U.S. SECURITIES AND EXCHANGE COMMISSION
Washington DC 20549

FORM 10-Q

(Mark One)

[X] **Quarterly Report Under Section 13 or 15 (d) of the Securities Exchange Act of 1934**
For the quarterly period ended September 30, 2000

[   ] **Transition Report Under Section 13 or 15 (d) of the Exchange Act**
For the transition period from ____________ to ____________
Commission file number 1-13616

STORAGE COMPUTER CORPORATION
(Exact name of issuer as specified in its charter)

Delaware	02-0450593
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

11 Riverside Street Nashua NH 03062-1373
(Address of principal executive offices)

(603) 880-3005
(Issuer's telephone number)

N/A
(Former name, address, fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act: None

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

Common Stock $0.001 par value	**American Stock Exchange**
(Title or Class)	(Name of Exchange on which registered)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or 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 [X] No [   ]

The number of shares of Common Stock outstanding as of the close of business on November 13, 2000 was 14,834,009.

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PART I. FINANCIAL INFORMATION

Storage Computer Corporation
Consolidated Financial Position (Unaudited)

	September 30, 2000	December 31, 1999
Assets		
Current assets		
Cash and cash equivalents	5,441,138	$ 1,182,194
Accounts receivable (net)	1,223,333	751,077
Inventories	3,864,187	7,281,297
Other current assets	335,251	852,774
Total current assets	10,863,909	10,067,342
Property and equipment, net of accumulated depreciation	965,999	1,356,913
Deferred tax asset	2,194,000	2,194,000
Intangible and other assets, net of amortization		
Goodwill and other intangibles	23,872,047	—
Other assets	127,705	610,413
	$ 38,023,660	$14,228,668
Liabilities and Stockholders' Equity		
Current liabilities		
Note payable to bank	$ 435,000	$ 6,640,445
Accounts payable	998,261	257,440
Accrued expenses	2,793,842	2,254,143
Total current liabilities	4,227,103	9,152,028
Long-term debt	1,827,168	1,060,000
Total liabilities	6,054,271	10,212,028
Stockholders' equity		
Common Stock	14,834	11,435
Preferred Stock	7,000,000	—
Additional paid-in capital	44,296,088	13,968,263
Accumulated deficit	(19,341,533)	(9,963,058)
Total stockholders' equity	31,969,389	4,016,640
	$ 38,023,660	$14,228,688

See Notes to Consolidated Financial Statements.

Storage Computer Corporation
Statement of Consolidated Operations (Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2000	**September 30, 1999**	**September 30, 2000**	**September 30, 1999**
Revenue	$ 1,037,920	$ 2,479,868	$ 5,187,596	$ 8,216,891
Product cost including inventory restructuring costs	3,728,058	1,240,888	5,688,941	4,660,939
Gross margin	(2,690,138)	1,238,980	(501,345)	3,555,952
Operating expenses:				
Research and development	329,911	331,715	997,776	1,660,194
Selling and marketing	657,856	763,723	1,664,500	3,076,737
General and administrative	713,844	529,945	1,702,631	1,967,663
Amortization of intangibles	186,855	—	186,855	—
Restructuring cost	740,130	—	740,130	—
Total	2,628,596	1,625,383	5,291,892	6,704,594
Operating income	($5,318,734)	($386,403)	($5,793,237)	($3,148,642)
Other income (expense):				
Interest expense, net	(59,618)	(206,456)	(354,307)	(608,230)
Other income (expense)	(249,828)	1,831	(128,854)	106,746
Total	(309,446)	(204,625)	(483,161)	(501,484)
Loss before income Taxes	(5,628,180)	(591,028)	(6,276,398)	(3,650,126)
Provision for income taxes	13,763	65	13,763	(200,307)
Net loss	(5,641,943)	(591,093)	(6,290,161)	(3,449,819)
Computed preferred stock dividend	2,993,721	—	2,993,721	—
Net income applicable to common stockholders	($8,635,664)	($591,093)	($9,283,882)	($3,449,819)
Net loss per basic and dilutive share	($0.45)	($0.05)	($0.51)	($0.30)
Net loss available to common stockholders per basic and diluted share	($0.69)	($0.05)	($0.75)	($0.30)
Basic and dilutive shares	12,522,675	11,380,267	12,417,098	11,366,374

See Notes to Consolidated Financial Statements.

