Data Storage Corp
Form 10-Q
November 20, 2009

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

FORM 10-Q

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

For the quarterly period ended September 30, 2009

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

For the transition period from ______to______.

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

NEVADA	333-148167	98-0530147
(State or other jurisdiction of incorporation or organization)	(Commission File No.)	(IRS Employee Identification No.)

401 Franklin Avenue
Garden City, N.Y. 11530
(Address of Principal Executive Offices)

(212) 564-4922
(Registrant's Telephone number)

(Former Name or Former Address if Changed Since Last Report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

to submit and post such files).
Yes o No o

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

Large Accelerated Filer o Accelerated Filer o Non-Accelerated Filer o Smaller Reporting Company x

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

State the number of shares outstanding of each of the issuer’s class of common stock, as of November 19, 2009:

	Number of Shares
Common Stock	13,315,399

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DATA STORAGE CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

PART I – Financial Information

Item 1. Financial Statements

ASSETS	September 30, 2009	December 31, 2008
Current Assets:	(Unaudited)	
Cash and cash equivalents	$ 30,876	$ 289,061
Accounts receivable (less allowance for doubtful		
accounts of $17,000 in 2009 and $44,800 in 2008)	46,008	53,367
Prepaid Expenses	39,230	
Total Current Assets	116,114	342,428
Property and Equipment:		
Property and equipment	1,214,161	1,115,984
Less—Accumulated depreciation	(883,355)	(793,110)
Net Property and Equipment	330,806	322,874
Other Assets:		
Other assets	42,922	13,469
Intangible Asset - Acquired Customer Base, net	139,667	175,528
Employee loan	23,000	23,000
Total Other Assets	205,589	211,997
Total Assets	652,509	877,299
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	170,550	72,037
Accrued expenses	30,205	10,063
Credit line payable	99,970	99,970
Due to related party	30,218	18,000
Due to Nova Star, Inc.	30,000	58,509
Dividend Payable	62,500	25,000
Due to officer	79,025	7,250
Deferred revenue	59,853	12,790
Total Current Liabilities	562,321	303,619
Deferred rental obligation	11,380	-
Total Liabilities	573,701	303,619
Commitments and contingencies	-	-
Stockholders' Equity:		

Preferred Stock, $.001 par value; 10,000,000 shares authorized;				
1,401,786 shares issued and outstanding in each period		1,402		1,402
Common stock, par value $0.001; 250,000,000 shares authorized;				
13,315,399 and 12,473,214 shares issued and outstanding		13,315		12,473
Additional paid in capital		4,682,831		4,352,966
Accumulated deficit		(4,618,740)		(3,793,161)
Total Stockholders' Equity		78,808		573,680
Total Liabilities and Stockholders' Equity	$	652,509	$	877,299

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

DATA STORAGE CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Sales	$ 149,882	$ 149,330	$ 430,289	$ 477,917
Cost of sales	116,403	82,905	328,564	246,508
Gross Profit	33,479	66,425	101,725	231,409
Selling, general and administrative	288,474	215,628	886,605	498,272
Loss from Operations	(254,995)	(149,203)	(784,880)	(266,863)
Other Income (Expense)				
Interest income	2	4,223	189	4,259
Interest expense	(958)	(1,390)	(3,392)	(2,265)
Total Other (Expense)	(956)	2,833	(3,203)	1,994
Loss before provision for income taxes	(255,951)	(146,370)	(788,083)	(264,869)
Provision for income taxes				
Net Loss	(255,951)	(146,370)	(788,083)	(264,869)
Preferred Stock Dividend	(12,500)	-	(37,500)	-
Net Loss Available to Common Shareholders	$ (268,951)	$ (146,370)	$ (825,583)	$ (264,869)
Loss per Share – Basic and Diluted	$ (0.02)	$ (0.37)	$ (0.06)	$ (1.73)
Weighted Average Number of Shares - Basic and Diluted	13,138,702	399,407	12,739,198	153,401

