

Data Storage Corp
Form S-1
February 06, 2012

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

FORM S-1

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

DATA STORAGE CORPORATION
(Exact name of Registrant as specified in its charter)

Nevada (State or other jurisdiction of incorporation or organization)	7374 (Primary Standard Industrial Classification Code)	98-0530147 (I.R.S. Employer Identification No.)
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401 Franklin Avenue
Garden City, New York 11530
Telephone: (212) 564-4922
(Address and telephone number of Registrant's principal executive offices)

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Copies of notices and other communications should be sent to:

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Approximate date of commencement of proposed sale to the public: From time to time after this Registration Statement is declared effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, please check the following box:

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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

Large Accelerated Filer	<input type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-accelerated Filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(Do not check if smaller reporting company)

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CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered	Proposed Maximum Offering Price Per Share (2)	Proposed Maximum Aggregate Offering Price (2)	Amount of Registration Fee
Common Stock, \$0.001 par value per share (1)	1,763,317	\$ 0.56	\$ 987,457.52	\$ 113.16

(1) We are registering 1,763,317 shares of our common stock (the “Put Shares”) that we will put to Southridge Partners II, LP (“Southridge”) pursuant to an Equity Purchase Agreement (the “Equity Purchase Agreement” or the “Equity Line of Credit”), dated as of November 29, 2011, by and between Southridge and the Registrant. In the event of stock splits, stock dividends, or similar transactions involving the common stock, the number of shares of common shares registered shall, unless otherwise expressly provided, automatically be deemed to cover the additional securities to be offered or issued pursuant to Rule 416 promulgated under the Securities Act of 1933, as amended (the “Securities Act”). In the event that adjustment provisions of the Equity Purchase Agreement require the registrant to issue more shares than are being registered in this registration statement, for reasons other than those stated in Rule 416 of the Securities Act, the registrant will file a new registration statement to register those additional shares of common stock.

(2) Estimated solely for purposes of calculating the registration fee under Rule 457(c) under the Securities Act, using the last closing price as reported on the Over-the-Counter Bulletin Board on February 3, 2012, which was \$0.56 per share.

The Registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act, or until this registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. THE SELLING SHAREHOLDERS NAMED HEREIN MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

Subject to completion, dated February 3, 2012

DATA STORAGE CORPORATION

Prospectus

1,763,317 Shares of common stock, par value \$0.001

This prospectus relates to the resale from time to time of up to 1,763,317 shares (the “Put Shares”) of the common stock of Data Storage Corporation, a Nevada corporation (“we”, “our”, “us”, or the “Company”), by Southridge Partners II, LP, a Delaware limited partnership (“Southridge”), which Put Shares we will put to Southridge pursuant to an equity purchase agreement, dated as of November 29, 2011 (the “Effective Date”), by and between the Company and Southridge (the “Equity Purchase Agreement” or the “Equity Line of Credit”).

The Equity Purchase Agreement permits us to “put” up to \$20,000,000 of shares of our common stock to Southridge over a two year period commencing on the Effective Date. We may draw on the facility from time to time, as and when we determine appropriate in accordance with the terms and conditions of the Equity Purchase Agreement.

The 1,763,317 Put Shares included in this prospectus represent a portion of the shares issuable to Southridge under the Equity Purchase Agreement. This portion was calculated as approximately 30% of the Company’s public float as of February 3, 2012. The offered shares represented 6.1% of the currently outstanding shares of our common stock on February 3, 2012 and 5.8% of the outstanding shares of our common stock on February 3, 2012, including the offered shares. On February 3, 2012, the closing price of our common stock was \$0.56 per share. Notwithstanding the foregoing, under the Equity Purchase Agreement, at no point may the number of Put Shares purchased by Southridge exceed the number of such shares that, when aggregated with all other shares of common stock then owned or deemed owned by Southridge beneficially, result in Southridge owning more than 9.99% of all of our outstanding common stock.