Storage Computer Corporation
Statement of Consolidated Cash Flows (Unaudited)

	Nine Months Ended	
	September 30, 2000	**September 30, 1999**
Cash flows from Operating Activities:		
Net income (loss)	($6,290,161)	($3,449,819)
Reconciliation to operation cash flows:		
Depreciation and amortization of property and equipment	572,262	429,931
Amortization of intangible assets	186,855	—
Provision for restructuring costs	3,737,712	—
Excess of liabilities assumed over tangible assets of acquired company	1,238,339	—
Changes in operating assets and liabilities, excluding effect of CyberStorage acquisition:		
Accounts receivable	60,454	3,353,950
Income tax refund receivable	—	2,160,211
Inventories	756,597	1,157,624
Other current assets	526,112	(198,458)
Accounts payable and accrued expenses	(321,936)	(980,763)
Net cash provided (used) in operations	466,234	2,472,676
Cash flows from investing activities:		
Purchases of property & equipment	(29,706)	
Other assets	499,455	(19,543)
Net cash provided (used) in investing activities	469,749	(19,543)
Cash flow from financing activities:		
Increase (decrease) in credit line	(6,600,445)	(2,243,432)
Increase (decrease) in long-term debt	(260,602)	350,000
Issuance of common stock and warrants	859,904	48,711
Issuance of preferred stock	9,324,169	—
Preferred stock dividends	(65)	—
Net cash provided (used) in financing activities	3,322,961	(1,844,721)
Net increase in cash and cash equivalents	4,258,944	608,412
Cash and cash equivalents at beginning of period	1,182,194	925,259
Cash and cash equivalents at end of period	$ 5,441,138	$ 1,533,671
Supplemental disclosures of cash flow information		
Interest paid	$ 167,809	$ 735,993
Taxes Paid	$ 10,380	—
Schedule of Noncash Investing and Financing Activities		
Fair value of assets acquired	$ 24,725,096	—
Stock issued	22,440,000	—
Liabilities assumed	$ 2,285,096	—
Preferred stock dividends paid in common stock	$ 94,458	—

See Notes to Consolidated Financial Statements.

Storage Computer Corporation
Notes To Consolidated Financial Statements
September 30, 2000

Note A —The Company and Basis of Presentation

Storage Computer Corporation (the “Company”) and its subsidiaries are engaged in the development, manufacture, and sale of computer disk arrays and computer equipment worldwide. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries: Storage Computer Europe GmbH, Vermont Research Products, Inc., Storage Computer UK, Ltd., Storage Computer Pty., Ltd. and its 50.1% owned subsidiary Storage Computer France, S.A. All significant intercompany accounts and transactions have been eliminated in consolidation. The Company also has a 20% investment in Storage Computer (Asia) Ltd. which is accounted for by the equity method.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements and should be read in conjunction with the financial statements and related notes included in a Report on Form 10-K/A filed by the Company with the Securities and Exchange Commission, containing the Company’s financial statements for the fiscal year ended December 31, 1999. In the opinion of management, the accompanying financial statements reflect all adjustments, all of which are of a normal, recurring nature, to fairly present the Company’s consolidated financial position, results of operations and cash flows. The results of operations for the three and nine month period ended September 30, 2000 are not necessarily indicative of the results to be expected for the full year.

Note B —Reclassifications

Certain 1999 amounts have been reclassified to conform with the current period presentation.

Note C —CyberStorage Systems Corporation Acquisition and Related Restructuring

Acquisition of CyberStorage Systems Corporation:

On September 14, 2000 the Company completed the acquisition of CyberStorage Systems Corporation in exchange for 2,200,000 shares of its common stock in a transaction accounted for as a purchase. The results of operations are included in the consolidated financial statements from that date. The purchase price has been allocated based on the estimated fair value of the assets acquired and liabilities assumed. The excess purchase price over the fair values of the net assets acquired of approximately $23 million was allocated $5 million to certain identifiable intangible assets and $18 million to goodwill.

Restructuring:

As a result of the CyberStorage acquisition, the Company adopted a plan to restructure its existing business to take advantage of the combined technologies and resources of both companies to extend, accelerate and improve the platform and delivery of its existing products and services. Accordingly, provisions for $3.7 in restructuring costs have been charged to operations in the three months ended September 30, 2000, including $3 million related to inventories charged to product cost and $700,000 of other costs charged to operating expenses.

