

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, 2024

TRANSITION REPORT PURSUANT TO 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)

<b>Nevada</b>	<b>98-0530147</b>
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
<b>225 Broadhollow Road, Suite 307 Melville, NY</b>	<b>11747</b>
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

<b>Title of each class</b>	<b>Trading Symbol(s)</b>	<b>Name of each exchange on which registered</b>
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. See the definitions 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, 2024, was 7,014,373.

**DATA STORAGE CORPORATION**  
**FORM 10-Q**  
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**DATA STORAGE CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

	<b>September 30, 2024 (Unaudited)</b>	<b>December 31, 2023</b>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 513,718	\$ 1,428,730
Accounts receivable (less provision for credit losses of \$31,456 and \$7,915 in 2024 and 2023, respectively)	1,973,153	1,259,972
Marketable securities	11,374,769	11,318,196
Prepaid expenses and other current assets	760,564	513,175
Total Current Assets	<u>14,622,204</u>	<u>14,520,073</u>
Property and Equipment:		
Property and equipment	8,925,184	7,838,225
Less—Accumulated depreciation	(5,865,481)	(5,105,451)
Net Property and Equipment	<u>3,059,703</u>	<u>2,732,774</u>
Other Assets:		
Goodwill	4,238,671	4,238,671
Operating lease right-of-use assets	599,625	62,981
Other assets	204,599	48,436
Intangible assets, net	1,493,792	1,698,084
Total Other Assets	<u>6,536,687</u>	<u>6,048,172</u>
Total Assets	<u><u>\$ 24,218,594</u></u>	<u><u>\$ 23,301,019</u></u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 2,629,414	\$ 2,608,938
Deferred revenue	160,237	336,201
Finance leases payable	79,652	263,600
Finance leases payable related party	74,077	235,944
Operating lease liabilities short term	95,545	63,983
Total Current Liabilities	<u>3,038,925</u>	<u>3,508,666</u>
Operating lease liabilities	548,897	—
Finance leases payable	—	17,641
Finance leases payable related party	—	20,297
Total Long-Term Liabilities	<u>548,897</u>	<u>37,938</u>
Total Liabilities	<u><u>3,587,822</u></u>	<u><u>3,546,604</u></u>
Commitments and contingencies (Note 7)		
Stockholders' Equity:		

Preferred stock, Series A par value \$0.001; 10,000,000 shares authorized; 0 shares issued and outstanding as of September 30, 2024 and December 31, 2023, respectively

Common stock, par value \$0.001; 250,000,000 shares authorized; 7,014,373 and 6,880,460 shares issued and outstanding as of September 30, 2024, and December 31, 2023, respectively	7,014	6,881
Additional paid in capital	40,143,684	39,490,285
Accumulated deficit	(19,270,544)	(19,505,803)
Total Data Storage Corporation Stockholders' Equity	20,880,154	19,991,363
Non-controlling interest in consolidated subsidiary	(249,382)	(236,948)
Total Stockholder's Equity	20,630,772	19,754,415
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 24,218,594</b>	<b>\$ 23,301,019</b>

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

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

	<b>Three Months Ended September 30, 2024</b>	<b>2023</b>	<b>Nine Months Ended September 30, 2024</b>	<b>2023</b>
Sales	\$ 5,808,835	\$ 5,986,625	\$ 18,955,074	\$ 18,770,739
Cost of sales	<u>3,297,164</u>	<u>3,656,271</u>	<u>11,069,038</u>	<u>11,771,886</u>
Gross Profit	2,511,671	2,330,354	7,886,036	6,998,853
Selling, general and administrative	<u>2,537,501</u>	<u>2,316,213</u>	<u>8,086,857</u>	<u>6,918,982</u>
Income (Loss) from Operations	<u>(25,830)</u>	<u>14,141</u>	<u>(200,821)</u>	<u>79,871</u>
Other Income (Expense)				
Interest income	160,770	152,471	456,580	375,953
Interest expense	(9,815)	(8,874)	(31,335)	(56,985)
Loss on disposal of equipment	(1,599)	—	(1,599)	—
Total Other Income (Expense)	<u>149,356</u>	<u>143,597</u>	<u>423,646</u>	<u>318,968</u>
Income before provision for income taxes	123,526	157,738	222,825	398,839
Provision for income taxes	—	—	—	—
Net Income	123,526	157,738	222,825	398,839
(Income) Loss in Non-controlling interest of consolidated subsidiary	<u>(1,129)</u>	<u>21,273</u>	<u>12,434</u>	<u>57,661</u>
Net Income attributable to Common Stockholders	<u>\$ 122,397</u>	<u>\$ 179,011</u>	<u>\$ 235,259</u>	<u>\$ 456,500</u>
Net Income per Share – Basic	<u>\$ 0.02</u>	<u>\$ 0.03</u>	<u>\$ 0.03</u>	<u>\$ 0.06</u>
Net Income per Share – Diluted	<u>\$ 0.02</u>	<u>\$ 0.02</u>	<u>\$ 0.03</u>	<u>\$ 0.06</u>
Weighted Average Number of Shares - Basic	<u>6,999,447</u>	<u>6,847,264</u>	<u>6,918,253</u>	<u>6,834,811</u>
Weighted Average Number of Shares – Diluted	<u>7,340,545</u>	<u>7,246,250</u>	<u>7,269,644</u>	<u>7,212,048</u>

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

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**DATA STORAGE CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2024 AND 2023**  
**(Unaudited)**

	<b>Preferred Stock</b>	<b>Common Stock</b>		<b>Additional Paid-in Capital</b>	<b>Accumulated Deficit</b>	<b>Non-Controlling Interest</b>	<b>Total Stockholders' Equity</b>	
	<b>Shares</b>	<b>Amount</b>	<b>Shares</b>	<b>Amount</b>	<b>Shares</b>	<b>Amount</b>	<b>Shares</b>	<b>Amount</b>
<b>Balance January 1, 2023</b>	—	\$ —	6,822,127	\$ 6,822	\$ 38,982,440	\$(19,887,378)	\$ (154,689)	\$ 18,947,195
Stock-based compensation	—	—	12,500	13	86,456	—	—	86,469
Net Income (Loss)	—	—	—	—	—	50,666	(15,603)	35,063
<b>Balance March 31, 2023</b>	—	\$ —	6,834,627	\$ 6,835	\$ 39,068,896	\$(19,836,712)	\$ (170,292)	\$ 19,068,727
Stock-based compensation	—	—	12,500	12	122,702	—	—	122,714
Net Income (Loss)	—	—	—	—	—	226,823	(20,785)	206,038
<b>Balance June 30, 2023</b>	—	\$ —	6,847,127	\$ 6,847	\$ 39,191,598	\$(19,609,889)	\$ (191,077)	\$ 19,397,479

Stock-based compensation	—	—	12,500	13	128,950	—	—	—	128,963
Net Income (Loss)	—	—	—	—	—	179,011	(21,273)	—	157,738
<b>Balance September 30, 2023</b>	<b>—</b>	<b>\$</b>	<b>6,859,627</b>	<b>\$</b>	<b>6,860</b>	<b>\$39,320,548</b>	<b>\$ (19,430,878)</b>	<b>\$ (212,350)</b>	<b>\$ 19,684,180</b>
<b>Balance January 1, 2024</b>	<b>—</b>	<b>\$</b>	<b>6,880,460</b>	<b>\$</b>	<b>6,881</b>	<b>\$39,490,285</b>	<b>\$ (19,505,803)</b>	<b>\$ (236,948)</b>	<b>\$ 19,754,415</b>
Stock-based compensation	—	—	49,490	49	171,276	—	—	—	171,325
Net Income (Loss)	—	—	—	—	—	357,102	(11,198)	—	345,904
<b>Balance March 31, 2024</b>	<b>—</b>	<b>\$</b>	<b>6,929,950</b>	<b>\$</b>	<b>6,930</b>	<b>\$39,661,561</b>	<b>\$ (19,148,701)</b>	<b>\$ (248,146)</b>	<b>\$ 20,271,644</b>
Stock options exercised	—	—	36,546	36	71,057	—	—	—	71,093
Stock-based compensation	—	—	29,326	29	207,818	—	—	—	207,847
Net (Loss)	—	—	—	—	—	(244,240)	(2,365)	—	(246,605)
<b>Balance June 30, 2024</b>	<b>—</b>	<b>\$</b>	<b>6,995,822</b>	<b>\$</b>	<b>6,995</b>	<b>\$39,940,436</b>	<b>\$ (19,392,941)</b>	<b>\$ (250,511)</b>	<b>\$ 20,303,979</b>
Stock options exercised	—	—	8,551	9	17,630	—	—	—	17,639
Stock-based compensation	—	—	10,000	10	185,618	—	—	—	185,628
Net Income	—	—	—	—	—	122,397	1,129	—	123,526
<b>Balance September 30, 2024</b>	<b>—</b>	<b>\$</b>	<b>7,014,373</b>	<b>\$</b>	<b>7,014</b>	<b>\$40,143,684</b>	<b>\$ (19,270,544)</b>	<b>\$ (249,382)</b>	<b>\$ 20,630,772</b>