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

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

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Net loss	$ (788,083)	$ (264,869)
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	97,597	85,698
Allowance for doubtful accounts	(27,800)	-
Stock based compensation	15,474	-
Changes in Assets and Liabilities:		
Accounts receivable	35,159	(40,440)
Employee Loan	-	(5,000)
Other Assets	(504)	-
Prepaid Expenses	(27,943)	-
Accounts payable	98,513	(21,788)
Accrued expenses	20,142	2,337
Deferred Revenue	47,064	-
Deferred Rent	11,380	-
Due to Related Party	12,218	13,500
Net Cash Used in Operating Activities	(506,783)	(230,562)
Cash Flows from Investing Activities:		
Cash paid for equipment	(98,177)	(63,868)
Deposit on investment	-	(50,000)
Net Cash Used in Investing Activities	(98,177)	(113,868)
Cash Flows from Financing Activities:		
Advances from credit line	-	99,969
Proceeds from the issuance of common stock	275,000	1,100,000
Advances from shareholder	71,774	-
Net Cash Provided by Financing Activities	346,775	1,199,969
Increase (Decrease) in Cash and Cash Equivalents	(258,185)	855,539
Cash and Cash Equivalents, Beginning of Period	289,061	37,803
Cash and Cash Equivalents, End of Period	$ 30,876	$ 893,343
Cash paid for interest	$ 3,392	$ -
Cash paid for income taxes	$ -	$ -

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

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DATA STORAGE CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NINE MONTHS ENDED SEPTEMBER 30, 2009 AND 2008

Note 1 Basis of presentation, organization and other matters

On October 20, 2008, Euro Trend Inc. ("Euro Trend") acquired all of the outstanding capital stock of Data Storage Corporation (“Data Storage”). Data Storage became a wholly owned subsidiary of Euro Trend. On January 6, 2009 Euro Trend, Inc. filed with the state of Nevada changing its name to Data Storage Corporation. The business of Data Storage was the only business of Euro Trend after the acquisition.

Data Storage Corporation was incorporated in Delaware on August 29, 2001. Through its various properties, Data Storage Corporation (DSC) delivers and supports a broad range of premium technology solutions which store, protect, optimize, and leverage information. Clients look to DSC to manage data growth, ensure disaster recovery and business continuity, strengthen security, reduce capital and operating expenses, and to meet increasing industry, state, and federal regulations. The company markets to government, education, and the healthcare industry by leveraging leading technologies such as Virtualization, Cloud Computing, Electronic Health Records, Green IT, and Wireless. The company offers hardware, software as a service, installation, maintenance, managed IT services, and training for building in-house expertise. To protect and leverage our customers’ investments, DSC provides a range of top-quality professional services and proactive customer support; directly, as well as through authorized partner organizations globally.

Data Storage Corporation derives its revenues from the sale of solutions that provide businesses protection of critical electronic data. Primarily, these services consist of electronic medical records, email storage and compliance solutions; off site data back up; continuous data protection; data duplication; high availability replication and virtual tape libraries for disaster recovery and business continuity. The Company has Data Centers in Westbury, New York and maintains equipment under a strategic alliance with Broadsmart a VoIP company in Fort Lauderdale, Florida to provide redundant data protection.

The Company accounted for the acquisition as a recapitalization. The recapitalization was the merger of a private operating company (Data Storage) into a public corporation (Euro Trend) with nominal net assets and as such is treated as a capital transaction, rather than a business combination. As a result no Goodwill is recorded. The transaction is the equivalent to the issuance of stock by the private company for the net monetary assets of the shell corporation. The pre acquisition financial statements of Data Storage are treated as the historical financial statements of the consolidated companies.

The consolidated balance sheets, statements of operations and footnotes have been revised to show the effect on the outstanding shares resulting from the acquisition. The effect on the outstanding shares is based on the 3.89 common shares of Euro Trend for every one share of Data Storage’s common stock. In addition, where required all share amounts have been revised to reflect the 3.89 common shares of Euro Trend for every one share of Data Storage’s common stock.

