

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

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended **June 30, 2024**

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: **000-30542**

**DATA443 RISK MITIGATION, INC.**

(Exact name of registrant as specified in its charter)

**Nevada**

(State of  
incorporation)

**86-0914051**

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

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

(Address of principal executive offices)

**27709**

(Zip Code)

**(919) 858-6542**

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and, (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes  No

The outstanding number of shares of common stock as of August 14, 2024 was 313,966.

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

**PART I. FINANCIAL INFORMATION**

ITEM 1.	<a href="#"><u>Financial Statements</u></a>	2
	<a href="#"><u>Condensed Consolidated Balance Sheets as of June 30, 2024 and December 31, 2023 (unaudited)</u></a>	2
	<a href="#"><u>Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2024 and 2023 (unaudited)</u></a>	3
	<a href="#"><u>Condensed Consolidated Statements of Stockholders' Deficit for the three and six months ended June 30, 2024 and 2023 (unaudited)</u></a>	4
	<a href="#"><u>Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2024 and 2023 (unaudited)</u></a>	5
	<a href="#"><u>Notes to the Unaudited Condensed Consolidated Financial Statements</u></a>	6
ITEM 2.	<a href="#"><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></a>	19
ITEM 3.	<a href="#"><u>Quantitative and Qualitative Disclosures About Market Risk</u></a>	28
ITEM 4.	<a href="#"><u>Controls and Procedures</u></a>	28

**PART II. OTHER INFORMATION**

ITEM 1.	<a href="#"><u>Legal Proceedings</u></a>	30
ITEM 1A.	<a href="#"><u>Risk Factors</u></a>	30
ITEM 2.	<a href="#"><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></a>	30
ITEM 3.	<a href="#"><u>Defaults Upon Senior Securities</u></a>	30
ITEM 4.	<a href="#"><u>Mine Safety Disclosures</u></a>	30
ITEM 5.	<a href="#"><u>Other Information</u></a>	30
ITEM 6.	<a href="#"><u>Exhibits</u></a>	30
	<a href="#"><u>SIGNATURES</u></a>	31

**PART I**  
**FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**DATA443 RISK MITIGATION, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

	<b>June 30, 2024</b>	<b>December 31, 2023</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
<b>Assets</b>		
Current assets		
Cash	\$ 47,580	\$ 84,570
Accounts receivable, net	36,510	309,768
Prepaid expense and other current assets	48,335	29,467
Total current assets	132,425	423,805
Property and equipment, net	321,235	409,525
Operating lease right-of-use assets, net	181,863	322,616
Advance payment for acquisition	2,726,188	2,726,188
Intellectual property, net of accumulated amortization	3,162,316	3,525,816
Deposits	46,476	45,673
<b>Total Assets</b>	<b>\$ 6,570,503</b>	<b>\$ 7,453,623</b>
<b>Liabilities and Stockholders' Deficit</b>		
Current Liabilities		
Accounts payable and accrued liabilities	4,511,468	3,360,469
Deferred revenue	1,616,031	1,627,572
Interest payable	1,941,011	1,352,227
Notes payable, net of unamortized discount	3,299,271	3,704,326
Convertible notes payable, net of unamortized discount	3,652,197	3,047,388
Due to a related party	297,002	341,437
Operating lease liability	181,863	357,656
Finance lease liability	10,341	10,341
Total Current Liabilities	15,509,184	13,801,416
Series B Preferred Stock, 80,000 shares designated; \$0.001 par value; Stated value \$10.00, 0 and 0 shares issued and outstanding, net of discount, respectively	-	-
Notes payable, net of unamortized discount - non-current	1,553,390	1,355,132
Convertible notes payable, net of unamortized discount - non-current	97,946	97,946
Deferred revenues - non-current	90,303	195,997
Total Liabilities	17,250,823	15,450,491
Commitments and Contingencies		
Stockholders' Deficit		
Preferred stock: 337,500 authorized; \$0.001 par value Series A Preferred Stock, 150,000 shares designated; \$0.001 par value; 149,892 and 149,892 shares issued and outstanding, respectively	150	150
Common stock: 500,000,000 authorized; \$0.001 par value 313,966 and 272,874 shares issued and outstanding as of June 30, 2024 and December 31, 2023, respectively (1)	61,618	61,564
Additional paid in capital	48,054,704	47,598,254
Accumulated deficit	(58,796,792)	(55,656,836)

Total Stockholders' Deficit	<u>(10,680,320)</u>	<u>(7,996,868)</u>
<b>Total Liabilities and Stockholders' Deficit</b>	<b>\$ <u>6,570,503</u></b>	<b>\$ <u>7,453,623</u></b>