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

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

	Nine Months Ended September 30,	
	2024	2023
<b>Cash Flows from Operating Activities:</b>		
Net Income	\$ 222,825	\$ 398,839
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	991,773	928,180
Stock-based compensation	564,800	338,145
Provision for credit losses	25,541	—
Loss on disposal of equipment	1,599	—
Changes in Assets and Liabilities:		
Accounts receivable	(738,725)	1,158,493
Other assets	(156,163)	—
Prepaid expenses and other current assets	(247,389)	(287,368)
Right of use asset	111,314	136,954
Accounts payable and accrued expenses	20,478	(348,851)
Deferred revenue	(175,964)	(21,518)
Operating lease liability	(67,499)	(141,450)
Net Cash Provided by Operating Activities	552,590	2,161,424
<b>Cash Flows from Investing Activities:</b>		
Capital expenditures	(1,116,008)	(1,246,996)
Purchase of marketable securities	(456,573)	(1,520,953)
Sale of marketable securities	400,000	—
Net Cash Used in Investing Activities	(1,172,581)	(2,767,949)
<b>Cash Flows from Financing Activities:</b>		
Repayments of finance lease obligations related party	(182,163)	(392,287)
Repayments of finance lease obligations	(201,590)	(294,522)
Proceeds from exercise of stock options	88,732	—
Net Cash Used in Financing Activities	(295,021)	(686,809)
Decrease in Cash and Cash Equivalents	(915,012)	(1,293,334)
Cash and Cash Equivalents, Beginning of Period	1,428,730	2,286,722
Cash and Cash Equivalents, End of Period	\$ 513,718	\$ 993,388
<b>Supplemental Disclosures:</b>		
Cash paid for interest	\$ 18,034	\$ 48,471
Cash paid for income taxes	\$ —	\$ —
<b>Non-cash investing and financing activities:</b>		
Assets acquired by operating lease	\$ 647,958	\$ —

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

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**DATA STORAGE CORPORATION AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2024**  
**(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, North Carolina, Chicago 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 1, 2024, Flagship Solutions, LLC was consolidated into CloudFirst Technologies Corporation.

On January 27, 2022, the Company 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.

On August 12, 2024 the Company formed UK Cloud Host Technologies Ltd., a company formed under the laws of the United Kingdom, for the purpose of establishing an executive presence in London, United Kingdom and managing the business and affairs of the Company within Europe.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of the Company's financial statements for interim periods in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). The information included in this quarterly report on Form 10-Q ("Form 10-Q") should be read in conjunction with the audited consolidated financial statements and the accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2023 ("2023 Form 10-K"). The Company's accounting policies are described in the "Notes to Consolidated Financial Statements" in the 2023 Form 10-K and are updated, as necessary, in this Form 10-Q. The December 31, 2023, condensed consolidated balance sheet data presented for comparative purposes was derived from the audited financial statements but does not include all disclosures required by U.S. GAAP. The results of operations for the nine months ended September 30, 2024 are not necessarily indicative of the operating results for the full year or for any other subsequent interim period.

## **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 ("CloudFirst Technologies"), (ii) Information Technology Acquisition Corporation, a Delaware corporation, and (iii) its majority-owned subsidiary, Nexxis Inc, a Nevada corporation. All inter-company transactions and balances have been eliminated in consolidation. The accounts of UK Cloud Host Technologies Ltd., a wholly-owned subsidiary of CloudFirst Technologies, are not reflected in the Condensed Consolidated Financial Statements because there has been no activity to report since inception. The Company expects to report activity for UK Cloud Host Technologies Ltd. in the fourth quarter of 2024.

### *Reclassifications*

Certain prior year amounts in the Condensed Consolidated Financial Statements and the notes 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' equity, net income, or net cash provided by operating activities. During the three and nine months ended September 30, 2024, the Company reclassified disaggregated revenue and had a change in presentation on its Condensed Consolidated Financial Statements in order to present segments in line with how its Chief Operating Decision Maker ("CODM") evaluates performance of each segment. Prior periods have been revised to reflect this change in the presentation.

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

In March 2023, the FASB issued ASU 2023-01, "Leases (Topic 842): Common Control Arrangements." The new accounting rules require that leasehold improvements associated with common control leases be amortized by the lessee over the useful life of the leasehold improvements to the common control group (regardless of the lease term) as long as the lessee controls the use of the underlying asset (the leased asset) through a lease. These leases should also be accounted for as a transfer between entities under common control through an adjustment to equity if, and when, the lessee no longer controls the use of the underlying asset. The Company adopted ASU 2023-01 and it did not have a material impact to its Condensed Consolidated Financial statements.

In November 2023, the Financial Accounting Standards Board ("FASB") issued ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures, which enhances reportable segment disclosure requirements primarily through expanded disclosures around significant segment expenses. The amendments are effective for fiscal years beginning after December 15, 2024. The amendments should be applied retrospectively to all prior periods presented in the financial statements. The Company is currently evaluating the impact of the ASU and expects to include updated segment expense disclosures in its Annual Report on Form 10-K for the fiscal year ended December 31, 2024.

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures, which requires disclosure of specific categories meeting a quantitative threshold within the income tax rate reconciliation, as well as disaggregation of income taxes paid by jurisdiction. This ASU, which can be applied either prospectively or retrospectively, is effective for annual periods beginning after December 15, 2024, with early adoption permitted. The Company is currently evaluating the impact of the ASU and expects to include updated income tax disclosures.

### *Use of Estimates*

The preparation of financial statements in conformity with U.S. 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, 2024, approximate their carrying value as reflected in the balance sheet due to their short-term nature. The carrying values of the Company's finance lease obligations 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.

The fair value measurement disclosures are grouped into three levels based on valuation factors:

- Level 1 – quoted prices in active markets for identical investments
- Level 2 – other significant observable inputs (including quoted prices for similar investments and market corroborated inputs)
- Level 3 – significant unobservable inputs (including the Company's own assumptions in determining the fair value of investments)

The Company's Level 1 assets/liabilities include cash, accounts receivable, marketable securities, accounts payable, prepaid, and other current assets. Management believes the estimated fair value of these accounts at September 30, 2024, approximates their carrying value as reflected in the balance sheets due to the short-term nature of these instruments.

The Company's Level 2 assets/liabilities include the Company's finance and operating lease assets and liabilities. Their carrying value approximates their fair values based upon a comparison of the interest rate and terms of the leases.

The Company's Level 3 assets/liabilities include goodwill and intangible assets. Inputs to determine fair value are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore discounted cash flow models. Unobservable inputs used in the models are significant to the fair values of the assets and liabilities.

#### *Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis*

Certain assets and liabilities are measured at fair value on a nonrecurring basis. Assets and liabilities recognized or disclosed at fair value on the consolidated financial statements on a nonrecurring basis include items such as property, plant and equipment, operating lease right-of-use assets, goodwill, and other intangible assets. These assets are measured using Level 3 inputs.

#### *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. As of September 30, 2024, and December 31, 2023, the Company had cash and cash equivalents of \$513,718 and \$1,428,730, respectively.

#### *Investments*

Marketable securities that are bought and held principally for the purpose of selling them in the near term and are classified as trading securities and are reported at fair value, with unrealized gains and losses recognized in earnings.

The following table sets forth a summary of the changes in equity investments during the nine months ended September 30, 2024, and the year ended December 31, 2023:

	<b>For the year ended December 31, 2023 Total</b>
As of January 1, 2023	\$ 9,010,968
Purchase of equity investments	2,307,228
<hr/>	<hr/>
As of December 31, 2023	<u>\$ 11,318,196</u>
	<b>For the nine months ended September 30, 2024 Total</b>
As of December 31, 2023	\$ 11,318,196
Purchase of equity investments	456,573
Sale of equity investments	(400,000)
<hr/>	<hr/>
As of September 30, 2024	<u>\$ 11,374,769</u>

#### *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.

As of September 30, 2024, DSC had two customers with an accounts receivable balance representing 15% and 13% of total accounts receivable. As of December 31, 2023, the Company had one customer with an accounts receivable balance representing 20% of total accounts receivable.

For the three months ended September 30, 2024, the Company had two customers that accounted for 13% and 11% of revenue. For the three months ended September 30, 2023, the Company had one customer that accounted for 13% of revenue. For the nine months ended September 30, 2024, the Company had two customers that accounted for 15% and 12% of revenue. For the nine months ended September 30, 2023, the Company had two customers that accounted for 15% and 11% of revenue.

#### *Accounts Receivable / Provision 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 receivable are typically due within 30 days. ASU 2016-13 requires the recognition of lifetime estimated credit losses expected to occur for trade accounts receivable. The guidance also requires the Company to pool assets with similar risk characteristics and consider current

economic conditions when estimating losses. During the three and nine months ended September 30, 2024, the Company recorded \$8,860, and \$31,456 respectively, as the change in expected credit losses. Clients invoiced in advance for services are 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 an income-based approach that directly impacts 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.

The Company tests goodwill for impairment on an annual basis on December 31, or more frequently if events occur or circumstances change indicating that the fair value of the goodwill may be below its carrying amount. The Company has four reporting units. The Company uses an income-based approach to determine the fair value of the reporting units. This approach uses a discounted cash flow methodology and the ability of the Company's reporting units to generate cash flows as measures of fair value of its reporting units.

#### *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 with the ability to migrate their on-premises computing and digital storage to DSC's enterprise-level technical compute and digital storage assets located in Tier 3 data centers. DSC 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.

