

**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 **June 30, 2023**

OR

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: **000-30542**

DATA443 RISK MITIGATION, INC.

(Exact name of registrant as specified in its charter)

Nevada

(State of
incorporation)

86-0914051

(I.R.S. Employer
Identification No.)

**4000 Sancar Way, Suite 400
Research Triangle Park, North Carolina**

(Address of principal executive offices)

27709

(Zip Code)

(919) 858-6542

(Registrant's telephone number, including area code)

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

Title of Each Class	Trading Symbol(s)	Name of each exchange on which registered
N/A	N/A	N/A

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

Accelerated filer

Non-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 Act).

Yes No

The outstanding number of shares of common stock as of August 14, 2023 was 61,413,168.

DATA443 RISK MITIGATION, INC.
FORM 10-Q
TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

ITEM 1.	<u>Financial Statements</u>	2
	<u>Condensed Consolidated Balance Sheets as of June 30, 2023 and December 31, 2022 (unaudited)</u>	2
	<u>Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2023 and 2022 (unaudited)</u>	3
	<u>Condensed Consolidated Statements of Stockholders' Deficit for the six months ended June 30, 2023 and 2022 (unaudited)</u>	4
	<u>Condensed Consolidated Statements of Cash Flows for the three and six months ended June 30, 2023 and 2022 (unaudited)</u>	5
	<u>Notes to the Unaudited Condensed Consolidated Financial Statements</u>	6
ITEM 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
ITEM 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	27
ITEM 4.	<u>Controls and Procedures</u>	27

PART II. OTHER INFORMATION

ITEM 1.	<u>Legal Proceedings</u>	28
ITEM 1A.	<u>Risk Factors</u>	29
ITEM 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	45
ITEM 3.	<u>Defaults Upon Senior Securities</u>	46
ITEM 4.	<u>Mine Safety Disclosures</u>	46
ITEM 5.	<u>Other Information</u>	46
ITEM 6.	<u>Exhibits</u>	46
	<u>SIGNATURES</u>	47

PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DATA443 RISK MITIGATION, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	June 30,	December 31,
	2023	2022
	<u> </u>	<u> </u>
Assets		
Current assets		
Cash	\$ 15,904	\$ 1,712
Accounts receivable, net	3,147	31,978
Prepaid expense and other current assets	273,159	91,204
Total current assets	<u>292,210</u>	<u>124,894</u>
Property and equipment, net	503,242	427,031
Operating lease right-of-use assets, net	249,796	405,148
Advance payment for acquisition	2,726,188	2,726,188
Intellectual property, net of accumulated amortization	204,997	454,331
Deposits	45,673	45,673
Total Assets	<u><u>\$ 4,022,106</u></u>	<u><u>\$ 4,183,265</u></u>
Liabilities and Stockholders' Deficit		
Current Liabilities		
Accounts payable and accrued liabilities	2,221,000	1,031,931
Deferred revenue	1,814,620	1,704,249
Interest payable	616,593	478,712
Notes payable, net of unamortized discount	2,267,658	918,785
Convertible notes payable, net of unamortized discount	2,721,171	4,134,155
Due to a related party	320,488	112,062
Operating lease liability	338,818	213,831
Finance lease liability	-	10,341
Total Current Liabilities	<u>10,300,348</u>	<u>8,604,066</u>
Notes payable, net of unamortized discount - non-current	1,605,855	3,104,573
Convertible notes payable, net of unamortized discount - non-current	97,946	97,946
Deferred revenues - non-current	515,000	788,902
Operating lease liability - non-current	-	354,631
Total Liabilities	<u>12,519,149</u>	<u>12,950,118</u>
Commitments and Contingencies		
Stockholders' Deficit		
Series A Preferred Stock, 150,000 shares designated; \$0.001 par value; 149,892 shares issued and outstanding, respectively	150	150
Series B Preferred Stock, 80,000 designated; \$10 par value; 0 shares issued and outstanding	-	-
Common stock: 500,000,000 authorized; \$0.001 par value 59,363,988 and 2,615,737 shares issued and outstanding as of June 30, 2023 and December 31, 2022, respectively	59,360	2,611
Additional paid in capital	43,503,928	42,642,514
Accumulated deficit	<u>(52,060,481)</u>	<u>(51,412,128)</u>

Total Stockholders' Deficit	<u>(8,497,043)</u>	<u>(8,766,853)</u>
Total Liabilities and Stockholders' Deficit	<u>\$ 4,022,106</u>	<u>\$ 4,183,265</u>

See the accompanying notes, which are an integral part of these unaudited condensed consolidated financial statements.

DATA443 RISK MITIGATION, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2023	2022	2023	2022
Revenue	\$ 619,040	\$ 750,989	\$ 1,998,846	\$ 1,363,505
Cost of revenue	244,881	78,593	453,863	278,272
Gross profit	<u>374,159</u>	<u>672,396</u>	<u>1,544,983</u>	<u>1,085,233</u>
Operating expenses				
General and administrative	1,635,499	2,116,220	3,036,308	3,089,782
Sales and marketing	64,379	59,635	96,553	180,030
Total operating expenses	<u>1,699,878</u>	<u>2,175,855</u>	<u>3,132,861</u>	<u>3,269,812</u>
Loss from operations	(1,325,719)	(1,503,459)	(1,587,878)	(2,184,579)
Other income (expense)				
Interest expense	(3,488,822)	(942,753)	(3,964,556)	(2,037,069)
Gain (loss) on settlement of debt	4,904,081	-	4,904,081	-
Change in fair value of derivative liability	-	-	-	(57,883)
Total other expense	<u>1,415,259</u>	<u>(942,753)</u>	<u>939,525</u>	<u>(2,094,952)</u>
Income/(loss) before income taxes	89,540	(2,446,212)	(648,353)	(4,279,531)
Provision for income taxes	-	-	-	-
Net income/(loss)	<u>\$ 89,540</u>	<u>\$ (2,446,212)</u>	<u>\$ (648,353)</u>	<u>\$ (4,279,531)</u>
Dividend on Series B Preferred Stock	-	-	-	(104,631)
Net income/(loss) attributable to common stockholders	<u>\$ 89,540</u>	<u>\$ (2,446,212)</u>	<u>\$ (648,353)</u>	<u>\$ (4,384,162)</u>
Basic and diluted income/(loss) per Common Share	\$ 0.00	\$ (25.10)	\$ (0.04)	\$ (9.62)
Basic and diluted weighted average number of common shares outstanding	<u>28,510,444</u>	<u>97,477</u>	<u>16,334,701</u>	<u>444,824</u>

See the accompanying notes, which are an integral part of these unaudited condensed consolidated financial statements.

DATA443 RISK MITIGATION, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' DEFICIT
(UNAUDITED)

Six Months Ended June 30, 2023

	Series A Preferred Stock		Common stock		Additional Paid in Capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount			
Balance - December 31, 2022	149,892	\$ 150	2,615,737	\$ 2,611	\$42,642,514	\$ (51,412,128)	\$ (8,766,853)
Subscription of stock for cash	-	-	-	-	20,000	-	20,000
Common stock issued for conversion of debt	-	-	10,807,823	10,808	321,784	-	332,592
Common stock issued for adjustment to PPM investors	-	-	45,619,000	45,619	(45,619)	-	-
Stock-based compensation	-	-	321,428	322	565,249	-	565,571
Net loss	-	-	-	-	-	(648,353)	(648,353)
Balance – June 30, 2023	<u>149,892</u>	<u>\$ 150</u>	<u>59,363,988</u>	<u>\$ 59,360</u>	<u>\$43,503,928</u>	<u>\$ (52,060,481)</u>	<u>\$ (8,497,043)</u>

Three Months Ended June 30, 2023

	Series A Preferred Stock		Common stock		Additional Paid in Capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount			
Balance - March 31, 2023	149,892	\$ 150	6,746,764	\$ 6,742	\$42,982,226	\$ (52,150,021)	\$ (9,160,903)
Subscription of stock for cash	-	-	-	-	20,000	-	20,000
Common stock issued for conversion of debt	-	-	6,676,796	6,677	95,926	-	102,603
Common stock issued for adjustment to PPM investors	-	-	45,619,000	45,619	(45,619)	-	-
Stock-based compensation	-	-	321,428	322	451,395	-	451,717
Net income	-	-	-	-	-	89,540	89,540
Balance – June 30, 2023	<u>149,892</u>	<u>\$ 150</u>	<u>59,363,988</u>	<u>\$ 59,360</u>	<u>\$43,503,928</u>	<u>\$ (52,060,481)</u>	<u>\$ (8,497,043)</u>

Six Months Ended June 30, 2022

	Series A Preferred Stock		Common Stock		Additional Paid in Capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount			
Balance - December 31, 2021	150,000	\$ 150	122,044	\$ 122	\$37,810,380	\$ (42,033,887)	\$ (4,223,235)
Cumulative-effect adjustment from adoption of ASU 2020-06	-	-	-	-	(517,500)	439,857	(77,643)
Common stock issued for acquisition of Centurion assets	-	-	380,952	381	2,475,807	-	2,476,188
Common stock issued for conversion of preferred stock	(108)	-	108,000	108	(108)	-	-
Common stock issued for conversion of debt	-	-	165,273	165	29,160	-	29,325
Common stock issued in conjunction with convertible	-	-	18,170	18	140,918	-	140,936

notes							
Common stock issued for exercised cashless warrant	-	-	6,631	7	(7)	-	-
Common stock issued for service	-	-	153,491	153	844,048	-	844,201
Resolution of derivative liability upon exercise of warrant	-	-	-	-	57,883	-	57,883
Warrant issued in conjunction with debts	-	-	-	-	47,628	-	47,628
Stock-based compensation	-	-	-	-	(45,511)	-	(45,511)
Net loss	-	-	-	-	-	(4,384,162)	(4,384,162)
Balance - June 30, 2022	<u>149,892</u>	<u>\$ 150</u>	<u>954,561</u>	<u>\$ 954</u>	<u>\$40,842,698</u>	<u>\$ (45,978,192)</u>	<u>\$ (5,134,390)</u>

See the accompanying notes, which are an integral part of these unaudited condensed consolidated financial statements.

Three months ended June 30, 2022

	Series A		Common Stock		Additional	Accumulated	Total
	Preferred Stock		Shares	Amount	Paid in	Deficit	Stockholders'
	Shares	Amount	Shares	Amount	Capital	Deficit	Deficit
Balance - March 31, 2022	150,000	\$ 150	148,367	\$ 148	\$37,353,357	\$ (43,531,980)	\$ (6,178,325)
Common stock issued for acquisition of Centurion assets	-	-	380,952	381	2,475,807	-	2,476,188
Common stock issued for conversion of preferred stock	(108)	-	108,000	108	(108)	-	-
Common stock issued for conversion of debt	-	-	151,200	151	1,361	-	1,512
Common stock issued for service	-	-	153,491	153	844,048	-	844,201
Common stock issued in conjunction with convertible notes	-	-	12,551	13	78,431	-	78,444
Warrant issued in conjunction with debts	-	-	-	-	47,628	-	47,628
Stock-based compensation	-	-	-	-	42,174	-	42,174
Adjustment of reverse stock split	-	-	-	-	-	-	-
Net loss	-	-	-	-	-	(2,446,212)	(2,446,212)
Balance - June 30, 2022	<u>149,892</u>	<u>150</u>	<u>954,561</u>	<u>954</u>	<u>40,842,698</u>	<u>(45,978,192)</u>	<u>(5,134,390)</u>

DATA443 RISK MITIGATION, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six Months Ended	
	June 30,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (648,353)	\$ (4,279,531)
Adjustments to reconcile net loss to net cash used in operating activities:		
Change in fair value of derivative liability	-	57,883
Gain on settlement of debt	(4,904,081)	-
Stock-based compensation expense	565,571	798,690
Depreciation and amortization	340,550	540,714
Amortization of debt discount	625,783	1,549,752
Lease liability amortization	(74,292)	(14,958)
Changes in operating assets and liabilities:		
Accounts receivable	28,831	(209,938)
Prepaid expenses and other assets	(181,955)	42,852
Accounts payable and accrued liabilities	1,189,069	308,642
Deferred revenue	(163,531)	973,992
Accrued interest	3,398,326	105,577
Deposit	-	10,414
Net Cash provided by/(used in) Operating Activities	<u>175,918</u>	<u>(115,911)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Advance payment for acquisition	-	(250,000)
Purchase of property and equipment	(167,427)	(96,960)

Net Cash used in Investing Activities	<u>(167,427)</u>	<u>(346,960)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Bank overdraft	-	3,781
Proceeds from issuance of convertible notes payable	564,070	1,207,800
Repayment of convertible notes payable	(146,663)	(758,346)
Proceeds from stock subscription	20,000	-
Proceeds from issuance of Series B Preferred Stock	-	75,000
Redemption of Series B Preferred Stock	-	(487,730)
Finance lease payments	(10,341)	(41,195)
Proceeds from issuance of notes payable	417,427	1,186,453
Repayment of notes payable	(1,047,218)	(1,957,492)
Proceeds from related parties	229,426	116,238
Repayment to related parties	(21,000)	(86,571)
Net Cash provided by/(used in) Financing Activities	<u>5,701</u>	<u>(742,062)</u>
Net change in cash	14,192	(1,204,933)
Cash, beginning of period	1,712	1,204,933
Cash, end of period	<u>\$ 15,904</u>	<u>\$ -</u>
Supplemental cash flow information		
Cash paid for interest	<u>\$ 408,160</u>	<u>\$ 344,867</u>
Non-cash Investing and Financing transactions:		
Common stock issued for exercised cashless warrant	<u>\$ -</u>	<u>\$ 7</u>
Settlement of convertible notes payable through issuance of common stock	<u>\$ 332,592</u>	<u>\$ 27,812</u>
Common stock issued in conjunction with convertible note	<u>\$ -</u>	<u>\$ 62,493</u>
Resolution of derivative liability upon exercise of warrant	<u>\$ -</u>	<u>\$ 57,883</u>
Settlement of convertible notes payable through issuance of preferred common stock	<u>\$ -</u>	<u>\$ 65,600</u>
Note payable issued for settlement of License fee payable	<u>\$ -</u>	<u>\$ 77,643</u>

See the accompanying notes, which are an integral part of these unaudited condensed consolidated financial statements.

DATA443 RISK MITIGATION, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Data443 Risk Mitigation, Inc. (the “Company”) was incorporated as a Nevada corporation on May 4, 1998. On October 15, 2019, the Company changed its name from LandStar, Inc. to Data443 Risk Mitigation, Inc. within the state of Nevada.

The Company delivers solutions and capabilities that businesses can use in conjunction with their use of established cloud vendors such as Microsoft® Azure, Google® Cloud Platform (GCP) and Amazon® Web Services (AWS), as well as with on-premises databases and database applications with virtualization platforms, such as those hosted or configured using VMWare®, Citrix® and Oracle® clouds/products).

Advance Payment for Acquisition

On January 19, 2022, we entered into an Asset Purchase Agreement with Centurion Holdings I, LLC (“Centurion”) to acquire the intellectual property rights and certain assets collectively known as Centurion SmartShield Home and SmartShield Enterprise, patented technology that protects and recovers devices in the event of ransomware attacks. The total purchase price of \$3,400,000 consists of: (i) a \$250,000 cash payment at closing; (ii) a \$2,900,000 promissory note issued by Data443 in favor of Centurion (“Centurion Note”); and (iii) \$250,000 in the form of a contingent payment. The Centurion Note matures January 19, 2027 but provides that Data443’s repayment obligation would accelerate on the occurrence of certain events. One of those events was a financing event that did not occur within the originally anticipated timeframe. If that event had occurred, then Data443’s repayment obligation would have been to repay the balance of the outstanding principal and interest as follows: (i) \$500,000 of the then-outstanding amount due in cash; and (ii) the remaining balance, at Data443’s option, in Common stock or a combination of Common stock and cash, with the number of shares of Common stock to be determined according to a specified formula. In April 2022, Data443 and Centurion agreed that, even though the trigger for this acceleration event did not occur, Data443 would issue shares of Common stock to Centurion in an amount then-equivalent to \$2,400,000, as partial repayment of the obligation due under the Centurion Note. The number of shares of Common stock Data443 issued to Centurion on April 20, 2022, was 380,952. Because Data443 still has some repayment obligations to fulfill under the Centurion Note, as of the filing date of these financial statements, the acquisition that is the subject of the Centurion Asset Purchase Agreement is still not completed, and is expected to be completed in 2023.