- (1) Reflects retrospectively the 1-for-600 reverse stock split that became effective September 30, 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		Six Months Ended	
	June 30,		June 30,	
	2024	2023	2024	2023
<b>Revenue</b>	\$ 1,149,085	\$ 619,040	\$ 2,660,143	\$ 1,998,846
Cost of revenue	807,071	244,881	1,420,029	453,863
<b>Gross profit</b>	<u>342,014</u>	<u>374,159</u>	<u>1,240,114</u>	<u>1,544,983</u>
<b>Operating expenses</b>				
General and administrative	1,004,497	1,635,499	2,177,801	3,036,308
Sales and marketing	91,302	64,379	376,411	96,553
<b>Total operating expenses</b>	<u>1,095,799</u>	<u>1,699,878</u>	<u>2,554,212</u>	<u>3,132,861</u>
Loss from operations	(753,785)	(1,325,719)	(1,314,098)	(1,587,878)
<b>Other income (expense)</b>				
Interest expense	(755,446)	(3,488,822)	(1,821,338)	(3,964,556)
Gain (loss) on settlement of debt	-	4,904,081	-	4,904,081
Gain (loss) on foreign currency exchange	(1,566)	-	(4,520)	-
Total other expense	<u>(757,012)</u>	<u>1,415,259</u>	<u>(1,825,858)</u>	<u>939,525</u>
<b>Income/(loss) before income taxes</b>	(1,510,797)	89,540	(3,139,956)	(648,353)
Provision for income taxes	-	-	-	-
<b>Net income/(loss)</b>	<u>\$ (1,510,797)</u>	<u>\$ 89,540</u>	<u>\$ (3,139,956)</u>	<u>\$ (648,353)</u>
Dividend on Series B Preferred Stock	-	-	-	-
<b>Net income/(loss) attributable to common stockholders</b>	<u>\$ (1,510,797)</u>	<u>\$ 89,540</u>	<u>\$ (3,139,956)</u>	<u>\$ (648,353)</u>
Basic and diluted income/(loss) per Common Share	<u>\$ (5.01)</u>	<u>\$ 1.88</u>	<u>\$ (10.00)</u>	<u>\$ (23.69)</u>
Basic and diluted weighted average number of common shares outstanding	<u>301,721</u>	<u>47,517</u>	<u>313,966</u>	<u>27,372</u>

(1) Reflects retrospectively the 1-for-600 reverse stock split that became effective September 30, 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 STOCKHOLDERS' DEFICIT**  
**(Unaudited)**

*Six Months Ended June 30, 2024*

	Series A Preferred Stock		Common stock		Additional Paid in Capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount			
<b>Balance - December 31, 2023</b>	149,892	\$ 150	272,874	\$ 61,564	\$47,598,254	\$ (55,656,836)	\$ (7,996,868)
Common stock issued for conversion of debt	-	-	41,092	41	52,964	-	53,005
Stock-based compensation	-	-	-	13	403,486	-	403,499
<b>Net loss</b>	-	-	-	-	-	(3,139,956)	(3,139,956)
<b>Balance – June 30, 2024</b>	<u>149,892</u>	<u>\$ 150</u>	<u>313,966</u>	<u>61,618</u>	<u>48,054,704</u>	<u>(58,796,792)</u>	<u>(10,680,320)</u>

*Three Months Ended June 30, 2024*

	Series A Preferred Stock		Common stock		Additional Paid in Capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount			
<b>Balance – March 31, 2024</b>	149,892	\$ 150	286,343	61,584	47,810,380	(57,285,995)	(9,413,881)
Common stock issued for conversion of debt	-	-	27,623	27	29,973	-	30,000
Stock-based compensation	-	-	-	7	214,351	-	214,358
<b>Net loss</b>	-	-	-	-	-	(1,510,797)	(1,510,797)
<b>Balance – June 30, 2024</b>	<u>149,892</u>	<u>\$ 150</u>	<u>313,966</u>	<u>61,618</u>	<u>48,054,704</u>	<u>(58,796,792)</u>	<u>(10,680,320)</u>

*Six Months Ended June 30, 2023*

	Series A Preferred Stock		Common stock		Additional Paid in Capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount			
<b>Balance - December 31, 2022</b>	149,892	\$ 150	4,360	\$ 2,611	\$42,642,514	\$ (51,412,128)	\$ (8,766,853)
Subscription of stock for cash	-	-	-	-	20,000	-	20,000
Common stock issued for conversion of debt	-	-	18,013	10,808	321,784	-	332,592
Common stock issued for adjustment to PPM investors	-	-	76,031	45,619	(45,619)	-	-
Stock-based compensation	-	-	536	322	565,249	-	565,571
<b>Net loss</b>	-	-	-	-	-	(648,353)	(648,353)
<b>Balance – June 30, 2023</b>	<u>149,892</u>	<u>\$ 150</u>	<u>98,940</u>	<u>\$ 59,360</u>	<u>\$43,503,928</u>	<u>\$ (52,060,481)</u>	<u>\$ (8,497,043)</u>

*Three Months Ended June 30, 2023*

	Series A Preferred Stock		Common stock		Additional Paid in Capital	Accumulated Deficit	Total Stockholders' Deficit
	Shares	Amount	Shares	Amount			
<b>Balance - March 31, 2023</b>	149,892	\$ 150	11,245	\$ 6,742	\$42,982,226	\$ (52,150,021)	\$ (9,160,903)

Subscription of stock for cash	-	-	-	-	20,000	-	20,000
Common stock issued for conversion of debt	-	-	11,128	6,677	95,926	-	102,603
Common stock issued for adjustment to PPM investors	-	-	76,031	45,619	(45,619)	-	-
Stock-based compensation	-	-	536	322	451,395	-	451,717
<b>Net income</b>	-	-	-	-	-	<b>89,540</b>	<b>89,540</b>
<b>Balance – June 30, 2023</b>	<u><b>149,892</b></u>	<u><b>\$ 150</b></u>	<u><b>98,940</b></u>	<u><b>\$ 59,360</b></u>	<u><b>\$43,503,928</b></u>	<u><b>\$ (52,060,481)</b></u>	<u><b>\$ (8,497,043)</b></u>

