

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

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended September 30, 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 our common stock as of November 17, 2023 was 269,124.

DATA443 RISK MITIGATION, INC.
FORM 10-Q
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PART I
FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	As of September 30, 2023	As of December 31, 2022
Assets		
Current assets		
Cash	\$ 4,890	\$ 1,712
Accounts receivable, net	35,623	31,978
Prepaid expense and other current assets	647,990	91,204
Total current assets	688,503	124,894
Property and equipment, net	475,066	427,031
Operating lease right-of-use assets, net	168,189	405,148
Advance payment for acquisition	4,826,188	2,726,188
Intellectual property, net of accumulated amortization	80,334	454,331
Deposits	45,673	45,673
Total Assets	\$ 6,283,953	\$ 4,183,265
Liabilities and Stockholders' Deficit		
Current Liabilities		
Accounts payable and accrued liabilities	2,909,110	1,031,931
Deferred revenue	1,619,711	1,704,249
Interest payable	826,187	478,712
Notes payable, net of unamortized discount	2,100,549	918,785
Convertible notes payable, net of unamortized discount	3,142,476	4,134,155
Due to a related party	370,509	112,062
Operating lease liability	235,299	213,831
Finance lease liability	-	10,341
Total Current Liabilities	11,203,841	8,604,066
Notes payable, net of unamortized discount - non-current	1,364,865	3,104,573
Convertible notes payable, net of unamortized discount - non-current	97,946	97,946
Deferred revenues - non-current	330,540	788,902
Operating lease liability - non-current	-	354,631
Total Liabilities	12,997,192	12,950,118
Commitments and Contingencies		
Stockholders' Deficit		
Series A Preferred Stock, 150,000 shares designated; \$0.001 par value; 149,892,000 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 269,124 and 4,360 shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively	61,556	2,611
⁽ⁱ⁾ Additional paid in capital	47,265,212	42,642,514

Accumulated deficit	(54,040,157)	(51,412,128)
Total Stockholders' Deficit	<u>(6,713,239)</u>	<u>(8,766,853)</u>
Total Liabilities and Stockholders' Deficit	<u>\$ 6,283,953</u>	<u>\$ 4,183,265</u>

⁽ⁱ⁾ Reflects retrospectively the 1-for-600 reverse stock split that became effective September 20, 2023. Refer to Note 1, "Summary of Business Operations and Significant Accounting Policies"

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		Nine Months Ended	
	September 30,		September 30,	
	2023	2022	2023	2022
Revenue	\$ 693,835	\$ 916,172	\$ 2,692,681	\$ 2,279,677
Cost of revenue	190,425	104,322	644,288	382,594
Gross profit	<u>503,410</u>	<u>811,850</u>	<u>2,048,393</u>	<u>1,897,083</u>
Operating expenses				
General and administrative	1,471,024	1,557,584	4,507,332	4,647,366
Sales and marketing	34,430	40,929	130,983	220,959
Total operating expenses	<u>1,505,454</u>	<u>1,598,513</u>	<u>4,638,315</u>	<u>4,868,325</u>
Loss from operations	(1,002,044)	(786,663)	(2,589,922)	(2,971,242)
Other income (expense)				
Interest expense	(983,100)	(796,057)	(4,947,656)	(2,833,126)
Gain (loss) on settlement of debt	5,468	-	4,909,549	-
Change in fair value of derivative liability	-	-	-	(57,883)
Total other expense	<u>(977,632)</u>	<u>(796,057)</u>	<u>(38,107)</u>	<u>(2,891,009)</u>
Loss before income taxes	(1,979,676)	(1,582,720)	(2,628,029)	(5,862,251)
Provision for income taxes	-	-	-	-
Loss	<u>\$ (1,979,676)</u>	<u>\$ (1,582,720)</u>	<u>\$ (2,628,029)</u>	<u>\$ (5,862,251)</u>
Dividend on Series B Preferred Stock	-	-	-	(104,631)
Loss attributable to common stockholders	<u>\$ (1,979,676)</u>	<u>\$ (1,582,720)</u>	<u>\$ (2,628,029)</u>	<u>\$ (5,966,882)</u>
Basic and diluted loss per Common Share ⁽ⁱ⁾	<u>\$ (21.97)</u>	<u>\$ (9,769.88)</u>	<u>\$ (54.40)</u>	<u>\$ (5,619.29)</u>
Basic and diluted weighted average number of common shares outstanding ⁽ⁱ⁾	<u>90,093</u>	<u>162</u>	<u>48,310</u>	<u>1,062</u>

⁽ⁱ⁾Reflects retrospectively the 1-for-600 reverse stock split that became effective September 20, 2023. Refer to Note 1, "Summary of Business Operations and Significant Accounting Policies"

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)