Basis of Presentation

These unaudited condensed consolidated financial statements have been prepared in accordance with rules and regulations of the Securities and Exchange Commission (“SEC”) and generally accepted accounting principles in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, the unaudited condensed consolidated financial statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, we have included all adjustments considered necessary for a fair presentation and such adjustments are of a normal recurring nature. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2022 and notes thereto and other pertinent information contained in our Form 10-K as filed with the SEC on February 24, 2023. The results of operations for the six months ended June 30, 2023, are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2023.

Basis of Consolidation

The accompanying unaudited consolidated financial statements as of June 30, 2023 include our accounts and those of our wholly-owned subsidiary, Data 443 Risk Mitigation, Inc., a North Carolina operating company. These unaudited consolidated financial statements have been prepared on the accrual basis of accounting in accordance with US GAAP. All inter company balances and transactions have been eliminated in consolidation.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current period presentation. These reclassifications had no impact on the net earnings (loss) or and financial position.

Accounts Receivable

Trade receivables are generally recorded at the invoice amount mostly for a one-year period, net of an allowance for bad debt. For the three months ended June 30, 2023, and June 30, 2022, we recorded bad debt expense of \$0 and \$0, respectively

Stock-Based Compensation

Employees – We account for stock-based compensation under the fair value method which requires all such compensation to employees, including the grant of employee stock options, to be calculated based on its fair value at the measurement date (generally the grant date), and recognized in the consolidated statement of operations over the requisite service period.

Nonemployees - Under the requirements of the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2018-07, Compensation-Stock Compensation (Topic 718): Improvements to Nonemployee Stock-Based Payment Accounting (“ASU 2018-07”), we account for stock-based compensation to non-employees under the fair value method which requires all such compensation to be calculated based on the fair value at the measurement date (generally the grant date), and recognized in the statement of operations over the requisite service period.

We recorded approximately \$565,571 in stock-based compensation expense for the six months ended June 30, 2023, compared to \$798,690 in stock-based compensation expense for the six months ended June 30, 2022. Determining the appropriate fair value model and the related assumptions requires judgment. During the three months ended June 30, 2023, the fair value of each option grant was estimated using a Black-Scholes option-pricing model. The expected volatility represents the historical volatility of our publicly traded common stock. Due to limited historical data, we calculate the expected life based on the mid-point between the vesting date and the contractual term which is in accordance with the simplified method. The expected term for options granted to nonemployees is the contractual life. The risk-free interest rate is based on a treasury instrument whose term is consistent with the expected life of stock options. We have not paid and do not anticipate paying cash dividends on our shares of Common stock; therefore, the expected dividend yield is assumed to be zero.

Contingencies

We account for contingent liabilities in accordance with Accounting Standards Codification (“ASC”) Topic 450, *Contingencies*. This standard requires management to assess potential contingent liabilities that may exist as of the date of the financial statements to determine the probability and amount of loss that may have occurred, which inherently involves an exercise of judgment. If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in our financial statements. If the assessment indicates that a potential material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, and an estimate of the range of possible losses, if determinable and material, would be disclosed in our financial statements. For loss contingencies considered remote, we generally would neither accrue any estimated liability nor disclose the nature of the contingent liability in our financial statements. Management has assessed potential contingent liabilities as of June 30, 2023, and based on that assessment, there are no probable or possible loss contingencies requiring accrual or establishment of a reserve.

Basic and Diluted Net Loss Per Common Share

Basic earnings per share (“EPS”) is computed based on the weighted average number of shares of common stock outstanding during the period. Diluted EPS is computed based on the weighted average number of shares of common stock plus the effect of dilutive potential common shares outstanding during the period using the treasury stock method and as if converted method. Dilutive potential common shares include outstanding stock options, warrant and convertible notes.

For the six months ended June 30, 2023 and 2022, respectively, the following common stock equivalents were excluded from the computation of diluted net loss per share as the result of the computation was anti-dilutive:

	Six Months Ended June 30,	
	2023	2022
	(Shares)	(Shares)
Series A Preferred Stock	149,892,000	149,892,000
Stock options	2,838,067	1,029
Warrants	158,441	158,441
Total	<u>152,888,508</u>	<u>150,051,470</u>

Recently Adopted Accounting Guidance

In August 2020, the FASB issued ASU 2020-06, ASC Subtopic 470-20 “Debt—Debt with Conversion and Other Options” and ASC subtopic 815-40 “Hedging—Contracts in Entity’s Own Equity” (“Standard”). The Standard reduced the number of accounting models available for convertible debt instruments and convertible preferred stock. Pursuant to the Standard, convertible debt instruments that continue to be subject to separation models are (1) those with embedded conversion features that are not clearly and closely related to the host contract, that meet the definition of a derivative, and that do not qualify for a scope exception from derivative accounting; and (2) convertible debt instruments issued with substantial premiums for which the premiums are recorded as paid in capital. The Standard is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Due to adoption of this Standard on January 1, 2022, we recognized a cumulative effect adjustment to increase the opening retained earnings as of January 1, 2022 by \$439,857.

To compute the transition adjustment for a convertible instrument under both the modified retrospective and full retrospective methods, entities need to recompute the basis of that instrument at transition (i.e., the beginning of year of adoption for the modified retrospective method or the beginning of earliest year presented for the full retrospective method) as if the conversion option had not been separated. The Company use the modified retrospective method to adjust.

Recently Issued Accounting Pronouncements

The Company has considered all other recently issued accounting pronouncements and does not believe the adoption of such pronouncements will have a material impact on its consolidated financial statements.

NOTE 2: LIQUIDITY AND GOING CONCERN

The accompanying financial statements have been prepared assuming that we will continue as a going concern. As reflected in the financial statements, we have incurred significant current period losses of \$648,353 for the six months ended June 30, 2023 and we have negative working capital of \$10,008,138 and an accumulated deficit \$52,060,481 as of June 30, 2023. We have relied upon loans and issuances of our equity to fund our operations. These conditions, among others, raise substantial doubt about our ability to continue as a going concern. Management’s plans regarding these matters, include raising additional debt or equity financing, the terms of which might not be acceptable. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTE 3: PROPERTY AND EQUIPMENT

The following table summarizes the components of our property and equipment as of the dates presented:

	June 30, 2023	December 31, 2022
Furniture and Fixtures	\$ 6,103	\$ 6,103
Computer Equipment	1,035,097	867,670
	<u>1,041,200</u>	<u>873,773</u>
Accumulated depreciation	(537,958)	(446,742)
Property and equipment, net of accumulated depreciation	<u>\$ 503,242</u>	<u>\$ 427,031</u>

Depreciation expense for the six months ended June 30, 2023 and 2022, was \$91,216 and \$80,170, respectively.

During the six months ended June 30, 2023 and 2022, we purchased property and equipment of \$167,427 and \$96,960, respectively.

NOTE 4: INTELLECTUAL PROPERTY

The following table summarizes the components of our intellectual property as of the dates presented:

	June 30, 2023	December 31, 2022
Intellectual property:		
WordPress® GDPR rights	\$ 46,800	\$ 46,800
ARALOC®	1,850,000	1,850,000
ArcMail®	1,445,000	1,445,000
DataExpress®	1,388,051	1,388,051
FileFacets®	135,000	135,000
IntellyWPTM	60,000	60,000
Resilient Network Systems	305,000	305,000
	<u>5,229,851</u>	<u>5,229,851</u>
Accumulated amortization	(5,024,854)	(4,775,520)
Intellectual property, net of accumulated amortization	<u>\$ 204,997</u>	<u>\$ 454,331</u>

We recognized amortization expense of \$249,334 and \$460,544 for the six months ended June 30, 2023, and 2022, respectively.

Based on the carrying value of definite-lived intangible assets as of June 30, 2023, we estimate our amortization expense for the next five years will be as follows:

	Amortization Expense
Year ended December 31,	
2023 (excluding the six months ended June 30, 2023)	\$ 162,247
2024	27,000
2025	15,750
Thereafter	-
	<u>\$ 204,997</u>

NOTE 5: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The following table summarizes the components of our accounts payable and accrued liabilities as of the dates presented:

	June 30, 2023	December 31, 2022
Accounts payable	\$ 1,370,015	\$ 427,553
Credit cards	72,374	50,302
Accrued liabilities	778,611	554,076
	<u>\$ 2,221,000</u>	<u>\$ 1,031,931</u>

NOTE 6: DEFERRED REVENUE

For the six months ended June 30, 2023 and as of December 31, 2022, changes in deferred revenue were as follows:

	June 30, 2023	December 31, 2022
Balance, beginning of period	\$ 2,493,151	\$ 1,608,596
Deferral of revenue	1,186,955	3,511,678
Recognition of deferred revenue	(1,350,486)	(2,627,123)
Balance, end of period	<u>\$ 2,329,620</u>	<u>\$ 2,493,151</u>

As of June 30, 2023 and December 31, 2022, deferred revenue is classified as follows:

June 30,	December 31,
----------	--------------

	2023	2022
Current	\$ 1,814,620	\$ 1,704,249
Non-current	515,000	788,902
	<u>\$ 2,329,620</u>	<u>\$ 2,493,151</u>

NOTE 7: LEASESOperating lease

We have two noncancelable operating leases for office facilities, one that we entered into January 2019 and that expires January 10, 2024 and another that we entered into in April 2022 and that expires April 30, 2024. Each operating lease has a renewal option and a rent escalation clause. In the summer of 2022, we relocated to the expanded square footage of the premises that are the subject of the April 2022 lease to support our growing operations, and entered into a commission agreement with the landlord of the building to sublet the premises that are the subject of the January 2019 lease.

We recognized total lease expense of approximately \$146,994 and \$83,339 for the six months ended June 30, 2023 and 2022, respectively, primarily related to operating lease costs paid to lessors from operating cash flows. As of June 30, 2023 and December 31, 2022, we recorded a security deposit of \$33,467.

At June 30, 2023, future minimum lease payments under operating leases that have initial noncancelable lease terms in excess of one year were as follows:

	Total
Year Ended December 31,	
2023 (excluding the six months ended June 30, 2023)	242,379
2024	121,406
Thereafter	-
	<u>363,785</u>
Less: Imputed interest	(24,967)
Operating lease liabilities	<u>338,818</u>
Operating lease liability - current	338,818
Operating lease liability - non-current	<u>\$ -</u>

The following summarizes other supplemental information about our operating leases as of June 30, 2023:

Weighted average discount rate	8%
Weighted average remaining lease term (years)	.70

Financing leases

We do not have any financing leases as June 30, 2023 and \$10,341 as of December 31, 2022.

NOTE 8: CONVERTIBLE NOTES PAYABLE

Convertible notes payable consists of the following:

	June 30, 2023	December 31, 2022
Convertible Notes - Issued in fiscal year 2020	97,946	97,946
Convertible Notes - Issued in fiscal year 2021	414,690	600,400
Convertible Notes - Issued in fiscal year 2022	1,891,083	3,710,440
Convertible Notes - Issued in fiscal year 2023	534,454	-
	<u>2,938,173</u>	<u>4,408,786</u>
Less debt discount and debt issuance cost	(119,056)	(176,685)
	<u>2,819,117</u>	<u>4,232,101</u>
Less current portion of convertible notes payable	2,721,171	4,134,155
Long-term convertible notes payable	<u>\$ 97,946</u>	<u>\$ 97,946</u>

During the six months ended June 30, 2023 and the year ended December 31, 2022, we recognized interest expense of \$3,964,556 and \$374,938, respectively, and amortization of debt discount expense of \$145,837 and \$636,010, respectively. During the six months ended June 30, 2022 we recognized interest expense of \$346,348 and amortization of debt discount, included in interest expense of \$625,783.

Conversion

During the six months ended June 30, 2023, we converted notes with principal amounts and accrued interest of \$332,592 into 10,807,823 shares of common stock.

Convertible notes payable consists of the following:

Promissory Notes - Issued in fiscal year 2020

In 2020, we issued convertible promissory notes with principal amounts totaling \$100,000. The 2020 Promissory Notes have the following key provisions:

- Terms 60 months.
- Annual interest rates of 5%.
- Conversion price fixed at \$0.01.

Promissory Notes - Issued in fiscal year 2021

In 2021, we issued convertible promissory notes with principal amounts totaling \$1,696,999, which resulted in cash proceeds of \$1,482,000 after financing fees of \$214,999 were deducted. The 2021 Convertible Notes have the following key provisions:

- Terms ranging from 90 days to 12 months.
- Annual interest rates of 5% to 12%.
- Convertible at the option of the holders after varying dates.
- Conversion price based on a formula corresponding to a discount (39% discount) off the average closing price or lowest trading price of our Common stock for the 20 prior trading days including the day on which a notice of conversion is received.
- The Mast Hill Fund, LLC convertible promissory note matured on October 19, 2022. The default annual interest rate of 16% becomes the effective interest rate on the past due principal and interest. As of June 30, 2023 the note had a principle balance of \$414,690 and accrued interest of \$39,822. The note is currently in default.

The 2021 Convertible Notes also were associated with the following:

- The issuance of 1,414 shares of Common stock valued at \$133,663.
- The issuance of 117,992 warrants to purchase shares of Common stock with an exercise price a range from \$7.44 to 36.00. The term in which the warrants can be exercised is 5 years from issue date. (Note 12)

During the six months ended June 30, 2023, in connection with the 2021 Convertible Notes, we repaid principal in the amount of \$38,490 and interest expense of \$39,822.

Promissory Notes - Issued in fiscal year 2022

During the year ended December 31, 2022, we issued convertible promissory notes with principal amounts totaling \$2,120,575, which resulted in cash proceeds of \$1,857,800 after deducting a financing fee of \$262,775. The 2022 Convertible Notes have the following key provisions:

- Terms ranging from 3 to 12 months.
- Annual interest rates of 9% to 20%.
- Convertible at the option of the holders after varying dates.
- Conversion price based on a formula corresponding to a discount (20% or 39% discount) off the lowest trading price of our Common stock for the 20 prior trading days including the day on which a notice of conversion is received, although one of the 2022 Convertible Notes establishes a fixed conversion price of \$4.50 per share.
- 554,464 shares of common stock valued at \$473,691 issued in conjunction with convertible notes.

- On June 30, 2023, the Company entered into a Note Exchange Agreement (the “Note Exchange Agreement”) with Westland Properties LLC (the “Noteholder”), pursuant to which the Company agreed with Westland Properties LLC to exchange one outstanding note with a total outstanding balance of \$5,398,299 for a new note with an aggregate value of \$665,000 (the “New Note”). The New Note matures on June 1, 2024, and calls for payments of (i) \$115,000 on or prior to July 25, 2023, (ii) nine monthly payments to the noteholder in the amount of \$38,889 each, with the first payment beginning September 1, 2023 and (iii) \$200,000 on the earlier of (a) three business days following the Company’s successful listing on any of the NYSE American, the Nasdaq Capital Market, the Nasdaq Global Market, the Nasdaq Global Select Market or the New York Stock Exchange or (b) the receipt of not less than \$4,000,000 in funding from a single transaction. If the conditions for payment of the above \$200,000 are not met, but the Company raises capital in excess of \$500,000 in a single closing, then 25% of any capital raised in such closing shall be used to satisfy the \$200,000 payment. The Company followed ASC470 Trouble Debt Restructuring, to record a gain on settlement of debt for \$4,904,081.

In connection with the adoption of ASU 2020-06 on January 1, 2022, we reclassified \$517,500, previously allocated to the conversion feature, from additional paid-in capital to convertible notes on our balance sheet. The reclassification was recorded to combine the two legacy units of account into a single instrument classified as a liability. As of January 1, 2022, we also recognized a cumulative effect adjustment of \$439,857 to accumulated deficit on our balance sheet, that was primarily driven by the derecognition of interest expense related to the accretion of the debt discount as required under the legacy accounting guidance. Under ASU 2020-06, we will no longer incur non-cash interest expense related to the accretion of the debt discount associated with the embedded conversion option.

Promissory Notes - Issued in fiscal year 2023

During the six months ended June 30, 2023, we issued convertible promissory notes with principal amounts totaling \$637,858, which resulted in cash proceeds of \$520,000 after deducting a financing fee of \$117,858. The 2023 Convertible Notes have the following key provisions:

- Terms ranging from 9 to 12 months.
- Annual interest rates of 9% to 20%.
- Convertible at the option of the holders after varying dates.
- Conversion price based on a formula corresponding to a discount (20% or 30% discount) off the lowest trading price of our Common stock for the 20 prior trading days including the day on which a notice of conversion is received, although one of the 2023 Convertible Notes establishes a fixed conversion price of \$.50 per share.
- As of the six months ended June 30, 2023, there were no derivative liabilities.