Note D —Subsequent Event

On October 31, 2000, the Company completed a $12,000,000 (less approximately $430,000 in placement fees, commissions and legal expenses) private placement to a single investor for a newly created Series C 8% Convertible Preferred Stock (the “Series C Preferred Stock”).

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

CAUTIONARY STATEMENT

Forward-looking Statements

THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1996 CONTAINS CERTAIN SAFE HARBORS REGARDING FORWARD-LOOKING STATEMENTS. FROM TIME TO TIME, INFORMATION PROVIDED BY THE COMPANY OR STATEMENTS MADE BY ITS DIRECTORS, OFFICERS OR EMPLOYEES MAY CONTAIN "FORWARD-LOOKING" INFORMATION SUBJECT TO NUMEROUS RISKS AND UNCERTAINTIES. ANY STATEMENTS MADE HEREIN THAT ARE NOT STATEMENTS OF HISTORICAL FACT ARE FORWARD-LOOKING STATEMENTS INCLUDING, BUT NOT LIMITED TO, STATEMENTS CONCERNING THE CHARACTERISTICS AND GROWTH OF THE COMPANY'S MARKETS AND CUSTOMERS, THE COMPANY'S OBJECTIVES AND PLANS FOR FUTURE OPERATIONS AND PRODUCTS AND THE COMPANY'S EXPECTED LIQUIDITY AND CAPITAL RESOURCES. SUCH FORWARD-LOOKING STATEMENTS ARE BASED ON A NUMBER OF ASSUMPTIONS AND INVOLVE A NUMBER OF RISKS AND UNCERTAINTIES, AND, ACCORDINGLY, ACTUAL RESULTS COULD DIFFER MATERIALLY. FACTORS THAT MAY CAUSE SUCH DIFFERENCES INCLUDE, BUT ARE NOT LIMITED TO: THE CONTINUED AND FUTURE ACCEPTANCE OF THE COMPANY'S PRODUCTS; THE RATE OF GROWTH IN THE INDUSTRIES OF THE COMPANY'S PRODUCTS; THE PRESENCE OF COMPETITORS WITH GREATER TECHNICAL, MARKETING AND FINANCIAL RESOURCES; THE COMPANY'S ABILITY TO PROMPTLY AND EFFECTIVELY RESPOND TO TECHNOLOGICAL CHANGE TO MEET EVOLVING CUSTOMER NEEDS; RISKS ASSOCIATED WITH SALES IN FOREIGN COUNTRIES; AND THE COMPANY'S ABILITY TO SUCCESSFULLY EXPAND ITS OPERATIONS.

RESULTS OF OPERATIONS

The Company's operating results have fluctuated in the past and may in the future fluctuate significantly, depending upon a variety of factors, including the timely successful deployment of its newly created marketing relationship, the reestablishment of the reseller sales channel and the length of the sales cycle for the Company's products and services. Additional factors that may contribute to variability of operating results include: the pricing and mix of services offered by the Company; changes in pricing of the Company's products and services due to competitive pressures; the Company's ability to obtain sufficient supplies of sole or limited source components; the ability to manage future growth and expansion; the ability to successfully identify, target, acquire and integrate suitable acquisition candidates; and charges related to financing and acquisitions.

REVENUE

Revenue for the three month period ended September 30, 2000 was $1,037,920 compared to revenue of $2,479,868 in the corresponding period in 1999. For the nine month period ended September 30, 2000, revenue was $5,187,596 compared to revenue of $8,216,891 in the respective period in 1999. Revenue has been negatively impacted by reduced promotional budgets and lower sales force headcount. For the three month period ended September 30, 2000, U.S. domestic product sales and international product sales were 47% and 53%, respectively, of total revenue. During the 1999 comparable period, such percentages were 46% and 54% respectively. For the nine month period ended September 30, 2000, U.S. domestic product sales and international product sales were 65% and 35%, respectively, of total revenue. During the 1999 comparable period, such percentages were 37% and 63% respectively.

All United States export sales are denominated in United States dollars to limit the amount of foreign currency risk. Export sales from the European sales offices are denominated in United States dollars. Sales which occur through the Company's subsidiaries located in England and Germany are conducted in the local functional currency.