Condensed Consolidated Financial Statements

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all normal recurring adjustments considered necessary for a fair statement of the results of operations have been included. The results of operations for the nine months ended September 30, 2009 are not necessarily indicative of the results of operations for the full year. When reading the financial information contained in this Quarterly Report, reference should be made to the financial statements, schedule and notes contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2008

Liquidity

The financial statements have been prepared using accounting principles generally accepted in the United States of America applicable for a going concern, which assumes that the Company will realize its assets and discharge its liabilities in the ordinary course of business. For the nine months ended September 30, 2009, the Company has generated revenues of $430,289 but has incurred a net loss of $788,083. Its ability to continue as a going concern is dependent upon achieving sales growth, reduction of operation expenses and ability of the Company to obtain the necessary financing to meet its obligations and pay its liabilities arising from normal business operations when they come due, and upon profitable operations. The Company has been funded by the CEO and majority shareholder since inception. The Company has been successful in raising money as needed. Further it is the intention of management to continue to raise money through stock issuances and to fund the Company on an as needed basis.

Estimated Fair Value of Financial Instruments

The Company's financial instruments include cash, accounts receivable, other assets, accounts payable, line of credit, due to related parties and other liabilities. Management believes the estimated fair value these accounts at September 30, 2009 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.

Stock Based Compensation

The Company follows the requirements of ACCOUNTING STANDARDS CODIFICAITON (“ASC”) ASC-718-10-10), Share Based Payments with regard to stock-based compensation issued to employees. The Company has various employment agreements and consulting 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 that was determined by using the closing trading price on the day the stock was awarded multiplied by the number of shares awarded.

Recent Accounting Pronouncements

Effective July 1, 2009, the Company adopted the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 105-10, Generally Accepted Accounting Principles – Overall (“ASC 105-10”). ASC 105-10 establishes the FASB Accounting Standards Codification (the “Codification”) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. GAAP. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. All guidance contained in the Codification carries an equal level of authority. The Codification superseded all existing non-SEC accounting and reporting standards. All other non-grandfathered, non-SEC accounting literature not included in the Codification is non-authoritative. The FASB will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates (“ASUs”). The FASB will not consider ASUs as authoritative in their own right. ASUs will serve only to update the Codification, provide background information about the guidance and provide the bases for conclusions on the change(s) in the Codification. References made to FASB guidance throughout this document have been updated for the Codification.

Effective April 1, 2009, the Company adopted FASB ASC 820-10-65, Fair Value Measurements and Disclosures – Overall – Transition and Open Effective Date Information (“ASC 820-10-65”). ASC 820-10-65 provides additional guidance for estimating fair value in accordance with ASC 820-10 when the volume and level of activity for an asset or liability have significantly decreased. ASC 820-10-65 also includes guidance on identifying circumstances that indicate a transaction is not orderly. The adoption of ASC 820-10-65 did not have an impact on the Company’s consolidated results of operations or financial condition.

Effective April 1, 2009, the Company adopted FASB ASC 825-10-65, Financial Instruments – Overall – Transition and Open Effective Date Information (“ASC 825-10-65”). ASC 825-10-65 amends ASC 825-10 to require disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements and also amends ASC 270-10 to require those disclosures in all interim financial statements. The adoption of ASC 825-10-65 did not have a material impact on the Company’s results of operations or financial condition.

Effective April 1, 2009, the Company adopted FASB ASC 855-10, Subsequent Events – Overall (“ASC 855-10”). ASC 855-10 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date – that is, whether that date represents the date the financial statements were issued or were available to be issued. This disclosure should alert all users of financial statements that an entity has not evaluated subsequent events after that date in the set of financial statements being presented. Adoption of ASC 855-10 did not have a material impact on the Company's results of operations or financial condition.

Effective July 1, 2009, the Company adopted FASB ASU No. 2009-05, Fair Value Measurements and Disclosures (Topic 820) ("ASU 2009-05"). ASU 2009-05 provided amendments to ASC 820-10, Fair Value Measurements and Disclosures – Overall, for the fair value measurement of liabilities. ASU 2009-05 provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using certain techniques. ASU 2009-05 also clarifies that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of a liability. ASU 2009-05 also clarifies that both a quoted price in an active market for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements. Adoption of ASU 2009-05 did not have a material impact on the Company's results of operations or financial condition.

