and disaster recovery as well as Cyber Security.
- 7) Equipment sales: Sale of servers and data storage equipment to the client.
- 9) License: Granting SSL certificates and licenses.

Disaster Recovery and Business Continuity Solutions

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

Initial Set-Up Fees

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

Equipment Sales

The obligation for the equipment sales is such the control of the product transfer is at a point in time (i.e., when the goods have been shipped or delivered to the client’s location, depending on shipping terms). Noting that the satisfaction of the performance obligation, in this sense, does not occur over time, the performance obligation is considered to be satisfied at a point in time when the obligation to the client has been fulfilled (i.e., when the goods have left the shipping facility or delivered to the client, depending on shipping terms).

License - granting SSL certificates and other licenses

Performance obligations as it relates to licensing is that the control of the product transfers, either at a point in time or over time, depending on the nature of the license. The revenue standard identifies two types of licenses of IP: (i) a right to access IP; and, (ii) a right to use IP. To assist in determining whether a license provides a right to use or a right to access IP, ASC 606 defines two categories of IP: Functional and Symbolic. The Company’s license arrangements typically do not require the Company to make its proprietary content available to the client either through a download or through a direct connection. Throughout the life of the contract the Company does not continue to provide updates or upgrades to the license granted. Based on the guidance, the Company considers its license offerings to be akin to functional IP and recognizes revenue at the point in time the license is granted and/or renewed for a new period.

Payment Terms

The typical terms of subscription contracts range from 12 to 36 months, with auto-renew options extending the contract for an additional term. The Company invoices clients one month in advance for its services, in addition to any contractual data overages or for additional services.

Warranties

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

Significant Judgement

In the instance where contracts have multiple performance obligations the Company uses judgment to establish a stand-alone price for each performance obligation. The price for each performance obligation is determined by reviewing market data for similar services as well as the Company’s historical pricing of each individual service. The sum of each performance obligation is calculated to determine the aggregate price for the individual services. The proportion of each individual service to the aggregate price is determined. The ratio is applied to the total contract price in order to allocate the transaction price to each performance obligation.

Impairment of Long-Lived Assets

The Company reviews its long-lived assets for impairment whenever events and circumstances indicate that the carrying value of an asset might not be recoverable. An impairment loss, measured as the amount by which the carrying value exceeds the fair value is recognized if the carrying amount exceeds estimated un-discounted future cash flows.

Advertising Costs

The Company expenses the costs associated with advertising as they are incurred. The Company incurred \$263,485 and \$157,182 for advertising costs for the three months ended September 30, 2022 and 2021, respectively. The Company incurred \$669,278 and \$409,468 for advertising costs for the nine months ended September 30, 2022 and 2021, respectively.

Stock-Based Compensation

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

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

Estimated volatility is a measure of the amount by which DSC’s stock price is expected to fluctuate each year during the expected life of the award. DSC’s calculation of estimated volatility is based on historical stock prices over a period equal to the expected life of the awards.

Net Income (Loss) Per Common Share

Basic income (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing net income (loss) adjusted for income or loss that would result from the assumed conversion of potential common shares from contracts that may be settled in stock or cash by the weighted average number of shares of common stock, common stock equivalents and potentially dilutive securities outstanding during each period.

The following table sets forth the information needed to compute basic and diluted earnings per share for the three and nine months ended September 30, 2022 and 2021:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2022	2021	2022	2021
Net Income (Loss) Available to Common Shareholders	\$ (245,619)	\$ 135,630	\$ (1,228,708)	\$ 213,159
Weighted average number of common shares - basic	6,822,127	6,350,826	6,759,247	4,530,188
Dilutive securities				
Options	—	128,418	—	187,025
Warrants	—	3,333	—	3,333
Weighted average number of common shares - diluted	6,822,127	6,482,577	6,759,247	4,720,546
Earnings (Loss) per share, basic	\$ (0.04)	\$ 0.02	\$ (0.18)	\$ 0.05
Earnings (Loss) per share, diluted	\$ (0.04)	\$ 0.02	\$ (0.18)	\$ 0.05

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

	Three Months ended September 30,		Nine Months ended September 30,	
	2022	2021	2022	2021
Options	290,330	96,248	290,330	37,641
Warrants	2,419,193	2,415,860	2,419,193	2,415,860
Total common stock equivalents	2,709,523	2,512,108	2,709,523	2,453,501

Note 3 - Prepaids and other current assets

Prepaids and other current assets consist of the following:

	September 30, 2022	December 31, 2021
Prepaid Marketing & Promotion	\$ 79,456	\$ —
Prepaid Subscriptions and license	606,798	409,985
Prepaid Maintenance	71,100	80,227
Other	110,665	46,189
Total prepaids and other current assets	\$ 868,019	\$ 536,401

Note 4- Property and Equipment

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

	September 30, 2022	December 31, 2021
Storage equipment	\$ 60,288	\$ 476,887
Furniture and fixtures	20,860	19,491
Leasehold improvements	20,983	20,983
Computer hardware and software	93,062	317,729
Data center equipment	6,908,602	5,760,146
	7,103,795	6,595,236
Less: Accumulated depreciation	(4,732,846)	(4,657,765)
Net property and equipment	\$ 2,370,949	\$ 1,937,471

Depreciation expense for the three months ended September 30, 2022 and 2021 was \$222,009 and \$229,427, respectively. Depreciation expense for the nine months ended September 30, 2022 and 2021 was \$724,315 and \$709,195, respectively.

