

Data Storage Corp
Form 10-K
April 16, 2013

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

FORM
10-K

(Mark One)

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2012

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File No. 333-148167

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.)

401 Franklin Avenue
Garden City, N.Y.
(Address of principal
executive offices)

11530
(Zip Code)

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

Securities registered under Section 12(b) of the Exchange Act:
None

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

Title of each class registered:	Name of each exchange on which registered:
Common Stock, par value \$.001 per share	OTC.BB

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

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

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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 is a shell company as defined in Rule 12b-2 of the Exchange Act. Yes

No

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
	Do not check if a smaller reporting company		

The aggregate market value of the 6,071,362 shares of common stock held by non-affiliates of the registrant as of June 30, 2012, was \$2,367,831.

The number of shares of the registrant’s common stock outstanding as of April 15, 2013 was 33,165,915.

Data Storage Corporation
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PART I

ITEM 1. DESCRIPTION OF BUSINESS

Overview

CORPORATE HISTORY

Data Storage Corporation, (“DSC”) is the result of several consolidations and is strategically positioned to continue its consolidation strategy. To date, DSC consummated (i) a share exchange with Euro Trend Inc. in October 20, 2008, (ii) an asset acquisition of SafeData, LLC (“SafeData”) in June 2010, and (iii) an asset acquisition of Message Logic LLC, (“Message Logic”) in October 2012.

On October 20, 2008 we completed a share exchange agreement whereby we acquired all of the outstanding capital stock and ownership interests of DSC. In exchange we issued 13,357,143 shares of our common stock to the shareholders. This transaction was accounted for as a reverse merger for accounting purposes. Accordingly, DSC, the accounting acquirer, is regarded as the predecessor entity.

On June 17, 2010 we entered into an asset purchase agreement with SafeData, a provider of Cloud Storage and Cloud Computing mostly to IBM’s mid-range equipment users, under which we acquired all right, title and interest in the end user customer base of SafeData and all related current and fixed assets and contracts including the transfer of all of SafeData’s current liabilities arising out of the business or the assets acquired. Pursuant to the Agreement, we paid an aggregate purchase price equal to \$3,000,000. Giving effect to certain holdback and contingency clauses as defined in the agreement, we paid \$1,229,952 in cash and \$850,000 in shares of our common stock as well as assumption of SafeData accounts payable and receivables. In June of 2011 we made a final payment net of holdback of \$482,308 and we issued the remaining balance of \$150,000 in Common Stock. The final settlement resulted in a gain of \$176,497.

On October 31, 2012, DSC purchased the assets of Message Logic including email compliance software all source code to Message Logic’s email archival and data analytics software and select fixed assets. In exchange for the assets, at closing, DSC gave 725,960 shares of it’s common stock and assumed liabilities of \$102,109. The contingent purchase price provides for up to 769,290 additional shares of DSC common stock and \$800,000. This contingent purchase price is based upon the achievement of certain metrics at the end of the 7th, 13th 19th and 25th months as defined in the asset purchase agreement dated October 31, 2012.

In November 2012, DSC entered into a joint venture partnership with an IBM partner, ABC Services Inc. to provide an IBM Infrastructure as a service (“IaaS”) offering, marketed under the name Aegis, a New York LLC.

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

In November 2012, DSC also entered into an agreement with Dell for distribution of its Message Logic email archiving solution.

In December 2012, DSC was accepted as an IBM Service provider for cloud solutions.

The result of these acquisitions, joint venture and strategic alliances combined with DSC’s legacy disaster recovery and business continuity solutions positions DSC as a potential leader in business to business cloud storage and cloud computing sector specializing in email compliance Software as a Service (SaaS), Windows Infrastructure as a Service

(IaaS) and IBM iSeries Platform as a Service (PaaS). DSC will continue to provide our solutions and continue our planned industry consolidations.