NOTE 9: DERIVATIVE LIABILITIES

We analyzed the conversion option of convertible notes for derivative accounting consideration under ASC 815, Derivatives and Hedging, and hedging, and determined that the instrument should be classified as a liability since the conversion option becomes effective at issuance resulting in there being no explicit limit to the number of shares to be delivered upon settlement of the above conversion options.

ASC 815 requires we assess the fair market value of derivative liability at the end of each reporting period and recognize any change in the fair market value as other income or expense item.

We determined our derivative liabilities to be a Level 3 fair value measurement during the year based on management's estimate of the expected future cash flows required to settle the liabilities, and used the Binomial pricing model to calculate the fair value as of June 30, 2023. The Binomial model requires six basic data inputs: the exercise or strike price, time to expiration, the risk-free interest rate, the current stock price, the estimated volatility of the stock price in the future, and the dividend rate. Changes to these inputs could produce a significantly higher or lower fair value measurement. The fair value of each convertible note and warrant is estimated using the Binomial valuation model. As of the six months ended June 30, 2023, there were no derivative liabilities.

For the six months ended June 30, 2023 there was no derivative outstanding, and no loss recorded. For the six months ended June 30, 2022, the change in fair value of the derivative liability was \$57,883 and the loss on the derivative was \$57,883.

The fair value of the derivative liability for all the notes that became convertible, including the notes issued in prior years, during the year ended December 31, 2022 amounted to \$57,883 recognized as a derivative loss.

The inputs used to calculate the derivative values are as follows:

	Six months ended June 30, 2023	Year ended December 31, 2022
Expected term	-	-*
Expected average volatility	-%	280%
Expected dividend yield	-	-
Risk-free interest rate	-%	3.65%

* There is no excepted term on the convertible notes.

NOTE 10: NOTES PAYABLE

Notes payable consists of the following:

	June 30, 2023	December 31, 2022	Maturity	Interest Rate
Economic Injury Disaster Loan - originated in May 2020 ^(1, 2)	\$ 500,000	\$ 500,000	30 years	3.75%
Promissory note - originated in September 2020	7,568	20,182	\$2,873.89 monthly payment for 36 months	14.0%
Promissory note - originated in December 2020	7,551	16,047	\$1,854.41 monthly payment for 36 months	8.0%
Promissory note - originated in January 2021	11,268	22,243	\$2,675.89 monthly payment for 36 months	18.0%
Promissory note - originated in February 2021 ⁽³⁾	1,305,373	1,305,373	5 years	4.0%
Promissory note - originated in April 2021 ⁽⁴⁾	866,666	866,666	1 year	12%
Promissory note - originated in July 2021 ⁽⁴⁾	352,500	352,500	1 year	12%
Promissory note - originated in September 2021	37,712	43,667	\$1,383.56 monthly payment for 60 months	28%
Promissory note - originated in April 2022	64,680	73,204	\$1,695.41 monthly payment for 36 months	16.0%
Promissory note - originated in April 2022	64,053	239,858	\$7,250 daily payment for 168 days	25%
Promissory note – originated in June 2022	-	149,011	\$20,995 weekly payment for 30 weeks	49%
Promissory note - originated in July 2022	48,569	54,557	\$1,485.38 monthly payment for 60 months	18%
Promissory note - originated in July 2022	76,514	94,878	\$3,546.87 monthly payment for 36 months	10%
Promissory note - originated in August 2022	22,710	26,538	\$589.92 monthly payment for 60 months	8%
Promissory note - originated in October 2022	1,193,612	635,745	\$1,749.00 daily payment for 30 days	66%
Promissory note - originated in January 2023	5,160	-	\$237.03 monthly payment for 36 months	25%
Promissory note - originated in March 2023	53,519	-	\$1,521.73 monthly payment for 60 months	18%
Promissory note - originated in March 2023	13,495	-	\$559.25 monthly payment for 36 months	17%
Promissory note - originated in April 2023	31,672	-	\$3,999.00 monthly payment for 12 months	12%
Promissory note - originated in April 2023	40,400	-	\$3,918.03 monthly payment for 12 months	6%
Promissory note - originated in May 2023	250,000	-	3 months	29%
	<u>4,953,022</u>	<u>4,400,469</u>		
Less debt discount and debt issuance cost	<u>(1,079,509)</u>	<u>(377,111)</u>		
	3,873,513	4,023,358		
Less current portion of promissory notes payable	<u>2,267,658</u>	<u>918,785</u>		
Long-term promissory notes payable	<u>\$ 1,605,855</u>	<u>\$ 3,104,573</u>		

During the six months ended June 30, 2023 and 2022, we recognized interest expense of \$630,192 and \$113,693, and amortization of debt discount, of \$479,946 and \$625,621, respectively, included in interest expense.

During the six months ended June 30, 2023 and 2022, we issued promissory notes for a total of \$1,599,772 and \$1,840,518, less discount of \$1,182,344 and \$654,065, and repaid \$1,047,218 and \$1,957,492, respectively.

NOTE 11: COMMITMENTS AND CONTINGENCIES***DMB Note Collection Action***

On June 17, 2021, DMB Group, LLC (“DMB”) filed a lawsuit against our wholly-owned subsidiary, the North Carolina operating company Data443 Risk Mitigation, Inc., (the “Subsidiary”) in County Court in Denton County, Texas, naming the Subsidiary as defendant. The matter was settled September 2021 by mutual agreement of the involved parties. The Subsidiary has made all payments required pursuant to the settlement and the matter is now considered closed. The Court granted our motions for nonsuit and dismissal with prejudice on orders entered May 4 and May 5, 2022 respectively.

Employment Related Claims

We view most legal proceedings involving claims of former employees as routine litigation incidental to the business, and therefore not material.

Litigation

In the ordinary course of business, we are involved in a number of lawsuits incidental to our business, including litigation related to intellectual property, employees, and commercial matters. Although it is difficult to predict the ultimate outcome of these cases, management believes that any ultimate liability would not have a material adverse effect on our consolidated financial condition or results of operations. However, an unforeseen unfavorable development in any of these cases could have a material adverse effect on our consolidated financial condition, results of operations, or cash flows in the period in which it is recorded.

NOTE 12: CAPITAL STOCK AND REVERSE STOCK SPLIT**Preferred Stock**

As of June 30, 2023, we are authorized to issue 337,500 shares of preferred stock with a par value of \$0.001, of which 150,000 shares have been designated as Series A, and 80,000 shares have been designated as Series B.

Series A Preferred Stock

As of June 30, 2023, we are authorized to issue 150,000 of Series A Preferred stock with par value of \$0.001. Each share of Series A was (i) convertible into 1,000 shares of common stock, and (ii) entitled to vote 15,000 shares of common stock on all matters submitted to a vote by shareholders voting common stock. All issued and outstanding shares of Series A Preferred Stock are held by our Chief Executive Officer.

As of June 30, 2023 and December 31, 2022, 149,892 shares of Series A were issued and outstanding, respectively.

Series B Preferred Stock

As of June 30, 2023, we are authorized to issue 80,000 of Series A Preferred stock with par value of \$10.00. Each share of Series B (i) is convertible into Common stock at a price per share equal to sixty one percent (61%) of the lowest price for our Common stock during the twenty (20) days of trading preceding the date of the conversion; (ii) earns dividends at the rate of nine percent (9%) per annum; and, (iii) has no voting rights.

As of June 30, 2023 and December 31, 2022, 0 and 0 shares of Series B were issued and outstanding, respectively.

Common stock

As of June 30, 2023, we are authorized to issue 500,000,000 shares of Common stock with a par value of \$0.001. All shares have equal voting rights, are non-assessable, and have one vote per share.

During the six months ended June 30, 2023, we issued Common stock as follows:

- 10,807,823 shares issued for conversion of debt;
- 45,619,000 shares issued for adjustment to PPM investors;
- 321,428 shares issued for stock-based compensation.

As of June 30, 2023 and December 31, 2022, 59,363,988 and 2,615,737 shares of Common stock were issued and outstanding, respectively.

Warrants

A summary of activity during the six months ended June 30, 2023 follows:

	Warrants Outstanding	
	Shares	Weighted Average Exercise Price
Outstanding, December 31, 2022	159,974	\$ 22.07
Granted	-	-
Exercised	-	-
Forfeited/canceled	-	-
Outstanding, June 30, 2023	159,974	\$ 22.07

During the six months ended June 30, 2023, 0 warrants were exercised and we issued 0 shares of Common stock as a result.

The following table summarizes information relating to outstanding and exercisable warrants as of June 30, 2023:

Number of Shares	Exercisable Warrants Outstanding	
	Weighted Average Remaining Contractual life (in years)	Weighted Average Exercise Price
6,250	2.45	\$ 160.00
6,934	2.81	\$ 120.00
15,666	3.07	\$ 36.00
2,917	3.25	\$ 36.00
32,837	3.04	\$ 9.88
74,671	3.50	\$ 7.44
20,699	3.86	\$ 6.00
159,974	3.33	\$ 22.07

NOTE 13: STOCK-BASED COMPENSATION

Stock Options

During the six months ended June 30, 2023, we granted options for the purchase of our Common stock to certain employees as consideration for services rendered. The terms of the stock option grants are determined by our Board of Directors consistent our 2019 Omnibus Stock Incentive Plan which the Board adopted May 16, 2019. Our stock options generally vest upon the one-year anniversary date of the grant and have a maximum term of ten years.

The following summarizes the stock option activity for the six months ended June 30, 2023:

	Options Outstanding	Weighted-Average Exercise Price
Balance as of December 31, 2022	865,983	\$ 1.67
Grants	1,972,728	.07
Exercised	-	-
Cancelled	644	67.40
Balance as of June 30, 2023	2,838,067	\$.57

The following summarizes certain information about stock options vested and expected to vest as of June 30, 2023:

	Number of Options	Weighted-Average Remaining Contractual Life (In Years)	Weighted- Average Exercise Price
Outstanding	2,838,067	9.07	\$.78
Exercisable	477,112	8.29	\$ 3.14
Expected to vest	2,838,067	9.07	\$.78

As of June 30, 2023 and December 31, 2022, there was \$226,716 and \$381,547, respectively, of total compensation costs related to non-vested stock-based compensation arrangements which we expect to recognized within the next 12 months.

Restricted Stock Awards

The following summarizes the restricted stock activity for the six months ended June 30, 2023:

	Shares	Weighted-Average Fair Value
Balance as of December 31, 2022	322,798	\$ 225,639
Shares of restricted stock granted	2,550,000	180,000
Exercised	-	-
Cancelled	-	-
Balance as of June 30, 2023	<u>2,872,798</u>	<u>\$ 405,639</u>

Number of Restricted Stock Awards	June 30, 2023	December 31, 2022
Vested	322,798	1,370
Non-vested	2,550,000	321,428

NOTE 14: RELATED PARTY TRANSACTIONS

Jason Remillard is our president and Chief Executive Officer and the sole director. Through his ownership of Series A Preferred Shares, Mr. Remillard has voting control over all matters to be submitted to a vote of our shareholders. Greg McCraw is our Chief Financial Officer own shares of the Company.

During the six months ended June 30, 2023, the Company borrowed \$19,700 from our CEO and \$150,000 from our CFO. Our CEO paid operating expenses of \$68,942 on behalf of the Company and the Company repaid \$21,000 to our CEO.

As of June 30, 2023 and December 31, 2022, we had due to related party transactions in the amounts of \$320,486 and \$112,062, respectively.

NOTE 15: SUBSEQUENT EVENTS

The Company does not have any events subsequent to June 30, 2023 through August 14, 2023, the date the financial statements were issued for disclosure consideration, except for the following:

- On July 7, 2023, we issued 2,049,180 shares of Common Stock to Root Ventures, LLC pursuant to an agreement with Root Ventures, LLC, in exchange for \$25,000 in note payable principal.
- On July 6, 2023, we received funds as result of entering into a securities purchase agreement (“Purchase Agreement #1”) with an accredited investor as purchaser (“Investor #1”). Pursuant to Purchase Agreement #1, the Company sold, and Investor #1 purchased, \$812,500.00 in principal amount of secured convertible notes (the “Investor #1 Notes”) and pre-funded warrants (the “Investor #1 Warrants”). The Investor #1 Notes are convertible into shares of the Company’s common stock, par value \$0.01 per share (“Common Stock”), at a conversion price per share of \$0.005, subject to adjustment under certain circumstances described in the Investor #1 Notes. The Investor #1 Notes were issued with an original issue discount of 30.00%, do not bear interest, and mature twelve months from the date of issuance.
- On July 24, 2023, we received funds as result of entering into a second securities purchase agreement (“Purchase Agreement #2”) and, together with Purchase Agreement #1, the “Purchase Agreements”) with an accredited investor as purchaser (“Investor #2”) and, together with Investor #1, the “Investors”). Pursuant to Purchase Agreement #2, the Company sold, and Investor #2 purchased, \$718,750.00 in principal amount of secured convertible notes (the “Investor #2 Notes”) and, together with the Investor #1 Notes, the “Notes”) and pre-funded warrants (the “Investor #2 Warrants”) and, together with the Investor #1 Warrants, the “Warrants”). The Investor #2 Notes are convertible into Common Stock, at a conversion price per share of \$0.005, subject to adjustment under certain circumstances described in the Notes. The Notes were issued with an original issue discount of 15.00%, bear interest at a rate of 12%, and mature twelve months from the date of issuance.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of the results of operations and financial condition for the six months ended June 30, 2023 and for the year ended December 31, 2022 should be read in conjunction with our consolidated financial statements, and the notes to those financial statements that are included elsewhere in this quarterly report on Form 10-Q for the quarter ended June 30, 2023 (the "Quarterly Report").

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report includes statements that express our opinions, expectations, beliefs, plans, objectives, assumptions, or projections regarding future events or future results and therefore are, or may be deemed to be, "forward-looking statements." All statements other than statements of historical facts contained in this Quarterly Report may be forward-looking statements. These forward-looking statements can generally be identified by the use of forward-looking terminology, including the terms "believes," "estimates," "continues," "anticipates," "expects," "seeks," "projects," "intends," "plans," "may," "will," "would" or "should" or, in each case, their negative or other variations or comparable terminology. They appear in a number of places throughout this Quarterly Report, and include statements regarding our intentions, beliefs, or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies, future acquisitions, and the industry in which we operate.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We believe that these risks and uncertainties include, but are not limited to, those described in the "Risk Factors" section of this Quarterly Report, which include, but are not limited to, the following:

- *we will need significant additional capital to fund our operations;*
- *there is substantial doubt about our ability to continue as a going concern;*
- *we will face intense competition in our market, and we may lack sufficient financial and other resources to maintain and improve our competitive position;*
- *we are dependent on the continued services and performance of our founder and Chief Executive Officer, Jason Remillard;*
- *our common stock is currently quoted on the OTC Pink and is thinly traded, reducing your ability to liquidate your investment in us;*
- *we have had a history of losses and may incur future losses, which may prevent us from attaining profitability;*
- *the market price of our common stock may be volatile and may fluctuate in a way that is disproportionate to our operating performance;*
- *we have shares of preferred stock that have special rights that could limit our ability to undertake corporate transactions, inhibit potential changes of control, and reduce the proceeds available to our common stockholders in the event of a change in control;*
- *we have never paid and do not intend to pay cash dividends;*
- *our Chief Executive Officer has the ability to control all matters submitted to stockholders for approval, which limits our stockholders' ability to influence corporate affairs; and*
- *the other factors described in "Risk Factors."*

Those factors should not be construed as exhaustive and should be read with the other cautionary statements in this quarterly report.

Although we have based these forward-looking statements on assumptions that we believe are reasonable when made, we caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, and industry developments may differ materially from statements made in or suggested by the forward-looking statements contained in this Quarterly Report. The matters summarized under “Overview”, “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Business” and elsewhere in this Quarterly Report could cause our actual results to differ significantly from those contained in our forward-looking statements. In addition, even if our results of operations, financial condition and liquidity, and industry developments are consistent with the forward-looking statements contained in this Quarterly Report, those results or developments may not be indicative of results or developments in subsequent periods.

In light of these risks and uncertainties, we caution you not to place undue reliance on these forward-looking statements. Any forward-looking statement that we make in this Quarterly Report speaks only as of the date of such statement, and we undertake no obligation to update any forward-looking statement or to publicly announce the results of any revision to any of those statements to reflect future events or developments, except as required by applicable law. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless specifically expressed as such, and should only be viewed as historical data.