Southridge is an “underwriter” within the meaning of the Securities Act of 1933, as amended (the “Securities Act”) in connection with the resale of the Put Shares purchased under the Equity Purchase Agreement. No other underwriter or person has been engaged to facilitate the sale of shares of our common stock in this offering. Southridge’s obligation to purchase the Put Shares will terminate when the Company delivers a written notice to Southridge terminating the Equity Purchase Agreement, or on the earlier of (i) the date on which Southridge shall have purchased Put Shares pursuant to the Equity Purchase Agreement for an aggregate purchase price of the maximum commitment amount of \$20,000,000, or (ii) the date occurring twenty-four (24) months from the Effective Date. For each share of our common stock purchased under the Equity Purchase Agreement, Southridge will pay us ninety two percent (92%) of the average of the lowest closing prices (the “Closing Prices”) of our common stock reported by Bloomberg Finance L.P. during the five (5) trading day period (the “Valuation Period”) commencing on the date a put notice (the “Put Notice”) is delivered to Southridge (the “Put Date”) in the manner prescribed in the Equity Purchase Agreement.

In the event that during a Valuation Period for any Put Notice, the Closing Price on any trading day falls more than twenty five percent (25%) below the Closing Price on the trading day immediately prior to the Put Date (the “Floor Price”), then for each such trading day we shall be under no obligation to sell and Southridge’s obligation to fund

one-fifth (1/5th) of the put amount for each such trading day shall terminate and the put amount shall be adjusted accordingly. In the event that during a Valuation Period the Closing Price falls below the Floor Price for any two (2) trading days, not necessarily consecutive, then the balance of each party's right and obligation to purchase and sell the investment amount under such Put Notice shall terminate on such second trading day (the "Termination Day") and the investment amount shall be adjusted to include only one-fifth (1/5th) of the initial investment amount for each trading day during the Valuation Period prior to the Termination Day that the Closing Price equals or exceeds the Floor Price.

As a condition for the execution of the Equity Purchase Agreement by Southridge, we issued to Southridge a total of 50,000 shares of our common stock ("Restricted Stock") upon the execution of the Equity Purchase Agreement and we will issue an additional 50,000 shares of Restricted Stock to Southridge at the time of the first draw down notice and initial financing of \$50,000 by Southridge pursuant to the terms of the Equity Purchase Agreement. The Restricted Stock are restricted securities as defined in Rule 144 under the Securities Act.

We will not receive any proceeds from the sale of these shares of common stock offered by Southridge. However, we will receive proceeds from the sale of the Put Shares under the Equity Purchase Agreement. The proceeds will be used for working capital and general corporate purposes, including acquisitions and/or capital expenditures. We will bear all costs associated with this registration.

Investing in our common stock involves risks. Before making any investment in our securities, you should read and carefully consider the risks described in the "Risk Factors" section beginning on page 7 of this prospectus.

You should rely only on the information contained in this prospectus or any prospectus supplement or amendment thereto. We have not authorized anyone to provide you with different information. This prospectus may only be used where it is legal to sell these securities. The information in this prospectus is only accurate on the date of this prospectus, regardless of the time of any sale of securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is _____, 2012

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CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS

Matters discussed in this prospectus and in our public disclosures, whether written or oral, relating to future events or our future performance, including any discussion, express or implied, of our annual growth, operating results, future earnings, plans and objectives, contain forward-looking statements. In some cases, you can identify such forward-looking statements by words such as “estimate,” “project,” “intend,” “forecast,” “future,” “anticipate,” “plan,” “ant,” “target,” “planning,” “positioned,” “continue,” “expect,” “believe,” “will,” “will likely,” “should,” “could,” “would,” “may” such terms and other comparable terminology that are not statements of historical fact. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions that are difficult to predict. Our actual results and timing of certain events could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth under “Risk Factors” beginning on page 7 and elsewhere in this prospectus and in our other public filings with the Securities and Exchange Commission (the “SEC”). It is routine for internal projections and expectations to change as the year or each quarter of the year progresses, and therefore it should be clearly understood that all forward-looking statements and the internal projections and beliefs upon which we base our expectations included in this prospectus or other periodic reports are made only as of the date made and may change. We do not undertake any obligation to update or publicly release the result of any revision to these forward-looking statements to reflect events or circumstances occurring after the date they are made or to reflect the occurrence of unanticipated events.