(1) Reflects retrospectively the 1-for-600 reverse stock split that became effective September 30, 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)

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2024</b>	<b>2023</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (3,139,956)	\$ (648,353)
Adjustments to reconcile net loss to net cash used in operating activities:		
Gain on settlement of debt	-	(4,904,081)
Stock-based compensation expense	403,499	565,571
Depreciation and amortization	451,790	340,550
Amortization of debt discount	1,005,296	625,783
Right of use asset amortization	140,753	(74,292)
Changes in operating assets and liabilities:		
Accounts receivable	273,258	28,831
Prepaid expenses and other assets	(18,868)	(181,955)
Accounts payable and accrued liabilities	1,150,999	1,189,069
Deferred revenue	(117,235)	(163,531)
Lease liability	(175,793)	-
Interest payable	594,331	3,398,326
Deposits	(803)	-
Net Cash provided by Operating Activities	567,271	175,918
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	-	(167,427)
Net Cash used in Investing Activities	-	(167,427)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from issuance of convertible notes payable	310,910	564,070
Repayment of convertible notes payable	(300,652)	(146,663)
Proceeds from stock subscription	-	20,000
Finance lease payments	-	(10,341)
Proceeds from issuance of notes payable	-	417,427
Repayment of notes payable	(570,084)	(1,047,218)
Proceeds from related parties	155,862	229,426
Repayment to related parties	(200,297)	(21,000)
Net Cash used in Financing Activities	(604,261)	5,701
Net change in cash	(36,990)	14,192
Cash, beginning of period	84,570	1,712
Cash, end of period	\$ 47,580	\$ 15,904
<b>Supplemental cash flow information</b>		
Cash paid for interest	\$ 701,427	\$ 408,160
<b>Non-cash Investing and Financing transactions:</b>		
Settlement of convertible notes payable through issuance of common stock	\$ 53,005	\$ 332,592

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

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

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Description of Business**

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

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

***Advance Payment for Acquisition***

On January 19, 2022, we entered into an Asset Purchase Agreement with Centurion Holdings I, LLC (“Centurion”) to acquire the intellectual property rights and certain assets collectively known as Centurion SmartShield Home and SmartShield Enterprise, patented technology that protects and recovers devices in the event of ransomware attacks. The total purchase price of \$3,400,000 consists of: (i) a \$250,000 cash payment at closing; (ii) a \$2,900,000 promissory note issued by Data443 in favor of Centurion (“Centurion Note”); and (iii) \$250,000 in the form of a contingent payment. The Centurion Note matures January 19, 2027 but provides that Data443’s repayment obligation would accelerate on the occurrence of certain events. One of those events was a financing event that did not occur within the originally anticipated timeframe. If that event had occurred, then Data443’s repayment obligation would have been to repay the balance of the outstanding principal and interest as follows: (i) \$500,000 of the then-outstanding amount due in cash; and (ii) the remaining balance, at Data443’s option, in Common stock or a combination of Common stock and cash, with the number of shares of Common stock to be determined according to a specified formula. In April 2022, Data443 and Centurion agreed that, even though the trigger for this acceleration event did not occur, Data443 would issue shares of Common stock to Centurion in an amount then-equivalent to \$2,400,000, as partial repayment of the obligation due under the Centurion Note. The number of shares of Common stock Data443 issued to Centurion on April 20, 2022, was 380,952. Because Data443 still has some repayment obligations to fulfill under the Centurion Note, as of the filing date of these financial statements, the acquisition that is the subject of the Centurion Asset Purchase Agreement is still not completed, and is expected to be completed in 2024.

***Reverse Stock Splits***

Effective September 20, 2023 and March 7, 2022, we effected an 600 for 1 and 8 for 1 reverse stock split, respectively, of our issued and outstanding common stock (the “Reverse Stock Splits”). All references to shares of our common stock in this annual report refers to the number of shares of common stock after giving retrospective effect to these Reverse Stock Splits (unless otherwise indicated).

**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, 2023 and notes thereto and other pertinent information contained in our Form 10-K as filed with the SEC on April 16, 2024. The results of operations for the three months and six months ended June 30, 2024, are not necessarily indicative of the results to be expected for the full fiscal year ending December 31, 2024.

**Basis of Consolidation**

The accompanying unaudited consolidated financial statements as of June 30, 2024 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 presentation. These reclassifications had no impact on net earnings (loss) or and financial position.

## Accounts Receivable

Trade receivables are generally recorded at the invoice amount mostly for a one-year period, net of an allowance for credit loss. For the three months ended June 30, 2024, and June 30, 2023, we recorded bad debt expense of \$0 and \$0, respectively

## Stock-Based Compensation

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

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

We recorded approximately \$403,486 in stock-based compensation expense for the six months ended June 30, 2024, compared to \$565,571 in stock-based compensation expense for the six months ended June 30, 2023. Determining the appropriate fair value model and the related assumptions requires judgment. During the six months ended June 30, 2024, the fair value of each option grant was estimated using a Black-Scholes option-pricing model. The expected volatility represents the historical volatility of our publicly traded common stock. Due to limited historical data, we calculate the expected life based on the mid-point between the vesting date and the contractual term which is in accordance with the simplified method. The expected term for options granted to nonemployees is the contractual life. The risk-free interest rate is based on a treasury instrument whose term is consistent with the expected life of stock options. We have not paid and do not anticipate paying cash dividends on our shares of Common stock; therefore, the expected dividend yield is assumed to be zero.