OVERVIEW OF DATA STORAGE CORPORATION & INDUSTRY:

DSC, an 11 year veteran in cloud storage and cloud computing solutions, provides data protection, disaster recovery, business continuity and compliance solutions that assist organizations in protecting their data, minimizing downtime and ensuring regulatory compliance. Serving the rapidly emerging business continuity market, DSC's clients save time and money, gain more control and better access to data and enable high level of security for that data. Solutions include: Infrastructure-as-a-Service, data backup, recovery and restore, high availability data replication services; email archive and compliance solutions for e-discovery; continuous data protection; data de-duplication; and virtualized system recovery. DSC has forged relationships for distribution with Dell, Amazon and IBM among others.

Headquartered in Garden City, N.Y., DSC offers its solutions and services to businesses within the healthcare, banking and finance, distribution services, manufacturing, construction, education, and government industries.

Our Continuing Strategy set forth in 2012

DSC derives revenues from long term subscription services and professional services related to implementation of subscription services that provide businesses in the education, government and healthcare industries protection of critical computerized data. In 2009 revenues consisted primarily of offsite data backup, de-duplication, continuous data protection, Cloud Disaster Recovery solutions and Electronic Medical Records, protecting information for our clients. In 2010 we expanded our solutions based on the asset acquisition of SafeData. In 2012 we continued to assimilate organizations, expanded our technology as well as technical group and positioned the new organization for growth. In October 2012 we purchased the software and assets of Message Logic. DSC has equipment for cloud storage and cloud computing in our data centers in Massachusetts, Rhode Island, and New York. We deliver our solutions over highly reliable, redundant and secure fiber optic networks with separate and diverse routes to the Internet. The network and geographical diversity is important to clients seeking storage hosting and disaster recovery solutions, ensuring protection of data and continuity of business in the case of a network interruption.

DSC is in the position today to leverage our infrastructure, data center, equipment capacity and leadership team to grow revenue to significant levels. Positioned for organic growth, although a strategy will be to grow through acquisition of similar solutions such as data vaulting, cloud recovery services, disaster recovery and business continuity solutions, e-discovery and infrastructure-as-a-service (“IaaS”) companies. DSC believes opportunities exist to acquire synergistic service providers to enhance our products and services portfolio, increase our distribution channels, expand our management and increase our cash flow.

Our objective is to reduce costs through economies of scale while increasing market share and consolidating efforts. We believe that through a strategy of increasing our direct sales force and partnership program as well as acquisition of synergistic services providers we can create significant value.

Our Acquisition Strategy

We believe that the opportunity exists today to acquire and consolidate synergetic companies in this fragmented industry. This strategy will enable DSC to create a national presence, and a recognizable premiere brand. The roll up of these technical consulting companies and system integrators will also form a powerful distribution channel for both our current and future service offerings.

The marketplace exists today for technical companies that provide professional services specializing in Disaster Recovery and Business Continuity. These companies are segmented into systems integrators that have added data protection services as an additional product line to their bundle of services and products. These companies focus on smaller clients, less than 1,500 employees. This segment of business amounts to 85% of all businesses in the USA and Canada. A few very large professional services providers such as IBM and SunGard focus on the enterprise level organizations greater than 1,500 employees, therefore leaving small and medium size organizations under-served and positioned for DSC's solutions.

DESCRIPTION OF SERVICES AND SOLUTIONS

DSC delivers and supports a broad range of premium cloud-based solutions focusing on data protection and recovery services utilizing High Availability with Hosted Replication, Data Storage, Data Backup and Data Recovery.

Vaulting: A fully automated service designed to reduce the overall costs associated with backup, recovery and archiving of application and file servers and to centralize and streamline data protection and retention processes.

Disaster Recovery ("DR"): A data recovery solution leveraging electronic vaulting technology and standby servers for businesses with recovery time objectives of 10 hours or less operating on IBM system i platforms.

High Availability ("HA"): A high-availability solution for organizations with recovery time objectives of 15 minutes or less.

SafeData Cloud: A fully managed service, offering "capacity on demand" for IBM Power Systems (AS400/IBM i, AIX) and Windows based applications. This infrastructure as a service is secure and reliable solution for enterprises.

Voice over Internet Protocol ("VoIP")*: Hosted, high-speed broadband telephony services that offer superior features and access to traditional telephony services.