Overview

We provide data security and privacy management solutions across the enterprise and in the cloud. With over 10,000 customers, we provide the visibility and control needed to protect data at scale, regardless of format, location, or consumer, and to facilitate compliance with fast-changing global data privacy requirements. Our customers include established leaders and up-and-coming businesses spanning the private and public/government sectors across diverse industries and fields, including financial services, healthcare, manufacturing, retail, technology, and telecommunications.

The mounting ransomware landscape as well as other threats to data have accelerated the rate at which businesses are adopting data security solutions and we believe that our portfolio of data security and privacy products provides an encompassing solution set such that we are well positioned to capitalize on that increased adoption rate and establish our products as new data privacy and security standards. Our offerings are anchored in reliable and comprehensive privacy management and equip organizations with a seamless approach to safeguard data, protect against attacks, and otherwise mitigate the most critical risks.

Sector-specific US laws, state-level legislation, and outside-the-United States (OUS) regulations are confounding enterprises of all sizes for whom safeguarding and stewarding data is key, but for whom becoming specialists in privacy and security is not an element of their strategic roadmap. For many of these enterprises, we can bridge the gap between their need to protect data and their need to use their resources to grow their core business by offering turnkey solutions and related counseling and technical support to offset risks from data breaches and security incidents of various types. We provide products and services for the marketplace that are designed to protect data that is stored in the cloud, on-premises, and in hybrid cloud/on-premises environments, and data that is transmitted throughout the enterprise, including but not limited to by remote employees. Our suite of security products focuses on protecting sensitive files and email, confidential customer, patient and employee data, financial records, strategic and product plans, intellectual property and other proprietary information, allowing our customers to create, share, and protect their sensitive data wherever it is stored and however it is used.

We deliver solutions and capabilities that businesses can use in conjunction with their use of established cloud vendors such as Microsoft® Azure, Google® Cloud Platform (GCP), and Amazon® Web Services (AWS), as well as with on-premises databases and database applications and with virtualization platforms, such as those hosted or configured using VMWare®, Citrix®, and Oracle® products.

We sell or plan to sell substantially all of our products and services through a sales model that combines the leverage of a channel sales model or direct account management, thereby providing us with opportunities to grow our current customer base and deliver our value proposition for data privacy and security. We endeavor to use subscription models to license products and services, commonly for a paid in-advance, multiyear term that is auto-renewing. We also make use of channel partners, distributors, and resellers which sell to end-users of the products and services. This approach allows us to maintain close relationships with our customers and benefit from the global reach of our partners. Additionally, we are enhancing our product offerings and go-to-market strategy by establishing technology alliances within the IT infrastructure and security vendor ecosystem. Our sales and marketing focus for new organic growth is on organizations with 500 or more users who are adopting cloud services and can make larger purchases with us over time and have a greater potential lifetime value.

We continue to onboard to cloud-native technology adoption portals such as the Microsoft® Azure Marketplace and the Amazon® AWS Marketplace. Vendors may offer incentives to us as a software and services provider to onboard and market via their marketplace portals.

We strive to create new and innovative products and to improve existing products, proactively identifying and solving the data security needs of our customers.

As cloud adoption continues to accelerate, data privacy requirements get more complex, and data security becomes more challenging, we believe we are well positioned to capture more market share, continue to lead in strategic data security technology development, and prepare organizations for the next epoch in IT data privacy services.

Our Products

Each of our major product lines provides features and functionality which we believe enable our customers to optimally secure their data. The products are modular, giving our customers the flexibility to select what they require for their business needs and the flexibility to expand their usage simply by adding a license. We currently offer the following products and services:

- **Data443® Ransomware Recovery Manager** (also known as SmartShield™), a unique offering designed to recover a workstation immediately upon infection to the last known business-operable state, without requiring any end user or IT administrator intervention.
- **Data443® Data Identification Manager** (also known as ClassiDocs® and FileFacets®), our data classification and governance technology, which supports CCPA (California), LGPD (Brazil) and GDPR (Europe) compliance in a Software-as-a-Service (SaaS) platform that performs sophisticated data discovery and content searching of structured and unstructured data within corporate networks, servers, content management systems, email, desktops, and laptops.
- **Data443® Data Archive Manager** (also known as ArcMail®), a simple, secure, and cost-effective enterprise data retention management and archiving.
- **Data443® Sensitive Content Manager** (also known as ARALOC®), a secure, cloud-based platform for managing, protecting and distributing digital content to desktop and mobile devices, which protects an organization's confidential content and intellectual property assets from accidental leakage or intentional misappropriation - without impeding all other authorized users of the content and other stakeholder from collaborating.
- **Data443® Data Placement Manager** (also known as DATAEXPRESS®), a data transport, transformation, and delivery product trusted by leading financial organizations worldwide.

- **Data443® Access Control Manager** (also known as “Resilient Access”), enables fine-grained access controls across a wide variety of platforms at scale for internal client systems and commercial public cloud platforms like Salesforce®, Box.Net, Google® G Suite, Microsoft® OneDrive, and others.
- **Data443® Blockchain Protection Manager** (also known as ClassiDocs® for Blockchain), provides an active implementation for the Ripple XRP that protects blockchain transactions from inadvertent disclosure and data leaks.
- **Data443® Global Privacy Manager**, the privacy compliance and consumer loss mitigation platform which is integrated with Data443® Data Identification Manager to do the delivery portions of GDPR and CCPA as well as process privacy-related requests under such laws, and therefore enables customers to manage the full range of privacy-law driven requirements, such as responding to permitted consumer demands for access or removal, as well as to remediate issues and monitor and report on status and compliance.
- **Data443® IntellyWP**, products for enhancing the user experience for the world’s largest content management platform, WordPress.
- **Data443® Chat History Scanner**, which scans chat messages for compliance, security, personally identifiable information (PII), personal information (PI), payment card industry (PCI) information as well as any custom keywords selected by the customer, and which can be used with third party platforms such as the Zoom Video Communications, Inc. video conferencing platform.
- **Data443® - GDPR Framework, CCPA Framework, and LGPD Framework WordPress® Plugins**, which help organizations of all sizes comply with Europe, California and Brazil privacy rules and regulations and are currently used by over 30,000 active site owners. We offer the plugins with a “freemium” business model, i.e., basic features at no cost and additional or more advanced features at a premium.

Outlook

Our objective is to further integrate our suite of data security, ransomware protection, and privacy products and offer the products alone or in combination to enterprise customers directly and via our partner channels. We aim to position our products to meet the challenges our customers face - data privacy concerns grow in lockstep with security breaches, the need to continually expand data storage, and to meet telework, telehealth, and remote learning requirements.

We have relied on and expect to continue to benefit from strategic acquisitions of products, talent, and an established customer base to contribute to our long-term growth objectives.

Key elements of our growth strategy may be summarized as follows:

Acquisitions. We intend to aggressively pursue acquisitions of other cybersecurity software and service providers focused on the data security sector. We target companies with a developed and/or steady client base, as well as companies with offerings that complement our existing suite of products.

Research & Development; Innovation. We intend to increase our spending on research and development to create new and innovative products and to improve existing products, proactively identifying and solving the data security needs of our clients.

Grow Our Customer Base. We believe the continued challenges businesses face in managing their enterprise data and the ever-evolving landscape of cybersecurity threats will keep the demand high for the type of products and services we offer. We intend to capitalize on this demand by continually developing and curating a collection of products and services that are attractive and relevant to both our established revenue base and to new customers.

Expand Our Sales Capacity. We believe that continuing to expand our sales force will be essential to achieving our expansion and growth. We intend to expand our sales capacity by adding sales and marketing employees, with heavy focus on customer success and leveraging our existing customer relationships.

Management's Plans

Our plan is to continue to grow our business through strategic acquisitions, and then expand selling across our subsidiaries and affiliated companies. During the next twelve months, we anticipate incurring costs related to (i) filing of Exchange Act reports; and (ii) operating our businesses. We will require additional operating capital to maintain and continue operations. We will need to raise additional capital through debt or equity financing, and there is no assurance we will be able to raise the necessary capital.

While we primarily report income based on recognized and deferred revenue, another measurement internally for the business is booked revenues. Management uses this measure to track numerous indicators such as: contract value growth; initial contract value per customer; and certain other values that change quarter-over-quarter. These results may also be subject to, and impacted by, sales compensation plans, internal performance objectives, and other activities. We continue to increase revenue from our existing operations. We generally recognize revenue from customers ratably over the terms of their subscription, which is generally one year at a time. As a result, a substantial portion of the revenue we report in each period is attributable to the recognition of deferred revenue relating to agreements that we executed during previous periods. Consequently, any increase or decline in new sales or renewals in any one period will not be immediately reflected in our revenue for that period. Any such change, however, would affect our revenue in future periods. Accordingly, the effect of downturns or upturns in new sales and potential changes in our rate of renewals may not be fully reflected in our results of operations until future periods.

Recent Developments

On May 11, 2023, we entered into an agreement to purchase certain assets (the "Purchase Agreement") with the Appointed Receiver for the Assets of Cyren Ltd (the "Receiver"). Pursuant to the Purchase Agreement, the Receiver sold, transferred, assigned, conveyed and delivered to the Company, and we purchased from Receiver, all right, title, and interest in and to certain assets in the Purchase Agreement (the "Assets"). In exchange for the Assets, we will pay (i) \$500,000 payable in cash, (ii) shares of our common stock equivalent to \$2,000,000 and (iii) \$1,000,000 in the form of an earn out payment, as further described in the Purchase Agreement. As of the filing of this Quarterly Report, the transaction has not yet closed.

Results of Operations for the Three and Six Months Ended June 30, 2023 Compared to the Three and Six Months Ended June 30, 2022

Our operations for the three months ended June 30, 2023 and 2022 are outlined below:

	Three Months Ended		Change	
	June 30		\$	%
	2023	2022		
Revenue	\$ 619,040	\$ 750,989	\$ (131,949)	(18)%
Cost of revenue	244,881	78,593	166,288	212%
Gross Profit	374,159	672,396	(298,237)	(44)%
Gross Profit Percentage	60%	90%		
Operating expense	1,699,878	2,175,855	(475,977)	(22)%
Other income (expense)	1,415,259	(942,753)	2,358,012	250%
Net loss	\$ 89,540	\$ (2,446,212)	\$ 2,535,752	(104)%

Revenue

The decrease in revenue has partially resulted from some sales that were originally forecasted for the second quarter of 2023 being pulled forward to the first quarter of 2023. In addition, two of our larger customers opted for annual renewals instead of a multi-year, paid-up-front renewals.. We have restarted several of our lead generation and funnel movement activities throughout the second quarter of 2023. Our existing customers continue to evaluate our offerings for multiple products at a time, rather than singular use cases, which continues to build on organic growth from our customers that come from our acquisitions.

Cost of Revenue

Cost of revenue consists of direct expenses, such as labor, shipping, and supplies. The increase in cost of revenue in part is due to the rise in inflation for products and services. We also incurred additional software and contractor costs related to new business activities.

Operating Expenses

For the three months ended June 30, 2023 and 2022 our operating expenses were as follows:

	Three Months Ended		Change	
	June 30,			
	2023	2022	\$	%
General and administrative	\$ 1,635,499	\$ 2,116,220	\$ (480,721)	(23)%
Sales and marketing	64,379	59,635	4,744	8%
Total operating expenses	<u>\$ 1,699,878</u>	<u>\$ 2,175,855</u>	<u>\$ (475,977)</u>	<u>(22)%</u>

General and Administrative Expenses

The general and administrative expenses primarily consisted of management costs, costs to integrate assets we acquired and to expand sales, product enhancements, audit and review fees, filing fees, professional fees, and other expenses related to SEC reporting, including the re-classification of sales-related management expenses, in connection with the projected growth of our business. Additionally, we continue to incur specific one-time costs in relation to our planned Nasdaq Capital Markets uplist, additional financing activities and related functions. The decrease in general and administrative expense was primarily due to an increase cost cutting measures.

Sales and Marketing Expenses

The sales and marketing expenses primarily consisted of continuing to shift our sales operation toward an inbound model, continued high focus on renewals and customer success operations and previously reported expenses, which are, primarily management costs, reclassified to general and administrative expenses.

Other income (expense)

Other expenses for the three months ended June 30, 2023 consisted primarily of interest expense and an forgiveness of debt on note payable of \$4,904,081 and accrued interest of \$3,488,822. Other expenses for the June 30, 2022 consisted of interest expense and loss on change in fair value of derivative. The decrease in other expenses was primarily due to a decrease in interest expense.

Net Income

Net loss decreased 93% from \$2,446,212 for the three months ended June 30, 2022 to net income of \$89,540 for the three months ended June 30, 2023. The net income was mainly derived from an operating loss of \$1,325,719, and interest expense of \$3,488,822 and settlement of debt of \$4,904,081. The net loss for the three months ended June 30, 2022 was mainly derived from an operating loss of \$1,503,459, interest expense of \$671,862 and loss on change in fair value of derivative liability of \$178,398. The decrease in net loss was primarily due to the increase in recognized revenue and a decrease in interest expense and the forgiveness of debt.

Our operations for the six months ended June 30, 2023 and 2022 are outlined below:

	Six Months Ended		Change	
	June 30,			
	2023	2022	\$	%
Revenue	\$ 1,998,846	\$ 1,363,505	\$ 635,341	47%
Cost of revenue	453,863	278,272	175,591	63%
Gross Profit	<u>1,544,983</u>	<u>1,085,233</u>	<u>459,750</u>	<u>42%</u>
Gross Profit Percentage	77%	80%		
Operating expense	3,132,861	3,269,812	(136,951)	4%

Other income (expense)	939,525	(2,094,952)	3,034,477	145%
Net loss	<u>\$ (648,353)</u>	<u>\$ (4,279,531)</u>	<u>\$ 3,631,178</u>	<u>(85)%</u>

Revenue

Revenues increased 220% from \$1,363,505 for the six months ended June 30, 2022 to \$1,998,846 for the six months ended June 30, 2023. The increase in revenues was driven by existing customer organic growth customers, new customer acquisitions and our high renewal rate.

Cost of Revenue

Cost of revenue consists of direct expenses, such as sales commission, shipping, and supplies. The increase in cost of revenue was primarily due to an increase in one-time costs, including sales commissions for some larger deal closings and customer outreach.

Operating Expenses

For the six months ended June 30, 2023 and 2022 our operating expenses were as follows:

	Six Months Ended		Change	
	2023	2022	\$	%
General and administrative	\$ 3,036,308	\$ 3,089,782	\$ (53,474)	(2)%
Sales and marketing	96,553	180,030	(83,477)	(46)%
Total operating expenses	<u>\$ 3,132,861</u>	<u>\$ 3,269,812</u>	<u>\$ (136,951)</u>	<u>(4)%</u>

General and Administrative Expenses

The general and administrative expenses primarily consisted of management costs, costs to integrate assets we acquired and to expand sales, product enhancements, audit and review fees, filing fees, professional fees, and other expenses related to SEC reporting, including the re-classification of sales-related management expenses, in connection with the projected growth of our business. Additionally, we continue to incur specific costs in relation to our planned uplist to the Nasdaq Capital Markets, additional financing activities and related functions. The increase in general and administrative expense was primarily due to a increases in professional services fees related to uplist activities, increased overhead costs associated with our continued public OTC Pink Market listing, and acquisition-related costs.

Sales and Marketing Expenses

The sales and marketing expenses primarily consisted of continuing to shift our sales operation toward an inbound model, continued high focus on renewals and customer success operations and previously reported expenses, primarily management costs, reclassified to general and administrative expenses. The decrease in sales and marketing expense was primarily due to not having dedicated sales and marketing staff to drive efforts expenses.

Other income (expense)

Other income (expenses) for the six months ended June 30, 2023 consisted primarily of interest expense and an forgiveness of debt on note payable of \$4,724,299. Other expenses for the six months ended June 30, 2022 consisted of interest expense and loss on change in fair value of derivative. The decrease in other expenses was primarily due to a decrease in interest expense.

Net Loss

Net loss decreased 85% from \$4,279,531 for the six months ended June 30, 2022 to \$648,353 for the six months ended June 30, 2023. The net loss was mainly derived from an operating loss of \$1,587,878, and interest expense of \$3,964,556 and settlement of debt of \$4,904,081. The net loss for the six months ended June 30, 2022 was mainly derived from an operating loss of \$2,184,579, and interest expense of \$2,037,069.