## Contingencies

We account for contingent liabilities in accordance with Accounting Standards Codification (“ASC”) Topic 450, *Contingencies*. This standard requires management to assess potential contingent liabilities that may exist as of the date of the financial statements to determine the probability and amount of loss that may have occurred, which inherently involves an exercise of judgment. If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in our financial statements. If the assessment indicates that a potential material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, and an estimate of the range of possible losses, if determinable and material, would be disclosed in our financial statements. For loss contingencies considered remote, we generally would neither accrue any estimated liability nor disclose the nature of the contingent liability in our financial statements. Management has assessed potential contingent liabilities as of June 30, 2024, and based on that assessment, there are no probable or possible loss contingencies requiring accrual or establishment of a reserve.

## Basic and Diluted Net Loss Per Common Share

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

For the six months ended June 30, 2024 and 2023, respectively, the following common stock equivalents were excluded from the computation of diluted net loss per share as the result of the computation was anti-dilutive:

Six Months Ended June 30,	
2024	2023

	(Shares)	(Shares)
Series A Preferred Stock	149,892,000	149,892,000
Stock options (1)	864,887	4,730
Warrants (1)	754,200	264
Total	<u>151,610,027</u>	<u>149,896,994</u>

(1) Reflects retrospectively the 1-for-600 reverse stock split that became effective September 30, 2023. Refer to Note 1 "Summary of Business Operations and Significant Accounting Policies"

### Recently Adopted Accounting Guidance

In March 2022, the FASB issued ASU 2022-02, ASC Subtopic 326 “Credit Losses”: Troubled Debt Restructurings and Vintage Disclosures. Since the issuance of Accounting Standards Update No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, the Board has provided resources to monitor and assist stakeholders with the implementation of Topic 326. Post-Implementation Review (PIR) activities have included forming a Credit Losses Transition Resource Group, conducting outreach with stakeholders of all types, developing educational materials and staff question-and-answer guidance, conducting educational workshops, and performing an archival review of financial reports. ASU No. 2022-02 is effective for annual and interim periods beginning after December 15, 2022. The adoption of this standard did not have a significant impact on the Company’s consolidated financial statements.

### Recently Issued Accounting Pronouncements

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

### NOTE 2: LIQUIDITY AND GOING CONCERN

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

### NOTE 3: PROPERTY AND EQUIPMENT

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

	June 30, 2024	December 31, 2023
Furniture and Fixtures	\$ 6,103	\$ 6,103
Computer Equipment	1,053,193	1,053,193
	<u>1,059,296</u>	<u>1,059,296</u>
Accumulated depreciation	(738,061)	(649,771)
Property and equipment, net of accumulated depreciation	<u>\$ 321,235</u>	<u>\$ 409,525</u>

Depreciation expense for the six months ended June 30, 2024 and 2023, was \$88,290 and \$91,216, respectively.

During the six months ended June 30, 2024 and 2023, we purchased property and equipment of \$-0- and \$167,427, respectively.

**NOTE 4: INTELLECTUAL PROPERTY**

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

	<u>June 30, 2024</u>	<u>December 31, 2023</u>
Intellectual property:		
WordPress® GDPR rights	\$ 46,800	\$ 46,800
ARALOC™	1,850,000	1,850,000
ArcMail License	1,445,000	1,445,000
DataExpress™	1,388,051	1,388,051
FileFacets™	135,000	135,000
IntellyWP™	60,000	60,000
Resilient Network Systems	305,000	305,000
Cyren Engines	<u>3,500,000</u>	<u>3,500,000</u>
	8,729,851	8,729,851
Accumulated amortization	(5,567,535)	(5,204,035)
Impairment	-	-
Intellectual property, net of accumulated amortization	<u>\$ 3,162,316</u>	<u>\$ 3,525,816</u>

We recognized amortization expense of \$365,500 and \$249,334 for the six months ended June 30, 2024, and 2023, respectively.

Based on the carrying value of definite-lived intangible assets as of June 30, 2024, we estimate our amortization expense for the next five years will be as follows:

Year Ended December 31,	<u>Amortization Expense</u>
2024 (excluding the six months ended June 30, 2024)	545,250
2025	534,000
2026	700,000
2027	700,000
2028	683,066
	<u>3,162,316</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:

	<u>June 30, 2024</u>	<u>December 31, 2023</u>
Accounts payable	\$ 2,975,096	\$ 2,004,462
Credit cards	75,240	81,055
Accrued liabilities	1,461,132	1,274,952
	<u>\$ 4,511,468</u>	<u>\$ 3,360,469</u>

**NOTE 6: DEFERRED REVENUE**

For the six months ended June 30, 2024 and as of December 31, 2023, changes in deferred revenue were as follows:

	<u>June 30, 2024</u>	<u>December 31, 2023</u>
Balance, beginning of period	\$ 1,823,569	\$ 2,493,151
Deferral of revenue	1,224,920	1,912,729
Recognition of deferred revenue	(1,342,155)	(2,582,311)
Balance, end of period	<u>\$ 1,706,334</u>	<u>\$ 1,823,569</u>



As of June 30, 2024 and December 31, 2023, deferred revenue is classified as follows:

	June 30, 2024	December 31, 2023
Current	\$ 1,616,031	\$ 1,627,572
Non-current	90,303	195,997
	<u>\$ 1,706,334</u>	<u>\$ 1,823,569</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. We have signed an amendment for the lease at our current office through the end of 2024, with a one year 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 \$164,432 and \$146,994 for the six months ended June 30, 2024 and 2023, respectively, primarily related to operating lease costs paid to lessors from operating cash flows. As of June 30, 2024 and December 31, 2023, we recorded a security deposit of \$29,467.

At June 30, 2024, future minimum lease payments under operating leases that have initial noncancelable lease terms in excess of one year were as follows:

	Total
Year Ended December 31, 2024 (excluding the six months ended June 30, 2024)	187,205
Thereafter	-
Less: Imputed interest	(5,342)
Operating lease liabilities	<u>181,863</u>
Operating lease liability - current	181,863
Operating lease liability - non-current	<u>\$ -</u>

The following summarizes other supplemental information about our operating leases as of June 30, 2024:

Weighted average discount rate	12%
Weighted average remaining lease term (years)	.50

##### Financing leases

We lease computer and hardware under non-cancellable finance leases. The term of those finance leases is 3 years and annual interest rate is 12%. At June 30, 2024 and December 31, 2023, the finance lease obligations included in current liabilities were \$10,341 and \$10,341, respectively, and finance lease obligations included in long-term liabilities were \$0 and \$0, respectively. The lease is not in default and there are no penalties and the company does not have to return the equipment in use. As of June 30, 2024 and December 31, 2023, we recorded a security deposit of \$0.

At June 30, 2024, future minimum lease payments under the finance lease obligations, are as follows:

	<u>Total</u>
2024	10,341
Thereafter	-
	<u>10,341</u>
Less: Imputed interest	-
Finance lease liabilities	<u>10,341</u>
Finance lease liability	10,341
Finance lease liability - non-current	<u>\$ -</u>

As of June 30, 2024 and December 31 2023, finance lease assets are included in property and equipment as follows:

	<u>June 30, 2024</u>	<u>December 31, 2023</u>
Finance lease assets	\$ 267,284	\$ 267,284
Accumulated depreciation	(267,284)	(267,284)
Finance lease assets, net of accumulated depreciation	<u>\$ -</u>	<u>\$ -</u>

#### **NOTE 8: CONVERTIBLE NOTES PAYABLE**

Convertible notes payable consists of the following:

	<u>June 30, 2024</u>	<u>December 31, 2023</u>
Convertible Notes - Issued in fiscal year 2020	97,946	97,946
Convertible Notes - Issued in fiscal year 2021	508,440	508,440
Convertible Notes - Issued in fiscal year 2022	1,108,801	1,201,083
Convertible Notes - Issued in fiscal year 2023	1,966,906	2,067,893
Convertible Notes - Issued in fiscal year 2024	132,043	-
	<u>3,814,136</u>	<u>3,875,362</u>
Less debt discount and debt issuance cost	(63,993)	(730,028)
	<u>3,750,143</u>	<u>3,145,334</u>
Less current portion of convertible notes payable	3,652,197	3,047,388
Long-term convertible notes payable	<u>\$ 97,946</u>	<u>\$ 97,946</u>

During the six months ended June 30, 2024 and 2023, we recognized interest expense of \$307,047 and \$3,964,556, respectively, and amortization of debt discount expense of \$730,882 and \$145,837, respectively.

#### *Conversion*

During the six months ended June 30, 2024, we converted notes with principal amounts, accrued interest and fees of \$53,005 into 41,092 shares of common stock.

During the six months ended June 30, 2023, we converted notes with principal amounts and accrued interest of \$332,592 into 18,103 shares of common stock.

#### Convertible Debt Status.

Convertible note payable with outstanding balance of \$508,440 matured on October 2023. The default annual interest rate of 16% becomes the effective interest rate on the past due principal. We are in communication with the lender.

Convertible note payable with outstanding balance of \$73,000 matured on February 11, 2023. The default annual interest rate of 24% becomes the effective interest rate on the past due principal. We are in communication with the lender.

Convertible note payable with outstanding balance of \$72,000 matured on February 11, 2023. The default annual interest rate of 24% becomes the effective interest rate on the past due principal. We are in communication with the lender.

Convertible note payable with outstanding balance of \$27,500 matured on February 14, 2023. The default annual interest rate of 24% becomes the effective interest rate on the past due principal. We are in communication with the lender.

Convertible note payable with outstanding balance of \$116,285 matured on March 1, 2023. The default annual interest rate of 24% becomes the effective interest rate on the past due principal. We are in communication with the lender.

Convertible note payable with outstanding balance of \$66,500 matured on February 9, 2023. The default annual interest rate of 18% becomes the effective interest rate on the past due principal. We are in communication with the lender.

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, 2023. The default annual interest rate of 16% becomes the effective interest rate on the past due principal and interest. As of June 30, 2024 the note had a principle balance of \$508,440 and accrued interest of \$120,950. The note is currently in default.