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

OVERVIEW:

DSC provides cloud solutions focused on disaster recovery and business continuity on a subscription basis in the USA and Canada. The solutions assist organizations in protecting their data, minimize downtime, ensure regulatory compliance and recover and restore data within their recovery objectives. Through our multiple data centers and by leveraging leading technologies, DSC delivers and supports a broad range of premium solutions for both Windows and IBM environments that assist clients in saving time and money, gain more control of and better access to data and, enable the highest level of security for their data. DSC's solutions include: offsite data protection and recovery services, high availability ("HA") replication services, email compliance solutions for e-discovery, continuous data protection, data de-duplication, virtualized system recovery and telecom recovery services.

Headquartered in Garden City, N.Y., we provide solutions and services to businesses in the healthcare, banking and finance, distribution services, manufacturing, construction, education, and government industries.

SERVICES AND SOLUTIONS:

DSC has become one of the leading companies in High Availability and Virtual Disaster Recovery of the IBM Mid-Range Power Systems. Our overall core competencies within the cloud are the following: Data Vaulting, Virtual Disaster Recovery and High Availability using Cloud Storage, Recovery and Computing Subscription Solutions.

High Availability ("HA")

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

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

Benefits of DSC's HA include:

- data and application availability in one hour or less
- cost-effective
- easy to implement and manage
- reliable backup and recovery

Disaster Recovery (“DR”)

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

DR is available for the IBM System iSeries, UNIX, AIX and Windows operating systems. DR instantly transfers data off-site to one of DSC’s secure data centers. All data is encrypted prior to transmission and remains encrypted “in-flight” and “at rest” to ensure protection and to meet today’s compliance standards.

Benefits of DR include:

- fast recovery times (in hours, not days)
- no tapes to get lost or damaged
- virtual recovery that fully protects your server investment
- eliminate data recovery burden on IT resources

Vaulting for Backup, Recovery & Archiving (Offsite, Remote, and Local-only)

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

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

DSC’s Vault has significant advantages over traditional backup software:

- immediate off-site backup
- reduced backup windows
- elimination of tape management issues
- minimized costs associated with distributed backups
- elimination of human intervention
- encryption of all backed up data
- optimized bandwidth

BENEFITS AND FEATURES OF DSC SOLUTIONS:

Data Archiving – Lifecycle Management

Backup data must be managed throughout its lifecycle to provide the best data protection, meet compliance regulations and to improve recovery time objectives (“RTO”). DSC offers policy-based file archiving and manages archiving and restoration of data from backup sessions, reducing the cost of inactive files on-line. DSC creates restorable point-in-time copies of backup sets for historical reference to meet compliance objectives and creates Certificates of Destruction. All of an enterprise’s data can be placed into one of two categories. Critical information is that which is needed for day-to-day operations and resides in the system’s primary storage for fast access. Important information is the historical, legal and regulatory information that can safely be archived to secondary storage, lower cost disk or tapes stored offsite

Continuous Data Protection (“CDP”)

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

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

Microsoft Exchange

Ensure business-critical e-mail data is protected against application or hardware-based corruption or loss, user error, or a natural disaster with our solution. Designed with ease of use in mind, our solution provides Exchange Server 2000/2003/2007 complete protection down to the individual mailbox or even an individual mail message.

Off-Site Backup Services

We provide online backup services that transfer your information over the Internet or on a dedicated private circuit to our secure company owned off-site storage location. Our online backup service provides the most advanced data protection solution for small and medium businesses. Our service turns an ordinary server into a powerful and fully automated network backup device.

COMPETITION

High Availability and Virtual Disaster Recovery Services

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

Data Vaulting

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

Specialized Vendors: Venyu, which focuses on SMBs in the US.

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

ITEM 1A. RISK FACTORS

Not applicable.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. DESCRIPTION OF PROPERTY

Our principal office is located at 401 Franklin Avenue, Garden City, NY 11530. Our other properties include data centers located at 250A Centerville Road Warwick, RI 02886; 875 Merrick Avenue, Westbury, NY 11590 and 115 Second Avenue Waltham, MA 02451. Our corporate telephone number is (212) 564-4922.

ITEM 3. LEGAL PROCEEDINGS