Note 5 - Goodwill and Intangible Assets

Goodwill and intangible assets consisted of the following:

	Estimated life in years	Gross amount	September 30, 2022 Accumulated Amortization	Net
Intangible assets not subject to amortization				
Goodwill	Indefinite	\$ 6,560,671	\$ —	\$ 6,560,671
Trademarks	Indefinite	514,268	—	514,268
Total intangible assets not subject to amortization		7,074,939	—	7,074,939
Intangible assets subject to amortization				
Customer lists	7	2,614,099	1,100,289	1,513,810
ABC acquired contracts	5	310,000	310,000	—
SIAS acquired contracts	5	660,000	660,000	—
Non-compete agreements	4	272,147	272,147	—
Website and Digital Assets	3	33,002	15,705	17,297
Total intangible assets subject to amortization		3,889,248	2,358,141	1,531,107
Total Goodwill and Intangible Assets		\$ 10,964,187	\$ 2,358,141	\$ 8,606,046

Scheduled amortization over the next five years are as follows:

Twelve months ending September 30,	
2023	\$ 278,144
2024	273,439
2025	267,143
2026	267,143
2027	200,357
Thereafter	244,881
Total	\$ 1,531,107

Amortization expense for the three months ended September 30, 2022 and 2021 was \$69,730 and \$139,807 respectively. Amortization expense for the nine months ended September 30, 2022 and 2021 was \$209,191 and \$238,474 respectively.

Note 6-Leases

Operating Leases

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

The first lease for office space in Melville, NY commenced on September 1, 2019. The term of this lease is for three years and eleven months and runs co-terminus with our existing lease in the same building. The base annual rent is \$10,764 payable in equal monthly installments of \$897.

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

On July 31, 2021, the Company signed a three-year lease for approximately 2,880 square feet of office space at 980 North Federal Highway, Boca Raton, FL. The commencement date of the lease was August 2, 2021. The monthly rent is \$4,820.

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

On January 1, 2022, the Company entered into a lease agreement for office space with WeWork in Austin, TX. The lease term is six months and requires monthly payments of \$1,470 and expires on June 30, 2022. Subsequent to June 30, 2022, the company is on a \$2,904 month-to-month lease with WeWork in Austin, TX.

Finance Lease Obligations

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

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

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

On November 1, 2021, the Company entered into a lease agreement with a finance company for technical equipment. The lease obligation is payable in monthly installments of \$3,152. The lease carries an interest rate of 6% and is a three-year lease. The term of the lease ends September 21, 2024.

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

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

Finance Lease Obligations – Related Party

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

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

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

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

On March 4, 2021, the Company entered into a lease agreement with Systems Trading effective April 1, 2021. This lease obligation is payable to Systems Trading with monthly installments of \$1,567 and expires on March 31, 2024. The lease carries an interest rate of 8%.

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

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

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

The components of lease expense were as follows:

	Three Months Ended September 30, 2022
Finance leases:	
Amortization of assets, included in depreciation and amortization expense	\$ 149,423
Interest on lease liabilities, included in interest expense	43,740
Operating lease:	
Amortization of assets, included in total operating expense	45,533
Interest on lease liabilities, included in total operating expense	3,835
Total net lease cost	\$ 242,531

	Nine Months Ended September 30, 2022
Finance leases:	
Amortization of assets, included in depreciation and amortization expense	\$ 319,686
Interest on lease liabilities, included in interest expense	131,220
Operating lease:	
Amortization of assets, included in total operating expense	147,999
Interest on lease liabilities, included in total operating expense	13,492
Total net lease cost	\$ 612,397

Supplemental balance sheet information related to leases was as follows:

Operating Leases:	
Operating lease right-of-use asset	\$ 276,465
Current operating lease liabilities	\$ 186,645
Noncurrent operating lease liabilities	97,354
Total operating lease liabilities	\$ 283,999

	September 30, 2022
Finance leases:	
Property and equipment, at cost	\$ 5,521,716
Accumulated amortization	(3,717,967)
Property and equipment, net	<u>\$ 1,803,749</u>
Current obligations of finance leases	\$ 627,652
Finance leases, net of current obligations	<u>1,100,407</u>
Total finance lease liabilities	<u>\$ 1,728,059</u>