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.

During the six months ended June 30, 2024, in connection with the 2021 Convertible Notes, we repaid principal in the amount of \$-0- and interest expense of \$-0-.

*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.

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 year ended December 31, 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 year ended June 30, 2024, there were no derivative liabilities.

*Promissory Notes - Issued in fiscal year 2024*

For the six months ended June 30, 2024, we issued convertible promissory notes with principal amounts totaling \$314,250, which resulted in cash proceeds of \$255,000 after deducting a financing fee of \$59,250. The 2024 Convertible Notes have the following key provisions:

- Terms of 9 months.
- Annual interest rates of 15%.
- 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.
- As of the six months ended June 30, 2024, there were no derivative liabilities.

**NOTE 9: NOTES PAYABLE**

Notes payable consists of the following:

	June 30, 2024	December 31, 2023	Maturity	Interest Rate
Economic Injury Disaster Loan - originated in May 2020	\$ 500,000	\$ 500,000	30 years	3.75%
Promissory note - originated in February 2021	1,305,373	1,305,373	5 years	4.0%
Promissory note - originated in April 2021 <sup>(1)</sup>	676,693	676,693	1 year	12%
Promissory note - originated in July 2021 <sup>(1)</sup>	282,000	282,000	1 year	12%
Promissory note - originated in September 2021	25,803	31,758	\$1,383.56 monthly payment for 60 months	28%
Promissory note - originated in April 2022	47,633	57,577	\$1,695.41 monthly payment for 36 months	16.0%
Promissory note - originated in April 2022	-	47,392	\$7,250 daily payment for 168 days	25%
Promissory note - originated in July 2022	36,593	43,579	\$1,485.38 monthly payment for 60 months	18%
Promissory note - originated in July 2022	45,909	67,333	\$3,546.87 monthly payment for 36 months	10%
Promissory note - originated in August 2022	18,405	20,797	\$589.92 monthly payment for 60 months	8%
Promissory note - originated in October 2022	936,532	1,081,032	\$1,749.00 daily payment for 30 days	66%
Promissory note - originated in January 2023	3,163	4,328	\$237.03 monthly payment for 36 months	25%
Promissory note - originated in March 2023	41,624	47,570	\$1,521.73 monthly payment for 60 months	18%
Promissory note - originated in March 2023	8,707	11,754	\$559.25 monthly payment for 36 months	17%
Promissory note - originated in April 2023	21,115	24,634	\$3,999.00 monthly payment for 12 months	12%
Promissory note - originated in April 2023	23,054	33,054	\$3,918.03 monthly payment for 12 months	6%
Promissory note - originated in May 2023 <sup>(2)</sup>	122,000	322,000	3 months	29%
Promissory note - originated in June 2023	291,666	394,444	12 months	18%
Promissory note - originated in August 2023	12,879	15,895	36 months	14%
Promissory note - originated in December 2023	1,139,695	1,145,882	12 months	10%
	<u>5,538,844</u>	<u>6,113,095</u>		
Less debt discount and debt issuance cost	(686,183)	(1,053,637)		
	4,842,661	5,059,458		
Less current portion of promissory notes payable	3,299,271	3,704,326		
Long-term promissory notes payable	<u>\$ 1,553,390</u>	<u>\$ 1,355,132</u>		

During the six months ended June 30, 2024 and 2023, we recognized interest expense of \$668,372 and \$630,192, and amortization of debt discount, included in interest expense of \$367,454 and \$479,946, respectively.

During the six months ended June 30, 2024 and 2023, we issued promissory notes for a total of \$-0- and \$1,599,772, less discount of \$-0- and \$1,182,344, and repaid \$568,064 and \$1,047,218, respectively.

### *Slate Advance Agreement*

In March 2023 we entered into an agreement (the “Slate Agreement”) with Slate Advance (“Slate”) pursuant to which we sold \$1,482,000 in future receivables (the “Slated Receivables Purchased Amount”) to Slate in exchange for payment to the Company of \$975,000 in cash less fees of \$40,325. The Company agreed to pay Slate at maximum of \$14,999 each day until the Slate Receivables Purchased Amount is paid in full. The term of the Slate Agreement is indefinite. There is no stated interest rate. We recorded the difference between the purchase price and the receivable purchase as a debt discount. The debt discount balance is amortized as payments are made and recorded as interest expense.

In order to secure payment and performance of the Company’s obligations to Slate under the Slate Agreement, the Company granted to Slate a security interest in the following collateral: all accounts receivable and all proceeds as such term is defined by Article 9 of the UCC. We also agreed not to create, incur, assume, or permit to exist, directly or indirectly, any lien on or with respect to any of such collateral.

We analyzed the transaction under the guidance of ASC 470-60 Troubled Debt Restructuring to determine if the transaction qualified as a troubled debt restructuring. For a debt restructuring to be considered troubled, the debtor must be experiencing financial difficulty, and the creditor must have granted a concession. We analyzed the Slate Transaction under ASC 470-60 and determined that we met one of the definitions of a company experiencing financial difficulty, such as currently in default of any of our debts. As we are not in default, the fair value of the debt has not changed, we did not recognize gain or loss as the fair value has not changed, and the future undiscounted cash flows are not greater or smaller than the carrying value, the creditor has not granted any concessions. We believe that the debt does not fall into the troubled debt restructuring guidance since no concessions were granted by the creditor.