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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 participates 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, 2024**

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	<b>United States</b>	<b>International</b>	<b>Total</b>
Infrastructure & Disaster Recovery/Cloud Service	\$ 3,146,805	\$ 182,824	\$ 3,329,629
Equipment and Software	1,404,134	—	1,404,134
Managed Services	718,830	—	718,830
Nexxis VoIP Services	312,365	—	312,365
Other	38,377	5,500	43,877
<b>Total Sales</b>	<b>\$ 5,620,511</b>	<b>\$ 188,324</b>	<b>\$ 5,808,835</b>

#### **For the Three Months**

	United States	International	Total
Infrastructure & Disaster Recovery/Cloud Service	\$ 2,535,794	\$ 86,857	\$ 2,622,651
Equipment and Software	2,185,061	—	2,185,061
Managed Services	887,302	—	887,302
Nexxis VoIP Services	255,963	—	255,963
Other	35,648	—	35,648
<b>Total Sales</b>	<b>\$ 5,899,768</b>	<b>\$ 86,857</b>	<b>\$ 5,986,625</b>

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

	2024	2023
Timing of revenue recognition		
Products transferred at a point in time	\$ 1,448,010	\$ 2,220,708
Products and services transferred over time	4,360,825	3,765,917
<b>Total Sales</b>	<b>\$ 5,808,835</b>	<b>\$ 5,986,625</b>

**For the Nine Months**  
**Ended September 30, 2024**

	United States	International	Total
Infrastructure & Disaster Recovery/Cloud Service	\$ 9,037,238	\$ 411,002	\$ 9,448,240
Equipment and Software	6,271,084	—	6,271,084
Managed Services	2,204,755	—	2,204,755
Nexxis VoIP Services	864,662	—	864,662
Other	150,395	15,938	166,333
<b>Total Sales</b>	<b>\$ 18,528,134</b>	<b>\$ 426,940</b>	<b>\$ 18,955,074</b>

**For the Nine Months**  
**Ended September 30, 2023**

	United States	International	Total
Infrastructure & Disaster Recovery/Cloud Service	\$ 7,040,818	\$ 260,799	\$ 7,301,617
Equipment and Software	8,087,442	—	8,087,442
Managed Services	2,536,672	—	2,536,672
Nexxis VoIP Services	728,447	—	728,447
Other	116,561	—	116,561
<b>Total Sales</b>	<b>\$ 18,509,940</b>	<b>\$ 260,799</b>	<b>\$ 18,770,739</b>

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

	2024	2023
Timing of revenue recognition		
Products transferred at a point in time	\$ 6,437,416	\$ 8,204,003
Products and services transferred over time	12,517,658	10,566,736
<b>Total Sales</b>	<b>\$ 18,955,074</b>	<b>\$ 18,770,739</b>

Contract receivables are recorded at the invoiced amount and represent uncollateralized, non-interest-bearing client obligations. Provisions for estimated uncollectible accounts receivable are made on an account-by-account basis, considering specific factors such as age, amount, and the client's creditworthiness.

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.

During the three months ended September 2024 and 2023, \$62,387 and \$48,968 of revenue was recognized, respectively, that was included in the contract liabilities at the beginning of the respective periods. During the nine months ended September 2024 and 2023, \$214,385 and \$195,323 of revenue was recognized, respectively, that was included in the contract liabilities at the beginning of the respective periods.

**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 the Company's 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 payment.

#### *Equipment Sales*

The obligation for the equipment sales is such that 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 when 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 \$ 144,755 and \$165,403 for advertising costs for the three months ended September 30, 2024, and 2023, respectively. The Company incurred \$626,142 and \$581,423 for advertising costs for the nine months ended September 30, 2024, and 2023, respectively.

#### *Stock-Based Compensation*

The Company follows the requirements of FASB ASC 718-10-10, *Share-Based Payments* with regards to stock-based compensation issued to employees and non-employees. The Company has agreements and arrangements that call for stock to be awarded to 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. The

Net Income Per Common Share

Basic income per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing net income 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, 2024, and 2023:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Net Income Attributable to Common Shareholders	\$ 122,397	\$ 179,011	\$ 235,259	\$ 456,500
Weighted average number of common shares - basic	6,999,447	6,847,264	6,918,253	6,834,811
Dilutive securities				
Options	181,842	398,986	192,135	377,237
Warrants	—	—	—	—
Restricted stock awards	224,375	—	224,375	—
Weighted average number of common shares - diluted	7,405,664	7,246,250	7,334,763	7,212,048
Earnings per share, basic	\$ 0.02	\$ 0.03	\$ 0.03	\$ 0.06
Earnings per share, diluted	\$ 0.02	\$ 0.02	\$ 0.03	\$ 0.06

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Options	510,953	210,211	500,660	231,960
Warrants	2,495,860	2,415,860	2,495,860	2,415,860
	<u>3,006,813</u>	<u>2,626,071</u>	<u>2,996,520</u>	<u>2,647,820</u>

**Note 3 - Prepaid and other current assets**

Prepaid and other current assets consist of the following:

	September 30, 2024	December 31, 2023
Prepaid marketing & promotion	\$ 103,666	\$ 13,525
Prepaid subscriptions and license	431,676	362,760
Prepaid maintenance	139,150	31,311
Prepaid insurance	53,303	63,247
Other	32,769	42,332
Total prepaids and other current assets	<u>\$ 760,564</u>	<u>\$ 513,175</u>

**Note 4- Property and Equipment**

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

	September 30, 2024	December 31, 2023
Storage equipment	\$ 60,288	\$ 60,288
Furniture and fixtures	30,305	21,625
Leasehold improvements	—	20,983
Computer hardware and software	135,020	117,379
Data center equipment	<u>8,699,571</u>	<u>7,617,950</u>
	<u>8,925,184</u>	<u>7,838,225</u>
Less: Accumulated depreciation	<u>(5,865,481)</u>	<u>(5,105,451)</u>
Net property and equipment	<u>\$ 3,059,703</u>	<u>\$ 2,732,774</u>

Depreciation expense for the three months ended September 30, 2024, and 2023 was \$ 279,935 and \$269,372, respectively. Depreciation expense for the nine months ended September 30, 2024, and 2023 was \$787,481 and \$720,037, respectively.

**Note 5 - Goodwill and Intangible Assets**

Goodwill and intangible assets consisted of the following:

	Estimated life in years	Gross amount	December 31, 2023, Accumulated Amortization	Net
Intangible assets not subject to amortization				
Goodwill	Indefinite	\$ 4,238,671	\$ —	\$ 4,238,671
Trademarks	Indefinite	514,268	—	514,268
Total intangible assets not subject to amortization		4,752,939	—	4,752,939
Intangible assets subject to amortization				
Customer lists	7	2,614,099	1,434,218	1,179,881
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	29,067	3,935
Total intangible assets subject to amortization		3,889,248	2,705,432	1,183,816
Total Goodwill and Intangible Assets		\$ 8,642,187	\$ 2,705,432	\$ 5,936,755

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	Estimated life in years	Gross amount	September 30, 2024, Accumulated Amortization	Net
Intangible assets not subject to amortization				
Goodwill	Indefinite	\$ 4,238,671	\$ —	\$ 4,238,671
Trademarks	Indefinite	514,268	—	514,268
Total intangible assets not subject to amortization		4,752,939	—	4,752,939
Intangible assets subject to amortization				
Customer lists	5-15	2,614,099	1,634,575	979,524
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	33,002	—
Total intangible assets subject to amortization		3,889,248	2,909,724	979,524
Total Goodwill and Intangible Assets		\$ 8,642,187	\$ 2,909,724	\$ 5,732,463

Scheduled amortization over the next five years are as follows:

Twelve months ending September 30,			
2025		\$	267,143
2026			267,143
2027			267,143
2028			178,095
2029			—
Thereafter			—
Total		\$	979,524

Amortization expense for the three months ended September 30, 2024, and 2023 was \$ 66,786 and \$69,147, respectively. Amortization expense for the nine months ended September 30, 2024, and 2023 was \$204,292 and \$208,143, respectively.

#### Note 6 - Leases

##### Operating Leases

The Company currently maintains two leases for office space located in Melville, NY, and one lease for office space in Austin, TX.

The 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 the Company's existing lease in the same building. The base annual rent is \$11,856 payable in equal monthly installments of \$988. The lease has since expired.

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 approximately \$4,965. The lease has since expired.

On January 1, 2022, the Company entered into a lease agreement for office space with WeWork in Austin, TX. On September 3, 2024 the company amended this agreement and is on an eight month lease agreement with payments of a \$1,056 per month.

On January 17, 2024, the Company entered into a lease agreement for office space in Melville, NY. The lease commenced on April 1, 2024, and has a term of sixty-seven months. The lease requires monthly payments of \$11,931 and expires on October 30, 2029.

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##### Finance Lease Obligations

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 \$3,512. The lease carries an interest rate of 6% and is a three-year lease. The term of the lease ended on November 1, 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 February 1, 2025.

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 \$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 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 expired on March 1, 2024. The lease carried 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 February 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 March 1, 2025. The lease carries an interest rate of 8%.

During the nine months ended September 30, 2024, the Company exercised its right and bought out a fair market value lease of equipment at the end of its Systems Trading lease for \$98,312.