In October 2009, the FASB issued ASU 2009-13, Multiple-Deliverable Revenue Arrangements, (amendments to FASB ASC Topic 605, Revenue Recognition) (“ASU 2009-13”) and ASU 2009-14, Certain Arrangements That Include Software Elements , (amendments to FASB ASC Topic 985, Software) (“ASU 2009-14”). ASU 2009-13 requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendments eliminate the residual method of revenue allocation and require revenue to be allocated using the relative selling price method. ASU 2009-14 removes tangible products from the scope of software revenue guidance and provides guidance on determining whether software deliverables in an arrangement that includes a tangible product are covered by the scope of the software revenue guidance. ASU 2009-13 and ASU 2009-14 should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. The Company does not expect adoption of ASU 2009-13 or ASU 2009-14 to have a material impact on the Company’s results of operations or financial condition.

Note 2 Summary of Significant Accounting Policies

Use of Estimates

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

Note 3 Commitments and Contingencies

On July 1, 2009 the Company entered into an operating lease for it headquarters operations. Future minimum rental payments are as follows:

Year Ending June 30,		
2010	$	41,160
2011		72,676
2012		74,857
2013		77,103
2014		79,416
	$	345,212

Note 4 Stockholders’ Equity

On January 7, 2009, our stockholders approved a one-for-seven reverse stock split, which became effective on January 27, 2009. All references to share and per-share data for all periods presented in this report have been adjusted to give effect to this reverse split.

The Company entered into three stock purchase agreements on May 26, 2009 for a total of 316,350 shares for an aggregate price of $100,000

On July 9, 2009 the Company entered into a stock purchase agreement with an existing shareholder for 237,263 shares for $75,000.

On August 12, 2009 the Company entered into a stock purchase agreement for 288,572 shares of common stock for $100,000.

Common Stock Options

During the nine months ended September 30, 2009 the Company issued 254,142 common stock options to two employees and 169,428 common stock options to an outside contractor.

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

	Number of Shares Under Option	Range of Option Price Per Share	Weighted Average Exercise Price
Balance at January 1, 2009	2,505,864	$ -0-	$ 0.14
Granted	423,570	-0-	0.29
Exercised	-0-	-0-	-0-
Cancelled	-0-	-0-	-0-
Balance at September 30, 2009	2,929,432	$ -0-	$ 0.16

Share-based compensation expense for options totaling $15,474 was recognized in our results for the nine months ended September 30, 2009 is based on awards vested. The options were valued at the grant date at $116,058.

The valuation methodology used to determine the fair value of the warrants issued during the year was the Black-Scholes option-pricing model, an acceptable model in accordance with ACCOUNTING STANDARDS CODIFCATION (“ASC”) ASC 718-10-10, Share Based Payments. The Black-Scholes model requires the use of a number of assumptions including volatility of the stock price, the average risk-free interest rate, and the weighted average expected life of the warrants.

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

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

The weighted average fair value of options granted and the assumptions used in the Black-Scholes model during the nine months ended September 30, 2009 are set forth in the table below.

		2009
Weighted average fair value of options granted	$	.29
Risk-free interest rate		3.07%
Volatility		85%
Expected life (years)		10
Dividend yield		0.00%

As of September 30, 2009, there was approximately $40,000 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 4.5 years.

Note 4 Subsequent Events

The Company has evaluated subsequent events through November 19, 2009, the date on which financial statements were issued, and has determined that there are no subsequent events that require adjustments to the financial statements for the quarter ended September 30, 2009.

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

The information contained in Item 2 contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Actual results may materially differ from those projected in the forward-looking statements as a result of certain risks and uncertainties set forth in this report. Although management believes that the assumptions made and expectations reflected in the forward-looking statements are reasonable, there is no assurance that the underlying assumptions will, in fact, prove to be correct or that actual results will not be different from expectations expressed in this report.

Company Overview

Data Storage Corporation f/k/a Euro Trend Inc. was incorporated on March 27, 2007 under the laws of the State of Nevada intending to commence business operations by distributing high-end European made designer clothing in mass wholesale and retail markets throughout Western Europe, Canada and the United States of America. On October 20, 2008 we completed a Share Exchange Agreement whereby we acquired all of the outstanding capital stock and ownership interests of Data Storage Corporation. In exchange we issued 12,034,287 shares of our common stock to the Data Storage Shareholders.