Nine Months Ended September 30, 2023

	<u>Series A</u>		<u>Common Stock</u>		<u>Additional</u> <u>Paid in</u> <u>Capital</u>	<u>Accumulated</u> <u>Deficit</u>	<u>Total</u> <u>Stockholders'</u> <u>Deficit</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>			
Balance - December 31, 2022 ⁽ⁱ⁾	149,892	\$ 150	4,360	\$ 2,611	\$42,642,514	\$ (51,412,128)	\$ (8,766,853)
Common Stock issued for acquisition of Cyren Assets ⁽ⁱ⁾	-	-	165,290	165	1,999,835	-	2,000,000
Common Stock issued for conversion of debt ⁽ⁱ⁾	-	-	21,428	12,857	344,735	-	357,592
Common Stock issued for adjustment to investors in private placement ⁽ⁱ⁾	-	-	77,010	45,619	(45,619)	-	-
Warrant issued in conjunction with debts ⁽ⁱ⁾	-	-	-	-	1,682,499	-	1,682,499
Stock-based compensation ⁽ⁱ⁾	-	-	1,036	304	641,248	-	641,552
Net loss	-	-	-	-	-	(2,628,029)	(2,628,029)
Balance – September 30, 2023 ⁽ⁱ⁾	<u>149,892</u>	<u>\$ 150</u>	<u>269,124</u>	<u>\$ 61,556</u>	<u>\$47,265,212</u>	<u>\$ (54,040,157)</u>	<u>\$ (6,713,239)</u>

Three Months Ended September 30, 2023

	<u>Series A</u>		<u>Common Stock</u>		<u>Additional</u> <u>Paid in</u> <u>Capital</u>	<u>Accumulated</u> <u>Deficit</u>	<u>Total</u> <u>Stockholders'</u> <u>Deficit</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>			
Balance – June 30, 2023 ⁽ⁱ⁾	149,892	\$ 150	98,940	\$ 59,360	\$43,458,946	\$ (52,060,481)	\$ (8,542,025)
Common Stock issued for cash – Reversal	-	-	-	-	(20,000)	-	(20,000)
Common Stock issued for acquisition of Cyren Assets ⁽ⁱ⁾	-	-	165,290	165	1,999,835	-	2,000,000
Common Stock issued for conversion of debt ⁽ⁱ⁾	-	-	4,394	2,049	22,951	-	25,000
Warrant issued in conjunction with debts ⁽ⁱ⁾	-	-	-	-	1,682,499	-	1,682,499
Stock-based compensation ⁽ⁱ⁾	-	-	500	(18)	120,981	-	120,963
Net income	-	-	-	-	-	(1,979,676)	(1,979,676)
Balance – September 30, 2023 ⁽ⁱ⁾	<u>149,892</u>	<u>\$ 150</u>	<u>269,124</u>	<u>\$ 61,556</u>	<u>\$47,265,212</u>	<u>\$ (54,040,157)</u>	<u>\$ (6,713,239)</u>

⁽ⁱ⁾ Reflects retrospectively the 1-for-600 reverse stock split that became effective September 20, 2023. Refer to Note 1, “Summary of Business Operations and Significant Accounting Policies”

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 (Continued)
(UNAUDITED)

Nine Months Ended September 30, 2022

	<u>Series A</u>		<u>Common Stock</u>		<u>Additional</u> <u>Paid in</u> <u>Capital</u>	<u>Accumulated</u> <u>Deficit</u>	<u>Total</u> <u>Stockholders'</u> <u>Deficit</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>			
Balance - December 31, 2021 ⁽ⁱ⁾	150,000	\$ 150	203	\$ 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 ⁽ⁱ⁾	-	-	635	381	2,475,807	-	2,476,188
Subscription for share issuance	-	-	-	-	829,000	-	829,000
Common Stock issued for conversion of preferred stock ⁽ⁱ⁾	(108)	-	180	108	(108)	-	-
Common Stock issued for conversion of debt ⁽ⁱ⁾	-	-	481	289	130,799	-	131,088
Common Stock issued in conjunction with convertible notes ⁽ⁱ⁾	-	-	30	18	140,919	-	140,937
Common Stock issued for exercised cashless warrants ⁽ⁱ⁾	-	-	11	7	(7)	-	-
Common Stock issued for service ⁽ⁱ⁾	-	-	256	153	844,048	-	844,201
Resolution of derivative liability upon exercise of warrants	-	-	-	-	57,883	-	57,883
Warrants issued in conjunction with debts	-	-	-	-	47,628	-	47,628
Stock-based compensation	-	-	-	-	(14,280)	-	(14,280)
Net loss	-	-	-	-	-	(5,966,882)	(5,966,882)
Balance – September 30, 2022 ⁽ⁱ⁾	<u>149,892</u>	<u>\$ 150</u>	<u>1,796</u>	<u>\$ 1,078</u>	<u>\$41,804,569</u>	<u>\$ (47,560,912)</u>	<u>\$ (5,755,115)</u>