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. 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:

	<b>Three Months Ended September 30, 2024</b>
<b>Finance leases:</b>	
Amortization of assets, included in depreciation and amortization expense	\$ 291,289
Interest on lease liabilities, included in interest expense	12,585
<b>Operating lease:</b>	
Amortization of assets, included in total operating expense	27,250
Interest on lease liabilities, included in total operating expense	515
<b>Total net lease cost</b>	<b><u>\$ 331,639</u></b>

	<b>Nine Months Ended September 30, 2024</b>
<b>Finance leases:</b>	
Amortization of assets, included in depreciation and amortization expense	\$ 418,700
Interest on lease liabilities, included in interest expense	18,034
<b>Operating lease:</b>	
Amortization of assets, included in total operating expense	91,425
Interest on lease liabilities, included in total operating expense	773
<b>Total net lease cost</b>	<b><u>\$ 528,932</u></b>

Supplemental balance sheet information related to leases was as follows:

	<b>Operating Leases:</b>
Operating lease right-of-use asset	<u>\$ 599,625</u>
<b>Current operating lease liabilities</b>	
Noncurrent operating lease liabilities	\$ 548,897
<b>Total operating lease liabilities</b>	<b><u>\$ 644,442</u></b>

	<b>As of September 30, 2024</b>
<b>Finance leases:</b>	
Property and equipment, at cost	\$ 5,521,716
Accumulated amortization	(4,911,904)
Property and equipment, net	<u>\$ 609,812</u>
<b>Current obligations of finance leases</b>	
Finance leases, net of current obligations	\$ 153,729
<b>Total finance lease liabilities</b>	<b><u>\$ 153,729</u></b>

Supplemental cash flow and other information related to leases were as follows and included both related and non-related party finance leases combined:

	<b>Nine Months Ended September 30, 2024</b>
<b>Cash paid for amounts included in the measurement of lease liabilities:</b>	
Operating cash flows related to operating leases	\$ 67,499
Financing cash flows related to finance leases	\$ 383,753
<b>Weighted average remaining lease term (in years):</b>	
Operating leases	5.08

Finance leases	2.80
Weighted average discount rate:	
Operating leases	9%
Finance leases	7%

Long-term obligations under the operating and finance leases at September 30, 2024, mature as follows and included both related party and non-related finance leases combined:

For the Twelve Months Ended September 30,	Operating Leases	Finance Leases
2025	\$ 154,904	\$ 159,952
2026	150,777	—
2027	156,054	—
2028	161,516	—
2029	167,169	—
Thereafter	14,170	—
Total lease payments	804,590	159,952
Less: Amounts representing interest	(160,148)	(6,223)
Total lease obligations	644,442	153,729
Less: long-term obligations	(548,897)	—
Total current	\$ 95,545	\$ 153,729

As of September 30, 2024, the Company had no additional significant operating or finance leases that had not yet commenced. Rent expense under all operating leases for the three months ended September 30, 2024, and 2023 was \$79,970 and \$69,974, respectively. Rent expense under all operating leases for the nine months ended September 30, 2024, and 2023 was \$270,217 and \$205,241, respectively.

#### Note 7 - Commitments and Contingencies

On May 7, 2024, the Company entered into a master service agreement with a vendor. The lease obligation is payable in monthly installments of \$51,680. The master service agreement ends June 1, 2029.

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 \$0.4 million in payments over the next 2 years.

During the year, the Company received communication regarding state sales and use taxes. The Company received further communication on July 31, 2024. The Company is in discussions with the agency and evaluating the amount owed. Based on an examination of all information currently available to the Company, the Company has determined that it is probable that an accrual is needed related to this matter. After its analysis, the Company expects the liability range to be between \$75,000 and \$97,000. The Company recorded \$89,000 in accrued expenses during the nine months ended September 30, 2024.

#### Note 8 - Stockholders' Equity

##### 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 July 18, 2024, the Company entered into an Equity Distribution Agreement (the "Agreement"), pursuant to which it may offer and sell, from time to time, shares of its common stock. Sales of shares of common stock under the Agreement will be made pursuant to our registration statement on Form S-3 (File No. 333-280881) (the "Registration Statement") and a related prospectus supplement (the "ATM Prospectus"). The ATM Prospectus relates to the offering of up to \$10,600,000 shares of the Company's common stock. The issuance and sale, if any, of common stock under the Agreement is subject to the Company maintaining an effective registration statement. The Registration Statement was declared effective on July 26, 2024. To date, the Company has not made any sales under the Agreement.

##### Common Stock Options

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

	Number of Shares Under Options	Weighted Average Exercise Price	Weighted Average Contractual Life
Options Outstanding at January 1, 2024	590,594	\$ 2.51	7.45
Options Granted	153,755	3.69	3.69
Exercised	(48,253)	2.26	—
Expired/Cancelled	(3,301)	4.77	—
Options Outstanding at September 30, 2024	692,795	\$ 2.78	6.48
Options Exercisable at September 30, 2024	275,375	\$ 3.01	5.59

Share-based compensation expense for options totaling \$108,203 and \$81,520 was recognized in the Company's results for the three months ended September 30, 2024, and 2023, respectively. Share-based compensation expense for options totaling \$322,560 and \$211,223 was recognized in the Company's results for the nine months ended September 30, 2024, and 2023, respectively.

The intrinsic value of outstanding options as of September 30, 2024, and December 31, 2023, was \$ 928,159 and \$391,283, 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, 2024, there was \$ 664,737 of total unrecognized compensation expense related to unvested employee options granted under the Company's share-based compensation plans that is expected to be recognized over a weighted average period of approximately 1.07 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, 2024, and 2023, are set forth in the table below.

	2024	2023
Weighted average fair value of options granted	\$ 5.72	\$ 1.77
Risk-free interest rate	3.94%-4.21%	3.41%-4.59%
Volatility	126%-159%	195%-199%
Expected life (years)	6 years	10 years
Dividend yield	—%	—%

#### *Share-based awards, Restricted Stock Units ('RSUs')*

On January 2, 2024, the Company granted certain employees an aggregate of 70,393 RSUs. Compensation as a group amounted to \$ 156,251. The shares vest one third each year for three years after issuance.

On March 31, 2024, the Board resolved that the Company shall issue to Board members an aggregate of 14,166 RSUs. Compensation as a group amounted to \$81,030. The shares vest one year after issuance.

On April 1, 2024, the Company granted certain employees an aggregate of 2,660 RSUs. Compensation as a group amounted to \$ 15,002. The shares vested on grant.

On June 30, 2024, the Board resolved that the Company shall issue to Board members an aggregate of 17,500 RSUs. Compensation as a group amounted to \$114,800. The shares vest one year after issuance.

A summary of the activity related to RSUs for the nine months ended September 30, 2024, is presented below:

Restricted Stock Units (RSUs)	Shares	Weighted Average Fair Value \$
RSUs non-vested at January 1, 2024	208,472	1.89
RSUs granted	104,719	2.89
RSUs vested	(88,816)	2.10
RSUs forfeited	—	—
RSUs non-vested at September 30, 2024	<u>224,375</u>	<u>2.28</u>

Stock-based compensation for RSUs has been recorded in the consolidated statements of operations and totaled \$ 77,425 and \$48,507 for the three months ended September 30, 2024, and 2023, respectively. Stock-based compensation for RSUs has been recorded in the consolidated statements of operations and totaled \$242,240 and \$126,922 for the nine months ended September 30, 2024, and 2023, respectively.

As of September 30, 2024, there was \$ 345,843 of total unrecognized compensation expense related to unvested RSUs granted under the Company's share-based compensation plans that is expected to be recognized over a weighted average period of approximately 0.97 years.

#### **Note 9 – Litigation**

The Company is currently not involved in any litigation that it believes could have a materially adverse effect on its 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 the Company or any of its 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**

##### *Nexxis Capital LLC*

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 from Nexxis Capital \$0 and \$7,348 for the three and nine months ended September 30, 2024, and \$14,267 and \$30,048 for the three and nine months ended September 30, 2023, respectively.

##### *Eisner & Maglione CPA's LLC*

Lawrence Maglione, a member of the Board of Directors, is a partner of Eisner & Maglione CPA's LLC. The Company paid Mr. Maglione's firm \$ 5,075 and \$6,488 for accounting and consulting services for the three months ended September 30, 2024, and 2023, respectively. The Company paid Mr. Maglione's firm \$13,908 and \$10,408 for accounting and consulting services during the nine months ended September 30, 2024, and 2023, respectively.

### Note 11 – Segment Information

The Company operates in two reportable segments: CloudFirst and Nexxis. Its segments were determined based on the Company's internal organizational structure, the manner in which its operations are managed, and the criteria used by its Chief Operating Decision Maker ("CODM") to evaluate performance, which is generally the segment's assets, liabilities, and operating income or losses. The Flagship acquisition in June of 2021 has benefited DSC with a client base, experienced sales and marketing talent, and a strong experienced technical team. Based on over two years of information and the Company's experience with Flagship the Company decided, based on the services and product set, as well as the talented team at Flagship, to bring together both CloudFirst and Flagship. This unification on January 1, 2024 has strengthened the Company's overall technical teams and provided for cross-selling opportunities while reducing overall expenses.

<b>Operations of:</b>	<b>Products and services provided:</b>
CloudFirst Technologies Corporation	CloudFirst provides services from CloudFirst technological assets deployed in seven Tier 3 data centers throughout the USA and Canada. This technology has been developed by CloudFirst. Clients are invoiced for cloud infrastructure and disaster recovery on the CloudFirst platform. Services provided to clients are provided on a subscription basis on long-term contracts.
Nexxis Inc.	Nexxis is a single-source solution provider that delivers fully-managed cloud-based voice services, data transport, internet access, and SD-WAN solutions focused on business continuity for today's modern business environment.

