

Data Storage Corp
Form 10-Q
May 20, 2009

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

FORM 10-Q

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

For the quarterly period ended March 31, 2009

- ☐ 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
(State or other jurisdiction
of
incorporation or
organization)

333-148167
(Commission File No.)

98-0530147
(IRS Employee
Identification No.)

875 Merrick Avenue
Westbury, NY 11590
(Address of Principal Executive Offices)

(212) 564-4922
(Issuer 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 ☒ No ☐

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

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

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

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

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

Yes ☐ No ☒

State the number of shares outstanding of each of the issuer’s classes of common equity, as of May 20, 2009: 13,875,011 shares of Common Stock.

DATA STORAGE CORPORATION
FORM 10-Q
March 31, 2009
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PART I – Financial Information

Item 1. Consolidated Financial Statements

DATA STORAGE CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

| | March 31, 2009 | December 31, 2008 |
|---|----------------|----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 114,495 | \$ 289,061 |
| Accounts receivable (less allowance for doubtful accounts of \$19,800 in 2009 and \$48,800 in 2008) | 71,188 | 53,367 |
| Total Current Assets | 185,683 | 342,428 |
| Property and Equipment: | | |
| Property and equipment | 1,118,984 | 1,115,984 |
| Less—Accumulated depreciation | (824,981) | (793,110) |
| Net Property and Equipment | 294,003 | 322,874 |
| Other Assets: | | |
| Other assets | 5,616 | 13,469 |
| Intangible Asset - Acquired Customer Base | 172,602 | 175,528 |
| Employee loan | 23,000 | 23,000 |
| Total Other Assets | 201,218 | 211,997 |
| Total Assets | 680,904 | 877,299 |
| LIABILITIES AND STOCKHOLDERS' DEFICIENCY | | |
| Current Liabilities: | | |
| Accounts payable | 90,869 | 72,037 |
| Accrued expenses | 6,619 | 10,063 |
| Credit line payable | 99,970 | 99,970 |
| Due to related party | 21,218 | 18,000 |
| Due to Nova Stor, Inc. | 58,509 | 58,509 |
| Dividend Payable | 37,500 | 25,000 |
| Due to officer | 8,464 | 7,250 |
| Deferred revenue | 10,654 | 12,790 |
| Total Current Liabilities | 333,803 | 303,619 |
| Commitments and contingencies | - | - |
| Stockholders' Equity: | | |
| | 1,402 | 1,402 |

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| | | | |
|--|-------------|---------|-------------|
| Preferred Stock, \$.001 par value; 10,000,000 shares authorized; 1,401,786 shares issued and outstanding in each period | | | |
| Common stock, par value \$.001; 250,000,000 shares authorized; 12,473,214 shares issued and outstanding in each period | | | |
| | 12,473 | | 12,473 |
| Additional paid in capital | 4,269,715 | | 4,352,966 |
| Accumulated deficit | (3,936,489) | | (3,793,161) |
| Total Stockholders' Equity | 347,101 | | 573,680 |
| | | | |
| Total Liabilities and Stockholders' Equity | \$ | 680,904 | \$ 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 March 31, 2009 | March 31, 2008 |
|---|---|-------------------|
| Sales | \$ 139,373 | \$ 167,150 |
| Cost of sales | 89,629 | 79,709 |
| Gross Profit | 49,744 | 87,441 |
| Selling, general and administrative | 262,687 | 139,378 |
| Loss from Operations | (212,943) | (51,937) |
| Other Income (Expense) | | |
| Interest income | 177 | 18 |
| Interest expense | (1,312) | (289) |
| Total Other (Expense) | (1,135) | (271) |
| Loss before provision for income taxes | (214,078) | (52,208) |
| Provision for income taxes | - | - |
| Net Loss | (214,078) | (52,208) |
| Preferred Stock Dividend | (12,500) | - |
| Net Loss Available to Common Shareholders | \$ (226,578) | \$ (52,208) |
| Loss per Share – Basic and Diluted | \$ (0.018) | \$ (1.84) |
| Weighted Average Number of Shares - Basic and Diluted | 12,473,214 | 28,359 |