Through its various properties, Data Storage Corporation (DSC) delivers and supports a broad range of premium technology solutions which store, protect, optimize, and leverage information. Clients look to DSC to manage data growth, ensure disaster recovery and business continuity, strengthen security, reduce capital and operating expenses, and to meet increasing industry, state, and federal regulations. The company markets to government, education, and the healthcare industry by leveraging leading technologies such as Virtualization, Cloud Computing, Electronic Health Records, Green IT, and Wireless. The company offers hardware, software as a service, installation, maintenance, managed IT services, and training for building in-house expertise. To protect and leverage our customers' investments, DSC provides a range of top-quality professional services and proactive customer support; directly, as well as through authorized partner organizations globally.

We service customers from our New York premises which consist of modern offices and a technology suite adapted to meet the needs of a technology based business. Our primary role is to provide, maintain and develop the network hub hardware and software to meet the needs of our customers.

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

Results of Operation

Three and Nine months ended September 30, 2009 as compared to the three and nine months ended September 30, 2008

Net sales. Net sales for the three months ended September 30, 2009 were $149,882, an increase of $552, or .4% compared to $149,330 for the three months ended September 30, 2008, and for the nine months ended September 30, 2009 were $430,289 a decrease of $47,628, or 10.0%, compared to $477,917 for the nine months ended September 30, 2008. The decrease in sales is primarily attributable due to the loss of clients, pricing decreases in the industry and the renegotiation of a contract with our largest customer.

Cost of sales. For the three months ended September 30, 2009, cost of sales increased $33,498 to $116,403 from $82,905 for the three months ended September 30, 2008 and for the nine months ended September 30, 2009, cost of sales increased $82,056 to $328,564 from $246,508 for the nine months ended September 30, 2008. The increase is due to the addition of managed services which are provided on a resale basis and continuing pricing decreases in the industry. The Company's gross margin decreased to 22.3% for the three months ended September 30, 2009 as compared to 44.5% for the three months ended September 30, 2008 and the Company's gross margin decreased to 23.5% for the nine months ended September 30, 2009 as compared to 48.4% for the nine months ended September 30, 2008. Primarily fixed costs, the addition of managed services which carry a lower gross margin, pricing decreases in the industry accounted for the decrease. In addition, the company has moved all employees to a leased employee program which includes payroll taxes and benefits in salary expense.

Operating Expenses. For the three months ended September 30, 2009 operating expenses were $288,474 an increase of $72,846 as compared to $215,628 for the three months ended September 30, 2008 and for the nine months ended September 30, 2009 operating expenses were $886,605 an increase of $388,333, as compared to $498,272 for the nine months ended September 30, 2008. The increase in operating expenses for the three and nine months ended September 30, 2009 is a result of the hiring of sales personnel. Salary expenses for the three months ended September 30, 2009 were $118,654 an increase of $91,893 from $26,761 for the three months ended September 30, 2008 and salary expenses for the nine months ended September 30, 2009 were $403,576 an increase of $321,208 from $82,368 for the nine months ended September 30, 2008. Professional fees for the three months ended September 30, 2009 were $52,994, a decrease of $70,883 as compared to $123,877 for the three months ended September 30, 2008 and for the nine months ended September 30, 2009 professional fees were $155,990 a decrease of $51,033 as compared to $207,023 for the nine months ended September 30, 2008. Additional salaries represent sale personnel hired during the quarter ended March 31, 2009. Additional professional fees were related to Data Storage becoming a public traded corporation during 2009.

Interest Expense. Interest expense for the three months ended September 30, 2009 decreased to $958 from $1,390 for the three months ended September 30, 2008 and interest expense for the nine months ended September 30, 2009 increased to $3,392 from $2,265 for the nine months ended September 30, 2008. For the three nine months ended September 30, 2009 and September 30, 2008, interest expense was related to a $100,000 line of credit which was opened January 31, 2008.