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PROSPECTUS SUMMARY

The following summary highlights information contained elsewhere in this prospectus. This summary does not contain all of the information you should consider before investing in our common stock. You should read the entire prospectus carefully, especially the “Risk Factors” section beginning on page 7 and our financial statements and the related notes appearing at the end of this prospectus, before deciding to invest in our common stock. References to “Data Storage,” “our,” “we,” “us,” or the “Company” refer to Data Storage Corporation and its consolidated subsidiaries, unless the context indicates otherwise.

Our Company

The Company, through its units, provides cloud storage and cloud computing solutions to business, government, education, financial services and healthcare industries. We will continue to expand and provide a North American cloud storage and computing solution to organizations. We will continue to grow through acquisition of synergetic companies for product extensions as well as improved cash flow while building organically with our direct sales force and partnerships thereby building value for our clients and shareholders.

The Company is focused on the North American SMBs marketplace. SMBs are organizations that employ between 50 and 1500 persons. The Company’s current units provide data protection and business continuity solutions that assist organizations protect their computer data, minimize downtime, ensure regulatory compliance, insure retention policies and recover and restore data quickly. Through our three data centers in Westbury, New York, Boston, Massachusetts, and Warwick, Rhode Island and by leveraging leading technologies, we deliver and support a broad range of premium solutions for both Windows and IBM environments that assist our clients save time and money, gain more control of and better access to data, and enable the highest level of security for their data. We provide a full range of cloud computing and storage solutions that meet our client’s data protection, disaster recovery, and business continuity requirements. We offer our solutions and services by leveraging leading technologies, such as virtualization, cloud computing and cloud storage. We have SAS 70 Type II data centers in New York and Massachusetts. A major differentiator is that we offer solutions that vary in recovery times from 24 hours to minutes. Our solutions work with the majority of the operating systems in today’s business environment.

We are a Nevada corporation with headquarters in Garden City, New York. We were first incorporated in Delaware in August 2001 as a private company. Data Storage Corporation, the Nevada corporation was incorporated in March 2007. On October 20, 2008 we merged with Euro Trend Inc., a Nevada corporation (“Euro Trend”). Pursuant to a share exchange agreement, we received 13,357,143 shares of Euro Trend’s common stock. This transaction was accounted for as a reverse merger for accounting purposes. Accordingly, the Company as the accounting acquirer was regarded as the predecessor entity. On June 17, 2010, our wholly owned subsidiary Data Storage Corporation, a Delaware corporation (“Data Storage DE”) and SafeData, LLC, a Delaware limited liability company (“SafeData”) entered into an asset purchase agreement under which we acquired all right, title and interest in the end user customer base of SafeData and all related current and fixed assets and contracts including the transfer of all of SafeData’s current liabilities arising out of the business or the assets acquired. Pursuant to the asset purchase agreement with SafeData, we paid an aggregate purchase price equal to \$4,300,000. Giving effect to certain holdback and contingency clauses as defined in the agreement, we paid \$1,229,952 in cash and \$850,000 in shares of our common stock as well as assumption of SafeData accounts payable and receivables.

We derive our revenues from the sale of subscription solutions on long term agreements with our clients that provide businesses protection of critical electronic data. In 2011, revenues consisted primarily of cloud computing, cloud storage and infrastructure-as-a-service offerings which include data vaulting, disaster recovery of data with standby computing environments for our clients and high availability (data replication) solutions. We deliver our services over

highly reliable, redundant and secure fiber optic networks with separate and diverse routes to the Internet. The network and geographical diversity is important to clients seeking storage hosting and disaster recovery solutions, ensuring protection of data and continuity of business in the case of a network interruption.