Three months ended September 30, 2022

	<u>Series A</u>		<u>Common Stock</u>		<u>Additional</u> <u>Paid in</u> <u>Capital</u>	<u>Accumulated</u> <u>Deficit</u>	<u>Total</u> <u>Stockholders'</u> <u>Deficit</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>			
Balance – June 30, 2022 ⁽ⁱ⁾	149,892	\$ 150	1,591	\$ 954	\$40,842,698	\$ (45,978,192)	\$ (5,134,390)
Subscription for share issuance	-	-	-	-	829,000	-	829,000
Common Stock issued for conversion of debt ⁽ⁱ⁾	-	-	205	124	101,640	-	101,764
Stock-based compensation	-	-	-	-	31,231	-	31,231
Net loss	-	-	-	-	-	(1,582,720)	(1,582,720)
Balance – September 30, 2022 ⁽ⁱ⁾	<u>149,892</u>	<u>\$ 150</u>	<u>1,796</u>	<u>\$ 1,078</u>	<u>\$41,804,569</u>	<u>\$ (47,560,912)</u>	<u>\$ (5,755,115)</u>

⁽ⁱ⁾ Reflects retrospectively the 1-for-600 reverse stock split that became effective September 20, 2023. Refer to Note 1, "Summary of Business Operations and Significant Accounting Policies"

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

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

	Nine Months Ended	
	September 30,	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (2,628,029)	\$ (5,862,251)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Change in fair value of derivative liability	-	57,883
(Gain) loss on settlement of debt	(5,057,970)	-
Stock-based compensation expense	641,552	829,921
Depreciation and amortization	511,485	816,944
Amortization of debt discount	1,239,686	1,878,976
Bad debt	-	345,775
Lease liability amortization	(96,204)	42,339
Changes in operating assets and liabilities:		
Accounts receivable	(3,645)	(328,466)
Prepaid expenses and other assets	(556,786)	25,172
Accounts payable and accrued liabilities	1,877,179	675,723
Deferred revenue	(542,900)	1,043,786
Accrued interest expense	5,136,419	203,512
Accrued Dividend	-	(14,233)
Net Cash (used in) provided by Operating Activities	520,787	(284,919)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Advance payment for acquisition	(100,000)	(250,000)
Purchase of property and equipment	(185,523)	(298,839)
Net Cash used in Investing Activities	(285,523)	(548,839)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of convertible notes payable	1,067,631	1,257,800
Repayment of convertible notes payable	(294,868)	(895,783)
Proceeds from stock subscription for share issuance	-	829,000
Proceeds from issuance of Series B Preferred Stock	-	75,000
Redemption of Series B Preferred Stock	-	(487,730)
Finance lease payments	(10,341)	(57,325)
Proceeds from issuance of notes payable	-	2,516,912
Repayment of notes payable	(1,252,955)	(3,430,411)
Proceeds from related parties	318,447	224,778
Repayment to related parties	(60,000)	(174,431)
Net Cash used in Financing Activities	(232,086)	(142,190)
Net change in cash	3,178	(975,948)
Cash, beginning of period	1,712	1,204,933
Cash, end of period	\$ 4,890	\$ 228,985
Supplemental cash flow information		
Cash paid for interest	\$ 701,427	\$ 454,366
Cash paid for taxes	\$ -	\$ -

Non-cash Investing and Financing transactions:

Common Stock issued for purchase of intangibles	\$ 2,000,000	\$ 2,476,188
Common Stock issued for exercised cashless warrant	\$ -	\$ 7
Settlement of convertible notes payable through issuance of common stock	\$ 357,592	\$ 131,087
Common Stock issued in conjunction with convertible note	\$ -	\$ 140,936
Warrant issued in conjunction with debts	\$ 1,682,499	\$ 47,628
Resolution of derivative liability upon exercise of warrant	\$ -	\$ 57,883
Cumulative-effect adjustment from adoption of ASU 2020-06	\$ -	\$ 77,642

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. (“we,” “us,” “our” or the “Company”) was incorporated as a Nevada corporation on May 4, 1998. On October 15, 2019, we changed our name from LandStar, Inc. to Data443 Risk Mitigation, Inc..

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 with virtualization platforms, such as those hosted or configured using VMWare®, Citrix® and Oracle® clouds/products.

Reverse Stock Split

Our Board of Directors and stockholders approved a reverse stock split of the outstanding shares of our common stock, par value \$0.001 (the “Common Stock”) on the basis of one share of Common Stock for every 600 shares of Common Stock, which reverse stock split became effective on September 20, 2023. Unless noted otherwise, all shares and per share amounts and information presented herein have been retroactively adjusted to reflect the reverse stock split for all periods presented.

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 us in favor of Centurion (“Centurion Note”); and (iii) \$250,000 in the form of a contingent payment. The Centurion Note matures on January 19, 2027 but provides that our repayment obligation accelerates upon the occurrence of certain events. In April 2022, we and Centurion agreed that we would issue shares of Common Stock to Centurion in an amount then-equivalent to \$2,400,000, as partial repayment of amount due under the Centurion Note. We issued Centurion 635 shares of Common Stock on April 20, 2022. 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.

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 us, 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. We issued the Receiver 165,290 shares of Common Stock on September 26, 2023 and \$100,000 cash payment as an advance on the cash payable obligation. As of the filing of this Quarterly Report, the transaction has not yet closed.