Accumulated Losses

We had a net operating loss carryforwards of approximately \$6 million from prior operations in 2017, before our current President and Chief Executive Officer acquired a controlling interest in the company. Subsequent to this and through June 30, 2023, we have relied

on convertible notes and other debt instruments that may contain unfavorable discounts, origination fees, and have embedded conversion features that are subject to derivative treatment for accounting purposes. Due primarily to this treatment of convertible notes, debt and related derivative accounting, since 2017, we have accumulated deficits of approximately \$14.1 million due to derivative valuations and \$14.5 million expensed for interest and amortization of debt discounts for financing and other origination fees.

Liquidity and Capital Resources

Working Capital

The following table provides selected financial data about our company as of June 30, 2023 and December 31, 2022, respectively.

	<u>June 30,</u>	<u>December 31,</u>	<u>Change</u>	
	2023	2022	\$	%
Current assets	\$ 292,210	\$ 124,894	\$ 167,316	134%
Current liabilities	\$ 10,300,348	\$ 8,604,066	\$ 1,696,282	20%
Working capital deficiency	<u>\$ (10,008,138)</u>	<u>\$ (8,479,172)</u>	<u>\$ (1,528,966)</u>	<u>(18)%</u>

We require cash to fund our operating expenses and working capital requirements, including outlays for capital expenditures. As of June 30, 2023, we had cash balance of \$15,904 and our principal sources of liquidity were trade accounts receivable of \$3,147, and prepaid expenses and other current assets of \$273,169, as compared to cash of \$1,712 trade accounts receivable of \$31,978, and prepaid expenses and other current assets of \$91,204 as of December 31, 2022.

During the last three years, and through the date of this Report, we have faced an increasingly challenging liquidity situation that has limited our ability to execute our operating plan. We will need to obtain capital to continue operations. There is no assurance that we will be able to secure such funding on acceptable terms. During the six months ended June 30, 2023, we reported a loss from operations of \$1,587,878.

As of June 30, 2023, we had assets of cash in the amount of \$15,904 and other current assets in the amount of \$276,306. As of June 30, 2023, we had current liabilities of \$10,300,348. Our accumulated deficit as of June 30, 2023 was \$52,060,481.

As of December 31, 2022, we had assets of cash in the amount of \$1,712 and other current assets in the amount of \$123,182. As of December 31, 2022, we had current liabilities of \$8,604,066. Our accumulated deficit as of December 31, 2022 was \$51,412,128.

The revenues generated from our current operations will not be sufficient to fund our planned growth. We will require additional capital to continue to operate our business, and to further expand our business. Sources of additional capital through various financing transactions or arrangements with third parties may include equity or debt financing, bank loans or revolving credit facilities. We may not be successful in locating suitable financing transactions in the time period required or at all, and we may not obtain the capital we require by other means. Unless we can attract additional investment, our operating as a going concern is in doubt.

We are now obligated to file annual, quarterly and current reports with the SEC pursuant to the Securities Exchange Act of 1934, as amended (the "Exchange Act"). In addition, the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley") and the rules subsequently implemented by the SEC and the Public Company Accounting Oversight Board ("PCAOB") have imposed various requirements on public companies, including requiring changes in corporate governance practices. We expect these rules and regulations to increase our legal and financial compliance costs and to make some activities of ours more time-consuming and costly. In order to meet the needs to comply with the requirements of the Exchange Act, we will need investment of capital.

Management has determined that additional capital will be required in the form of equity or debt securities. There is no assurance that management will be able to raise capital on terms acceptable to us, or at all.

If we are unable to obtain sufficient amounts of additional capital, we may have to cease filing the required reports and cease operations completely. If we obtain additional funds by selling any of our equity securities or by issuing common stock to pay current or future obligations, the percentage ownership of our stockholders will be reduced, stockholders may experience additional dilution, or the equity securities may have rights preferences or privileges senior to the common stock.

Cash Flow

	Six Months Ended		Change
	June 30,		
	2023	2022	
Cash provided by (used in) operating activities	\$ 175,918	\$ (115,911)	\$ 291,829
Cash used in investing activities	\$ (167,427)	\$ (346,960)	\$ 179,533
Cash used in financing activities	\$ 5,701	\$ (742,062)	\$ 747,763
Cash on hand	\$ 15,904	\$ -	\$ 15,904

Operating Activities

During the six months ended June 30, 2023, we provided \$175,918 by operating activities, compared to \$115,911 used by during the six months ended June 30, 2022.

Investing Activities

During the six months ended June 30, 2023, we used funds in investing activities of \$167,427 to acquire property and equipment and advance payment for acquisition. During the six months ended June 30, 2022, we used funds in investing activities of \$346,960 to acquire property and equipment.

Financing Activities

During the six months ended June 30, 2023, we (i) raised \$564,070 from issuance of convertible debt; (ii) received proceeds from a related party of \$229,426; and (iii) received proceeds of \$417,427 from issuance of notes payable; (iv) repaid of convertible note payable of \$146,663; (v) repaid of \$1,047,218 on notes payable; and (vi) repaid to a related party of \$13,000. For June 30, 2023 we had net cash inflows for financing activities of \$5,701. By comparison, during the six months ended June 30, 2022, we (i) raised \$75,000 through the issuance of Series B Preferred Stock; (ii) raised \$1,207,800 from issuance of convertible debt; (iii) received proceeds from related party of \$116,238, (iv) had a bank overdraft of \$3,781; and (v) received \$1,186,453 from issuance of notes payable. These amounts were offset in part through (i) redemption of Series B Preferred Stock of \$487,730; (ii) repayment of convertible note payable of \$758,346; (iii) repayment of \$1,957,492 on notes payable; (iv) repayment to related party of \$86,571; and (v) \$41,195 of capital lease payments.

We are dependent upon the receipt of capital investment or other financing to fund our ongoing operations and to execute our business plan. If continued funding and capital resources are unavailable at reasonable terms, we may not be able to implement our plan of operations.

Off-Balance Sheet Arrangements

As of June 30, 2023, we did not have any off-balance sheet arrangements.

Critical Accounting Policies

Critical Accounting Policies and Significant Judgments and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 reported amounts of income and expense during the reporting periods presented.

Our critical estimates include revenue recognition and intangible assets. Although we believe that these estimates are reasonable, actual results could differ from those estimates given a change in conditions or assumptions that have been consistently applied. We also have other policies that we consider key accounting policies, such as our policy for revenue recognition, however, the application of these policies does not require us to make significant estimates or judgments that are difficult or subjective.

The critical accounting policies used by management and the methodology for its estimates and assumptions are as follows:

Convertible Financial Instruments

We bifurcate conversion options from their host instruments and accounts for them as free standing derivative financial instruments if certain criteria are met. The criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings as they occur and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument. An exception to this rule is when the host instrument is deemed to be conventional, as that term is described under applicable GAAP.

When we have determined that the embedded conversion options should not be bifurcated from their host instruments, discounts are recorded for the intrinsic value of conversion options embedded in the instruments based upon the differences between the fair value of the underlying Common Stock at the commitment date of the transaction and the effective conversion price embedded in the instrument.

Beneficial Conversion Feature

The issuance of the convertible debt described in Note 9, below, generated a beneficial conversion feature ("BCF"), which arises when a debt or equity security is issued with an embedded conversion option that is beneficial to the investor or in the money at inception because the conversion option has an effective strike price that is less than the market price of the underlying stock at the commitment date. We recognized the BCF by allocating the intrinsic value of the conversion option, which is the number of shares of Common Stock available upon conversion multiplied by the difference between the effective conversion price per share and the fair value of

Common Stock per share on the commitment date, resulting in a discount on the convertible debt (recorded as a component of additional paid-in capital). The discount is amortized to interest expense over the term of the convertible debt.

Stock-Based Compensation

We measure the cost of services received in exchange for an award of equity instruments based on the fair value of the award. For employees and directors, the fair value of the award is measured on the grant date. For non-employees, as per ASU No. 2018-7, *Compensation-Stock Compensation (Topic 718): Improvements to Nonemployee Stock-Based Payment Accounting*, remeasurement is not required. The fair value amount is then recognized over the period during which services are required to be provided in exchange for the award, usually the vesting period. Stock-based compensation expense is recorded by us in the same expense classifications in the consolidated statements of operations, as if such amounts were paid in cash. Also, refer to Note 1 – Summary of Significant Accounting Policies, in the consolidated financial statements that are included in this Quarterly Report.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As a “smaller reporting company” as defined by Item 10 of Regulation S-K, we are not required to provide information regarding this Item.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in our reports 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 our management, including our chief executive officer and our chief financial officer, as appropriate, to allow timely decisions regarding required disclosures. However, our chief executive officer and our chief financial officer have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under Exchange Act) as of the end of the period by this Form 10-Q and have concluded that we have material weaknesses and significant deficiencies in our internal control over financial reporting as described below. Accordingly, our disclosure controls and procedures were not sufficient to accomplish their objectives at the reasonable assurance level as of June 30, 2023.

Management’s Report of Internal Control over Financial Reporting

Our chief executive officer and our chief financial officer are responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Rule 13a-15(f) under the Exchange Act. An evaluation was performed of the effectiveness of our internal control over financial reporting. The evaluation was based on the framework in 2013 Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”).

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on our evaluation under the criteria set forth in 2013 Internal Control — Integrated Framework, our management concluded that, as of June 30, 2023 our internal control over financial reporting was not effective because of the identification of material weaknesses described as follows:

- We did not have controls designed to validate the completeness and accuracy of underlying data used in the determination of accounting transactions. Accordingly, we believe we have a material weakness because there is a reasonable possibility that a material misstatement to the interim or annual consolidated financial statements would not be prevented or detected on a timely basis.
- We do not have written documentation of our internal control policies and procedures. Written documentation of key internal controls over financial reporting is a requirement of Section 404 of the Sarbanes-Oxley Act which is applicable to us. Management evaluated the impact of our failure to have written documentation of our internal controls and procedures on our assessment of our disclosure controls and procedures and has concluded that the control deficiency that resulted represented a material weakness.

- We do not have sufficient segregation of duties within accounting functions, which is a basic internal control. Due to our size and nature, segregation of all conflicting duties may not always be possible and may not be economically feasible. However, to the extent possible, the initiation of transactions, the custody of assets and the recording of transactions should be performed by separate individuals. Management evaluated the impact of our failure to have segregation of duties on our assessment of our disclosure controls and procedures and has concluded that the control deficiency that resulted represented a material weakness.
- We do not have a functioning audit committee or outside directors on our board of directors, resulting in ineffective oversight in the establishment and monitoring of required internal controls and procedures.

Remediation Plan for Material Weaknesses in Internal Control over Financial Reporting

Our management is committed to improving its internal controls when we have adequate resources to do so, we appointed a full-time Chief Financial Officer in September 2022 but do not currently have independent directors or an audit committee. Until there are independent directors and an audit committee, we will mitigate the lack of segregation of duties by (i) continuing to use third party specialists to assist us with accounting and finance; and (ii) commissioning frequent reconciliations of significant accounts using independent auditors.

Our Management has discussed the material weaknesses noted above with our independent registered public accounting firm. Due to the nature of these material weaknesses, it is reasonably possible that misstatements which could be material to the annual or interim consolidated financial statements could occur that would not be prevented or detected during our financial close and reporting process.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the six months ended June 30, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II **OTHER INFORMATION**

ITEM 1. LEGAL PROCEEDINGS

We are not currently a party to any material legal proceedings.

ITEM 1A. RISK FACTORS

Investing in our Common Stock involves a high degree of risk. You should carefully consider the following risk factors, as well as other information in this Quarterly Report, before deciding whether to invest in the shares of our Common Stock. The occurrence of any of the events described below could have a material adverse effect on our business, financial condition or results of operations. In the case of such an event, the trading price of our Common Stock may decline and you may lose all or part of your investment.

Risk Factor Summary

Our business is subject to numerous risks and uncertainties, including those described in “Risk Factors” in this Quarterly Report, any of which could materially and adversely impact our business and operations, adversely impact our growth prospects, cause us to incur additional costs or liabilities and/or cause the price of our Common Stock to decline. You should carefully consider these risks and uncertainties when investing in our Common Stock. Some of the principal risks and uncertainties include the following:

- We will require additional funds in the future to achieve our current business strategy;
- Technology is constantly changing and evolving and the continued viability of our products and services requires that we keep up with an ever-changing technological landscape;
- We face intense competition in our market, especially from larger, well-established companies;
- We are dependent on the continued services and performance of our founder and Chief Executive Officer;
- We may be unable to attract new customers and/or expand sales to existing customers;
- We may be unable to maintain successful relationships with our channel partners;
- We may be subject to breaches in our security, cyberattacks or other cyber risks;
- We may be unable to protect our proprietary technology and intellectual property rights;
- We may be subject to real or perceived errors, failures, or bugs in our technology;
- We are subject to federal, state and industry privacy and data security regulations;
- Our business is susceptible to risks associated with international operations;
- Our business is subject to the risks of pandemic, fire, power outages, floods, earthquakes, and other catastrophic events, and to interruption by manmade problems such as terrorism and war;
- Our operations may continue to increase in complexity as we grow, which will add additional challenges to the management of our business in the future;
- We may be unable to secure necessary financing on acceptable terms and in a timely manner;
- There is no assurance that future financing from Mr. Remillard will be available or, if available, that it will be on terms that are satisfactory to us;
- We may not be able to identify suitable acquisition candidates or consummate acquisitions on acceptable terms, or we may be unable to successfully integrate acquisitions;
- The JOBS Act allows us to postpone the date by which we must comply with certain laws and regulations intended to protect investors and to reduce the amount of information we provide in reports filed with the SEC;
- Failure to implement proper and effective internal controls or to remediate weakness in internal accounting controls could result in material misstatements in our financial statements.
- We have secured debt, which could have adverse consequences to you;

- We may not be able to attract the attention of research analysts at major brokerage firms;
- In the event of a bankruptcy, liquidation or winding up of our assets, our Common Stock will rank junior to all of our liabilities to third party creditors, and to any class or series of our capital stock created after the date hereof that, by its terms, ranks senior to our Common Stock;
- Future issuances of debt securities and preferred stock may adversely affect the return of your investment;
- Our Common Stock is subject to the SEC's penny stock rules;

- Our Common Stock has historically experienced low trading volume on the OTC Pink, and therefore the price may not accurately reflect our value and there can be no assurance that an active market for our Common Stock will develop, either now or in the future;
- We have had a history of losses and may incur future losses, which may prevent us from attaining profitability;
- There is substantial doubt about our ability to continue as a going concern;
- We currently have outstanding shares of preferred stock that have special rights that could limit our ability to undertake corporate transactions, inhibit potential changes of control and reduce the proceeds available to our Common Stock holders in the event of a change in control;
- Our Chief Executive Officer has the ability to control all matters submitted to stockholders for approval;
- We will continue to incur substantial costs as a result of operating as a public reporting company, and our management will be required to devote substantial time to compliance initiatives;
- We may issue additional shares of our Common Stock, which may dilute current stockholders;
- Our management will have broad discretion in the use of the net proceeds from this offering;
- Adverse or uncertain macroeconomic or geopolitical conditions or reduced IT spending may adversely impact our business, revenues, and profitability; and
- Prolonged economic uncertainties or downturns could materially adversely affect our business.

Risks Related to Our Business and Industry

We will require significant additional funds in the future to achieve our current business strategy and an inability to obtain funding could cause our business to fail.

We will need to raise significant additional funds through public or private debt or equity financings in order to fund our future operations and fulfill our future contractual obligations. These financings may not be available when needed. Even if these financings are available, they may be on terms that we deem unacceptable or that are materially adverse to your interests with respect to dilution of book value, dividend preferences, liquidation preferences, or other terms. An inability to obtain financing could have an adverse effect on our ability to implement our business plan and develop our products, and as a result, could diminish our sales or require us to suspend our operations and possibly cease our existence.

Even if we are successful in raising capital in the future, we will likely need to raise additional capital to continue and/or expand our operations. If we do not raise the additional capital, the value of any investment in us may become worthless.

If we do raise additional capital but from other than conventional sources, we may need to scale back or otherwise adjust our growth strategy which may prevent us from fully implementing our business plan.

Technology is constantly changing and evolving and the continued viability of our products and services requires that we keep up with an ever-changing technological landscape.