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Business Strategy

Competitive Advantages

We are one of the few cloud storage and cloud computing providers that offer a range of solutions based on clients' recovery time objectives. We provide value beyond price with our 24/7/365 support teams. Our investment in a SAS 70 data centers, state of the art storage equipment from Hitachi and IBM; and, our partnership with NetApp and other leading providers of technology, sets us apart from the few competitors that provide our level of solutions and support. Our organizational acquisition strategy brings value to our client base by providing superior solutions of disaster recovery and business continuity. A clear example was the acquisition of SafeData in June 2010.

Products & Services:

We insure that a client can recover from a computer virus, a crashed computer server, a stolen or broken laptop or a natural disaster that destroyed a business' data center. We provide solutions based on the client's recovery time objective and their budget: high availability, providing an up time in less than thirty minutes; standby equipment for an eight hour recovery time; data vaulting with a timeframe that can range from minutes to twenty-four hours; and for clients looking to better manage the growing data from emails and files we offer lifecycle management of their data.

The following are descriptions of our services and solutions offered on a subscription basis:

SafeData High Availability ("SafeData HA")

Our SafeData HA service meets the high availability demands of companies that have recovery time objectives of 30 minutes or less. Combining best-in-class technologies from the industry's leading developers, SafeData HA is the Company's subscription-based high availability offering. For a monthly subscription fee, the Company creates and maintains a mirror of its clients' mission-critical systems and data at a secure off-site data center ensuring their business is "switch ready". During either planned or unplanned downtime, SafeData HA provides a switchable "mirror" of a company's data and applications providing availability in 30 minutes or less.

SafeData HA is available for the IBM System i, UNIX, AIX and Windows operating systems. Products on each platform share the same architecture, but use a different middleware product designed and priced for the platform's specific operating system. SafeData HA provides real-time system replication using standard Internet protocol. It is replicated to a server in our data centers.

In the event of an outage, our system becomes the production system. When the client's production system is again operational, our server updates the client's system with any new data. When downtime is planned, the client can switch to our server and run its production applications. Our carrier class SAS 70 data centers meet regulatory and compliance requirements for businesses in the financial, healthcare, legal, and life-science industries. Our facilities are equipped with redundant power, 24/7 security, data-grade HVAC, fire suppression, an independent water supply and redundant data routes from many metropolitan areas. With our subscription-based high availability offering, we provide small and mid-sized businesses access to cost effective best-in-class replication technologies.

SafeData Disaster Recovery ("SafeData DR")

Some organizations may not require real-time recovery. For those with recovery time objectives of 12 hours or less running in Windows, UNIX, Linux or IBM System i environments, our SafeData DR subscription-based service is a viable option requiring no initial capital expenditure. Leveraging electronic vaulting technology, SafeData DR is a cloud recovery service that gives organizations remote access to mirrored data and a fully functioning recovery system

within hours of a disruption. SafeData DR instantly transfers data off-site to one of our secure data centers. All data is encrypted prior to transmission and remains encrypted “in-flight” and “at rest” to ensure protection and to meet today’s compliance standards. Our carrier class SAS 70 data centers meet regulatory and compliance requirements for businesses in the financial, healthcare, legal, and life-science industries. Our facilities are equipped with redundant power, 24/7 security, data-grade HVAC, fire suppression, an independent water supply and redundant data routes from many metropolitan areas. With our subscription-based standby server offering, we provide small and mid-sized businesses access to cost effective best-in-class disaster recovery with no capital expenditure. The SafeData/Disaster Recovery service supports all major network environments including Windows, OS/400 Linux/Unix, Mac OS X, AIX, Netware and VMware.