The following tables present certain financial information related to the Company's reportable segments and Corporate:

**As of September 30, 2024**

	<b>CloudFirst Technologies</b>	<b>Nexxis Inc.</b>	<b>Corporate</b>	<b>Total</b>
Accounts receivable	\$ 1,931,076	\$ 42,077	\$ —	\$ 1,973,153
Prepaid expenses and other current assets	633,231	22,947	104,386	760,564
Net property and equipment	3,053,222	2,269	4,212	3,059,703
Intangible assets, net	1,493,792	—	—	1,493,792
Goodwill	4,238,671	—	—	4,238,671
Operating lease right-of-use assets	599,625	—	—	599,625
All other assets	—	—	12,093,086	12,093,086
<b>Total assets</b>	<b>\$ 11,949,617</b>	<b>\$ 67,293</b>	<b>\$ 12,201,684</b>	<b>\$ 24,218,594</b>
Accounts payable and accrued expenses	\$ 2,051,086	\$ 72,901	\$ 505,427	\$ 2,629,414
Deferred revenue	160,237	—	—	160,237
Finance leases payable	79,652	—	—	79,652
Finance leases payable related party	74,077	—	—	74,077
Operating lease liabilities	644,442	—	—	644,442
<b>Total liabilities</b>	<b>\$ 3,009,494</b>	<b>\$ 72,901</b>	<b>\$ 505,427</b>	<b>\$ 3,587,822</b>

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**As of December 31, 2023**

	<b>CloudFirst Technologies</b>	<b>Nexxis Inc.</b>	<b>Corporate</b>	<b>Total</b>
Accounts receivable	\$ 1,229,820	\$ 30,152	\$ —	\$ 1,259,972
Prepaid expenses and other current assets	419,254	18,157	75,764	513,175
Net property and equipment	2,727,225	2,905	2,644	2,732,774
Intangible assets, net	1,698,084	—	—	1,698,084
Goodwill	4,238,671	—	—	4,238,671
Operating lease right-of-use assets	62,981	—	—	62,981
All other assets	—	—	12,795,362	12,795,362
<b>Total assets</b>	<b>\$ 10,376,035</b>	<b>\$ 51,214</b>	<b>\$ 12,873,770</b>	<b>\$ 23,301,019</b>
Accounts payable and accrued expenses	\$ 2,020,963	\$ 65,161	\$ 522,814	\$ 2,608,938
Deferred revenue	336,201	—	—	336,201
Finance leases payable	281,241	—	—	281,241
Finance leases payable related party	256,241	—	—	256,241
Operating lease liabilities	63,983	—	—	63,983
<b>Total liabilities</b>	<b>\$ 2,958,629</b>	<b>\$ 65,161</b>	<b>\$ 522,814</b>	<b>\$ 3,546,604</b>

**For the Three Months Ended September 30, 2024**

	<b>CloudFirst Technologies</b>	<b>Nexxis Inc.</b>	<b>Corporate</b>	<b>Total</b>
Sales	\$ 5,483,537	\$ 325,298	\$ —	\$ 5,808,835
Cost of sales	3,116,332	180,832	—	3,297,164
Gross Profit	2,367,205	144,466	—	2,511,671
Selling, general and administrative	1,196,547	149,055	834,635	2,180,237

Depreciation and amortization	356,855	214	195	357,264
Total operating expenses	1,553,402	149,269	834,830	2,537,501
Income (Loss) from Operations	813,803	(4,803)	(834,830)	(25,830)
Interest income	—	—	160,770	160,770
Interest expense	(9,815)	—	—	(9,815)
Loss on disposal of equipment	(1,599)	—	—	(1,599)
Total Other Income (Expense)	(11,414)	—	160,770	149,356
Income (Loss) before provision for income taxes	\$ 802,389	\$ (4,803)	\$ (674,060)	\$ 123,526

**For the Three Months Ended September 30, 2023**

	<b>CloudFirst Technologies</b>	<b>Nexxis Inc.</b>	<b>Corporate</b>	<b>Total</b>
Sales	\$ 5,716,060	\$ 270,565	\$ —	\$ 5,986,625
Cost of sales	3,492,250	164,021	—	3,656,271
Gross Profit	2,223,810	106,544	—	2,330,354
Selling, general and administrative	1,196,582	174,527	606,584	1,977,693
Depreciation and amortization	338,131	213	176	338,520
Total operating expenses	1,534,713	174,740	606,760	2,316,213
Income (Loss) from Operations	689,097	(68,196)	(606,760)	14,141
Interest income	—	—	156,666	156,666
Interest expense	(13,069)	—	—	(13,069)
Total Other Income (Expense)	(13,069)	—	156,666	143,597
Income (Loss) before provision for income taxes	\$ 676,028	\$ (68,196)	\$ (450,094)	\$ 157,738

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**For the Nine Months Ended September 30, 2024**

	<b>CloudFirst Technologies</b>	<b>Nexxis Inc.</b>	<b>Corporate</b>	<b>Total</b>
Sales	\$ 18,055,940	\$ 899,134	\$ —	\$ 18,955,074
Cost of sales	10,564,352	504,686	—	11,069,038
Gross Profit	7,491,588	394,448	—	7,886,036
Selling, general and administrative	4,229,162	485,978	2,379,944	7,095,084
Depreciation and amortization	990,557	636	580	991,773
Total operating expenses	5,219,719	486,614	2,380,524	8,086,857
Income (Loss) from Operations	2,271,869	(92,166)	(2,380,524)	(200,821)
Interest income	—	—	456,580	456,580
Interest expense	(31,335)	—	—	(31,335)
Loss on disposal of equipment	(1,599)	—	—	(1,599)
Total Other Income (Expense)	(32,934)	—	456,580	423,646
Income (Loss) before provision for income taxes	\$ 2,238,935	\$ (92,166)	\$ (1,923,944)	\$ 222,825

**For the nine months ended September 30, 2023**

	<b>CloudFirst Technologies</b>	<b>Nexxis Inc.</b>	<b>Corporate</b>	<b>Total</b>
Sales	\$ 17,970,297	\$ 800,442	\$ —	\$ 18,770,739
Cost of sales	11,273,091	498,795	—	11,771,886
Gross profit	6,697,206	301,647	—	6,998,853
Selling, general and administrative	3,732,073	468,605	1,790,124	5,990,802
Depreciation and amortization	927,231	492	457	928,180
Total operating expenses	4,659,304	469,097	1,790,581	6,918,982
Income (loss) from operations	2,037,902	(167,450)	(1,790,581)	79,871
Interest income	—	—	375,953	375,953
Interest expense	(56,985)	—	—	(56,985)
Total Other Income (Expense)	(56,985)	—	375,953	318,968
Income (loss) before provision for income taxes	\$ 1,980,917	\$ (167,450)	\$ (1,414,628)	\$ 398,839

**Note 12 - Subsequent Events**

The Company has evaluated events that occurred through November 14, 2024, the date that the financial statements were issued, and determined that there have been no events that have occurred that would require adjustments to the Company's disclosures in the financial statements other than as follows. Subsequent to September 30, 2024, the Company entered into three colocation services and supporting connectivity agreements in data centers

## 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, 2023, included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2023 filed on March 28, 2024 (the "2023 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 SEC.

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.

### Company Overview

Data Storage Corporation ("Data Storage," "we," "us," "our" and the "Company") is headquartered in Melville, New York. Our common stock trades on the Nasdaq Capital Market ("Nasdaq") under the ticker symbol DTST. We operate through two subsidiaries; CloudFirst Technologies Corporation ("CloudFirst Technologies"), a Delaware corporation, and Nexxis Inc. These subsidiaries 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 channels.

**Strategic Growth and Infrastructure:** In response to a capital raise and Nasdaq uplisting in 2021, we expanded our distribution networks and bolstered our team, focusing on enhancing our sales, marketing, and technological capabilities. Data Storage operates seven geographically diverse data centers across the U.S. and Canada, supporting its commitment to providing secure and reliable subscription-based services.

### Core Services:

- **Business Continuity Solutions:** Offers rapid recovery from system outages and disasters, ensuring minimal operational disruption.
- **Managed Cloud Infrastructure Services:** Facilitates cloud migration and provides ongoing support for software applications and technical workloads in a multi-cloud environment.
- **Cyber Security:** Delivers comprehensive security consultation, data protection, disaster recovery, and remote monitoring services, either integrated into cloud solutions or as standalone offerings.

**Client Engagement and Revenue Generation:** We engage with clients through direct business development efforts and a broad distribution network, offering solutions that lower barriers to entry for disaster recovery and cloud infrastructure services. While subscription-based services constitute a significant portion of our revenue, we also generate income from the sale of equipment and software, emphasizing cybersecurity, data storage, and IBM Power systems solutions.

This overview highlights Data Storage Corporation's strategic approach to leveraging technology and expertise to meet the complex needs of its diverse client base, ensuring business continuity and security in an increasingly digital world.

### 2024 Business Update Summary

In the first half of 2024, we laid a strong foundation for sustained growth. Strategic capital allocation toward professional services, business development, and account management has been pivotal. The January 1st merger of CloudFirst Technologies and Flagship Solutions LLC into a single subsidiary of Data Storage Corporation has positioned us to advance key strategic initiatives effectively.

Our expansion into Europe, with a primary focus on the United Kingdom (UK), is underway. Equipment procurement for our three data center locations has commenced, and we project the platform will be operational and ready for client onboarding by January 2025. Management estimates that the UK and European Union (EU) markets includes more than 50,000 businesses with established trade and operations spanning the USA, UK, and EU, a prospect that bolsters our marketing strategy. The close economic and commercial ties between these countries are expected to enhance our efforts to penetrate the UK and EU markets. CloudFirst Technologies' wholly owned subsidiary, UK Cloud Host Technologies Ltd., has established an executive presence in London and appointed Colin Freeman as Managing Director to lead the European expansion. Banking facilities are established, and we are actively progressing in our execution phase.

Our initial expansion outside the USA began with establishing a presence in Canada, where CloudFirst Technologies operates two IBM Power platforms. The trading relationship between the UK, Canada, and the USA presents substantial growth potential. We believe these interconnected markets offer a significant addressable opportunity. Our portfolio of cloud infrastructure services, including cloud hosting, disaster recovery, and cybersecurity, positions Data Storage as a comprehensive, multi-country service provider—one of the few offering such breadth and capability.

Our CXO (Client Experience Officer) program, announced earlier this year, is driving tangible outcomes by deepening client engagement, enhancing cross-selling opportunities, and exceeding service expectations.

We maintain our focus and operational stability. While market conditions remain unpredictable, our cash position is solid, and we forecast continued positive EBITDA from our subsidiary operations.