Effective June 1, 2023, the Company exchanged its convertible promissory note originally issued on December 21, 2021 in the amount of \$555,555 in favor of Westland Properties, LLC for the issuance of a new promissory note issued in favor of Westland Properties, LLC in the amount of \$665,000 (the “Exchange Note”). The original convertible Note was cancelled as a result of the exchange and the issuance of the Exchange Note. Terms of the Exchange Note include, without limitation, the following:

- a. Principal balance of \$665,000, interest rate of 3%, default interest rate of 18%;
- b. \$115,000 on or prior to July 25, 2023;
- c. A series of nine (9) monthly payments to the Holder in the amount of \$38,889 with the first payment beginning September 1, 2023 with the final payment to be adjusted for any interest; and
- d. \$200,000 on the earlier of (i) three (3) business days following the Company’s successful listing (“Uplisting”) 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 (ii) the receipt of not less than \$4,000,000 in funding from a single transaction (in either event an “Uplist Payment”)
- e. Maturity date of September 30, 2021. Notes were fully converted in February 2021

In addition to exchanging the original Note, Westland Properties, LLC forgave \$4,724,299 in default accrued interest and interest of \$179,782.

On January 19, 2022, the Company 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) the \$2,900,000 promissory note issued by Data443 in favor of Centurion; and (iii) \$250,000 in the form of a contingent payment. As of the filings date of these financial statements, the acquisition is still not completed. The Company is in default of the promissory note. The Company and Centurion are in ongoing discussions concerning the outstanding balance. Centurion has not threatened any legal action against the Company.

**NOTE 10: COMMITMENTS AND CONTINGENCIES*****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 11: CAPITAL STOCK AND REVERSE STOCK SPLIT****Changes in Authorized Shares**

On September 20, 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 June 30, 2024, we are authorized to issue 80,000 of Series B Preferred Stock with par value of \$0.001. 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 June 30, 2024 and December 31, 2023, -0- and -0- shares of Series B were issued and outstanding, respectively.

As of June 30, 2024 we are authorized to issue 150,000 of Series A Preferred Stock with a par value of \$0.001. Each share of Series A is the equivalent of 15,000 shares of Common Stock. Our Chief Executive Officer, Jason Remillard, holds 149,892 shares of our Series A Preferred Stock. Through his ownership of Series A Preferred Shares, Mr. Remillard has voting control over all matters to be submitted to a vote of our shareholders.

As of June 30, 2024 and December 31, 2023, 149,892 and 149,892 shares of Series A were issued and outstanding, respectively.

The remaining 107,500 preferred shares have not been designated.

**Common stock**

As of June 30, 2024, we are authorized to issue 500,000,000 shares of Common stock with a par value of \$0.001. All shares have equal voting rights, are non-assessable, and have one vote per share.

During the six months ended June 30, 2024, we issued Common stock as follows:

- 41,092 shares issued for conversion of debt;

As of June 30, 2024 and December 31, 2023, 313,966 and 272,874 shares of Common stock were issued and outstanding, respectively.

## Warrants

A summary of activity during the six months ended June 30, 2024 follows:

	Warrants Outstanding	
	Shares	Weighted Average Exercise Price
Outstanding, December 31, 2023	616,934	\$ 8.03
Granted	-	-
Exercised	-	-
Forfeited/canceled	-	-
Outstanding, June 30, 2024	616,934	\$ 8.03

During the six months ended June 30, 2024, 0 warrants were exercised cashless and we issued 0 shares of Common stock as a result.

The following table summarizes information relating to outstanding and exercisable warrants as of June 30, 2024:

Number of Warrants	Exercisable Warrants Outstanding	
	Weighted Average Remaining Contractual life (in years)	Weighted Average Exercise Price
10	1.45	\$ 96,000.00
12	1.81	\$ 72,000.00
26	2.07	\$ 21,600.00
5	2.25	\$ 21,600.00
55	2.35	\$ 5,929.10
124	2.48	\$ 4,464.00
32	2.86	\$ 3,600.00
3	2.86	\$ 3,600.00
270,833	-	\$ 0.60
250,000	-	\$ 0.60
54,167	-	\$ 0.60
41,667	.01	\$ 0.60
616,934	.23	\$ 8.03

## NOTE 12: STOCK-BASED COMPENSATION

### Stock Options

During the six months ended June 30, 2024, we granted options for the purchase of our Common stock to certain employees as consideration for services rendered. The terms of the stock option grants are determined by our Board of Directors. Our stock options generally vest upon the one-year anniversary date of the grant and have a maximum term of ten years.