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 and amended on August 24, 2023. The results of operations for the nine months ended September 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 September 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 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 September 30, 2023, and September 30, 2022, we recorded bad debt expense of \$0 and \$345,775, respectively. For the nine months ended September 30, 2023, and September 30, 2022, we recorded bad debt expense of \$0 and \$345,775, 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 \$120,981 in stock-based compensation expense for the three months ended September 30, 2023, compared to \$31,231 in stock-based compensation expense for the three months ended September 30, 2022.

We recorded approximately \$641,552 in stock-based compensation expense for the nine months ended September 30, 2023, compared to \$(14,280) in stock-based compensation expense for the nine months ended September 30, 2022. Determining the appropriate fair value model and the related assumptions requires judgment. During the three and nine months ended September 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 September 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 Share of Common Stock

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 three and nine months ended September 30, 2023 and 2022, 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:

Three Months Ended September 30,	
2023	2022
(Shares)	(Shares)

Series A Preferred Stock	149,892,000	149,892,000
Stock options	5,034	1
Warrants	753,976	264
Total	<u>150,651,010</u>	<u>149,892,265</u>

	Nine Months Ended September 30,	
	2023	2022
Series A Preferred Stock	(Shares) 149,892,000	(Shares) 149,892,000
Stock options	9,765	1
Warrants	754,240	264
Total	<u>150,656,005</u>	<u>149,892,265</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. We use the modified retrospective method to adjust.

Recently Issued Accounting Pronouncements

We have 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 \$2,628,029 for the nine months ended September 30, 2023 and we have negative working capital of \$10,669,338 and an accumulated deficit \$54,040,157 as of September 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:

	September 30, 2023	December 31, 2022
Furniture and Fixtures	\$ 6,103	\$ 6,103
Computer Equipment	1,053,193	867,670
	<u>1,059,296</u>	<u>873,773</u>
Accumulated depreciation	(584,230)	(446,742)
Property and equipment, net of accumulated depreciation	<u>\$ 475,066</u>	<u>\$ 427,031</u>

Depreciation expense for the three months ended September 30, 2023 and 2022, was \$ 46,272.00 and \$ 45,958.00, respectively.

Depreciation expense for the nine months ended September 30, 2023 and 2022, was \$137,488 and \$126,128, respectively.

During the nine months ended September 30, 2023 and 2022, we purchased property and equipment of \$185,523 and \$298,839, respectively.

NOTE 4: INTELLECTUAL PROPERTY

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

	September 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
IntellyWPT™	60,000	60,000
Resilient Network Systems	305,000	305,000
	<u>5,229,851</u>	<u>5,229,851</u>
Accumulated amortization	(5,149,517)	(4,775,520)
Intellectual property, net of accumulated amortization	<u>\$ 80,334</u>	<u>\$ 454,331</u>

We recognized amortization expense of \$124,663 and \$230,272 for the three months ended September 30, 2023, and 2022, respectively.

We recognized amortization expense of \$373,998 and \$690,816 for the nine months ended September 30, 2023, and 2022, respectively.

Based on the carrying value of definite-lived intangible assets as of September 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 nine months ended September 30, 2023)	\$ 37,584
2024	27,000
2025	15,750
Thereafter	-
	<u>\$ 80,334</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:

	September 30, 2023	December 31, 2022
Accounts payable	\$ 1,415,034	\$ 427,553
Credit cards	83,662	50,302
Accrued liabilities	1,410,414	554,076
	<u>\$ 2,909,110</u>	<u>\$ 1,031,931</u>

NOTE 6: DEFERRED REVENUE

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

	September 30, 2023	December 31, 2022
Balance, beginning of period	\$ 2,493,151	\$ 1,608,596
Deferral of revenue	1,424,478	3,511,678
Recognition of deferred revenue	(1,967,378)	(2,627,123)
Balance, end of period	<u>\$ 1,950,251</u>	<u>\$ 2,493,151</u>

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

	September 30, 2023	December 31, 2022
Current	\$ 1,619,711	\$ 1,704,249
Non-current	330,540	788,902
	<u>\$ 1,950,251</u>	<u>\$ 2,493,151</u>

NOTE 7: LEASES

Operating 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 \$55,389 and \$54,474 for the three months ended September 30, 2023 and 2022, respectively, primarily related to operating lease costs paid to lessors from operating cash flows. We recognized total lease expense of approximately \$202,383 and \$137,813 for the nine months ended September 30, 2023 and 2022, respectively, primarily related to operating lease costs paid to lessors from operating cash flows. As of September 30, 2023 and December 31, 2022, we recorded a security deposit of \$33,467.