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

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

| | Three Months Ended | |
|---|--------------------|-------------------|
| | March 31, 2009 | March 31, 2008 |
| Cash Flows from Operating Activities: | | |
| Net loss | \$ (214,078) | \$ (52,208) |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Depreciation and amortization | 34,798 | 29,948 |
| Allowance for doubtful accounts | (25,000) | - |
| Changes in Assets and Liabilities: | | |
| Accounts receivable | 7,179 | (22,024) |
| Employee Loan | - | (5,000) |
| Other Assets | 7,854 | - |
| Accounts payable | 18,831 | 16,950 |
| Accrued expenses | (3,445) | - |
| Deferred Revenue | (2,136) | - |
| Due to Related Party | 3,218 | 4,500 |
| Net Cash Used in Operating Activities | (172,779) | (27,834) |
| Cash Flows from Investing Activities: | | |
| Cash paid for equipment | (3,000) | - |
| Net Cash Used in Investing Activities | (3,000) | - |
| Cash Flows from Financing Activities: | | |
| Advances from credit line | - | 15,009 |
| Advances from shareholder | 1,213 | - |
| Net Cash Provided by Financing Activities | 1,213 | 15,009 |
| Increase (Decrease) in Cash and Cash Equivalents | (174,566) | (12,825) |
| Cash and Cash Equivalents, Beginning of Period | 289,061 | 37,803 |
| Cash and Cash Equivalents, End of Period | \$ 114,495 | \$ 24,978 |
| Cash paid for interest | \$ 177 | \$ 18 |
| Cash paid for income taxes | \$ - | \$ - |

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

DATA STORAGE CORPORATION AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 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. Data Storage Corporation is a provider of data backup services. The Company specializes in secure disk-to-disk data backup and restoration solutions for disaster recovery, business continuity, and regulatory compliance.

Data Storage Corporation derives its revenues from the sale of solutions that provide businesses protection of critical electronic data. Primarily, these services consist of 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 three months ended March 31, 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 Amended 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 three months ended March 31, 2009, the Company has generated revenues of \$139,373 but has incurred a net loss of \$214,078. 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. It is the intention of Charles Piluso to continue to fund the Company on an as needed basis.

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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 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.

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.

Data Storage Corporation derives its revenues from the sale of solutions that provide businesses protection of critical electronic data. Primarily, these services consist of 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.

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 months ended March 31, 2009 as compared to the three months ended March 31, 2008

Net sales. Net sales for the three months ended March 31, 2009 were \$139,373, a decrease of \$27,777, or 16.62%, compared to \$167,150 for the three months ended March 31, 2008. The decrease in sales for is primarily attributable due to the loss of a channel partner and pricing decreases in the industry.

Cost of sales. For the three months ended March 31, 2009, cost of sales increased \$9,920 to \$89,629 from \$79,709 for the three months ended March 31, 2008. The increase is due to the addition of managed services which are provided on a resale basis. The Company's gross margin decreased to 35.7% for the three months ended March 31, 2009 as compared to 52.3% for the three months ended March 31, 2008. The addition of managed services which carry a lower gross margin combined with pricing decreases in the industry accounted for the decrease.

Operating Expenses. For the three months ended March 31, 2009 operating expenses were \$262,687, an increase of \$123,309, or 88.5% as compared to \$139,378 for the three months ended March 31, 2008. The increase in operating expenses for the three months ended March 31, 2009 is a result of additional professional fees related to the Data

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Storage Corporation being a public corporation and the hiring of sales personnel. Professional fees for the three months ended March 31, 2009 were \$52,044 an increase of \$20,828 from \$31,216 for the three months ended March 31, 2008. For the three months ended March 31, 2009 salaries were \$109,180 and increase of \$80,648 from the period March 31, 2008. Additional salaries represent sale personnel hired during the quarter ended March 31, 2009.

Interest Expense. Interest expense for the three months ended March 31, 2009 increased to \$1,312 from \$289 for the three months ended March 31, 2008. For the three months ended March 31, 2009 and March 31, 2008, interest expense was related to a \$100,000 line of credit which was opened January 31, 2008.

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Net Income (Loss). Net loss for the three months ended March 31, 2009 was \$214,078 an increase of \$161,870 as compared to net loss of \$52,208 for the three months ended March 31, 2008. The decrease is primarily from an increase in professional fees and increased salary expense

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 3 months ended March 31, 2009 the company's cash decreased \$174,566 to \$114,495.

The Company's working capital was \$(110,620) at March 31, 2009, decreasing \$186,929, from \$38,809 March 31, 2008.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

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

None.

Item 5. Other Information.

None

Item 6. Exhibits and Reports of Form 8-K.

(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

(b) Reports of Form 8-K

None.

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: May 20, 2009

By: /s/ Charles M. Piluso
Charles M. Piluso
President, Chief Executive
Officer

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