Net Income (Loss). Net loss for the three months ended September 30, 2009 was $255,951 an increase of $109,581 as compared to net loss of $146,370 for the three months ended September 30, 2008 and net loss for the nine months ended September 30, 2009 was $788,083 an increase of $523,214 as compared to net loss of $264,869 for the nine months ended September 30, 2008. The decrease is primarily from an increase in professional fees and increased salary expenses.

Liquidity and Capital Resources

In 2009 we intend to continue to work to increase our presence in the marketplace through both organic growth and acquisition of data storage service provider's assets.

To the extent we are successful in growing our business, identifying potential acquisition targets and negotiating the terms of such acquisition, and the purchase price includes a cash component, we plan to use our working capital and the proceeds of any financing to finance such acquisition costs. Our opinion concerning our liquidity is based on current information. If this information proves to be inaccurate, or if circumstances change, we may not be able to meet our liquidity needs.

During the 9 months ended September 30, 2009 the company's cash decreased $258,185 to $30,876.

The Company's working capital was ($446,207) at September 30, 2009, decreasing $485,016 from $38,809 at December 31, 2008.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, financings, or other relationships with unconsolidated entities or other persons, also known as "special purpose entities" (SPEs).

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company is subject to certain market risks, including changes in interest rates and currency exchange rates. The Company does not undertake any specific actions to limit those exposures.

Item 4. Controls and Procedures

a) Evaluation of Disclosure Controls. Pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 ("Exchange Act"), the Company carried out an evaluation, with the participation of the Company's management, including the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") (the Company's principal financial and accounting officer), of the effectiveness of the Company's disclosure controls and procedures (as defined under Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report. The Company lacks the size and complexity to segregated duties sufficiently for proper controls. Based upon that evaluation, the Company's CEO and CFO concluded that the Company's disclosure controls and procedures are not effective to ensure that information required to be disclosed by the Company in the reports that the Company files or submits under the

Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including the Company's CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure.

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

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

We are currently not involved in any litigation that we believe could have a material 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 our company, our common stock, any of our subsidiaries or of our companies or our subsidiaries' officers or directors in their capacities as such, in which an adverse decision could have a material adverse effect.

Item 1A. Risk Factors.

None.

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

The Company entered into three stock purchase agreements on May 26, 2009 for a total of 316,350 shares for an aggregate price of $100,000

On July 9, 2009 the Company entered into a stock purchase agreement with an existing shareholder for 237,263 shares for $75,000

On August 12, 2009 the Company entered into a stock purchase agreement for 288,572.25 shares of common stock for $100,000.

These shares were issued in reliance on the exemption under Section 4(2) of the Securities Act of 1933, as amended (the "Act"). These shares of our common stock qualified for exemption under Section 4(2) of the Securities Act of 1933 since the issuance shares by us did not involve a public offering. The offering was not a "public offering" as defined in Section 4(2) due to the insubstantial number of persons involved in the deal, size of the offering, manner of the offering and number of shares offered. We did not undertake an offering in which we sold a high number of shares to a high number of investors. In addition, the investors had the necessary investment intent as required by Section 4(2) since they agreed to and received share certificates bearing a legend stating that such shares are restricted pursuant to Rule 144 of the 1933 Securities Act. This restriction ensures that these shares would not be immediately redistributed into the market and therefore not be part of a "public offering." Based on an analysis of the above factors, we have met the requirements to qualify for exemption under Section 4(2) of the Securities Act of 1933 for this transaction.

Item 3. Defaults Upon Senior Securities.

There were no defaults upon senior securities during the period ended September 30, 2009.

Item 4. Submission of Matters to a Vote of Security Holders.

There were no Matters submitted to a Vote of Security Holders during the period ended September 30, 2009.

Item 5. Other Information.

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

Item 6. Exhibits

(a) Exhibits

31.1 Certifications pursuant to Section 302 of Sarbanes Oxley Act of 2002

32.1 Certifications pursuant to Section 906 of Sarbanes Oxley Act of 2002

SIGNATURES

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

DATA STORAGE CORPORATION

Date: November 20, 2009	By:	/s/ Charles M. Piluso Charles M. Piluso President, Chief Executive Officer Principal Financial Officer