PRODUCT COST (INCLUDING INVENTORY RESTRUCTURING COSTS)

Product cost for the three month periods ended September 30, 2000 and 1999 was $3,728,058 and $1,240,888 respectively, or 359% and 50% of net revenue in each period. Product cost for the nine month periods ended September 30, 2000 and 1999 were $5,688,941 and $4,660,939 respectively, or 110% and 57% of revenue. The increase in product cost percentage between the three and nine month periods ending September 30, 2000 and 1999, of approximately 309% and 53% respectively, was primarily the result of inventory restructuring costs recorded during the three months ended September 30, 2000, due to the CyberStorage Systems corporation acquisition.

RESEARCH AND DEVELOPMENT

Research and development expenses for the three month period ended September 30, 2000 and the corresponding 1999 period, were $329,911 and $331,715. For the nine month periods ended September 30, 2000 and 1999, such expenses were $997,776 and $1,660,194. The decrease in research and development expenditures in 2000 resulted primarily from a reduction in the number of staff personnel and outside contractors; and the completion of work on certain phases of the next generation products.

SELLING AND MARKETING EXPENSES

Selling and marketing expenses for the three month periods ended September 30, 2000 and 1999 were $657,856 and $763,723, respectively. Selling and marketing expenses for the nine month periods ended September 30, 2000 and 1999 were $1,664,500 and $3,076,737, respectively. The decrease in selling and marketing expenses between the nine months ended September 30, 2000 and the comparable period in 1999 of approximately $1,412,000 was principally due to reduced sales volume commissions in the United States and International sales organizations, and further reduction in the field sales headcount.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the three month periods ended September 30, 2000 and 1999 were $713,844 and $529,945, respectively. For the nine month periods ended September 30, 2000 and 1999, general and administrative expenses were $1,702,631 and $1,967,663, respectively. The absolute dollar decrease in general and administrative expenses between the nine month periods ended September 30, 2000 and 1999 of approximately $265,000 resulted primarily from reduced personnel.

FINANCIAL CONDITION

CASH FLOW

The cash flow for operating activities is impacted by the timing of product shipments and inventory purchases to support new product introductions and revenue fluctuations.

DEBT AND EQUITY

During August 2000, the company paid off its entire outstanding balance at its former bank and terminated the credit facility. At September 30, 2000, the Company has a new $1,000,000 credit facility with a new bank secured by accounts receivable.

On August 29, 2000, the Company closed the placement of a second tranche of 20,000 shares of Series A 8% Convertible Preferred Stock (the "Series A Preferred Stock") and warrants to purchase common stock, to a private investor for an aggregated purchase price of $2,000,000 (less approximately $136,000 in placement fees, commissions and legal expenses). On September 29, 2000, the Company issued 20,000 shares of a newly created Series B 8% Convertible Preferred Stock (the "Series B Preferred Stock")and warrants to purchase common stock, to a private investor for an aggregate purchase price of $2,000,000 (less approximately $131,000 in placement fees, commission and legal expenses).

On October 31, 2000, the Company completed a $12,000,000 (less approximately $430,000 in placement fees, commissions and legal expenses) private placement to a single investor for the newly created Series C Preferred Stock.

Management believes that the capital received from these private placements and the private placement referred to in Note D above, will be sufficient to meet its research and development costs, market development costs and other working capital requirements for the next twelve months.

ACCOUNTS RECEIVABLE

The increase in accounts receivable from December 31, 1999 to September 30, 2000 of approximately $472,000 is largely due to the acquisition of CyberStorage Systems Corporation during the reporting period. The Company did not materially change its standard credit terms during the period and there has been no material deterioration in the aging of accounts receivable during the period.

INVENTORY

Inventory decreased approximately $3,417,000 from December 31, 1999 to September 30, 2000 as the Company continued its efforts to reduce its inventory investment, but principally as a result of the inventory restructuring reserves as discussed in Note C above.

WORKING CAPITAL

The Company's working capital at September 30, 2000 was $6,636,806. Management believes that the private placements described above and in Note D above, will accommodate all of its working capital requirements for the next twelve months.

CAPITAL EXPENDITURES

The Company does not have any material commitments for capital expenditures at this time.

FOREIGN CURRENCY TRANSACTIONS

Management does not currently utilize any derivative products to hedge its foreign currency risk. The Company's foreign subsidiaries' obligations to their parent are denominated in US dollars. There is a potential for a foreign currency gain or loss based upon fluctuations between the US dollar and its subsidiaries' functional currencies, currently German, British, French and Australian. This exposure is limited to the period between the time of accrual of such liability to the parent in the subsidiaries' functional currency and the time of its payment in US dollars.