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

	Nine Months Ended September 30, 2022
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows related to operating leases	\$ 147,759
Financing cash flows related to finance leases	\$ 944,163
Weighted average remaining lease term (in years):	
Operating leases	1.74
Finance leases	1.05
Weighted average discount rate:	
Operating leases	5%
Finance leases	7%

Long-term obligations under the operating and finance leases at September 30, 2022, mature as follows:

For the Twelve Months Ended September 30,	Operating Leases	Finance Leases
2023	\$ 212,528	\$ 1,136,376
2024	81,472	543,125
2025	—	152,710
Total lease payments	294,000	1,832,211
Less: Amounts representing interest	(10,001)	(104,152)
Total lease obligations	<u>283,999</u>	<u>1,728,059</u>
Less: long-term obligations	(97,354)	(627,652)
Total current	<u>\$ 186,645</u>	<u>\$ 1,100,407</u>

As of September 30, 2022, the Company had no additional significant operating or finance leases that had not yet commenced. Rent expense under all operating leases for the nine months ended September 30, 2022 and 2021 was \$159,236 and \$130,020, respectively.

Note 7 - Commitments and Contingencies

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

Note 8 - Stockholders' (Deficit)

Capital Stock

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

On May 1, 2022, the Company issued 125,000 shares of its restricted common stock to employees in exchange for services at a fair value of \$400,000.

During the nine months ended September 30, 2022, employees exercised 3,334 options into shares of common stock. The Company received \$6,934 for these options.

Common Stock Options

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

	Number of Shares Under Options	Range of Option Price Per Share	Weighted Average Exercise Price	Weighted Average Contractual Life
Options Outstanding at December 31, 2021	267,467	\$ 2.00 – 16.00	\$ 5.19	6.94
Options Granted	89,428	5.87 – 2.04	3.30	10
Exercised	(3,334)	2.00 – 2.16	2.08	—
Expired/Cancelled	(63,231)	2.00 – 16.00	2.56	—
Options Outstanding at September 30, 2022	<u>290,330</u>	<u>\$ 2.00 – 16.00</u>	<u>\$ 2.66</u>	<u>7.71</u>
Options Exercisable at September 30, 2022	<u>142,098</u>	<u>\$ 2.00 – 16.00</u>	<u>\$ 2.40</u>	<u>5.68</u>

Share-based compensation expense for options totaling \$74,143 and \$21,573 was recognized in our results for the three months ended September 30, 2022 and 2021, respectively. Share-based compensation expense for options totaling \$215,968 and \$120,252 was recognized in our results for the nine months ended September 30, 2022 and 2021, respectively.

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

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

Estimated volatility is a measure of the amount by which the Company's stock price is expected to fluctuate each year during the expected life of the award. The Company's calculation of estimated volatility is based on historical stock prices of the Company over a period equal to the expected life of the awards.

As of September 30, 2022, there was \$468,110 of total unrecognized compensation expense related to unvested employee options granted under the Company's share-based compensation plans that is expected to be recognized over a weighted average period of approximately 2.51 years.

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

	2022	
Weighted average fair value of options granted	\$	3.00
Risk-free interest rate		1.63% – 3.83%
Volatility		204% – 214%
Expected life (years)		10 years
Dividend yield		—

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

On March 31, 2022, the Board resolved that, the Company shall pay each member of the Board, compensation as a group amount to \$40,375. The shares vest one year after issuance.

On June 30, 2022, the Board resolved that, the Company shall pay each member of the Board, compensation as a group amount to \$30,625. The shares vest one year after issuance.

On September 30, 2022, the Board resolved that, the Company shall pay each member of the Board, compensation as a group amount to \$25,000. The shares vest one year after issuance.

A summary of the activity related to RSAs for the nine months ended September 30, 2022, is presented below:

Restricted stock award (RSA's)	Total shares	Grant date fair value
RSA's non-vested at January 1, 2022	—	\$ —
RSA's granted	37,500	\$ 2.04 – 3.23
RSA's vested	—	\$ —
RSA's forfeited	—	\$ —
RSA's non-vested September 30, 2022	37,500	\$ 2.04 – 3.23

Stock-based compensation for RSA's has been recorded in the consolidated statements of operations and totaled \$17,896 for the three months ended September 30, 2022. Stock-based compensation for RSA's has been recorded in the consolidated statements of operations and totaled \$27,962 for the nine months ended September 30, 2022.

Note 9 – Litigation

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

Note 10 – Related Party Transactions

Finance Lease Obligations – Related Party

During the nine months ended September 30, 2022, the Company entered into two related party finance lease obligations. See Note 6 for details.

Charles M. Piluso (Chairman and CEO) and Harold Schwartz (President) collectively own 100% of Nexxis Capital LLC (“Nexxis Capital”). Nexxis Capital was formed to purchase equipment and provide leases to Nexxis Inc.’s customers. The Company received funds of \$33,530 and \$10,935 during the nine months ended September 30, 2022 and 2021 respectively.