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

	<u>Total</u>
Year Ended December 31,	
2023 (excluding the nine months ended September 30, 2023)	121,190
2024	121,406
Thereafter	-
	<u>242,596</u>
Less: Imputed interest	(7,297)
Operating lease liabilities	<u>235,299</u>
Operating lease liability – current	235,299
Operating lease liability - non-current	<u>\$ -</u>

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

Weighted average discount rate	8%
Weighted average remaining lease term (years)	.58

Financing leases

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

NOTE 8: CONVERTIBLE NOTES PAYABLE

Convertible notes payable consists of the following:

	<u>September 30,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>
Convertible Notes - Issued in fiscal year 2020	97,946	97,946
Convertible Notes - Issued in fiscal year 2021	508,440	600,400
Convertible Notes - Issued in fiscal year 2022	1,712,194	3,710,440
Convertible Notes - Issued in fiscal year 2023	2,211,083	-
	<u>4,529,663</u>	<u>4,408,786</u>
Less debt discount and debt issuance cost	(1,289,241)	(176,685)
	<u>3,240,422</u>	<u>4,232,101</u>
Less current portion of convertible notes payable	3,142,476	4,134,155
Long-term convertible notes payable	<u>\$ 97,946</u>	<u>\$ 97,946</u>

During the nine months ended September 30, 2023 and September 30, 2022, we recognized interest expense of \$431,806 and \$433,940, respectively, and amortization of debt discount expense of \$544,675 and \$651,383, respectively.

During the three months ended September 30, 2023 and September 30, 2022, we recognized interest expense of \$145,164 and \$59,002 and amortization of debt discount, included in interest expense of \$398,838 and \$15,373, respectively.

Conversion

During the nine months ended September 30, 2023, we converted notes with principal amounts and accrued interest of \$357,592 into 21,428 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% is the effective interest rate on the past due principal and interest. As of September 30, 2023 the note had a principle balance of \$508,440 and accrued interest of \$60,286.

The 2021 Convertible Notes also were associated with the following:

- The issuance of 2 shares of Common Stock valued at \$133,663.
- The issuance of 197 warrants to purchase shares of Common Stock with an exercise price a range from \$4,464 to \$21,600. The term in which the warrants can be exercised is 5 years from issue date. (Note 12)

During the nine months ended September 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 \$2,700 per share.
- 924 shares of Common Stock valued at \$473,691 issued in conjunction with convertible notes.
- On June 30, 2023, we entered into a Note Exchange Agreement (the “Note Exchange Agreement”) with Westland Properties LLC (the “Noteholder”), pursuant to which we 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 our 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 we raise 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. We 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 nine months ended September 30, 2023, we issued convertible promissory notes with principal amounts totaling \$2,211,083, which resulted in cash proceeds of \$2,015,000 after deducting a financing fee of \$462,112. 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 and two of the 2023 Convertible Notes have a fixed conversion price of \$.005 per share.
- As of the nine months ended September 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 September 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 nine months ended September 30, 2023, there were no derivative liabilities.

For the nine months ended September 30, 2023 there was no derivative outstanding, and no loss recorded. For the nine months ended September 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:

	Nine months ended September 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:

	September, 2023	December 31, 2022	Maturity	Interest Rate
Economic Injury Disaster Loan - originated in May 2020 ^(1, 2)	\$ 500,000	\$ 500,000	30 years \$2,873.89 monthly payment for 36 months	3.75%
Promissory note - originated in September 2020	-	20,182	\$1,854.41 monthly payment for 36 months	14.0%
Promissory note - originated in December 2020	3,303	16,047	\$2,675.89 monthly payment for 36 months	8.0%
Promissory note - originated in January 2021	4,683	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 \$1,383.56 monthly payment for 60 months	12%
Promissory note - originated in September 2021	34,735	43,667	\$1,695.41 monthly payment for 36 months	28%
Promissory note - originated in April 2022	60,418	73,204	\$7,250 daily payment for 168 days	16.0%
Promissory note - originated in April 2022	61,392	239,858	\$20,995 weekly payment for 30 weeks	25%
Promissory note – originated in June 2022	-	149,011	\$1,485.38 monthly payment for 60 months	49%
Promissory note - originated in July 2022	45,575	54,557	\$3,546.87 monthly payment for 36 months	18%
Promissory note - originated in July 2022	70,393	94,878	\$589.92 monthly payment for 60 months	10%
Promissory note - originated in August 2022	21,753	26,538	\$1,749.00 daily payment for 30 days	8%
Promissory note - originated in October 2022	1,111,032	635,745	\$237.03 monthly payment for 36 months	66%
Promissory note - originated in January 2023	4,660	-	\$1,521.73 monthly payment for 60 months	25%
Promissory note - originated in March 2023	50,543	-	\$559.25 monthly payment for 36 months	18%
Promissory note - originated in March 2023	12,189	-	\$3,999.00 monthly payment for 12 months	17%
Promissory note - originated in April 2023	21,115	-		12%

Promissory note - originated in April 2023	25,709	-	\$3,918.03 monthly payment for 12 months	6%
Promissory note - originated in May 2023	250,000	-	3 months	29%
Promissory note - originated in August 2023	17,406	-	36 months	14%
	<u>4,819,445</u>	<u>4,400,469</u>		
Less debt discount and debt issuance cost	<u>(1,354,031)</u>	<u>(377,111)</u>		
	3,465,414	4,023,358		
Less current portion of promissory notes payable	<u>2,100,549</u>	<u>918,785</u>		
Long-term promissory notes payable	<u>\$ 1,364,865</u>	<u>\$ 3,104,573</u>		

During the nine months ended September 30, 2023 and 2022, we recognized interest expense of \$313,069 and \$172,371, and amortization of debt discount, of \$695,011 and \$927,505, respectively, included in interest expense.