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SafeData Vault for Cloud Recovery & Archiving

We offer a fully automated service designed to reduce the overall costs associated with backup and recovery of application and file servers that enables organizations to centralize and streamline their data protection process. Business-critical data can be backed up any time, while servers are up and running. The essence of data backup is simply the scheduled movement of “point-in-time” snapshots of data across a network to a remote location. Our disk-to-disk backup and recovery solution is reliable and easy-to-use. As part of this service, we offer Continuous Data Protection (CDP), delta block processing, data de-duplication and large volume protection. The backup and recovery solution supports all major network environments.

SafeData Vault has significant advantages over traditional backup software. They include: immediate off-site backup, reduced backup windows, elimination of tape management issues, minimized costs associated with distributed backups, elimination of human intervention, encryption of all backed up data, and optimized bandwidth.

Agentless Architecture

Our cloud backup and Disaster Recovery solutions are comprised of an agentless architecture. This agentless solution requires our client software to be installed on only one system at a customer location. The client then manages all of the systems that are backed-up for storage and/or Disaster Recovery. The client provides a single windowpane solution for managing the entire back-up solution. The client allows the customer to set different back-up sets and retention policies for different systems from annual to daily, including an option for continuous data protection. For example, if the customer has a daily back-up with 30 (thirty) day retention, the customer has access to 30 (thirty) versions of the file as it existed on the day it was backed-up. The client software is configured with automatic upgrades to limit customer time for management. The client software is highly secure encrypting all data at the customer premises and the data remains encrypted during transport and while at rest at our data center. Our solution is FIPS 140-2 certified and utilizes AES 256 bit encryption.

Data Archiving – Lifecycle Management

There are multiple tiers of backup for active data. Operationally critical data requires more frequent backups on higher performance devices. By managing data throughout its life cycle, we can provide the best data protection, meet compliance regulations and improve recovery time objectives (“RTO”). Lifecycle Management offers policy-based long-term file archiving and automated searching/restoration of data from backup sessions reducing the cost of inactive files on-line and thus aligning the value of the information with the cost of protecting it. With Lifecycle Management, we can create restorable point-in-time copies of backup sets for historical reference to meet compliance objectives and create Certificates of Destruction. All of an enterprise’s data can be placed into one of two categories: (i) critical information which is needed for day-to-day operations and information that resides in the system’s primary storage for fast access, and (ii) important information, which is the historical, legal and regulatory information that can safely be archived to secondary storage, lower cost disk or tapes stored offsite.

Continuous Data Protection (“CDP”)

What if a database is corrupted in the middle of the workday? As data continually mounts in today’s fast paced business environment, organizations need to protect their systems on an ongoing basis, or risk losing mission-critical data, information, and transactions, as well as associated business revenue. CDP refers to data automatically protected whenever a change is made to that data (an asynchronous backup). Therefore, CDP enables data copies in real-time, capturing every version of the data whenever the customer saves it. It allows the data to be restored to any point in time. CDP solutions employ sophisticated input-output (“I/O”), CPU, and network throttling to achieve efficiency and

reliability. Moreover, to protect against connectivity failures and interruptions, CDP features an auto resume mechanism that sustains replication and adapts according to the environment to achieve optimal and predictable performance.

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

A CDP solution allows unlimited granularity since data can be recovered from an infinite number of recovery point objectives (“RPO”). CDP protected files are protected whenever they are saved to disk in their source computers. CDP also continuously monitors the changes on the specified target files and backs up the changes as soon as they are detected. Our CDP is implemented as a no-cost backup option and can be applied to file systems and email backup sets to improve recovery of critical data.

Immediate Protection of Critical Data

Once protected data is saved to disk, it is backed up locally (if local storage is available) and simultaneously is sent encrypted to be stored offsite to our storage repository. Backup window and RTOs are reduced to zero.