Note 11 – Merger

Flagship Solutions, LLC

On February 4, 2021, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Data Storage FL, LLC, a Florida limited liability company and the Company’s wholly-owned subsidiary (the “Merger Sub”), Flagship Solutions, LLC (“Flagship”), a Florida limited liability company, and the owners (collectively, the “Equityholders”) of all of the issued and outstanding limited liability company membership interests in Flagship (collectively, the “Equity Interests”). The Company acquired Flagship on May 31, 2021, and became its wholly-owned subsidiary. The purchase price was \$5.5 million.

In addition, the cash merger consideration paid by the Company to the Equityholders at Closing shall be adjusted, on a dollar-for-dollar basis, by the amount by which Flagship’s net working capital at Closing is more or is less than the target working capital amount specified in the Merger Agreement.

Concurrently with the Closing, Flagship and Mark Wyllie, Flagship’s Chief Executive Officer, entered into an Employment Agreement, which was effective upon consummation of the Closing, pursuant to which Mr. Wyllie will continue to serve as Chief Executive Officer of Flagship following the Closing on the terms and conditions set forth therein. Flagship’s obligations under the Wyllie Employment Agreement will also be guaranteed by the Company. The Wyllie Employment Agreement provides for: (i) an annual base salary of \$170,000, (ii) management bonuses comprised of twenty-five percent (25%) of Flagship’s net income available in free cash flow as determined in accordance with GAAP for each calendar quarter during the term, (iii) an agreement to issue him stock options of the Company, subject to approval by the Board, commensurate with his position and performance and reflective of the executive compensation plans that the Company has in place with its other subsidiaries of similar size to Flagship, (iv) life insurance benefits in the amount of \$400,000, and (v) four weeks paid vacation. In the event Mr. Wyllie’s employment is terminated by him for good reason (as defined in the Wyllie Employment Agreement) or by Flagship without cause, he will be entitled to receive his annual base salary through the expiration of the initial three-year employment term and an amount equal to his last annual bonus paid, payable quarterly. Pursuant to the Wyllie Employment Agreement, we agreed to elect Mr. Wyllie to the Board and the board of directors of Flagship to serve so long as he continues to be employed by the Company. The employment agreement contains customary non-competition provisions that apply during its term and for a period of two years after the term expires. In addition, pursuant to the Wyllie Employment Agreement, Mr. Wyllie was appointed to serve as a member of the Company’s Board of Directors and the board of directors of Flagship to serve so long as he continues to be employed by us. On October 28, 2022, Mark Wyllie resigned from his position as Chief Executive Officer of Flagship. Additionally, in connection with the resignation, Mr. Wyllie will no longer serve as the Executive Vice President of the Company or a member of the Company’s Board of Directors.

Following the closing of the transaction, Flagship’s financial statements as of the Closing were consolidated with the Consolidated Financial Statements of the Company.

The following sets forth the components of the purchase price:

Purchase price:	
Cash paid to the seller	\$ 6,149,343
Total purchase price	<u>6,149,343</u>
Tangible Assets Acquired:	
Cash	212,068
Accounts Receivable	1,389,263
Prepaid Expenses	127,574
Fixed Assets	4,986
Website and Digital Assets	33,002
Security Deposits	22,500
Total Tangible Assets Acquired	<u>1,789,393</u>
Tangible Liabilities Assumed:	
Accounts Payable and Accrued Expenses	514,354
Deferred Revenue	68,736
Deferred Tax Liability	399,631
PPP Loan Payable	307,300
Total Tangible Liabilities Assumed	<u>1,290,021</u>
Net Tangible Assets Acquired	<u>499,372</u>
Excess Purchase Price	<u>\$ 5,649,971</u>

The following table shows the allocation of the excess purchase price.

Customer Relationships	\$	1,870,000
Trade Names		235,000
Assembled Workforce		287,000
Goodwill		3,257,971
Excess Purchase Price	\$	<u>5,649,971</u>

The intangible assets acquired include the trade names, customer relationships, assembled workforce, and goodwill. The deferred tax liability represents the tax affected timing differences relating to the acquired intangible assets to the extent they are not offset by acquired deferred tax assets.

The goodwill represents the assembled workforce, acquired capabilities, and future economic benefits resulting from the acquisition. No portion of the goodwill is deductible for tax purposes.

The following presents the unaudited pro-forma combined results of operations of the Company with Flagship Solutions as if the entities were combined on January 1, 2021.