Our industry is categorized by rapid technological progression, ever-increasing innovation, changes in customer requirements, and frequent new product introductions, and we may be subject to legal and regulatory compliance mandates as the relevant law develops in the fields in which our products are used. As a result, we must continually change and improve our products in response to such changes, and our products must also successfully interface with products from other vendors, which are also subject to constant changes. While we believe we have the competency to aid our customers in all aspects of data privacy and security, we will need to constantly improve our current assets and offerings to keep up with technological advances that are expected to occur.

We cannot guarantee that we will be able to anticipate future market needs and opportunities or be able to develop new products and services or expand the functionality of our current products and services in a timely manner or at all. Even if we are able to anticipate, develop, and introduce new products and expand the functionality of our current products, there can be no assurance that enhancements or new products will achieve widespread market acceptance: If they do not, our business may be adversely affected and we may have to cease operations altogether.

We face intense competition in our market, especially from larger, well-established companies, and we may lack sufficient financial and other resources to maintain and improve our competitive position.

The market for data privacy and security and other data governance solutions is intensely competitive and is characterized by constant change and innovation. We face competition from both traditional, larger software vendors offering enterprise-wide software frameworks and services and smaller companies offering point solutions for specific identification and data governance issues. We also compete with IT equipment vendors and systems management solution providers whose products and services address data identification and classification and data governance requirements. Our principal competitors vary depending on the product. Many of our existing competitors have achieved, and some of our potential competitors could achieve, substantial competitive advantages due to:

- greater name recognition and longer operating histories;
- more comprehensive and varied products and services;
- broader market focus;
- greater resources to develop technologies or make acquisitions;
- intellectual property portfolios that may limit our ability to market or sell products and services in the United States or markets outside the United States;
- broader distribution capabilities and established relationships with distribution partners and customers;
- greater customer support resources; and
- substantially greater financial, technical, and other resources.

Our competitors may be able to compete and respond more effectively than we can to new or changing opportunities, technologies, standards, or customer requirements. Our competitors may also seek to extend or supplement their existing products and services to provide data security and data governance solutions that more closely compete with our products and services offerings. Potential customers may also prefer to purchase, or incrementally add solutions, from their existing suppliers rather than to onboard with us as a new or additional supplier regardless of whether our products offer better performance or more features.

In addition, with the recent increase in large merger and acquisition transactions in the technology industry, particularly transactions involving cloud-based technologies, there is a greater likelihood that we will compete with other large technology companies in the future.

Some of our competitors have made acquisitions or entered into strategic relationships to provide more comprehensive product offerings in combination than they were previously able to offer alone. Companies resulting from these possible consolidations and partnerships may be able to offer more attractive pricing, making them more compelling to customers and more difficult for us to compete with effectively. In addition, continued industry consolidation may adversely impact customer perceptions of the viability of small- and medium-sized technology companies and consequently their willingness to purchase from those companies. Conditions in our market could change rapidly and significantly as a result of technological advancements, partnering among our competitors, or continuing market consolidation. These competitive pressures in our market or our potential inability to compete effectively may result in price reductions, fewer orders, reduced revenue and gross margins, increased net losses, and loss of market share. Any failure to meet and address these factors could adversely affect our business, financial condition, and operating results.

We are dependent on the continued services and performance of our founder and Chief Executive Officer, Jason Remillard, the loss of whom could adversely affect our business.

Our future performance largely depends on the continued services and contributions of our founder, Chief Executive Officer and president, Jason Remillard, to successfully manage our company, execute our business plan, identify and pursue new opportunities, and deliver product innovations. The loss of Mr. Remillard's services could significantly delay or prevent us from achieving our development and strategic objectives and adversely affect our business.

If we are unable to attract new customers and/or expand sales to existing customers, both domestically and internationally, our growth could be slower than we expect, and our business may be harmed.

Our future growth depends in part upon increasing our customer base. Our ability to achieve significant revenue growth in the future will depend upon the effectiveness of our sales and marketing efforts, both domestically and internationally, and our ability to attract new customers. If we fail to attract new customers, our revenues may grow more slowly than expected, and our business may be harmed.

Our future growth also depends upon expanding sales of our products and services to existing customers and their organizations. If our customers do not purchase additional licenses or our other offerings related to complementary products and services, our revenues may grow more slowly than expected, may not grow at all, or may decline. There can be no assurance that our efforts will increase sales to existing customers and additional revenues. If our efforts are not successful, our business may suffer.

If we are unable to maintain successful relationships with our channel partners, our business could be adversely affected.

We intend to rely to some extent on channel partners, such as distribution partners and resellers, to sell licenses for our products and to sell our technical support and maintenance services. Our ability to achieve revenue growth in the future may depend in part on our success in maintaining successful relationships with our channel partners. Agreements with channel partners tend to be non-exclusive, meaning our channel partners may offer customers the products of several different companies. If our channel partners do not effectively market and sell our products and services, choose to use greater efforts to market and sell their own products or those of others, or fail to meet the needs of our customers, our ability to grow our business may be adversely affected. Furthermore, agreements with channel partners generally allow them to terminate their agreements for any reason upon 30 days' notice. If we are unable to maintain our relationships with these channel partners, our business, results of operations, financial condition, or cash flows could be adversely affected.

Breaches in our security, cyberattacks, or other cyber risks could expose us to significant liability and cause our business and reputation to suffer.

Our operations may involve transmitting and processing our customers' confidential, proprietary, and sensitive information. We have legal and contractual obligations to protect the confidentiality of and to use customer data appropriately. Despite our security measures, our information technology and infrastructure may be vulnerable to attacks due to third-party action, employee error, or misconduct. Security risks, including, but not limited to, unauthorized use or disclosure of customer data, theft of proprietary information, loss or corruption of customer data, and computer hacking attacks or other cyberattacks, could expose us to substantial litigation expenses and damages, indemnity and other contractual obligations, government fines and penalties, mitigation expenses and other liabilities. We have been subject to attempted cyberattacks in the past and expect to be subject to such attacks in the future. We continuously work to improve our information technology systems and to create security boundaries around our critical and sensitive assets. We perform activities to mitigate the risk of attacks and increase our capabilities to responsibly handle any security violation or attack. However, because techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until successfully launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures and our products could be harmed, we could lose potential sales and existing customers, our ability to operate our business could be impaired, and we may incur significant liabilities.

Failure to protect our proprietary technology and intellectual property rights could substantially harm our business.

The success of our business depends on our ability to obtain, protect, and enforce our trade secrets, patents, and other intellectual property rights, such as copyrights and trademarks. We attempt to protect our intellectual property under trade secret, patent, copyright, and trademark laws, and through a combination of confidentiality procedures, contractual provisions, and other methods, all of which offer only limited protection. The process of obtaining patent protection is expensive and time-consuming, and we may choose not to seek patent protection for certain innovations. We may choose not to pursue patent protection in certain jurisdictions in which we do or plan to do business. Not seeking patent protection may limit our options to exclude competitors from using those innovations altogether or in those jurisdictions.

Our policy is to require our employees to execute written agreements in which they assign to us their rights in potential inventions and other intellectual property created within the scope of their employment. We also require any consultants we engage to provide services that may result in intellectual property that would benefit us to contractually agree to assign their rights to their inventions or creations to us, in connection with the engagement. However, we cannot assure you that we have adequately protected our rights in every such agreement or that we have executed an agreement with every such party. Finally, in order to benefit from intellectual property protection, we must monitor, detect, and pursue infringement claims in certain circumstances in relevant jurisdictions, all of which is costly and time-consuming. As a result, we may not be able to adequately protect our intellectual property rights.

The data security, cybersecurity, data retention, and data governance industries are characterized by the existence of a large number of relevant patents and frequent claims and related litigation regarding patent and other intellectual property rights. From time to time, third parties have asserted and may assert their patent, copyright, trademark and other intellectual property rights against us, our channel partners, or our customers. Successful claims of infringement or misappropriation by a third party could prevent us from distributing certain products or performing certain services or could require us to pay substantial damages (including, for example, treble damages if we are found to have willfully infringed patents and increased statutory damages if we are found to have willfully infringed copyrights), royalties or other fees. Such claims also could require us to cease making, licensing or using solutions that are alleged to infringe or misappropriate the intellectual property of others or to expend additional development resources to attempt to redesign our products or services or otherwise to develop non-infringing technology. Even if third parties may offer a license to their technology, the terms of any offered license may not be acceptable, and the failure to obtain a license or the costs associated with any license could cause our business, results of operations or financial condition to be materially and adversely affected. In some cases, we indemnify our channel partners and customers against claims that our products infringe the intellectual property of third parties. Defending against claims of infringement or being deemed to be infringing the intellectual property rights of others could impair our ability to innovate, develop, distribute, and sell our current and planned products and services. If we are unable to protect our intellectual property rights and ensure that we are not violating the intellectual property rights of others, we may find ourselves at a competitive disadvantage to others who need not incur the additional expense, time, and effort required to create the innovative products that have enabled us to be successful to date.

Real or perceived errors, failures, or bugs in our technology could adversely affect our growth prospects.

Because we develop, use, and provide complex technology, undetected errors, failures, or bugs may occur. Our technology is often installed and used in a variety of computing environments with different operating system management software, equipment, and networking configurations, which may cause errors or failures of our technology or other aspects of the computing environment into which it is deployed. In addition, deployment of our technology into computing environments may expose undetected errors, compatibility issues, failures, or bugs in our technology. Despite testing by us, errors, failures, or bugs may not be found until our technology is released to our customers. Moreover, our customers could incorrectly implement or inadvertently misuse our technology, which could result in customer dissatisfaction and adversely impact the perceived utility of our products. Any of these real or perceived errors, compatibility issues, failures, or bugs could result in negative publicity, reputational harm, loss of or delay in market acceptance, loss of competitive position, or claims by customers for losses sustained by them. In such an event, we may be required, or may choose, for customer relations or other reasons, to expend additional resources in order to help correct the problem.

We are subject to federal, state and industry privacy and data security regulations, which could result in additional costs and liabilities to us or inhibit sales of our software.

The regulatory framework for privacy issues worldwide is rapidly evolving and is likely to remain fluid and unpredictable for the foreseeable future. Many federal, state, and foreign government bodies and agencies have adopted or are considering adopting privacy and data security laws and regulations. In addition, privacy advocates and industry groups may propose new and different self-regulatory standards. We also may determine that certain requirements or standards are best practices for us to implement. Because the interpretation and application of privacy and data protection laws can be uncertain, it is possible that these laws may be interpreted and applied in a manner that is inconsistent with our existing data security practices. If so, in addition to the possibility of fines, lawsuits and other claims, we could be required to fundamentally change our business activities and practices or modify our technology, which could have an adverse effect on our business. Any inability to adequately address privacy concerns, even if unfounded, or comply with applicable privacy or data protection laws, regulations and policies, could result in additional cost and liability to us, damage our reputation, inhibit sales and adversely affect our business.

Because our long-term success depends, in part, on our ability to expand the sales and marketing of our technology and solutions to customers located outside of the United States, our business is susceptible to risks associated with international operations.

We intend to expand our international sales and marketing operations. Conducting international operations subjects us to risks that we may not face in the United States or may prove more challenging to address. These risks include:

- pandemics, political instability, war, armed conflict, or terrorist activities;
- challenges developing, marketing, selling, and implementing our technology and solutions caused by language, cultural and ethical differences, and the competitive environment;
- heightened risks of unethical, unfair, or corrupt business practices, actual or claimed, in certain geographies and of improper or fraudulent sales arrangements that may impact financial results and necessitate restatements of or result in irregularities in financial statements;
- competition from bigger and stronger companies in the new markets;
- laws imposing heightened restrictions on data use and increased penalties for failure to comply with applicable laws, particularly in countries within the European Union (EU);
- currency fluctuations;
- management communication and integration problems resulting from cultural differences and geographic dispersion;
- potentially adverse tax consequences, including multiple and possibly overlapping tax structures, the complexities of foreign value-added tax (VAT) systems, restrictions on the repatriation of earnings and changes in tax rates; and
- lack of familiarity with local laws, customs and practices, and laws and business practices favoring local competitors or commercial parties.

The occurrence of any one of these risks could harm our international business and, consequently, our operating results. Additionally, operating in international markets requires significant management attention and financial resources. We cannot be certain that the investment and additional resources required to operate in other countries will produce desired levels of revenue or net income.

Changes in financial accounting standards may cause adverse and unexpected revenue fluctuations and impact our results of operations.

A change in accounting standards or practices could harm our operating results and may even affect our reporting of transactions completed before the change is effective. New accounting pronouncements have occurred and may occur in the future. Changes to existing rules or the questioning of current practices may harm our operating results or the way we conduct our business. Additionally, the adoption of new or revised accounting principles may require that we make significant changes to our systems process and controls, which could be time consuming and costly.

Our business is subject to the risks of pandemic, fire, power outages, floods, earthquakes, and other catastrophic events, and to interruption by manmade problems such as terrorism and war.

A pandemic, significant natural disaster, such as a fire, flood or an earthquake, or a significant power outage could have a material adverse impact on our business, results of operations and financial condition. In the event our customers' information technology systems or our channel partners' selling or distribution abilities are hindered by any of these events, we may miss financial targets, such as revenues and sales targets, for a particular quarter. Furthermore, if a natural disaster occurs in a region from which we derive a significant portion of our revenue, customers in that region may delay or forego purchases of our products, which may materially and adversely impact our results of operations for a particular period. In addition, acts of terrorism or war could cause disruptions in our business or the business of channel partners, customers, or the economy as a whole. All of the aforementioned risks may be exacerbated if the disaster recovery plans for us and our channel partners prove to be inadequate. To the extent that any of the above results in delays or cancellations of customer orders, or delays in producing, deploying or shipping our products or delivering our services, our business, financial condition and results of operations would be adversely affected.

We anticipate that our operations will continue to increase in complexity as we grow, which will add additional challenges to the management of our business in the future.

We expect that our business will grow as we execute on our business plan, and that as we grow, our operations will increase in complexity. To effectively manage this growth, we have made and continue to make substantial investments to improve our operational, financial and management controls as well as our reporting systems and procedures. Further, as our customer base grows, we will need to expand our professional services and other personnel. We also will need to effectively manage our direct and indirect sales processes as the number and type of our sales personnel and channel partners grows and becomes more complex, and as we expand into foreign markets. If we are unable to effectively manage the increasing complexity of our business and operations, the quality of our technology and customer service could suffer, and we may not be able to adequately address competitive challenges. These factors could all negatively impact our business, operations, operating results, and financial condition.

We require additional financing to sustain our operations and execute our business plan. If we fail to secure the required additional financing on acceptable terms and in a timely manner, our ability to implement our business plan will be compromised and we may be unable to sustain our operations.

We have limited capital resources and operations. To date, our operations have been funded largely from the proceeds of debt and equity financings. We will require substantial additional capital in the near future to operate our business. We may be unable to obtain additional financing on terms acceptable to us, or at all. Even if we obtain financing for our short-term operations, we expect that we will require additional capital thereafter. Our capital needs will depend on numerous factors including but not limited to (i) the scale of our marketing and sales activities, (ii) other expenditures of resources to maintain or increase revenue and (iii) the amount of our capital expenditures, including acquisitions. We cannot assure you that we will be able to obtain capital in the future to meet our needs. If we raise additional funds through the issuance of equity or convertible debt securities, the percentage ownership held by our existing shareholders will be reduced and our shareholders may experience significant dilution. In addition, new securities may contain rights, preferences, or privileges that are senior to those of our Common Stock. If we raise additional capital by incurring debt, this will result in increased interest expense. If we raise additional funds through the issuance of securities, market fluctuations in the price of our shares of Common Stock could limit our ability to obtain equity financing. We cannot give any assurance that any additional financing will be available to us, or if available, will be on terms favorable to us. If we are unable to raise capital when needed, our business, financial condition, and results of operations would be materially adversely affected, and we could be forced to reduce or discontinue our operations.

We have relied on funding from Jason Remillard for working capital to fund operations in the past, and there is no assurance that future financing from Mr. Remillard will be available or, if available, that it will be on terms that are satisfactory to us.

For the past several years, we have depended on our Chief Executive Officer, Jason Remillard, for working capital to fund our operations and to execute our business plan. In addition, we have in the past been and in the future be dependent upon Mr. Remillard to provide continued funding and capital resources. However, no assurance can be given that future financing from Mr. Remillard will be available or, if available, that it will be on terms that are satisfactory to us. In the absence of financing from other sources, the inability to obtain additional financing from Mr. Remillard could result in the scaling back or discontinuance of our operations or our inability to successfully implement our plan of operations.