Microsoft Exchange

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

SafeData/Cloud

SafeData/Cloud is a fully managed service, offering “Capacity on Demand” for IBM Power Systems (AS400, IBM i) and Windows based applications. This infrastructure as a service (IaaS) offering is a secure and reliable solution for any enterprise. The SafeData/Cloud allows our customers to customize and deploy a complete cloud infrastructure through a web-based portal built on VMware Cloud Director. Our team of experienced technicians manage and maintain this infrastructure. We also automatically update operating systems with new software releases and corresponding equipment required to support the newest operating systems. The SafeData/Cloud solution allows our customers to choose the processor, memory and storage resources they require. With this fine-tuned selection based solution, our customers only pay for the resources they utilize. Our carrier class SAS 70 data centers meet regulatory and compliance requirements for businesses in the financial, healthcare, legal, and life-science industries. Our facilities are equipped with redundant power, 24/7 security, data-grade HVAC, fire suppression, an independent water supply and redundant data routes from many metropolitan areas.

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The Offering

Common Stock Currently Outstanding	28,912,712(1)
Common Stock Offered by Selling Shareholders	1,763,317 shares of common stock, par value \$0.001 issuable to Southridge pursuant to the Equity Purchase Agreement.
Common Stock Offered by the Company	N/A
Common Stock Outstanding After the Offering	30,676,029
Use of Proceeds	We are not selling any shares of common stock in this offering and, as a result, will not receive any proceeds from this offering.
OTC Bulletin Board Symbol	“DTST.OB”
Risk Factors	The shares of common stock offered hereby involves a high degree of risk and should not be purchased by investors who cannot afford the loss of their entire investment. See “Risk Factors” beginning on page 7.

(1)

As of February 3, 2012.

This offering relates to the resale from time to time of up to 1,763,317 shares of our common stock, par value \$0.001 per share, by Southridge, which are the Put Shares that we will put to Southridge pursuant to the Equity Purchase Agreement. The 1,763,317 Put Shares included in this prospectus represent a portion of the shares issuable to Southridge under the Equity Purchase Agreement. This portion was calculated as approximately 30% of the Company’s public float as of February 3, 2012. The offered shares represented 6.1% of the currently outstanding shares of our common stock on February 3, 2012 and 5.8% of the outstanding shares of our common stock on February 3, 2012, including the offered shares. On February 3, 2012, the closing price of our common stock was \$0.56 per share. Notwithstanding the foregoing, under the Equity Purchase Agreement, at no point may the number of Put Shares purchased by Southridge exceed the number of such shares that, when aggregated with all other shares of common stock then owned or deemed owned by Southridge beneficially, result in Southridge owning more than 9.99% of all of our outstanding common stock.

On November 29, 2011, we entered into the Equity Purchase Agreement with Southridge under which Southridge has committed to purchase up to \$20,000,000 of shares of our common stock over a two year period commencing on the Effective Date. For each share of our common stock purchased under the Equity Purchase Agreement, Southridge will pay ninety two percent (92%) of the average of the lowest Closing Prices of our common stock reported by Bloomberg Finance L.P. during the Valuation Period commencing on the date a Put Notice is delivered to Southridge in the manner prescribed in the Equity Purchase Agreement. Subject to certain limitations outlined below, we may, at our sole discretion, issue a Put Notice to Southridge, after which Southridge will be irrevocably bound to acquire such shares.

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In the event that during a Valuation Period for any Put Notice, the Closing Price on any trading day falls more than twenty five percent (25%) below the Floor Price, then for each such trading day we shall be under no obligation to sell and Southridge's obligation to fund one-fifth (1/5th) of the put amount for each such trading day shall terminate and the put amount shall be adjusted accordingly. In the event that during a Valuation Period the Closing Price falls below the Floor Price for any two (2) trading days, not necessarily consecutive, then the balance of each party's right and obligation to purchase and sell the investment amount under such Put Notice shall terminate on such second trading day and the investment amount shall be adjusted to include only one-fifth (1/5th) of the initial investment amount for each trading day during the Valuation Period prior to the Termination Day that the Closing Price equals or exceeds the Floor Price. Southridge's obligation to purchase the Put Shares will terminate on the earlier of (i) the date on which Southridge shall have purchased Put Shares pursuant to the Equity Purchase Agreement for an aggregate purchase price of the maximum commitment amount of \$20,000,000, or (ii) the date occurring twenty-four (24) months from the Effective Date.