		Nine Months Ended September 30, 2021
Revenues	\$	18,138,730
Net income attributable to common shareholders	\$	1,338,334
Net income per share	\$	0.30
Weighted average number of shares outstanding		4,530,188

Note 12 - Subsequent Events

Management did not identify any subsequent Events.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited consolidated financial statements and notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q and with our audited financial statements and notes thereto for the year ended December 31, 2021, included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021 filed on March 31, 2022 (the "Annual Report") with the U.S. Securities and Exchange Commission (the "SEC"). This Quarterly Report on Form 10-Q contains forward-looking statements, including without limitation, statements related to our plans, strategies, objectives, expectations, intentions and adequacy of resources. Investors are cautioned that such forward-looking statements involve risks and uncertainties including without limitation the following: (i) our plans, strategies, objectives, expectations and intentions are subject to change at any time at our discretion; (ii) our plans and results of operations will be affected by our ability to manage growth; and (iii) other risks and uncertainties indicated from time to time in our filings with the Securities and Exchange Commission.

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

The Industry Overview

Hybrid and Multi-Cloud have become mainstream technological offerings of the Cloud Managed Services industry as companies have moved away from legacy, on-premise technology solutions. This approach is growing more complex, as companies utilize disparate technical environments, including on-premises equipment and software, multi-clouds interfacing with Software as a Service providers. Cloud Managed Service Providers assist businesses manage their cloud infrastructure and meet their security requirements and financial objectives while optimizing the value of these technologies and cloud resources through multi-cloud management, ensuring business continuity, governance, and operational efficiencies.

This is a \$500 billion-industry. One subset of this \$500 billion industry is IBM Power cloud infrastructure and disaster recovery. Globally estimated at over one million virtual IBM Power servers. The Company has a core competency as a cloud service provider and is a leader in this segment. According to the most recent information received from IBM, typical industries utilizing IBM Power servers are finance, retail, healthcare, government, and distribution organizations.

According to Fortune Business Insights, the Cloud Managed Services industry in North America was \$16.3 billion in 2019 and has been growing at a rate of 13.8% CAGR bringing the number to \$24 billion by the end of 2022. Disaster Recovery is projected to be a \$3.6 billion in the US by the end of 2022 which is 35% of the \$10.3 billion globally based on Grandview Research Disaster Recovery Solutions Market Size report. Cyber Security, specifically the MDR segment, is an established market recognized by buyers. Gartner observed a 35% growth in end users' inquiries on the topic in the last year. Gartner estimates that by 2025, the MDR market will reach \$2.15 billion in revenue, up from \$1.03 billion in 2021, for a compound annual growth rate (CAGR) of 20.2%. The Company's VOIP solutions fit well into this steadily growing segment which is expected to reach \$90 billion worldwide in 2022 with a CAGR of 3.1% with \$17 billion in the US according to Globe Newswire Market Analysis and Insights. According to Globe Newswire, this market was valued at \$198 billion in 2020 and with a projected 13.5% CAGR. Gartner sees this hitting \$263 billion by the end of 2022 and based on the Big Data Business Analytics market share report posted on statista.com the US has 51% of that growth.

Company Overview

Data Storage Corporation, headquartered in Melville, New York, with three subsidiaries, DSC now referred to as CloudFirst, Flagship Solutions and Nexxis provide solutions and services to a broad range of clients in several industries including healthcare, banking and finance, distribution services, manufacturing, construction, education, and government. The subsidiaries maintain business development teams, as well as independent distribution companies. The Company's contracted, non-employee, distribution channels provide long-term subscription-based disaster recovery and cloud infrastructure typically into their client base.

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

DSC is a leader in providing IBM Power cloud infrastructure, disaster recovery and the creation of unique offering.

The opportunity, for the Company, in the IBM Power server portfolio segment is to capture a share of this annual recurring revenue marketplace that is currently under migration to cloud infrastructure. Today there is limited competition in this IBM segment, whereas non-IBM type servers, X86 et.al. are over-crowded with companies such as Amazon, Google and Microsoft holding a large share of that marketplace.

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

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

The Company's addressable market is estimated at \$48 billion in annual recurring revenue in the United States and Canada.

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

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

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

The Company's solution architects and business development teams work with organizations identifying and solving critical business problems. The Company carefully plans and manages the migration and configuration process, continuing the relationship and advising its clients long after the services have been implemented. Reflecting on client satisfaction, the Company's renewal rate on client subscription solutions is approximately 94% after their initial contract term expired.

The Company provides its clients subscription-based, long-term agreements for managed cloud disaster recovery, managed cloud infrastructure, cyber security, telecommunications solutions, and high processing on-site computing power and software solutions. While a significant portion of the Company's revenue has been subscription-based, it also generates revenue from the sale of equipment and software for cybersecurity, data storage, IBM Power systems equipment and contracted managed service solutions.

The Company's focus is to continue to build on annual recurring revenue, (ARR). DSC entered 2022 with a baseline ARR of over \$12 million.