Other than the intercompany balances noted above, the Company does not believe it has material unhedged monetary assets, liabilities or commitments which are denominated in a currency other than the operations' functional currencies. Management expects such exposure to continue until its foreign subsidiaries reach a more mature level of operation. Management currently has no plans to utilize any derivative products to hedge its foreign currency risk.

FACTORS THAT MAY AFFECT FUTURE RESULTS

THE COMPANY'S STOCK PRICE IS VOLATILE

The Company's stock price, like that of other technology companies, is subject to significant volatility because of factors such as:

- the announcement of new products, services or technological innovations by the Company or its competitors
- quarterly variations in its operating results
- changes in revenue or earnings estimates by the investment community
- speculation in the press or investment community
- failure to meet earning expectations

In addition, the Company's stock price may be affected by general market conditions and domestic and international economic factors unrelated to the Company's performance. Further, until recently, the Company's stock was thinly traded. Because of these factors, recent trends should not be considered reliable indicators of future stock prices or financial results.

THE COMPANY'S BUSINESS MAY SUFFER IF IT CANNOT PROTECT ITS INTELLECTUAL PROPERTY

The Company generally relies upon patent, copyright, trademark and trade secret laws and contract rights in the United States and in other countries to establish and maintain the Company's proprietary rights in its technology and products. However, there can be no assurance that any of the Company's proprietary rights will not be challenged, invalidated or circumvented. In addition, the laws of certain countries do not protect the Company's proprietary rights to the same extent, as do the laws of the United States. Therefore, there can be no assurance that the Company will be able to adequately protect its proprietary technology against unauthorized third-party copying or use, which could adversely affect the Company's competitive position. Further, there can be no assurance that the Company will be able to obtain licenses to any technology that it may require to conduct its business or that, if obtainable, such technology can be licensed at a reasonable cost.

INTELLECTUAL PROPERTY RIGHTS

The Company is aggressively pursuing the enforcement of its intellectual property rights after an extensive patent review conducted in 1999. During the first quarter, the Company retained a major law firm to enforce these rights against infringing parties, which management believes to be extensive. During the second quarter, The Company continued these efforts vigorously. Despite the Company's and its legal representatives' efforts, there can be no assurance or predictability as to any amount of recovery or the length of time it will take the Company to recover any royalties or license fees which may be recoverable. Despite the Company's efforts to protect its intellectual property rights, unauthorized use may still occur, particularly in foreign countries.

DEVELOPMENT OF NEW PRODUCTS AND SOLUTIONS

The Company must make continuous investment in research and development to maintain its ongoing effort to continually improve its products and provide innovative solutions to its customers. The development of software products is a difficult and costly process and subject to many other products' requirements. The Company's inability to timely deliver new products in the past has had an adverse effect on the Company's operating and financial results. There can be no assurance that the Company will be able to effectively develop new products in the future.

COMPETITION

The Company competes with many established companies in the computer storage and server industries and certain of these companies have substantially greater financial, marketing and technological resources, larger distribution capabilities, earlier access to customers and more opportunity to address customers' various information technology requirements than the Company. The Company's business may be adversely affected by the announcement or introduction of new products by its competitors, including hardware, software and services, price reductions of its competitors' equipment or services and the implementation of effective marketing strategies by its competitors.

Competitive pricing pressures exist in the computer storage and server markets and have had and may in the future have an adverse effect on the Company's revenues and earnings. There also has been and may continue to be a willingness on the part of certain competitors to reduce prices in order to preserve or gain market share, which the Company cannot foresee. The Company currently believes that pricing pressures are likely to continue. The relative and varying rates of product price and component cost declines could have an adverse effect on the Company's earnings.

RAPID TECHNOLOGICAL CHANGES

The computer industry is changing both dramatically and rapidly. The development of "open systems computing", the introduction of the Internet, new fibre technologies (SAN) and the increasing storage density in disk drive technologies, have caused an increase in new product development and shorter time to bring the new products to market. While the Company believes that its Virtual Storage Architecture and StorageSuite products are advanced when compared to competitive products, and compliment many other products utilized in total customer solutions, there can be no assurance that this will continue in the future. The failure to remain consistently ahead of competitive technologies would have a negative impact on the Company's operating results and financial condition.