As a condition for the execution of the Equity Purchase Agreement by Southridge, we issued to Southridge a total of 50,000 shares of Restricted Stock upon the execution of the Equity Purchase Agreement and we will issue an additional 50,000 shares of Restricted Stock to Southridge at the time of the first draw down notice and initial financing of \$50,000 by Southridge pursuant to the terms of the Equity Purchase Agreement. The Restricted Stock are restricted securities as defined in Rule 144 under the Securities Act.

We are relying on an exemption from the registration requirements of the Securities Act, and/or Rule 506 of Regulation D promulgated thereunder. The transaction does involve a private offering, Southridge is an "accredited investor" and/or qualified institutional buyer, and Southridge has access to information about the Company and its investment.

There are substantial risks to investors as a result of the issuance of shares of our common stock under the Equity Purchase Agreement. These risks include dilution of shareholders, significant decline in our stock price and our inability to draw sufficient funds when needed.

Southridge will periodically purchase our common stock under the Equity Purchase Agreement and will, in turn, sell such shares to investors in the market at the market price. This may cause our stock price to decline, which will require us to issue increasing numbers of shares of common stock to Southridge to raise the same amount of funds as our stock price declines. The stock price will, however, be subject to the Floor Price provision in the Equity Purchase Agreement.

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RISK FACTORS

You should carefully consider the following risk factors discussed below and the matters addressed under “Cautionary Statements Regarding Forward-Looking Statements” on page v together with all other information presented in this prospectus, including our audited consolidated financial statements and related notes. The risks described below are not the only risks facing us or that may materially adversely affect our business. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially and adversely affect our business. If any of the following risks develop into actual events, our business, financial condition or results of operations could be materially adversely affected and you may lose all or part of your investment.

Risks Related to this Offering and Ownership of Our Common Stock

Because our common stock is quoted on the OTC Bulletin Board, your ability to sell shares in the secondary trading market may be limited.

The Company’s common stock is currently quoted on the OTC Bulletin Board under the symbol “DTST.OB”. Consequently, the liquidity of our common stock is impaired, not only in the number of shares that are bought and sold, but also through delays in the timing of transactions, and coverage by security analysts and the news media, if any, of the Company. Since we have no control over analysts, there is no guarantee that securities analysts will cover our common stock. If securities analysts do not cover our common stock, the lack of research coverage may adversely affect its market price. As a result, prices for shares of our common stock may be lower than might otherwise prevail if our common stock was quoted and traded on Nasdaq or a national securities exchange.

Because our shares are "penny stocks," you may have difficulty selling them in the secondary trading market.

Federal regulations under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) regulate the trading of so-called “penny stocks,” which are generally defined as any security not listed on a national securities exchange or Nasdaq, priced at less than \$5.00 per share and offered by an issuer with limited net tangible assets and revenues. Since our common stock currently is quoted on the OTC Bulletin Board under the symbol “DTST.OB” at less than \$5.00 per share, our shares are “penny stocks” and may not be traded unless a disclosure schedule explaining the penny stock market and the risks associated therewith is delivered to a potential purchaser prior to any trade.

In addition, the SEC has adopted a number of rules to regulate “penny stocks”. Such rules include Rules 3a51-1, 15g-1, 15g-2, 15g-3, 15g-4, 15g-5, 15g-6, 15g-7, and 15g-9 under the Exchange Act. These rules impose additional sales practice requirements on broker-dealers that sell to persons other than established customers and “accredited investors.” The term “accredited investor” refers generally to institutions with assets in excess of \$5,000,000 or individuals with a net worth in excess of \$1,000,000 (excluding the value of the primary residence of such person) or annual income exceeding \$200,000 in each of the two most recent years or joint income with a spouse exceeding \$300,000 for those years and a reasonable expectation of the same income level in the current year.