We have made and expect to continue to make acquisitions as a primary component of our growth strategy. We may not be able to identify suitable acquisition candidates or consummate acquisitions on acceptable terms, or we may be unable to successfully integrate acquisitions, which could disrupt our operations and adversely impact our business and operating results.

A primary component of our growth strategy is to acquire complementary businesses. We intend to continue to pursue acquisitions of complementary technologies, products, and businesses as a primary component of our growth strategy to enhance the features and functionality of our offerings, to expand our customer base and access to new markets, and to increase benefits of scale. Acquisitions involve certain known and unknown risks that could cause our actual growth or operating results to differ from our expectations. For example:

- we may not be able to identify suitable acquisition candidates or to consummate acquisitions on acceptable terms;
- we may pursue international acquisitions, which inherently pose more risks than domestic acquisitions;
- we compete with others to acquire complementary products, technologies, and businesses, which may result in decreased availability of, or increased price for, suitable acquisition candidates;
- we may not be able to obtain the necessary financing on favorable terms or at all, to finance our potential acquisitions;
- we may ultimately fail to consummate an acquisition even if we announce that we plan to acquire a technology, product, or business; and
- acquired technologies, products, or businesses may not perform as we expect and we may fail to realize anticipated revenue and profits.

In addition, our acquisition strategy may divert management's attention away from our existing business, resulting in the loss of key customers or employees, and expose us to unanticipated problems or legal liabilities, including responsibility as a successor for undisclosed or contingent liabilities of acquired businesses or assets.

If we fail to conduct due diligence on our potential targets effectively, we may, for example, not identify problems at target companies or fail to recognize incompatibilities or other obstacles to successful integration. Our inability to successfully integrate future acquisitions could impede us from realizing all of the benefits of those acquisitions and could severely weaken our business operations. The integration process may disrupt our business and, if new technologies, products, or businesses are not implemented effectively, may preclude the realization of the full benefits expected by us and could harm our results of operations. In addition, the overall integration of new technologies, products, or businesses may result in unanticipated problems, expenses, liabilities, and competitive responses.

In addition, even if the operations of an acquisition are integrated successfully, we may not realize the full benefits of the acquisition, including the synergies, cost savings, or growth opportunities that we expect. The benefits we do realize may not be achieved within the anticipated time frame.

The JOBS Act allows us to postpone the date by which we must comply with certain laws and regulations intended to protect investors and to reduce the amount of information we provide in reports filed with the SEC.

The JOBS Act is intended to reduce the regulatory burden on “emerging growth companies.” We meet the definition of an emerging growth company and so long as we qualify as an emerging growth company, we are, among other things:

- not required to comply with the auditor attestation requirements of the Sarbanes-Oxley Act, which include having an independent registered public accounting firm provide an attestation report on the effectiveness of our internal control over financial reporting;
- subject to reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and exempt from the requirement to hold a nonbinding advisory vote on executive compensation and stockholder approval of any “golden parachute” payments not previously approved;
- permitted to present only two years of audited financial statements and only two years of management’s discussion and analysis of financial condition and results of operations disclosure in this Quarterly Report; and
- not required to comply with any rules that may be adopted by the PCAOB requiring mandatory audit firm rotation or a supplement to the auditor’s report on our financial statements.

We may choose to take advantage of some or all of these reduced burdens while we qualify as an emerging growth company. We have taken advantage of all of these reduced burdens in this Quarterly Report, and currently intend to do so in future filings. As a result, the information we provide stockholders may be less than information you might receive from other public companies in which you hold equity. In addition, the JOBS Act provides that an emerging growth company can delay adopting new or revised accounting standards until those standards apply to private companies. We have elected to avail ourselves of this exemption. We will remain an emerging growth company until the earliest to occur of 1) the last day of the fiscal year in which we have more than \$1.07 billion in annual revenue; 2) the last day of the fiscal year in which we qualify as a “large accelerated filer”, 3) the date on which we have, during the previous three-year period, issued more than \$1 billion in non-convertible debt securities; and 4) the last day of the fiscal year in which the fifth anniversary of this offering occurs.

We are also currently a “smaller reporting company,” meaning that the market value of our stock held by non-affiliates plus the proposed aggregate amount of gross proceeds to us as a result of this offering is less than \$700 million and our annual revenue was less than \$100 million during the most recently completed fiscal year. We are not an investment company, an asset-backed issuer, or a majority-owned subsidiary of a parent company that is not a smaller reporting company. We may continue to be a smaller reporting company after this offering if either (i) the market value of our stock held by non-affiliates is less than \$250 million as of the last business day of the second fiscal quarter or (ii) our annual revenue is less than \$100 million during the most recently completed fiscal year and the market value of our stock held by non-affiliates is less than \$700 million as of the last business day of the second fiscal quarter. In the event that we are still considered a smaller reporting company, at the time we cease being an emerging growth company, we may continue to rely on exemptions from certain disclosure requirements that are available to smaller reporting companies. Specifically, as a smaller reporting company we may choose to present only the two most recent fiscal years of audited financial statements in our Annual Report on Form 10-K and, similar to emerging growth companies, smaller reporting companies have reduced disclosure obligations regarding executive compensation.

Decreased disclosures in our SEC filings due to our status as an emerging growth company or smaller reporting company may make it harder for investors to analyze our results of operations and financial prospects.

Failure to remediate weakness in internal accounting controls could result in material misstatements in our financial statements and may result in a lack of certain protections typically afforded to investors.

As a reporting company we are required, pursuant to the Sarbanes-Oxley Act, to include in our annual report our assessment of the effectiveness of our internal control over financial reporting. Our assessment must include disclosure of any material weaknesses identified by our management in our internal control over financial reporting, and when we cease to be an emerging growth company, we will need to provide a statement that our independent registered public accounting firm has issued an opinion on the effectiveness of our internal control over financial reporting.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our consolidated financial statements will not be prevented or detected on a timely basis. Our management has identified a material weakness in our internal control over financial reporting related to lack of segregation of duties resulting from our limited personnel and has concluded that, due to such weakness, our disclosure controls and procedures were not effective as of December 31, 2021. We do not have a sufficient number of employees to segregate responsibilities and may be unable to afford increasing our staff or engaging outside consultants or professionals to overcome our lack of employees, and we do not expect to be able to remediate this weakness until after the offering. If not remediated, or if we identify further weaknesses in our internal controls, our failure to establish and maintain effective disclosure controls and procedures and internal control over financial reporting could result in material misstatements in our financial statements and a failure to meet our reporting and financial obligations, each of which could have a material adverse effect on our financial condition and the trading price of our Common Stock.

We do not have a majority of independent directors on our board of directors, and we have not voluntarily implemented various corporate governance measures, in the absence of which stockholders may have more limited protections against interested director transactions, conflicts of interest and similar matters.

Federal legislation, including the Sarbanes-Oxley Act, has resulted in the adoption of various corporate governance measures designed to promote the integrity of the corporate management and the securities markets. Some of these measures have been adopted in response to legal requirements. Others have been adopted by companies in response to the requirements of national securities exchanges, such as the NYSE or the NASDAQ Stock Market, on which their securities are listed. Among the corporate governance measures that are required under the rules of national securities exchanges are those that address the board of directors' independence, audit committee oversight, and the adoption of a code of ethics. Although we plan to adopt these corporate governance measures upon our listing on The Nasdaq Capital Market, we have not yet adopted any of these other corporate governance measures and since our securities are not yet listed on a national securities exchange, we are not required to do so.

Our Board of Directors is comprised of one individual, who is also our executive officer. As a result, we do not have independent directors on our Board of Directors. Upon our listing on The Nasdaq Capital Market, we plan to establish audit and compensation committees comprised only of independent directors. However, until that date, our current sole director has the ability, among other things, to determine his own level of compensation and to unilaterally make certain other governance decisions. and the prior absence of such standards of corporate governance may leave our stockholders without protections against interested-director transactions, conflicts of interest, and similar matters.

We have secured debt, which could have adverse consequences to you.

The terms of the secured debt we have incurred could result in adverse consequences, including but not limited to the following:

- limiting our ability to obtain additional financing for working capital, capital expenditures, acquisitions, and other general corporate requirements;
- limiting our flexibility in planning for or reacting to changes in our business and the industry in which we operate; and
- placing us at a competitive disadvantage compared to competitors that may have proportionately less debt and greater financial resources.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, sell material assets or operations, obtain additional capital, or restructure our debt. In the event that we are required to dispose of material assets or operations to service our debt and to meet our other obligations, the value realized on such assets or operations will depend on market conditions and the availability of buyers. Accordingly, any such sale may not, among other things, be for a sufficient dollar amount. Certain of our obligations are secured by a security interest in all of our assets. The foregoing encumbrances may limit our ability to dispose of material assets or operations. We also may not be able to restructure our indebtedness on favorable economic terms, if at all.

Risks Related to Ownership of Our Securities

Because we became a reporting company under the Exchange Act by means other than a traditional underwritten initial public offering, we may not be able to attract the attention of research analysts at major brokerage firms.

Because we did not become a reporting company by conducting an underwritten initial public offering, or IPO, of our Common Stock on a national securities exchange, and our stock trades on OTC Pink rather than being listed on a national securities exchange, research analysts of brokerage firms may not provide coverage of us. In addition, investment banks may be less likely to agree to underwrite secondary offerings on our behalf than they might if we had become a public reporting company by means of an IPO because they may be less familiar with us as a result of more limited coverage by analysts and the media, and because we became public at an early stage in our development.

Risks Related to Our Common Stock

Our Common Stock will rank junior to all our liabilities to third party creditors, and to any class or series of our capital stock created after this offering specifically ranking by its terms senior to our Common Stock, in the event of a bankruptcy, liquidation or winding up of our assets.

In the event of bankruptcy, liquidation or winding up, our assets will be available to pay obligations on our Common Stock only after all our liabilities have been paid. Our Common Stock will effectively rank junior to all existing and future liabilities held by third party creditors. The terms of our Common Stock do not restrict our ability to raise additional capital in the future through the issuance of debt or senior series of preferred stock. Our Common Stock will also rank junior to our existing Series A Preferred Stock and any Series B Preferred Stock we may issue, as well as any class or series of our capital stock created after this offering specifically ranking by its terms senior to our Common Stock. In the event of bankruptcy, liquidation or winding up, there may not be sufficient assets remaining, after paying our liabilities, to pay amounts due on any or all of our Common Stock then outstanding.

Future issuances of debt securities, which would rank senior to our Common Stock upon our bankruptcy or liquidation, and future issuances of preferred stock, which could rank senior to our Common Stock for the purposes of dividends and liquidating distributions, may adversely affect the level of return you may be able to achieve from an investment in our Common Stock.

In the future, we may attempt to increase our capital resources by offering debt securities. Upon bankruptcy or liquidation, holders of our debt securities, and lenders with respect to other borrowings we may make, would receive distributions of our available assets prior to any distributions being made to holders of our Common Stock. Moreover, if we issue preferred stock, the holders of such preferred stock could be entitled to preferences over holders of Common Stock in respect of the payment of dividends and the payment of liquidating distributions. Because our decision to issue debt or preferred stock in any future offering, or borrow money from lenders, will depend in part on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing, or nature of any such future offerings or borrowings. Holders of our Common Stock must bear the risk that any future offerings we conduct or borrowings we make may adversely affect the level of return, if any, they may be able to achieve from an investment in our Common Stock.

Our Common Stock is subject to the SEC's penny stock rules, which may make it difficult for broker-dealers to complete customer transactions and could adversely affect trading activity in our securities.

The SEC has adopted regulations which generally define "penny stock" to be an equity security that has a market price of less than \$5.00 per share, subject to specific exemptions. The market price of our Common Stock may be less than \$5.00 per share for some period of time and therefore would be a penny stock according to SEC rules, unless we are listed on a national securities exchange. Under the SEC penny stock rules, broker-dealers who recommend such securities to persons other than institutional accredited investors must:

- make a special written suitability determination for the purchaser;
- receive the purchaser's prior written agreement to the transaction;
- provide the purchaser with risk disclosure documents which identify certain risks associated with investing in penny stocks and which describe the market for these penny stocks as well as a purchaser's legal remedies; and
- obtain a signed and dated acknowledgment from the purchaser demonstrating that the purchaser has actually received the required risk disclosure document before a transaction in a penny stock can be completed.

When complying with these rules, broker-dealers may find it difficult to effectuate customer transactions and trading activity in our securities may be adversely affected.

Our Common Stock has historically experienced low trading volume on the OTC Pink, and therefore the price may not accurately reflect our value. There can be no assurance that an active market for our Common Stock will develop, either now or in the future.

Our shares of Common Stock have been thinly traded on the OTC Pink. Only a small percentage of our Common Stock is available to be traded and is held by a small number of holders and the price, if traded, may not reflect our actual or perceived value. There can be no assurance that there will be an active market for our shares of Common Stock either now or in the future. The market liquidity will be dependent on the perception of our operating business, among other things. We will take certain steps that may include any or all of investor awareness campaigns, press releases, road shows and conferences to increase awareness of our business and any steps that we might take to bring us to the awareness of investors may require that we compensate consultants with cash and/or stock.

In addition, the trading volume of stocks quoted on the OTC Pink is often low and is often characterized by wide fluctuations in trading prices due to many factors that may have little to do with a company's operations or business prospects. Because our Common Stock is only quoted on the OTC Pink, trading is only possible through broker-dealers, and the trading volume of our Common Stock has been low. Because we are quoted on the OTC Pink and were not a privately-held company, you may experience difficulty liquidating your investment in our Common Stock or liquidating it at a price that reflects the value of our business. As a result, holders of our securities may not find purchasers for our securities should they desire to sell them. Accordingly, our securities should be purchased only by investors having no need for liquidity in their investment and who can hold our securities for an indefinite period of time.

We have had a history of losses and may incur future losses, which may prevent us from attaining profitability.

We have had a history of operating losses since our inception and, as of June 30, 2023, we had an accumulated deficit of \$52,060,481. We may incur operating losses in the future, and these losses could be substantial and impact our ability to attain profitability. If we cannot increase revenue growth, we will not achieve or sustain profitability or positive operating cash flows. Even if we achieve profitability and positive operating cash flows, we may not be able to sustain or increase profitability or positive operating cash flows on a quarterly or annual basis.

There is substantial doubt about our ability to continue as a going concern.

Our independent registered public accounting firm has included an explanatory paragraph in their report in our audited financial statements for the fiscal year ended December 31, 2022 to the effect that our losses from operations and our negative cash flows from operations raise substantial doubt about our ability to continue as a going concern. Our financial statements do not include any adjustments that might be necessary should we be unable to continue as a going concern within one year after the date that the financial statements are issued. We may be required to cease operations which could result in our stockholders losing all or almost all of their investment. As of June 30, 2023, we had cash balance of \$15,904 and our principal sources of liquidity were trade accounts receivable of \$3,147 and prepaid expense, advance payment for acquisition of \$2,726,188 and other current assets of \$273,159, as compared to cash of \$1,712, trade accounts receivable of \$31,978 advance payment for acquisition of \$2,726,188 and other current assets of \$91,204 as of December 31, 2022.

The market price of our Common Stock may be volatile and may fluctuate in a way that is disproportionate to our operating performance.

Our stock price may experience substantial volatility as a result of a number of factors, including:

- sales or potential sales of substantial amounts of our Common Stock;
- the success of competitive products or technologies;

- announcements about us or about our competitors, including new product introductions and commercial results;
- the recruitment or departure of key personnel;
- litigation and other developments;
- actual or anticipated changes in estimates as to financial results, development timelines or recommendations by securities analysts;
- variations in our financial results or those of companies that are perceived to be similar to us; and
- general economic, industry and market conditions.

Many of these factors are beyond our control. The stock markets in general, and the market for companies whose shares are quoted on the OTC Pink in particular have historically experienced extreme price and volume fluctuations. These fluctuations often have been unrelated or disproportionate to the operating performance of these companies. Broad market and industry factors could reduce the market price of our Common Stock, regardless of our actual operating performance.

We currently have outstanding shares of preferred stock that have special rights that could limit our ability to undertake corporate transactions, inhibit potential changes of control and reduce the proceeds available to our common stockholders in the event of a change in control.