During the three months ended September 30, 2023 and 2022, we recognized interest expense of \$76,962 and \$58,678, and amortization of debt discount, included in interest expense of \$215,065 and \$301,884, respectively

During the nine months ended September 30, 2023 and the year ended December 31, 2022, we issued promissory notes for a total of \$1,617,868 and \$4,840,215 , less discount of \$1,671,868 and \$1,381,970 , and repaid \$1,252,955 and 4,408,240 , respectively.

During the three months ended September 30, 2023 and 2022, we issued promissory notes for a total of \$18,096 and \$431,112, less discount of \$18,096 and \$20,965, and repaid \$205,737 and \$1,472,919, 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

On September 14, 2023, we filed an amendment to its Articles of Incorporation to effect a 1-for-600 reverse stock split of its issued and outstanding shares of common stock, each with \$0.001 par value (“Common Stock”). All per share amounts and number of shares, in the consolidated financial statements and related notes have been retroactively adjusted to reflect the reverse stock split.

Preferred Stock

As of September 30, 2023, we are authorized to issue 230,000 shares of preferred stock with a par value of \$0.001, of which 150,000 shares have been designated as Series A Preferred Stock, and 80,000 shares have been designated as Series B Preferred Stock with a par value of \$10 per share.

Series A Preferred Stock

As of September 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 Preferred Stock was (i) convertible into 1.6 shares of Common Stock, and (ii) entitled to vote 15,000 shares of Common Stock on all matters submitted to a vote by holders of Common Stock. All issued and outstanding shares of Series A Preferred Stock are held by our Chief Executive Officer.

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

Series B Preferred Stock

As of September 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 Preferred Stock (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 September 30, 2023 and December 31, 2022, 0 and 0 shares of Series B Preferred Stock were issued and outstanding, respectively.

Common Stock

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

During the nine months ended September 30, 2023, we issued Common Stock as follows:

- 21,428 shares issued for conversion of debt;
- 77,010 shares issued for adjustment to PPM investors;
- 536 shares issued for stock-based compensation;
- 165,290 shares issued for partial payment on acquisition of select assets from Cyren Ltd bankruptcy trustee.

As of September 30, 2023 and December 31, 2022, 269,124 and 4,360 shares of Common Stock were issued and outstanding, respectively.

Warrants

A summary of activity during the nine months ended September 30, 2023 follows:

	Warrants Outstanding	
	Number	Weighted Average Exercise Price
Outstanding, December 31, 2022	267	\$ 13,242.00
Granted	753,973	.60
Exercised	-	-
Forfeited/canceled	-	-
Outstanding, September 30, 2023	<u>754,240</u>	<u>\$ 8.03</u>

During the nine months ended September 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 September 30, 2023:

Number of Warrants	Exercisable Warrants Outstanding	
	Weighted Average Remaining Contractual life (in years)	Weighted Average Exercise Price
10	2.20	\$ 96,000.00
12	2.56	\$ 72,000.00
26	2.82	\$ 21,600.00
5	3.00	\$ 21,600.00
55	3.05	\$ 5,929.10
124	3.23	\$ 4,464.00
32	3.61	\$ 3,600.00
3	3.61	\$ 3,600.00
270,833	.75	\$ 0.60
250,000	.75	\$ 0.60
191,473	.19	\$ 0.60
41,667	.76	\$ 0.60
<u>754,240</u>	<u>.59</u>	<u>\$ 5.09</u>

NOTE 13: STOCK-BASED COMPENSATION

Stock Options

During the nine months ended September 30, 2023, we granted options for the purchase of our Common Stock to certain employees as consideration for salary compensation and services rendered. The terms of the stock option grants are determined by our Board of Directors consistent with 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 nine months ended September 30, 2023:

	Options Outstanding	Weighted-Average Exercise Price
Balance as of December 31, 2022	1,442	\$ 1,002.00
Grants	8,322	25.23
Exercised	-	-
Cancelled	1	40,400.00
Balance as of September 30, 2023	<u>9,765</u>	<u>\$ 173.61</u>

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

	Number of Options	Weighted-Average Remaining Contractual Life (In Years)	Weighted-Average Exercise Price
Outstanding	9,765	8.43	\$ 1,459.50
Exercisable	990	9.31	\$ 247.56
Expected to vest	1,637	8.43	\$ 1,459.50

As of September 30, 2023 and December 31, 2022, there was \$641,248 and \$381,547, respectively, of total compensation costs related to non-vested stock-based compensation arrangements which we expect to recognize within the next 12 months.