## Operational Footprint:

Data Storage Corporation operates from offices in New York and Texas, equipped with data centers designed to meet client requirements effectively. We also employ remote staff to complement our office teams and manages a robust infrastructure across seven geographically diverse data centers in the United States and Canada, supporting our comprehensive subscription-based solutions.

## Recent Developments

On May 3, 2024, the Board signed a resolution to amend our Bylaws to provide that at each meeting of stockholders, except where otherwise provided by law, the presence in person or by proxy of the holders of thirty-three and one-third percent of the outstanding shares of our voting stock shall constitute a quorum.

On June 20, 2024, we held our 2024 Annual Meeting of Stockholders (the "2024 Annual Meeting"). At the 2024 Annual Meeting, our stockholders approved an amendment to our 2021 Stock Incentive Plan, as amended and restated (the "Incentive Plan") to increase the number of shares of common stock that we will have authority to grant under the Incentive Plan by an additional 1,000,000 shares of common stock to 2,075,000.

On July 18, 2024, we entered into an Equity Distribution Agreement (the "Agreement"), with Maxim Group LLC ("Maxim"), pursuant to which we may offer and sell, from time to time, through Maxim, as sales agent or principal, shares of our common stock. Subject to the terms and conditions of the Agreement, Maxim will use commercially reasonable efforts consistent with its normal trading and sales practices, applicable state and federal law, rules and regulations and the rules of the Nasdaq Capital Market to sell shares from time to time based upon our instructions, including any price, time or size limits specified by us. Under the Agreement, Maxim may sell shares by any method deemed to be an "at the market" offering as defined in Rule 415 under the Securities Act of 1933, as amended, or any other method permitted by law, including in privately negotiated transactions. Maxim's obligations to sell shares under the Agreement are subject to satisfaction of certain conditions, including customary closing conditions for transactions of this nature. We will pay Maxim a commission of 2.5% of the aggregate gross proceeds from each sale of shares and have agreed to provide Maxim with customary indemnification and contribution rights. We also agreed to reimburse Maxim for certain specified expenses of up to \$50,000. Sales of shares of common stock under the Agreement will be made pursuant to our registration statement on Form S-3 (File No. 333-280881) (the "Registration Statement") and a related prospectus supplement (the "ATM Prospectus"), both of which were filed with the SEC on July 18, 2024. The ATM Prospectus relates to the offering of up to \$10,600,000 shares of our common stock. The issuance and sale, if any, of common stock under the Agreement is subject to us maintaining an effective registration statement. The Registration Statement was declared effective on July 26, 2024.

## RESULTS OF OPERATIONS

### Three months ended September 30, 2024 as compared to September 30, 2023

**Total Sales.** For the three months ended September 30, 2024, total sales were \$5,808,834, a decrease of \$177,791 or 3%, compared to \$5,986,625 for the three months ended September 30, 2023. The decrease is primarily attributed to lower one-time Equipment and Software sales during the current period and a decrease in Managed Services, primarily offset by an increase in Infrastructure & Disaster Recovery/Cloud Services.. Typically, we generate a higher margin on Infrastructure & Disaster Recovery/Cloud Services than we do on one-time Equipment Sales.

#### Sales

	For the Three Months Ended September 30,			% Change
	2024	2023	\$ Change	
Infrastructure & Disaster Recovery/Cloud Service	\$ 3,329,629	\$ 2,622,651	\$ 706,978	27%
Equipment and Software	1,404,134	2,185,061	(780,927)	(36)%
Managed Services	718,830	887,302	(168,472)	(19)%
Nexxis VoIP Services	312,365	255,963	56,402	22%
Other	43,877	35,648	8,229	23%
<b>Total Sales</b>	<b>\$ 5,808,835</b>	<b>\$ 5,986,625</b>	<b>\$ (177,790)</b>	<b>(3)%</b>

**Cost of Sales.** For the three months ended September 30, 2024, cost of sales was \$3,297,164, a decrease of \$359,107 or 10% compared to \$3,656,271 for the three months ended September 30, 2023. The decrease was mostly related to the decrease in one-time equipment and managed services related cost of sales.

**Selling, general and administrative expenses.** For the three months ended September 30, 2024, selling, general and administrative expenses were \$2,537,501, an increase of \$221,288 or 10%, as compared to \$2,316,213 for the three months ended September 30, 2023. The net increase is reflected in the chart below.

#### Selling, general and administrative expenses

	For the Three Months Ended September 30,			% Change
	2024	2023	\$ Change	
Increase in Salaries	\$ 1,304,572	\$ 1,203,134	\$ 101,438	8%
Increase in Professional Fees	435,865	264,928	170,937	65%
Decrease in Software as a Service Expense	46,343	54,168	(7,825)	(14)%
Decrease in Advertising Expenses	144,755	165,403	(20,648)	(12)%
Decrease in Commissions Expense	275,673	348,779	(73,106)	(21)%
Decrease in Amortization and Depreciation Expense	71,371	72,931	(1,560)	(2)%
Increase in Travel and Entertainment	103,118	41,369	61,749	149%
Increase in Rent and Occupancy	56,896	56,876	20	0%
Increase in Insurance	32,281	30,623	1,658	5%
Decrease in all other Expenses	66,627	78,002	(11,375)	(15)%
<b>Total Expenses</b>	<b>\$ 2,537,501</b>	<b>\$ 2,316,213</b>	<b>\$ 221,288</b>	<b>10%</b>

**Salaries.** Salaries increased as a result of an increase in stock-based compensation in addition to an increase in salaries due to annual employee performance reviews.

**Professional Fees.** Professional fees increased primarily due to business development consulting fees and an increase in legal and accounting fees related to the filing of certain registration statements.

*Software as a Service Expense (SaaS).* SaaS decreased due to a decrease in outside professional services.

*Advertising Expenses.* Advertising Expenses decreased due to offsets in expense of our stadium lease.

*Commissions Expense.* Commissions expense decreased due to the decrease in one-time equipment sales.

*Travel and Entertainment.* Travel and Entertainment expenses increased due to international expansion efforts in addition to travel related to domestic customer expansion efforts.

*Other Income (Expense).* Other income for the three months ended September 30, 2024, increased \$5,759 to \$149,356 from \$143,597 for the three months ended September 30, 2023. The increase in other income is primarily attributable to the increase in interest income from investment in marketable securities.

*Income (loss) before provision for income taxes.* Income before provision for income taxes for the three months ended September 30, 2024, was \$123,526, as compared to income of \$157,738 for the three months ended September 30, 2023.

**Nine months ended September 30, 2024 as compared to September 30, 2023**

*Total Sales.* For the nine months ended September 30, 2024, total sales were \$18,955,074, an increase of \$184,335 or 1%, compared to \$18,770,739 for the nine months ended September 30, 2023. The increase is primarily attributed to the increase of \$2,146,623 or 29% in Infrastructure & Disaster Recovery/Cloud Services offset partially by a decrease in one-time equipment sales and managed services during the current period. Typically, we generate a higher margin on Infrastructure & Disaster Recovery/Cloud Services than we do on one-time Equipment Sales.

Sales	For the Nine Months Ended September 30,		
	2024	2023	\$ Change
Infrastructure & Disaster Recovery/Cloud Service	\$ 9,448,240	\$ 7,301,617	\$ 2,146,623
Equipment and Software	6,271,084	8,087,442	(1,816,358)
Managed Services	2,204,755	2,536,672	(331,917)
Nexsis VoIP Services	864,662	728,447	136,215
Other	166,333	116,561	49,772
<b>Total Sales</b>	<b>\$ 18,955,074</b>	<b>\$ 18,770,739</b>	<b>\$ 184,335</b>

*Cost of Sales.* For the nine months ended September 30, 2024, cost of sales was \$11,069,038, a decrease of \$702,848 or 6% compared to \$11,771,886 for the nine months ended September 30, 2023. The decrease of 6% was mostly related to a decrease in one-time equipment sales.

*Selling, general and administrative expenses.* For the nine months ended September 30, 2024, selling, general and administrative expenses were \$8,086,857, an increase of \$1,167,875 or 17%, as compared to \$6,918,982 for the nine months ended September 30, 2023. The net increase is reflected in the chart below.

Selling, general and administrative expenses	For the Nine Months Ended September 30,		
	2024	2023	\$ Change
Increase in Salaries	\$ 3,980,221	\$ 3,600,450	\$ 379,771
Increase in Professional Fees	1,186,434	772,834	413,600
Increase in Software as a Service Expense	167,648	140,602	27,046
Increase in Advertising Expenses	626,142	581,423	44,719
Decrease in Commissions Expense	989,226	1,000,541	(11,315)
Decrease in Amortization and Depreciation Expense	214,866	220,870	(6,004)
Increase in Travel and Entertainment	307,123	131,155	175,968
Increase in Rent and Occupancy	201,419	167,713	33,706
Increase in Insurance	96,147	88,047	8,100
Increase in all other Expenses	317,631	215,347	102,284
<b>Total Expenses</b>	<b>\$ 8,086,857</b>	<b>\$ 6,918,982</b>	<b>\$ 1,167,875</b>

*Salaries.* Salaries increased as a result of an increase in stock-based compensation in addition to an increase in salaries due to annual employee performance reviews.

*Professional fees.* Professional fees increased primarily due to business development consulting fees and an increase in legal and accounting fees related to the filing of certain registration statements.

*Software as a Service Expense (SaaS).* SaaS increased due to a new customer relationship management platform at one of the company's divisions.

*Advertising Expenses.* Advertising Expenses increased due to an increase in new marketing campaigns and in person events.

*Travel and Entertainment.* Travel and Entertainment expenses increased due to international expansion in efforts in addition to travel related to domestic customer expansion efforts.