The Company's Core Services: The Company provides an array of multi-cloud information technology solutions in highly secure, enterprise-level cloud services for companies using IBM Power Systems, Microsoft Windows, and Linux. Specifically, the Company's support services cover:

Cyber Security Solutions:

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

Data Protection and Recovery Solutions:

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

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

Voice & Data Solutions: Nexxis, our voice and data division, specializes in fully-managed VoIP, Internet Access, and Data Transport solutions that satisfy the requirements of corporate and remote workforce. Services are delivered over fiber optic, coaxial, and wireless networks to assist businesses fully connected from any location. Nexxis provides dedicated internet access with speeds of up to 10 Gbps, FailSAFE, a cloud-first SD-WAN solution, that delivers industry-leading connectivity to cloud services, cloud-based Hosted VoIP and Unified Communications that provide business continuity and integration with Microsoft Teams.

RESULTS OF OPERATIONS

Three months ended September 30, 2022, as compared to September 30, 2021

Total Revenue. For the three months ended September 30, 2022, total revenue was \$4,419,285, an increase of \$559,027 or 14% compared to \$3,860,258 for the three months ended September 30, 2021. The increase is primarily attributed to the increase in equipment and software sales. This was offset by a decrease in managed services for the three months ended September 30, 2022.

Revenue	For the Three Months Ended September 30,		\$ Change	% Change
	2022	2021		
Infrastructure & Disaster Recovery/Cloud Service	\$ 2,167,631	\$ 1,827,055	\$ 340,576	19%
Equipment and Software	1,021,451	316,107	705,344	223%
Managed Services	999,653	1,472,261	(472,608)	(32)%
Nexxis VoIP Services	203,191	210,445	(7,254)	(3)%
Other	27,359	34,390	(7,031)	(20)%
Total Revenue	\$ 4,419,285	\$ 3,860,258	\$ 559,027	14%

Cost of Sales. For the three months ended September 30, 2022, cost of sales was \$2,566,984, an increase of \$249,316 or 11% compared to \$2,317,668 for the three months ended September 30, 2021. The increase of \$541,371 was mostly related to the increase in revenue.

Selling, general and administrative expenses. For the three months ended September 30, 2022, selling, general and administrative expenses were \$2,075,525, an increase of \$201,267, or 11%, as compared to \$1,874,258 for the three months ended September 30, 2021. The net increase is reflected in the chart below.

Selling, general and administrative expenses	For the Three Months Ended September 30,		\$ Change	% Change
	2022	2021		
Increase in Salaries	\$ 1,028,084	\$ 951,402	\$ 76,682	8%
Increase in Professional Fees	203,032	179,258	23,774	13%
Decrease in Software as a Service Expense*	42,744	49,932	(7,188)	(14)%
Increase in Advertising Expenses	263,485	119,275	144,210	121%
Decrease in Commissions Expense	279,789	308,319	(28,530)	(9)%
Decrease in Amortization and Depreciation expense	73,747	146,851	(73,104)	(50)%
Increase in Travel and Entertainment*	44,739	34,223	10,516	31%
Increase in Rent and Occupancy*	55,851	43,389	12,462	29%
Increase in Insurance expense*	33,860	26,408	7,452	28%
Decrease in all other Expenses	50,194	15,202	34,992	230%
Total Expenses	\$ 2,075,525	\$ 1,874,258	\$ 201,267	11%

(*) Not discussed below due to de minimis change

Salaries. Salaries increased as a result of an increase in stock-based compensation and normal annual raises to employees.

Professional fees. Professional fees increased primarily due to a new investor relations firm.

Advertising Expense. Advertising expense increased primarily due to the Company sponsoring American mixed martial arts events.

Commissions Expense. *Commissions Expense* decreased primarily due to C level executives generating sales for which the company doesn't pay commission on.

Amortization and Depreciation expense. Amortization and Depreciation expense decreased due to three leases reaching maturity during the third quarter of 2022.

All Other Expenses. Other expenses increased primarily due to the increase in training and utility expenses.

Other Income (Expense). Other income (expense) for the three months ended September 30, 2022 decreased \$(495,990) to \$(29,739) from \$466,251 for the three months ended September 30, 2021. The decrease in other income is primarily attributable to the decrease in gain on forgiveness of debt for the three months ended September 30, 2022.

Net Income (loss). Net income (loss) for the three months ended September 30, 2022 was \$(252,963), as compared to a net income of \$134,583 for the three months ended September 30, 2021.

Nine months ended September 30, 2022, as compared to September 30, 2021

Total Revenue. For the nine months ended September 30, 2022, total revenue was \$17,904,233 an increase of \$7,941,035 or 80%. The increase is primarily attributed to the additional sales from the Flagship merger and an increase in monthly subscription revenue.