Restricted Stock Awards

The following summarizes the restricted stock activity for the nine months ended September 30, 2023:

	Shares	Weighted-Average Fair Value
Balance as of December 31, 2022	538	\$ 282,659
Shares of restricted stock granted	11,750	270,000
Exercised	1,036	15,761
Cancelled	-	-
Balance as of September 30, 2023	<u>13,324</u>	<u>\$ 237,659</u>

	September 30, 2023	December 31, 2022
<u>Number of Restricted Stock Awards</u>		
Vested	1,036	2
Non-vested	11,250	536

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 Stock, Mr. Remillard has voting control over all matters to be submitted to a vote of our shareholders. Greg McCraw is our Chief Financial Officer and owns shares of our Common Stock.

During the nine months ended September 30, 2023, we borrowed \$73,200 from our CEO and \$150,000 from our CFO. Our CEO paid operating expenses of \$90,247 on our behalf and we repaid \$60,000 to our CEO.

As of September 30, 2023 and December 31, 2022, we owed \$370,509 and \$112,062, respectively, to related parties.

NOTE 15: SUBSEQUENT EVENTS

The Company does not have any events subsequent to September 30, 2023 through November 17, 2023, the date of the financial statements were issued for disclosure consideration.

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 nine months ended September 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 September 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 the Annual 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 holders of our Common Stock 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 the Annual Report. The matters summarized under “Overview”, “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Business” and elsewhere in the Annual 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 and 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 a comprehensive solution set that we believe positions us to capitalize on that increased adoption rate and to 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 us, 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 Nine Months Ended September 30, 2023 Compared to the Three and Nine Months Ended September 30, 2022

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

	Three Months Ended		Change	
	September 30		\$	%
	2023	2022		
Revenue	\$ 693,835	\$ 916,172	\$ (222,337)	(24)%
Cost of revenue	190,425	104,322	86,103	83%
Gross Profit	503,410	811,850	(308,440)	(38)%
Gross Profit Percentage	73%	89%		
Operating expense	1,505,454	1,598,513	(93,059)	(6)%
Other income (expense)	(977,632)	(796,057)	(181,575)	23%
Net loss	\$ (1,979,676)	\$ (1,582,720)	\$ (396,956)	25%

Revenue

The decrease in revenue has partially resulted from some sales that were originally forecasted for the third quarter of 2023 being pulled forward to the first and second 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 third 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 September 30, 2023 and 2022 our operating expenses were as follows:

	Three Months Ended September 30,		Change	
	2023	2022	\$	%
General and administrative	\$ 1,471,024	\$ 1,557,584	\$ (86,560)	(6)%
Sales and marketing	34,430	40,929	(6,499)	(16)%
Total operating expenses	<u>\$ 1,505,454</u>	<u>\$ 1,598,513</u>	<u>\$ (93,059)</u>	<u>(6)%</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 in 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 September 30, 2023 consisted primarily of interest. Other expenses for September 30, 2022 consisted of interest expense and loss on change in fair value of derivative. The increase in other expenses was primarily due to an increase in interest expense.

Net Income

Net loss increased 25% from \$1,582,720 for the three months ended September 30, 2022 to net loss of \$1,979,676 for the three months ended September 30, 2023. The net income was mainly derived from an operating loss of \$1,002,044, and interest expense of \$983,100. The net loss for the three months ended September 30, 2022 was mainly derived from an operating loss of \$786,663, and interest expense of \$796,057. The increase in net loss was primarily due to the decrease in recognized revenue and an increase in interest expense.

Our operations for the nine months ended September 30, 2023 and 2022 are outlined below:

	Nine Months Ended September 30,		Change	
	2023	2022	\$	%
Revenue	\$ 2,692,681	\$ 2,279,677	\$ 413,004	18%
Cost of revenue	644,288	382,594	261,694	68%
Gross Profit	<u>2,048,393</u>	<u>1,897,083</u>	<u>151,310</u>	<u>8%</u>
Gross Profit Percentage	76%	83%		
Operating expense	4,638,315	4,868,325	(230,010)	(5)%

Other income (expense)	<u>(38,107)</u>	<u>(2,891,009)</u>	<u>2,852,902</u>	<u>99%</u>
Net loss	<u>\$ (2,628,029)</u>	<u>\$ (5,862,251)</u>	<u>\$ 3,234,222</u>	<u>(55)%</u>

Revenue

Revenues increased 18% from \$2,279,677 for the nine months ended September 30, 2022 to \$2,692,681 for the nine months ended September 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 nine months ended September 30, 2023 and 2022 our operating expenses were as follows:

	Nine Months Ended September 30,		Change	
	2023	2022	\$	%
General and administrative	\$ 4,507,332	\$ 4,647,366	\$ (140,034)	(3)%
Sales and marketing	130,983	220,959	(89,976)	(41)%
Total operating expenses	<u>\$ 4,638,315</u>	<u>\$ 4,868,325</u>	<u>\$ (230,010)</u>	<u>(5)%</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 nine months ended September 30, 2023 consisted primarily of interest expense and an forgiveness of debt on note payable of \$4,724,299. Other expenses for the nine months ended September 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 and the forgiveness of debt.