The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document in a form prepared by the SEC, which provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer’s account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer’s confirmation. In addition, the penny stock rules require that, prior to a transaction in a penny stock not otherwise exempt from these rules, the broker-dealer must make a special written

determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for the stock that is subject to these penny stock rules. Consequently, these penny stock rules may affect the ability of broker-dealers to trade our securities. We believe that the penny stock rules discourage investor interest in and limit the marketability of our common stock. The Financial Industry Regulatory Authority ("FINRA") sales practice requirements may also limit a stockbroker's ability to buy or sell our stock.

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In addition to the “penny stock” rules promulgated by the SEC, FINRA has adopted rules that require that in recommending an investment to a customer, a broker-dealer must have reasonable grounds for believing that the investment is suitable for that customer. Prior to recommending speculative low priced securities to their non-institutional customers, broker-dealers must make reasonable efforts to obtain information about the customer’s financial status, tax status, investment objectives, and other information. Under interpretation of these rules, the National Association of Securities Dealers (“NASD”) believes that there is a high probability that speculative low priced securities will not be suitable for at least some customers. The FINRA requirements make it more difficult for broker-dealers to recommend that their customers buy our common stock, which may limit your ability to buy or sell our stock and have an adverse effect on the market for our shares.

Shareholders should also be aware that, according to the SEC, the market for penny stocks has suffered in recent years from patterns of fraud and abuse. Such patterns include (i) control of the market for the security by one or a few broker-dealers that are often related to the promoter or issuer; (ii) manipulation of prices through prearranged matching of purchases and sales and false and misleading press releases; (iii) “boiler room” practices involving high-pressure sales tactics and unrealistic price projections by inexperienced salespersons; (iv) excessive and undisclosed bid-ask differentials and markups by selling broker-dealers; and (v) the wholesale dumping of the same securities by promoters and broker-dealers after prices have been manipulated to a desired level, leaving investors with losses. Our management is aware of the abuses that have occurred historically in the penny stock market. Although we do not expect to be in a position to dictate the behavior of the market or of broker-dealers who participate in the market, management will strive within the confines of practical limitations to prevent the described patterns from being established with respect to the Company’s securities.

As an issuer of “penny stock,” the protection provided by the federal securities laws relating to forward-looking statements does not apply to us.

Although federal securities laws provide a safe harbor for forward-looking statements made by a public company that files reports under the federal securities laws, this safe harbor is not available to issuers of penny stocks. As a result, the Company will not have the benefit of this safe harbor protection in the event of any legal action based upon a claim that the material provided by the Company contained a material misstatement of fact or was misleading in any material respect because of the Company’s failure to include any statements necessary to make the statements not misleading. Such an action could have a material adverse effect on our financial condition.

By virtue of being a public company, the Company is subject to certain regulations and expenses.

The Company is publicly-traded and, accordingly, subject to the information and reporting requirements of the U.S. securities laws. The U.S. securities laws require, among other things, review, audit, and public reporting of the Company’s financial results, business activities, and other matters. Recent SEC regulation, including regulation enacted as a result of the Sarbanes-Oxley Act of 2002 (“Sarbanes-Oxley”), has also substantially increased the accounting, legal, and other costs related to becoming and remaining an SEC reporting company. The public company costs of preparing and filing annual and quarterly reports, and other information with the SEC, and furnishing audited reports to shareholders will cause the Company’s expenses to be higher than if privately-held. In addition, the Company will incur substantial expenses in connection with the preparation of the registration statement and related documents with respect to the registration of the shares issued in this offering. Failure by the Company to comply with the federal securities laws could result in private or governmental legal action against the Company and/or our officers and directors, which could have a detrimental effect on the Company’s business and finances, the value of the Company’s stock, and the ability of shareholders to resell their stock.

Our stock price may be volatile