*All Other Expenses.* Other expenses increased primarily due to an increase in sales and use tax expense.

*Other Income (Expense).* Other income for the nine months ended September 30, 2024, increased \$104,678 to \$423,646 from \$318,968 for the nine months ended September 30, 2023. The increase in other income is primarily attributable to the increase in interest income from investment in marketable securities.

*Income before provision for income taxes.* Income before provision for income taxes for the nine months ended September 30, 2024, was \$222,825, as compared to \$398,839 for the nine months ended September 30, 2023, a decrease of \$176,014.

## 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 we will realize our assets and discharge our 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 in the event the purchase price includes a cash component, we plan to use our working capital and the proceeds of any financing to finance such acquisition and related 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 likely require a renegotiation of related party capital equipment leases, a reduction in advertising and marketing programs, 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 continue to see an uptick in client interest distribution channel expansion and in sales proposals. In 2024, we have and 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" and in the disaster recovery global marketplace utilizing its technical expertise, data centers utilization, assets deployed in the data centers, 24 x 365 monitoring and software.

On July 18, 2024, we entered into the Agreement with Maxim pursuant to which we may offer and sell, from time to time, through Maxim, as sales agent or principal, shares of our common stock. There can be no guarantee that we will be able to raise capital from sales under the Agreement. To date, we have not made any sales under the Agreement.

### **Cash Flows for nine months ended September 30, 2024 as compared to the nine months ended September 30, 2023**

The following table summarizes our cash flows:

	<b>Nine Months Ended September 30,</b>	
	<b>2024</b>	<b>2023</b>
Cash provided by operating activities	\$ 552,590	\$ 2,161,424
Cash used in investing activities	(1,172,581)	(2,767,949)
Cash used in financing activities	(295,021)	(686,809)
Net decrease in cash and cash equivalents	(915,012)	(1,293,334)
Cash and cash equivalents, beginning of period	1,428,730	2,286,722
Cash and cash equivalents, end of period	\$ 513,718	\$ 993,388

#### **Operating activities**

During the nine months ended September 30, 2024, cash provided by operating activities was \$552,590, compared to \$2,161,424 during the nine months ended September 30, 2023. The decrease of \$1,608,834 is primarily due to the decrease in accounts receivable of \$1,897,218, partially offset by the \$317,388 increase in adjustments for non-cash items, including depreciation and amortization and stock-based compensation.

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#### **Investing activities**

During the nine months ended September 30, 2024, net cash used in investing activities totaled \$1,172,581, compared to \$2,767,949 during the nine months ended September 30, 2023. The decrease of \$1,595,368 was primarily due to a net decrease in the purchases of marketable securities.

#### **Financing activities**

During the nine months ended September 30, 2024, net cash used in financing activities totaled \$295,021, compared to \$686,809 during the nine months ended September 30, 2023. The decrease of \$391,788 was primarily due to lower repayments of finance lease obligations to a related party.

### **Nine months ended September 30, 2024 as compared to Fiscal Year ended December 31, 2023**

During the nine months ended September 30, 2024, our cash decreased by \$915,012 to \$513,718 from \$1,428,730 on December 31, 2023. Net cash of \$552,590 was provided by our operating activities resulting primarily from the changes in assets and liabilities. Net cash of \$1,172,581 was used in investing activities principally related to the purchase of equipment. Net cash of \$295,021 was used in financing activities primarily related to repayments of finance lease obligations, partially offset by proceeds received from the exercise of stock options.

The Company's working capital was \$11,583,279 on September 30, 2024, increasing by \$571,872 from \$11,011,407 at December 31, 2023. The increase is primarily attributable to an increase in accounts receivable and other current assets and a decrease in deferred revenue and finance leases. This was offset by a decrease in cash and an increase in accounts payable.

#### **Critical Accounting 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. We believe that the accounting estimates employed are appropriate and resulting balances are reasonable; however, due to inherent uncertainties in making estimates, actual results may differ from the original estimates, requiring adjustments to these balances in future periods. There are accounting policies, each of which requires significant judgments and estimates on the part of management, that we believe are significant to the presentation of our consolidated financial statements. The critical accounting estimates that affect the consolidated financial statements and the judgments and assumptions used are consistent with those described under Part II, Item 7 of the 2023 Annual Report.

#### **Off-Balance Sheet Arrangements**

The Company 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 months ended September 30, 2024, and 2023, respectively:

**For the Three Months Ended September 30, 2024**

	<b>CloudFirst Technologies</b>	<b>Nexxis Inc.</b>	<b>Corporate</b>	<b>Total</b>
Net income (loss)	\$ 802,389	\$ (4,803)	\$ (674,060)	\$ 123,526
Non-GAAP adjustments:				
Depreciation and amortization	356,856	213	195	357,264
Interest income	—	—	(160,770)	(160,770)
Interest expense	9,815	—	—	9,815
Stock-based compensation	77,292	6,697	101,638	185,627
Adjusted EBITDA	<u>\$ 1,246,352</u>	<u>\$ 2,107</u>	<u>\$ (732,997)</u>	<u>\$ 515,462</u>

**For the Three Months Ended September 30, 2023**

	<b>CloudFirst Technologies</b>	<b>Nexxis Inc.</b>	<b>Corporate</b>	<b>Total</b>
Net income (loss)	\$ 676,028	\$ (68,196)	\$ (450,094)	\$ 157,738
Non-GAAP adjustments:				
Depreciation and amortization	338,131	213	176	338,520
Interest income	—	—	(147,471)	(147,471)
Interest expense	8,874	—	—	8,874
Stock-based compensation	39,618	6,827	82,518	128,963
Adjusted EBITDA	<u>\$ 1,066,846</u>	<u>\$ (61,156)</u>	<u>\$ (519,066)</u>	<u>\$ 486,624</u>

The following table shows our reconciliation of net income to adjusted EBITDA for the nine months ended September 30, 2024, and 2023, respectively:

**For the Nine Months Ended September 30, 2024**

	<b>CloudFirst Technologies</b>	<b>Nexxis Inc.</b>	<b>Corporate</b>	<b>Total</b>
Net income (loss)	\$ 2,238,935	\$ (92,166)	\$ (1,923,944)	\$ 222,825
Non-GAAP adjustments:				
Depreciation and amortization	990,557	635	581	991,773
Interest income	—	—	(456,580)	(456,580)
Interest expense	31,335	—	—	31,335
Stock-based compensation	220,080	20,085	322,974	563,139
Adjusted EBITDA	<u>\$ 3,480,907</u>	<u>\$ (71,446)</u>	<u>\$ (2,056,969)</u>	<u>\$ 1,352,492</u>

**For the Nine Months Ended September 30, 2023**

	<b>CloudFirst Technologies</b>	<b>Nexxis Inc.</b>	<b>Corporate</b>	<b>Total</b>
Net income (loss)	\$ 1,980,917	\$ (167,450)	\$ (1,414,628)	\$ 398,839
Non-GAAP adjustments:				
Depreciation and amortization	927,231	492	457	928,180

Interest income	—	—	(370,953)	(370,953)
Interest expense	56,985	—	—	56,985
Stock-based compensation	127,296	11,227	199,623	338,146
Adjusted EBITDA	<u>3,092,429</u>	<u>\$ (155,731)</u>	<u>\$ (1,585,501)</u>	<u>\$ 1,351,197</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 Quarterly Report on Form 10-Q, under the supervision and with the participation of our management, including its principal executive officer and principal financial officer, we conducted an evaluation of our 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"). Rule 13a-15(e) under the Exchange Act defines "disclosure controls and procedures" as controls and other procedures of a company that are designed to ensure that the information required to be disclosed by a company in the reports that it 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 a company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective at the reasonable assurance level at September 30, 2024.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Accordingly, our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the objectives of our disclosure control system are met. As set forth above, our Chief Executive Officer and Chief Financial Officer have concluded, based on the evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q, that our disclosure controls and procedures were effective to provide reasonable assurance that the objectives of our disclosure control system were met.

#### Changes in Internal Control Over Financial Reporting.

There have been no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2024, 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.

From time to time, the Company may become involved in legal proceedings or be subject to claims arising in the ordinary course of its business. The Company is not presently a party to any legal proceedings that, if determined adversely to it, would individually or taken together have a material adverse effect on its business, operating results, financial condition, or cash flows. Regardless of the outcome, litigation can have an adverse impact on the Company because of defense and settlement costs, diversion of management resources and other factors.

### Item 1A. Risk Factors.

Investing in our securities involves a high degree of risk. You should carefully consider the following risks and the risk factors set forth in our 2023 Annual Report, together with all the other information in this Quarterly Report on Form 10-Q, including our condensed financial statements and notes thereto. If any of the following risks actually materialize, our operating results, financial condition and liquidity could be materially adversely affected. The following information updates, and should be read in conjunction with, the information disclosed in Part I, Item 1A, "Risk Factors," contained in our 2023 Annual Report. Except as disclosed below, there have been no material changes from the risk factors disclosed in our 2023 Annual Report.

#### *The Company has not generated a significant amount of net income and it may not be able to sustain profitability in the future.*

As reflected in the consolidated financial statements, the Company had net income attributable to common shareholders of \$235,259 for the nine months ended September 30, 2024, and \$381,575 for the year ended December 31, 2023. As of September 30, 2024, the Company had cash of \$513,718, marketable securities of \$11,374,769, and working capital of \$11,583,279. There can be no assurance that the Company will continue to generate income in the future.

#### *We cannot be assured that we will be able to maintain our listing on the Nasdaq Capital Market.*

Our securities are listed on The Nasdaq Capital Market, a national securities exchange. We cannot be assured that we will continue to comply with the rules, regulations or requirements governing the listing of our common stock on The Nasdaq Capital Market or that our securities will continue to be listed on Nasdaq Capital Market in the future. If Nasdaq should determine at any time that we fail to meet Nasdaq requirements, we may be subject to a delisting action by Nasdaq.