Net Loss

Net loss decreased 55% from \$5,862,251 for the nine months ended September 30, 2022 to \$2,628,029 for the nine months ended September 30, 2023. The net loss was mainly derived from an operating loss of \$2,589,922 and interest expense of \$4,947,656 and settlement of debt of \$4,909,549. The net loss for the nine months ended September 30, 2022 was mainly derived from an operating loss of \$2,971,242, and interest expense of \$2,833,126.

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 us. Subsequent to this and through September 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 \$15.5 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 September 30, 2023 and December 31, 2022, respectively.

	September 30,	December 31,	Change	
	2023	2022	\$	%
Current assets	\$ 688,503	\$ 124,894	\$ 563,609	451%
Current liabilities	\$ 11,203,841	\$ 8,604,066	\$ 2,599,775	30%
Working capital deficiency	\$ (10,515,338)	\$ (8,479,172)	\$ (2,036,166)	(24)%

We require cash to fund our operating expenses and working capital requirements, including outlays for capital expenditures. As of September 30, 2023, we had cash balance of \$4,890 and our principal sources of liquidity were trade accounts receivable of \$35,623, and prepaid expenses and other current assets of \$647,990, 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 nine months ended September 30, 2023, we reported a loss from operations of \$2,589,922.

As of September 30, 2023, we had assets of cash in the amount of \$4,890 and other current assets in the amount of \$683,613. As of September 30, 2023, we had current liabilities of \$11,203,841. Our accumulated deficit as of September 30, 2023 was \$54,040,157.

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

	Nine Months Ended September 30,		Change
	2023	2022	
Cash provided by (used in) operating activities	\$ 520,787	\$ (284,919)	\$ 805,706
Cash used in investing activities	\$ (285,523)	\$ (548,839)	\$ (263,316)
Cash provided by (used in) financing activities	\$ (232,086)	\$ (142,190)	\$ (89,896)
Cash on hand	\$ 4,890	\$ 228,985	\$ (224,095)

Operating Activities

During the nine months ended September 30, 2023, we used \$520,787 in operating activities, compared to \$284,919 used by during the nine months ended September 30, 2022.

Investing Activities

During the nine months ended September 30, 2023, we used funds in investing activities of \$285,523 to acquire property and equipment and advance payment for acquisition. During the nine months ended September 30, 2022, we used funds in investing activities of \$548,839 to acquire property and equipment.

Financing Activities

During the nine months ended September 30, 2023, we (i) raised \$1,067,631 from issuance of convertible debt; (ii) received proceeds from a related party of \$318,447; and (iii) repaid of convertible note payable of \$294,868; (iv) repaid of \$1,252,955 on notes payable; and (v) repaid to a related party of \$60,000. For September 30, 2023 we had net cash outflows for financing activities of \$232,086. By comparison, during the nine months ended September 30, 2022, we (i) raised \$75,000 through the issuance of Series B Preferred Stock; (ii) raised \$1,257,800 from issuance of convertible debt; (iii) received proceeds from related party of \$224,778, (iv) \$829,000 from issuance of Common Stock; and (v) \$2,516,912 from issuance of notes payable; offset in part through redemption of Series B Preferred Stock of \$487,730; (vi) repayment of convertible note payable of \$895,783; (vii) repayment of \$3,430,411 on notes payable; (viii) repayment to related party of \$174,431 and, (ix) \$57,325 of finance 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 September 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 reported on this Quarterly Report on 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 September 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 September 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 nine months ended September 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 risk factors in our Annual Report, 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 in our Annual Report 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.

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

During the three months ended September 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 July 7, 2023, we issued 3,415 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.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

The Company is in default on a convertible promissory note between the Company and Mast Hill Fund LP (the “Mast Hill Note”) due to non-payment of amounts owed. The Mast Hill Note was issued on October 19, 2021, and default occurred on October 23, 2023. The Company owes a total of \$568,726 under the Mast Hill Note, consisting of \$508,440 of principal and \$60,286 of interest.

In addition, the Company is in default on a promissory note between the Company and Jason Gladwell (the “Gladwell Note”) due to non-payment of amounts owed. The Gladwell Note was issued on May 18, 2023, and default occurred on August 18, 2023. The Company owes a total of \$335,861 under the Gladwell Note, consisting of \$250,000 of principal and \$85,861 of interest.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit Number	Exhibit Description	Incorporated by Reference		
		Form	Exhibit	Filing Date/ Period End Date
4.1	Convertible Promissory Note issued the Company in favor of 1800 Diagonal Lending LLC on 11 September 2023 in the original principal amount of \$120,750.			
4.2	Convertible Promissory Note issued the Company in favor of 1800 Diagonal Lending LLC on 22 September 2023 in the original principal amount of \$149,500.			
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: November 17, 2023

DATA443 RISK MITIGATION, INC.

By: /s/ Jason Remillard

Name: JASON REMILLARD

Title: Chief Executive Officer (Principal Executive Officer)