We currently have Common Stock and preferred stock outstanding. Our preferred stockholders have special rights that holders of our Common Stock do not have. Currently, we have two types of preferred stock: Series A Preferred Stock and Series B Preferred Stock. An example of special rights that holders of our Series A Preferred Stock have is the ability to vote on all matters submitted to holders of Common Stock with 15,000 votes for each share of Series A Preferred Stock. Examples of the special rights that holders of our Series B Preferred Stock have are that each share of Series B Preferred Stock has (i) a stated value of \$10.00 per share; (ii) is convertible into Common Stock at a price per share equal to 61% of the lowest price for our Common Stock during the 20 days of trading preceding the date of the conversion; (iii) earns dividends at the rate of 9% per annum; but (iv) has no voting rights. Our Series A Preferred Stock and Series B Preferred Stock ranks senior to holders of our Common Stock as to dividend rights and liquidation preference. We currently have shares 149,892 of Series A Preferred Stock.

As a result of the rights our preferred stockholders have, we may not be able to undertake certain corporate transactions, including equity or debt transactions necessary to raise sufficient capital to run our business, change of control transactions or other transactions that may be beneficial to our businesses. The holdings of the preferred stockholders may discourage, delay, or prevent a merger, acquisition, or other change in control of us that stockholders may consider favorable, including transactions in which our Common Stockholders might otherwise receive a premium for their shares. The market price of our Common Stock could be adversely affected by the rights of our preferred stockholders.

We have never paid and do not currently intend to pay cash dividends.

We have never paid cash dividends on any of our Common Stock and we currently intend to retain future earnings, if any, to fund the development and growth of our business. As a result, capital appreciation, if any, of our Common Stock will be our common stockholders' sole source of gain for the foreseeable future. Under the terms of our existing Articles of Incorporation, we cannot declare, pay, or set aside any dividends on shares of any class or series of our capital stock, other than dividends on shares of Common Stock payable in shares of Common Stock, unless we pay dividends to the holders of our preferred stock. Additionally, without special stockholder and sole director approvals, we cannot currently pay or declare dividends and will be limited in our ability to do so until such time, if ever, that we are listed on a stock exchange.

Our Chief Executive Officer has the ability to control all matters submitted to stockholders for approval, which limits stockholders' ability to influence corporate affairs.

Our Chief Executive Officer, Jason Remillard, holds 149,892 shares of our Series A Preferred Stock (each share votes as the equivalent of 15,000 shares of Common Stock on all matters submitted for a vote by the common stockholders), and as such, Mr. Remillard would be able to control all matters submitted to our stockholders for approval, as well as our management and affairs. For example, Mr. Remillard would control the election of directors and approval of any merger, consolidation, or sale of all or substantially all of our assets.

This concentration of voting power could delay or prevent a change of control of our company on terms that other stockholders may desire, which could deprive our stockholders from receiving a premium for their Common Stock. Concentrated ownership and control by Mr. Remillard could adversely affect the price of our Common Stock. Any material sales of Common Stock by Mr. Remillard, for example, could adversely affect the price of our Common Stock.

The interests of Mr. Remillard and his affiliates may differ from the interests of other stockholders with respect to the issuance of shares, business transactions with and/or sales to other companies, selection of officers and directors, and other business decisions. The non-controlling stockholders are severely limited in their ability to override the decisions of Mr. Remillard.

Provisions in our articles of incorporation and bylaws and under Nevada law could make an acquisition of us, which may be beneficial to our stockholders, more difficult and may prevent attempts by our stockholders to replace or remove our current management.

Provisions in our articles of incorporation and bylaws, respectively, may discourage, delay or prevent a merger, acquisition or other change in control of us that stockholders may consider favorable, including transactions in which our common stockholders might otherwise receive a premium price for their shares. These provisions could also limit the price that investors might be willing to pay in the future for shares of our Common Stock, thereby depressing the market price of our Common Stock. In addition, because our sole director is responsible for appointing the members of our management team, these provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace our sole director.

We will continue to incur substantial costs as a result of operating as a public reporting company, and our management will be required to devote substantial time to compliance initiatives.

As a public reporting company, we incur significant legal, accounting, and other expenses that private companies do not incur. In addition, the Sarbanes-Oxley Act and rules subsequently implemented by the SEC have imposed various requirements on public companies, including establishing and maintaining effective disclosure, financial controls, and corporate governance practices. Complying with these laws and regulations will require the time and attention of our Board of Directors and management and will increase our expenses. We estimate that we will incur approximately \$350,000 to \$600,000 in 2023 to comply with public company compliance requirements, with many of those costs recurring annually thereafter.

Among other things, we will be required to:

- maintain and evaluate a system of internal controls over financial reporting in compliance with the requirements of the Sarbanes-Oxley Act and the related rules and regulations of the SEC and the Public Company Accounting Oversight Board;
- maintain adequate insurance coverage to attract and retain directors and officers;
- provide adequate compensation to attract qualified directors;
- maintain policies relating to disclosure controls and procedures;
- prepare and distribute periodic reports in compliance with our obligations under federal securities laws;
- institute a more comprehensive compliance function, including corporate governance; and
- involve, to a greater degree, our outside legal counsel and accountants in the above activities.

The costs of preparing and filing annual and quarterly reports, proxy statements and other information with the SEC and furnishing audited reports to stockholders are significant and much greater for a publicly-held company than for a privately-held company, and compliance with these rules and regulations may require us to hire additional financial reporting, internal controls and other finance personnel, and will involve a material increase in regulatory, legal and accounting expenses, and the attention of management. There can be no assurance that we will be able to comply with the applicable regulations in a timely manner, if at all. In addition, being a public company may make it more expensive for us to obtain director and officer liability insurance. In the future, we may be required to accept reduced coverage or incur substantially higher costs to obtain this coverage.

We currently have outstanding, and we may in the future issue, instruments which are convertible into shares of Common Stock, which will result in additional dilution to you.

We currently have outstanding instruments which are convertible into shares of Common Stock, and we may need to issue similar instruments in the future. If these convertible instruments are converted into shares of Common Stock, or if we issue other convertible or exchangeable securities, you could experience additional dilution. Furthermore, we cannot assure you that we will be able to issue shares or other securities in any other offering at a price per share that is equal to or greater than the price per share you pay or the then-current market price.

We may, in the future, issue additional shares of our Common Stock, which may have a dilutive effect on our current stockholders.

Our articles of incorporation authorize the issuance of 500,000,000 shares of Common Stock, of which 59,363,988 shares were issued and outstanding as of June 30, 2023. The future issuance of shares of our Common Stock may result in substantial dilution in the percentage of our Common Stock held by our then-existing stockholders. We may value any Common Stock issued in the future on an arbitrary basis. The issuance of Common Stock for future services or acquisitions or other corporate actions may have the effect of diluting the value of the shares held by our investors and might have an adverse effect on any trading market for our Common Stock.

An investment in our Common Stock is speculative and there can be no assurance of any return on any such investment.

An investment in our Common Stock is speculative and there is no assurance that investors will obtain any return on their investment. Investors will be subject to substantial risks involved in an investment in us, including the risk of losing their entire investment.

If we fail to establish and maintain an effective system of internal controls, we may not be able to report our financial results accurately or prevent fraud. Any inability to report and file our financial results accurately and on a timely basis could harm our reputation and adversely impact the trading price of our Common Stock.

Effective internal control is necessary for us to provide reliable financial reports and prevent fraud. If we cannot provide reliable financial reports or prevent fraud, we may not be able to manage our business as effectively as we would if an effective control environment existed, and our business and reputation with investors may be harmed. As a result, our small size and any current internal control deficiencies may adversely affect our financial condition, results of operation, and access to capital. We have not performed an in-depth analysis to determine if historical undiscovered failures of internal controls exist, and we may in the future discover areas of our internal control that need improvement.

We must ensure that we have adequate internal financial and accounting controls and procedures in place to produce accurate financial statements on a timely basis. We have tested our internal controls and identified a weakness and may find additional areas for improvement in the future. Remediating this weakness will require us to hire and train additional personnel. Implementing any future changes to our internal controls may require compliance training of our directors, officers, and employees, entail substantial costs to modify our accounting systems and take a significant period of time to complete. Such changes may not, however, be effective in establishing the adequacy of our internal control over financial reporting, and our failure to produce accurate financial statements on a timely basis could increase our operating costs and could materially impair our ability to operate our business. In addition, investor perception that our internal control over financial reporting is inadequate or that we are unable to produce accurate financial statements may materially adversely affect our stock price.

Offers or availability for sale of a substantial number of shares of our Common Stock may cause the price of our Common Stock to decline.

If our stockholders sell substantial amounts of our Common Stock in the public market, or upon the expiration of any statutory holding period under Rule 144 or upon the exercise of outstanding options or warrants, such sale could create a circumstance commonly referred to as an “overhang”. In anticipation of an overhang, the market price of our Common Stock could decline. The existence of an overhang, whether or not sales have occurred or are occurring, also could make more difficult our ability to raise additional funds through the sale of equity or equity-related securities in the future at a time and price that we deem reasonable or appropriate.

Our management has broad discretion in the use of the net proceeds from any offerings or other financing activities and may invest or spend the proceeds in ways with which you do not agree and in ways that may not yield a return.

Our management will have broad discretion in the application of the net proceeds from any offering of shares of our Common Stock or warrants or from other financing activities, such as convertible debt and you will not have the opportunity as part of any investment decision to assess whether the net proceeds are being used appropriately. The failure by our management to apply these funds effectively could harm our business.

Our Common Stock may not attract new investors, including institutional investors, and may not satisfy the investing requirements of those investors. Consequently, the liquidity of our Common Stock may not improve.

Although we believe that a higher market price of our Common Stock may help generate greater or broader investor interest, there can be no assurance that our share price will rise to a price that will attract new investors, including institutional investors. In addition, there can be no assurance that the market price of our Common Stock will satisfy the investing requirements of those investors.

Adverse or uncertain macroeconomic or geopolitical conditions or reduced IT spending may adversely impact our business, revenues, and profitability.

Our business, operations and performance are dependent in part on worldwide economic conditions and events that may be outside of our control, such as political and social unrest, terrorist attacks, hostilities, malicious human acts, climate change, natural disasters (including extreme weather), pandemics or other major public health concerns and other similar events, and the impact these conditions and events have on the overall demand for enterprise computing infrastructure solutions and on the economic health and general willingness of our current and prospective end customers to purchase our solutions and to continue spending on IT in general. The global macroeconomic environment has been, and may continue to be, inconsistent, challenging and unpredictable due to international trade disputes, tariffs, including those recently imposed by the U.S. government on Chinese imports to the U.S., restrictions on sales and technology transfers, uncertainties related to changes in public policies such as domestic and international regulations, taxes, or international trade agreements, elections, geopolitical turmoil and civil unrests, instability in the global credit markets, uncertainties regarding the effects of the United Kingdom’s separation from the European Union, commonly known as “Brexit”, actual or potential government shutdowns, and other disruptions to global and regional economies and markets. Specifically, pandemics have caused and may continue to cause travel bans or disruptions, supply chain delays and disruptions, and additional macroeconomic uncertainty. The impact of a pandemic is fluid and uncertain, but it has caused and may continue to cause various negative effects, including an inability to meet with actual or potential customers, our customers deciding to delay or abandon their planned purchases, us deciding to delay, cancel, or withdraw from user and industry conferences and other marketing events, and delays or disruptions in our or our partners’ supply chains, including delays or disruptions in procuring and shipping the hardware appliances on which our software solutions run. As a result, we may experience extended sales cycles, our ability to close transactions with new and existing customers and partners may be negatively impacted, potentially significantly, our ability to recognize revenue from software transactions we do close may be negatively impacted, potentially significantly, our demand generation activities, and the efficiency and effect of those activities, may be negatively affected, our ability to provide 24x7 worldwide support to our customers may be effected, and it may continue to be more difficult for us to forecast our operating results. These macroeconomic challenges and uncertainties, including a possible pandemic, have, and may continue to, put pressure on global economic conditions and overall IT spending and may cause our customers to modify spending priorities or delay or abandon purchasing decisions, thereby lengthening sales cycles and potentially lowering prices for our solutions and product and services offerings, and may make it difficult for us to forecast our sales and operating results and to make decisions about future investments, any of which could materially harm our business, operating results and financial condition.

Public health threats or outbreaks of communicable diseases could have a material adverse effect on our operations and overall financial performance.

We may face risks related to public health threats or outbreaks of communicable diseases. A global health crisis could adversely affect the United States and global economies and limit the ability of enterprises to conduct business for an indefinite period. Such crisis may also cause disrupted financial markets, and international trade, resulted in increased unemployment levels and significantly impacted global supply chains, all of which have the potential to impact our business.

As we cannot predict the duration or scope of the global health crisis, the anticipated negative financial impact to our operating results cannot be reasonably estimated but could be material and last for an extended period of time.

Prolonged economic uncertainties or downturns could materially adversely affect our business.

Our business depends on our current and prospective customers' ability and willingness to invest money in IT services, and more importantly cybersecurity projects, which in turn is dependent upon their overall economic health. Negative conditions in the general economy both in the United States and abroad, which beyond our control, could cause a decrease in business investments, including corporate spending on enterprise software in general, and could negatively affect the rate of growth of our business. Uncertainty in the global economy makes it difficult for our customers and us to forecast and plan future business activities accurately. This could cause our customers to reevaluate decisions to purchase our product or to delay their purchasing decisions, which could lengthen our sales cycles.

A significant number of our customers have been and continue to be impacted by the economic turmoil. Our customers may reduce their spending on IT; delay or cancel IT projects; focus on in-house development efforts; or seek to lower their costs by renegotiating maintenance and support agreements. To the extent purchases of licenses for our software and services are perceived by customers and potential customers to be discretionary, our revenues may be disproportionately affected by delays or reductions in general IT spending. If the economic conditions of the general economy or industries in which we operate worsen from present levels, our business, results of operations and financial condition could be adversely affected.

In addition, should we have a significant number of our employees contract the communicable diseases, it could have a negative impact on our ability to serve customers in a timely fashion.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

During the three months ended June 30, 2023, we issued shares of our common stock as follows, pursuant to exemption from registration pursuant to Section 4(a)(2) of the Securities Act and/or Regulation D promulgated thereunder:

- On May 1, 2023, we issued 328,796 shares of Common Stock to One44 Capital, LLC pursuant to an agreement with One44 Capital, LLC, in exchange for \$6,300 in note payable principal and \$690 of accrued interest.
- On May 1, 2023, we issued 336,663 shares of Common Stock to Root Ventures, LLC pursuant to an agreement with Root Ventures, LLC, in exchange for \$7,137 in note payable principal.
- On May 8, 2023, we issued 362,878 shares of Common Stock to One44 Capital, LLC pursuant to an agreement with One44 Capital, LLC, in exchange for \$6,000 in note payable principal and \$556 of accrued interest.
- On May 19, 2023, we issued 394,437 shares of Common Stock to One44 Capital, LLC pursuant to an agreement with One44 Capital, LLC, in exchange for \$5,400 in note payable principal and \$615 of accrued interest.
- On May 26, 2023, we issued 1,644,736 shares of Common Stock to Root Ventures, LLC pursuant to an agreement with Root Ventures, LLC, in exchange for \$25,000 in note payable principal.
- On May 26, 2023, we issued 2,333,333 shares of Common Stock to Fast Capital LLC pursuant to an agreement with Fast Capital LLC, in exchange for \$35,000 in note payable principal.
- On May 31, 2023, we issued 425,580 shares of Common Stock to GS Capital Partners LLC pursuant to an agreement with GS Capital Partners LLC, in exchange for \$5,442 in note payable principal and \$873 of accrued interest.

- On June 16, 2023, we issued 850,373 shares of Common Stock to One44 Capital, LLC pursuant to an agreement with One44 Capital, LLC, in exchange for \$8,400 in note payable principal and \$1,015 of accrued interest.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description
4.1	Convertible Promissory Note issued the Company in favor of 1800 Diagonal Lending LLC on 16 May 2023 in the original principal amount of \$90,562.
31.1*	Rule 13a-14(a) / 15d-14(a) Certification of Chief Executive Officer.
31.2*	Rule 13a-14(a) / 15d-14(a) Certification of Chief Financial Officer.
32.1*	Section 1350 Certification of Chief Executive Officer.
32.2*	Section 1350 Certification of Chief Financial Officer.
101*	Inline XBRL Document Set for the condensed consolidated financial statements and accompanying notes in Part I, Item 1, "Financial Statements" of this Quarterly Report on Form 10-Q.
104*	Inline XBRL for the cover page of this Quarterly Report on Form 10-Q, included in the Exhibit 101 Inline XBRL Document Set.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, our Company caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 14, 2023

DATA443 RISK MITIGATION, INC.

By: /s/ Jason Remillard

Name: JASON REMILLARD

Title: Chief Executive Officer (Principal Executive Officer)