Revenue	For the Nine Months Ended September 30,		\$ Change	% Change
	2022	2021		
Infrastructure & Disaster Recovery/Cloud Service	\$ 6,107,287	\$ 5,212,566	\$ 894,721	17%
Equipment and Software	7,309,400	1,541,441	5,767,959	374%
Managed Services	3,809,578	2,508,515	1,301,063	52%
Nexxis VoIP Services	587,051	588,889	(1,838)	—%
Other	90,917	111,787	(20,870)	(19)%
Total Revenue	\$ 17,904,233	\$ 9,963,198	\$ 7,941,035	80%

Cost of Sales. For the nine months ended September 30, 2022, cost of sales was \$11,847,460, an increase of \$6,042,092 or 104% compared to \$5,805,368 for the nine months ended September 30, 2021. The increase of \$5,775,243 was mostly related to variable cost incurred to produce and sell our products or services.

Selling, general and administrative expenses. For the nine months ended September 30, 2022, selling, general and administrative expenses were \$7,129,595, an increase of \$2,580,096 or 57%, as compared to \$4,549,499 for the nine months ended September 30, 2021. The net increase is reflected in the chart below.

Selling, general and administrative expenses	For the Nine Months Ended September 30,		\$ Change	% Change
	2022	2021		
Increase in Salaries	\$ 3,918,745	\$ 2,059,635	\$ 1,859,110	90%
Increase in Professional Fees	590,661	529,886	60,775	11%
Increase in Software as a Service Expense*	189,643	155,393	34,250	22%
Increase in Advertising Expenses	669,278	371,561	297,717	80%
Increase in Commissions Expense	918,882	820,482	98,400	12%
Decrease in Amortization and Depreciation expense*	220,694	250,877	(30,183)	(12)%
Increase in Travel and Entertainment	160,665	89,897	70,768	79%
Increase in Rent and Occupancy	163,965	85,283	78,682	92%
Increase in Insurance expense*	94,251	66,266	27,985	42%
Increase in all other Expenses	202,811	120,220	82,591	69%
Total Expenses	\$ 7,129,595	\$ 4,549,499	\$ 2,580,096	57%

(*) Not discussed below due to de minimis change

Salaries. Salaries increased as a result of the increased staff due to the Flagship merger, the hiring of our Chief Financial Officer and the increase in stock-based compensation.

Professional fees. Professional fees increased primarily due to a new investor relations firm, and an increase in fees associated with being on NASDAQ.

Advertising Expenses. Advertising Expenses increased primarily due to the Flagship merger and the company sponsoring American mixed martial arts events.

Commissions Expense. Commissions expenses increased due to the Flagship merger and the sales associated with Flagship.

Travel And Entertainment. Travel And Entertainment increased primarily due to the Flagship merger and the lifting of Covid-19 restrictions.

Rent and Occupancy. Rent and Occupancy increased primarily due to the Flagship merger and the WeWork in Austin, TX that started in January 2022.

All Other Expenses. Other expenses increased primarily due to the Flagship merger.

Other Income (Expense). Other income for the nine months ended September 30, 2022, decreased \$(848,216) to \$(186,063) from \$662,153 for the nine months ended September 30, 2021. The decrease in other expense is primarily attributable to the increase interest expense for the nine months ended September 30, 2022, and the reduction of from the gain on forgiveness of debt from the PPP loan in the prior period.

Net Income (loss). Net income (loss) before provision for income taxes for the nine months ended September 30, 2022, was \$(1,258,885), as compared to a net income of \$270,484 for the nine months ended September 30, 2021.

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.

To the extent we are successful in growing our business, identifying potential acquisition targets and negotiating the terms of such acquisition, and the purchase price includes a cash component, we plan to use our working capital and the proceeds of any financing to finance such acquisition costs.

Our opinion concerning our liquidity is based on current information. If this information proves to be inaccurate, or if circumstances change, we may not be able to meet our liquidity needs, which will require a renegotiation of related party capital equipment leases, a reduction in advertising and marketing programs, renegotiation of our arrangement with Nexxis and/or a reduction in salaries for officers that are major shareholders.

We have long-term contracts to supply our subscription-based solutions that are invoiced to clients monthly. We believe the total contract value of our subscription contracts with clients based on the actual contracts that we have to date, exceeds \$10 million. Further, we continue to see an uptick in client interest in distribution channel expansion and in sales proposals. In 2021, we intend to continue to work to increase our presence in the IBM “Power I” infrastructure cloud and business continuity marketplace in the niche of IBM “Power I” and in the disaster recovery global marketplace utilizing our technical expertise, data centers utilization, assets deployed in the data centers, 24 x 365 monitoring and software.