BUSINESS ALLIANCES

Many companies are forming business alliances with their competitors, to be able to provide totally integrated storage solutions to their customers. One result of these alliances is to effectively preclude competitive products from being offered to the customers. Many of the relationships are exclusive and the Company's failure to develop similar relationships will effectively reduce the number of qualified sales opportunities the Company will have for its products in the future. The Company believes that it addresses this issue by its return to the reseller channel sales model and having the integrator/solution providers/value added-resellers perform the solution selling required. The Company's failure to open these sales channels will have a negative effect on the Company's operating results and financial condition.

OPERATIONS

The Company's products operate near the limits of electronic and physical performance and are designed and manufactured with relatively small tolerances. If flaws in design, production, assembly or testing were to occur by the Company or its suppliers, the Company could experience a rate of failure in its products that would result in substantial repair or replacement costs and potential damage to the Company's reputation. Continued improvement in manufacturing capabilities and control of material and manufacturing quality and costs are critical factors in the future growth of the Company. The Company frequently revises and updates manufacturing and test processes to address engineering and component changes to its products and evaluates the reallocation of manufacturing resources among its facilities. There can be no assurance that the Company's efforts to monitor, develop and implement appropriate test and manufacturing processes for its products will be sufficient to permit the Company to avoid a rate of failure in its products that results in substantial delays in shipment, significant repair or replacement costs and potential damage to the Company's reputation, any of which could have a material adverse effect on the Company 's business, results of operations or financial condition.

Additionally, most companies in the high technology arena are under pressure to be able to acquire and retain the services of talented individuals. At present, there is a shortage in the number of qualified employees who are available, creating a lucrative job market for qualified and talented high tech employees. The Company has had a decline in revenue in each of the two previous years and comparable reduction in its work force. While the Company believes that it has the required core personnel to effectively manage and grow the Company, there can no assurance that key employees may leave the company in the future. The failure to maintain key employees could adversely affect the Company's operating and financial results in the future.

LIQUIDITY AND WORKING CAPITAL

The Company's continued success depends on maintaining adequate liquidity and working capital to meet its operational requirements. The failure of the Company to maintain adequate liquidity and working capital could have a material adverse impact on the Company.

FAILURE OF SUPPLIERS TO PROVIDE QUALITY PRODUCTS

The Company purchases several sophisticated components and products from one or a limited number of qualified suppliers. These components and products include disk drives, high density memory components and power supplies. The Company has experienced delivery delays from time to time because of high industry demand or the inability of some vendors to consistently meet its quality and delivery requirements. If any of its suppliers were to fail to meet the quality or delivery requirements needed to satisfy customer orders for its products, the Company could lose time-sensitive customer orders and have significantly decreased quarterly revenues and earnings, which would have a material adverse effect on the Company's business, results of operations or financial condition. Additionally, the Company periodically transitions its product line to incorporate new technologies. The importance of transitioning its customers smoothly to new technologies, along with its historically uneven pattern of quarterly sales, intensifies the risk that a supplier who fails to meet its delivery or quality requirements will have an adverse impact on the Company's revenues and earnings.

CHANGES IN LAWS, REGULATIONS OR OTHER CONDITIONS THAT COULD ADVERSELY IMPAIR THE COMPANY'S CONDITION

The Company's business, results of operations and financial condition could be adversely affected if any laws, regulations or standards, both foreign and domestic, relating to the Company or its products were newly implemented or changed.

LITIGATION THAT THE COMPANY MAY BECOME INVOLVED IN MAY ADVERSELY AFFECT THE COMPANY

In the ordinary course of business, the Company may become involved in litigation, administrative proceedings and governmental proceedings. Such matters can be time-consuming, divert management's attention and resources and cause the Company to incur significant expenses. Furthermore, there can be no assurance that the results of any of these actions will not have a material adverse effect on its business, results of operations or financial condition.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The market risk inherent in the Company's financial instruments related primarily in fluctuations in the prime rate of interest charged to the Company under the terms of the revolving credit facility which the Company terminated during the reporting period. The Company does not use derivative products or have any material unhedged monetary assets, except for the inter-company balances outstanding.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is involved in several minor legal claims in its ordinary course of business. While the Company believes that its involvement in these claims will have no material effect its operations or financial condition, the Company cannot predict what its continuing involvement in, any judicial decision rendered, or the resolution of the set of claims will have upon the Company’s business, operating results, or financial condition.