On January 18, 2024, Nasdaq notified the Company that due to the passing of Mr. Hoffman, a member of our Board of Directors and member of our Audit Committee, the Company was no longer compliant with Nasdaq's audit committee requirements as set forth in Rule 5605(c)(2)(A) of the Nasdaq listing standards. Nasdaq further notified the Company that, consistent with Rule 5605(c)(4) of the Nasdaq listing standards, Nasdaq provided the Company a cure period in order to regain compliance until the earlier of the Company's next annual meeting of shareholders or December 30, 2024 or, if the next annual meeting of shareholders is held before June 27, 2024, then the Company must provide evidence of compliance no later than June 27, 2024.

On April 2, 2024, the Company received a letter (the "Notification Letter") from Nasdaq stating that, based on the information regarding the appointment of Nancy M. Stallone, CPA to the Company's Board of Directors and Audit Committee, Nasdaq has determined that the Company complies with the Audit Committee requirement for continued listing on The Nasdaq Capital Market set forth in Listing Rules 5605(c)(2), which requires that the Company maintain an audit committee of at least three members, each of whom must meet specified criteria, including certain independence criteria. Accordingly, the Nasdaq staff has determined that the Company has regained compliance with Nasdaq Listing Rule 5605(c)(2) and has indicated that the matter is now closed.

If Nasdaq delists our securities from trading on its exchange at some future date, we could face significant material adverse consequences, including:

- a limited availability of market quotations for our securities;
- reduced liquidity with respect to our securities;
- a determination that our common stock is a “penny stock” which will require brokers trading in our common stock to adhere to more stringent rules, possibly resulting in a reduced level of trading activity in the secondary trading market for our common stock;
- a limited amount of news and analyst coverage for our company; and
- a decreased ability to issue additional securities or obtain additional financing in the future.

***Upon exercise of the Company’s outstanding options or warrants, it will be obligated to issue a substantial number of additional shares of common stock which will dilute its present shareholders.***

The Company is obligated to issue additional shares of its common stock in connection with any exercise or conversion, as applicable, of its outstanding options, warrants, and shares of its convertible preferred stock. As of September 30, 2024, there were options and warrants outstanding convertible into an aggregate of 3,145,014 shares of common stock. The exercise of warrants or options will cause the Company to issue additional shares of its common stock and will dilute the percentage ownership of its shareholders. In addition, the Company has in the past, and may in the future, exchange outstanding securities for other securities on terms that are dilutive to the securities held by other shareholders not participating in such an exchange.

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

**(a) Unregistered Sales of Equity Securities**

There were no unregistered sales of the Company’s equity securities during the period ended September 30, 2024, that were not previously reported in a Current Report on Form 8-K.

**(b) Use of Proceeds**

Not applicable.

**(c) Issuer Purchase of Equity Securities**

None.

**Item 3. Defaults Upon Senior Securities.**

There were no defaults upon senior securities during the period ended September 30, 2024.

**Item 4. Mine Safety Disclosures**

Not Applicable.

**Item 5. Other Information.**

During the three months ended September 30, 2024, no director or officer of the Company adopted or terminated a “Rule 10b5-1 trading arrangement” or “non Rule 10b5-1 trading arrangement,” as each term is defined in Item 408(a) of Regulation S-K, except as set forth below.

On September 12, 2024, each of Charles Piluso, Chris Panagiotakos, Harold Schwartz and Thomas Kempster, the Chief Executive Officer, Chief Financial Officer, President and Executive Vice President, respectively, of the Company, entered into written stock selling plans (the “10b5-1 Plans”) in accordance with Rule 10b5-1 of the Exchange Act and the Company’s Insider Trading Policy. We have been advised that it is the intent of Messrs. Piluso, Panagiotakos, Schwartz and Kempster to use the proceeds of any sales of common stock made pursuant to the 10b5-1 Plans to pay income tax obligations related to awards of restricted stock units made pursuant to our 2021 Stock Incentive Plan.

The 10b5-1 Plans entered into by Messrs. Piluso, Panagiotakos, Schwartz and Kempster allow for the sale of a maximum of approximately 8,967, 6,072, 5,299 and 5,299 shares, respectively, of our common stock, over a seven-month period beginning on September 12, 2024 through April 15, 2025. Sales of shares by Messrs. Piluso, Panagiotakos, Schwartz and Kempster pursuant to the 10b5-1 Plans provide for sales of specified share amounts on the open market on specified dates at prevailing market prices.

**Item 6. Exhibits.**

Exhibit No.	Description
3.1	<a href="#">Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form SB-2 (File No. 333-148167) filed on December 19, 2007).</a>
3.2	<a href="#">Certificate of Amendment to Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K (File No. 333-148167) filed on October 24, 2008).</a>
3.3	<a href="#">Certificate of Amendment to Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K (File No. 333-148167) filed on January 9, 2009).</a>

3.4	<a href="#">Bylaws (incorporated by reference to Exhibit 3.2 to the Registrant's Registration Statement on Form SB-2 (File No. 333- 148167) filed on December 19, 2007).</a>
3.5	<a href="#">Amended Bylaws (incorporated by reference to Exhibit 3.2 to Form 8-K (File No. 333-148167) filed on October 24, 2008).</a>
3.6	<a href="#">Form of Certificate of Amendment to the Articles of Incorporation (incorporated by reference to Appendix A to the Information Statement on Schedule 14C (File No. 001-35384) filed with the Securities and Exchange Commission on March 8, 2021).</a>
3.7	<a href="#">Form of Certificate of Correction to the Certificate of Amendment to the Articles of Incorporation dated October 7, 2008 (incorporated by reference to Appendix C to the Information Statement on Schedule 14C (File No. 001-35384) filed with the Securities and Exchange Commission on March 8, 2021).</a>
3.8	<a href="#">Form of Certificate of Validation and Ratification of the Certificate of Correction to the Certificate of Amendment to the Articles of Incorporation dated October 7, 2008 (incorporated by reference to Appendix C to the Information Statement on Schedule 14C (File No. 001-35384) filed with the Securities and Exchange Commission on March 8, 2021).</a>
3.9	<a href="#">Form of Certificate of Correction to the Certificate of Amendment to the Articles of Incorporation dated October 16, 2008 (incorporated by reference to Appendix D to the Information Statement on Schedule 14C (File No. 001-35384) filed with the Securities and Exchange Commission on March 8, 2021).</a>
3.10	<a href="#">Form of Certificate of Validation and Ratification of the Certificate of Correction to the Certificate of Amendment to the Articles of Incorporation dated October 16, 2008 (incorporated by reference to Appendix D to the Information Statement on Schedule 14C (File No. 001-35384) filed with the Securities and Exchange Commission on March 8, 2021).</a>
3.11	<a href="#">Form of Certificate of Correction to the Certificate of Amendment to the Articles of Incorporation dated January 6, 2009 (incorporated by reference to Appendix E to the Information Statement on Schedule 14C (File No. 001-35384) filed with the Securities and Exchange Commission on March 8, 2021).</a>
3.12	<a href="#">Form of Certificate of Validation and Ratification of the Certificate of Correction to the Certificate of Amendment to the Articles of Incorporation dated January 6, 2009 (incorporated by reference to Appendix E to the Information Statement on Schedule 14C (File No. 001-35384) filed with the Securities and Exchange Commission on March 8, 2021).</a>
3.13	<a href="#">Form of Certificate of Correction to the Certificate of Amendment to the Articles of Incorporation dated June 24, 2009 (incorporated by reference to Appendix F to the Information Statement on Schedule 14C (File No. 001-35384) filed with the Securities and Exchange Commission on March 8, 2021).</a>
3.14	<a href="#">Form of Certificate of Validation and Ratification of the Certificate of Correction to the Certificate of Amendment to the Articles of Incorporation dated June 24, 2009 (incorporated by reference to Appendix F to the Information Statement on Schedule 14C (File No. 001-35384) filed with the Securities and Exchange Commission on March 8, 2021).</a>
3.15	<a href="#">Certificate of Designations, Preferences and Rights of Series A Preferred Stock of Data Storage Corporation (incorporated by reference to Appendix F to the Information Statement on Schedule 14C (File No. 001-35384) filed with the Securities and Exchange Commission on March 8, 2021).</a>
3.16	<a href="#">Amendment to Bylaws (incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K (File No. 001-35384) filed with the Securities and Exchange Commission on May 6, 2024).</a>
10.1	<a href="#">Equity Distribution Agreement, dated July 18, 2024, by and between Data Storage Corporation and Maxim Group LLC (Incorporated by reference to Exhibit 1.1 to Registration Statement on Form S-3 (File No. 333-280881) filed July 18, 2024)</a>
31.1*	<a href="#">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)).</a>
31.2*	<a href="#">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)).</a>
32.1*	<a href="#">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.</a>
32.2*	<a href="#">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.</a>
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.

### DATA STORAGE CORPORATION

Date: November 14, 2024

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

Date: November 14, 2024

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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 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 control 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 during the period in which this 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; and
  - 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 (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; 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, 2024

By: /s/ Charles M. Piluso

Charles M. Piluso  
Chief Executive Officer  
(Principal Executive Officer)

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**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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 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 control 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 during which this 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; and
  - 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 (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a)all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b)any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2024

By: /s/ Chris H. Panagiotakos

Chris H. Panagiotakos  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

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**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, 2024, 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, 2024, 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, 2024, fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2024

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

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**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, 2024, 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, 2024, 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, 2024, fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 14, 2024

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

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