During the nine months ended September 30, 2022, DSC's cash decreased \$854,100 to \$11,281,703 from \$11,311,922 at December 31, 2021. Net cash of \$145,692 was provided by DSC's operating activities resulting primarily from changes in assets and liabilities. Net cash of \$62,564 was used in investing activities primarily from the purchase of equipment. Net cash of \$937,228 was used in *financing activities resulting primarily in payments on finance lease obligations. This was offset by the cash received for the exercised options.*

DSC's working capital was \$11,578,771 on September 30, 2022, decreasing by \$772,893 from \$12,084,815 at December 31, 2021. The decrease is primarily attributable to a decrease in cash, accounts receivables, accounts payable, deferred revenue, and leases payable related party. This was offset by an increase in prepaids and other current assets, and leases payable.

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".

Non-GAAP Financial Measures

Adjusted EBITDA

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

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

The following table shows our reconciliation of net income to adjusted EBITDA for the three and nine months ended September 30, 2022 and 2021, respectively:

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2022	September 30, 2021	September 30, 2022	September 30, 2021
Net income	\$ (252,963)	\$ 134,583	\$ (1,258,885)	\$ 270,484
Non-GAAP adjustments:				
Depreciation and amortization	291,739	370,625	932,328	947,669
Flagship acquisition costs	—	21,998	770	125,537
Interest income and expense	31,576	15,726	186,063	97,392
Gain on contingent liability	—	—	—	—
Loss on disposal of equipment	—	—	—	29,732
Gain on forgiveness of debt	—	(481,977)	—	(789,277)
Stock based compensation	92,038	44,030	643,930	120,252
Adjusted EBITDA	<u>\$ 162,390</u>	<u>\$ 104,985</u>	<u>\$ 504,206</u>	<u>\$ 801,789</u>

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

As a smaller reporting company this item is not required.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures.

As of the end of the period covered by this Report, under the supervision and with the participation of DSC's management, including its principal executive officer, 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 upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls were not effective as of September 30, 2022, based on the material weaknesses identified below.

Material Weaknesses in Internal Control over Financial Reporting

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. This material weakness contributed to the Company not designing and maintaining formal controls to analyze, account for, and disclose complex transactions, including the accounting for certain consideration received from a vendor. These material weaknesses resulted in the restatement of the Company's previously filed quarterly condensed consolidated financial information for the periods ended June 30, 2022, related to accrued expenses, cost of goods sold, gross profit, loss from operations, net loss, earnings per share and the related disclosures.

Remediation Plan for the Material Weaknesses

In response to the aforementioned material weaknesses, management has expended and will continue to expand a substantial amount of effort and resources for the remediation of material weaknesses in internal control over financial reporting. In November of 2022, management and its advisors are evaluating and documenting the design and operating effectiveness of our internal control over financial reporting, and their work is ongoing. Our plan also includes advisors looking over all material agreements monthly to determine accounting treatment for complex transactions. The material weaknesses will be considered remediated once management completes the design and implementation of the measures described above and the controls operate for a sufficient period of time, and management has concluded, through testing, that these controls are effective.

Changes in Internal Control over Financial Reporting

As described above, there were changes in our internal control over financial reporting during the three months ended September 30, 2022, that have materially affected or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

Our business, financial condition, results of operations, and cash flows may be impacted by a number of factors, many of which are beyond our control, including those set forth in our most recent Annual Report on Form 10-K for the year ended December 31, 2021, the occurrence of any one of which could have a material adverse effect on our actual results.

There have been no material changes to the Risk Factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2021.

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

There were no unregistered sales of the Company's equity securities during the period ended September 30, 2022.

Item 3. Defaults Upon Senior Securities.

There were no defaults upon senior securities during the period ended September 30, 2022.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information.

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

Item 6. Exhibits.

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

* Filed herewith.

SIGNATURES

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

Date: November 14, 2022

DATA STORAGE CORPORATION

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

Date: November 14, 2022

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

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

I, Charles M. Piluso, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Data Storage Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly for the period in which this quarterly report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 14, 2022

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

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

I, Chris Panagiotakos, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Data Storage Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal controls over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly for the period in which this quarterly report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 14, 2022

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

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

In connection with this Quarterly Report of Data Storage Corporation (the "Company"), on Form 10-Q for the period ended September 30, 2022, as filed with the U.S. Securities and Exchange Commission on the date hereof, I, Charles M. Piluso, Chief Executive Officer of the Company, certify to the best of my knowledge, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) Such Quarterly Report on Form 10-Q for the period ended September 30, 2022, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in such Quarterly Report on Form 10-Q for the period ended September 30, 2022, fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2022

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

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

In connection with this Quarterly Report of Data Storage Corporation (the "Company"), on Form 10-Q for the period ended September 30, 2022, as filed with the U.S. Securities and Exchange Commission on the date hereof, I, Chris Panagiotakos, Chief Financial Officer of the Company, certify to the best of my knowledge, pursuant to 18 U.S.C. Sec. 1350, as adopted pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) Such Quarterly Report on Form 10-Q for the period ended September 30, 2022, fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in such Quarterly Report on Form 10-Q for the period ended September 30, 2022, fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2022

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