Item 2. Changes in Securities and Use of Proceeds

In August 2000, the Company issued a second tranche of 20,000 shares of Series A Preferred Stock to a single investor for an aggregated purchase price of $2,000,000 (less approximately $136,000 in placement fees, commissions and legal expenses). On September 29, 2000, the Company issued 20,000 shares of the newly created Series B Preferred Stock, to a private investor for an aggregate purchase price of $2,000,000 (less approximately $131,000 in placement fees, commission and legal expenses). On October 31, 2000, the Company completed a $12,000,000 (less approximately $430,000 in placement fees, commissions and legal expenses) private placement to a single investor for the newly created Series C Preferred Stock.

During the three months ended September 30, 2000, one of the initial Series A investors converted 30,000 of its Series A Preferred Stock into 420,438 shares on the Company’s common stock, including accrued dividends. Additionally, the same investor exercised 132,000 warrants to purchase the Company’s common stock at $8.6625 per share, yielding $1,143,450 in proceeds to the Company.

The proceeds from the above transactions were utilized to pay off the Company’s borrowings under its former revolving credit facility and will be utilized for its general working capital requirements.

Item 3. Defaults Upon Senior Securities

There has not been any material default in the payment of principal, interest, or any other material default not cured or waived within 30 days with respect to any indebtedness of the Company and its subsidiaries during the three month period ended September 30, 2000.

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

At the Company’s Annual Meeting of Shareholders held on August 7, 2000, the following individuals were elected to the Board of Directors:

	Votes For	Votes Withheld
Theodore J. Goodlander	7,532,763	290,594
Edward A. Gardner	7,532,763	290,594
Steven S. Chen	7,532,763	290,594
Roger E. Gauld	7,532,763	290,594

The vote to ratify the action of the Board of Directors in appointing BDO Seidman, LLP as the Company’s auditors for the year ending December 31, 2000 was:

Votes For	Votes Against	Votes Withheld
7,821,541	0	1,816

The vote to approve the issuance of shares of the Company’s Common Stock upon conversion of the Company’s Series A 8% Convertible Preferred Stock.

Votes For	Votes Against	Votes Withheld
7,526,713	269,172	472

The vote to increase the shares allotted to the Storage Computer Corporation 1999 Stock Incentive Plan by 1,000,000 shares:

Votes For	Votes Against	Votes Withheld
7,591,847	321,038	472

Item 5. Other Information

On August 14, 2000, the Company entered into a definitive agreement to acquire CyberStorage Systems Corporation through the merger with a wholly-owned subsidiary of the Company. The transaction closed on September 14, 2000 and included the issuance of 2,200,000 shares of the Company’s common stock to the CyberStorage Systems Corporation stockholders. Subsequent to the acquisition, the Company’s Board of Directors elected John Thonet, the former Chief Executive Officer for CyberStorage Systems Corporation, to the Board of Directors and Chief Operating Officer for the Company. Additionally, Ricardo Velez, was appointed the Company’s Chief Technology Officer.

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

A. Exhibits

Exhibit 3.1	Series B Preferred Stock Purchase Agreement.
Exhibit 3.2	Series C Preferred Stock Purchase Agreement.
Exhibit 4.1	Series B Preferred Stock Warrant.
Exhibit 4.2	Series C Preferred Stock Warrant.
Exhibit 10.1	Series B Preferred Stock Certificate of Designation.
Exhibit 10.2	Series C Preferred Stock Certificate of Designation.
Exhibit 27	Financial Data Schedule.

B. Reports on Form 8-K

On August 1, 2000, the Company filed Schedule 14A Definitive Proxy Statement relating to the annual meeting of the Company’s stockholders on Form 8-K.

On September 29, 2000, the Company filed a Form 8-K detailing its acquisition of CyberStorage Systems Corporation.

On October 6, 2000 the Company reported the adoption of the Amended Series A Preferred Stock Certificate of Designation and Series B Preferred Stock Certificate of Designation on Form 8-K.

C. Other filing and reports.

On August 16, 2000, the Company filed a registration statement on Form S-8, registering 2,000,000 shares of the Company’s common stock for sale under the Storage Computer Corporation 1999 Stock Incentive Plan.

Signatures

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

STORAGE COMPUTER CORPORATION
Registrant

Date: November 14, 2000

/s/ Peter N. Hood
Peter N. Hood
Chief Financial Officer