The following summarizes the stock option activity for the six months ended June 30, 2024:

	Options Outstanding	Weighted-Average Exercise Price
Balance as of December 31, 2023	14,112	\$ 1.67
Grants	850,775	1.23
Exercised	-	-
Cancelled	-	-
Balance as of June 30, 2024	864,887	\$ 1.24

The following summarizes certain information about stock options vested and expected to vest as of June 30, 2024:

	Number of Options	Weighted- Average Remaining Contractual Life (In Years)	Weighted- Average Exercise Price
Outstanding	864,887	9.89	\$ 45.45
Exercisable	14,678	8.92	\$ 45.45
Expected to vest	850,209	9.89	\$ 45.45

As of June 30, 2024 and December 31, 2023, there was \$403,499 and \$35,227, 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 six months ended June 30, 2024:

	Shares	Weighted- Average Fair Value
Balance as of December 31, 2023	20,214	\$ 243,781
Shares of restricted stock granted	73,258	180,000
Exercised	-	-
Cancelled	-	-
Balance as of June 30, 2024	93,472	\$ 423,781

Number of Restricted Stock Awards	June 30, 2024	December 31, 2023
Vested	19,176	5,288
Non-vested	73,258	14,926

### NOTE 13: INTEREST EXPENSE

For the six months ended June 30, 2024 and 2023, the Company recorded interest expense as follows:

	Six Months June 30, 2024	Six Months June 30, 2023
Interest expense - convertible notes	\$ 307,047	\$ 3,338,620
Interest expense - notes payable	300,918	150,245
Other	119,557	29,690
Amortization of debt discount	1,098,336	625,783
	<u>\$ 1,825,858</u>	<u>\$ 3,964,556</u>

### NOTE 14: RELATED PARTY TRANSACTIONS

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

During the six months ended June 30, 2024, the Company borrowed \$-0- from our CEO, our CEO paid operating expenses of \$154,862 on behalf of the Company and the Company repaid \$200,297 to our CEO.

As of June 30, 2024 and December 31, 2023, we had due to related party transactions in the amounts of \$291,002 and \$341,437, respectively.

**NOTE 15: SUBSEQUENT EVENTS**

The Company does not have any events subsequent to June 30, 2024, through August 14, 2024, the date the financial statements were issued for disclosure consideration, except for the following:

- On July 31, 2024, we issued 20,491 shares of Common Stock to Fast Capital, LLC pursuant to an agreement with Fast Capital, LLC, in exchange for \$25,000 in note payable principal.
- On August 9, 2024, Plaintiff Guy Gissin, Adv., in his capacity as the Appointed Receiver for the Assets of Cyren Ltd. (“Plaintiff”) filed a lawsuit against Data443 Risk Mitigation, Inc., a North Carolina corporation, the Company’s wholly-owned subsidiary (the “Subsidiary”), in US District Court Eastern District of North Carolina, naming the Subsidiary as the defendant (the “Complaint”). The Subsidiary is in the process of engaging local litigation counsel to defend itself in the litigation. An answer to the Complaint will be filed shortly. Based on the early stages of the Complaint, and the inherent uncertainty as to the outcome, at this time, the Company is not able to reasonably estimate a possible range of loss.

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

*The following discussion and analysis of the results of operations and financial condition for the six months ended June 30, 2024 and for the year ended December 31, 2023 should be read in conjunction with our consolidated financial statements, and the notes to those financial statements that are included elsewhere in this quarterly report on Form 10-Q for the quarter ended June 30, 2024 (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 additional capital to fund our operations;*
- there is substantial doubt about our ability to continue as a going concern;*
- we will face intense competition in our market, and we may lack sufficient financial and other resources to maintain and improve our competitive position;*
- we are dependent on the continued services and performance of our founder and Chief Executive Officer, Jason Remillard;*
- our common stock is currently quoted on the OTC Pink and is thinly traded, reducing your ability to liquidate your investment in us;*
- we have had a history of losses and may incur future losses, which may prevent us from attaining profitability;*
- the market price of our common stock may be volatile and may fluctuate in a way that is disproportionate to our operating performance;*
- we have shares of preferred stock that have special rights that could limit our ability to undertake corporate transactions, inhibit potential changes of control, and reduce the proceeds available to our common stockholders in the event of a change in control;*
- we have never paid and do not intend to pay cash dividends;*
- our Chief Executive Officer has the ability to control all matters submitted to stockholders for approval, which limits our stockholders' ability to influence corporate affairs; and*
- the other factors described in "Risk Factors."*

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

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

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

## **Overview**

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

The mounting ransomware landscape 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 that we believe enable our customers to optimally secure their data. Our products are modular, giving our customers the flexibility to select what they require for their business needs and to expand their usage by simply adding a license. We currently offer the following products and services:

- **Cyren® Threat Intelligence Service (TIS)**, a well-established offering in emerging and active threats occurring around the world. With large, velocity-based data sets, TIS provides unique data products for some of the world's leading security, response, software and service providers. Capabilities delivered within the Threat Intelligence suite include:
  - **Email Security Engine**, protects against phishing, malware, and inbound and outbound spam. Our industry-leading detection provides real-time blocking of email threats and abuse in any language or format with virtually no false positives.
  - **Threat InDepth**, receives early threat information with real-time technical threat intelligence feeds of emerging malware and phishing threats.
  - **Web Security Engine**, an AI-driven tool that makes decisions aided by advanced heuristics and 24×7 analysts; covers 82 threat categories, including web threats such as phishing, fraud. Malware integration options include an SDK, cloud API, daemon, and container.
  - **Malware Detection**, a feature with approximately 100 mini engines that scan unique objects within a file, unpack files and defeat obfuscation used by malware authors. This tool spots threats with heuristic analysis, advanced emulation, and intelligent signatures.
  - **Hybrid Analyzer**, a feature that combines static malware analysis and advanced emulation technology that quickly uncovers behaviors without executing files. File properties and behaviors are scored to indicate likelihood of maliciousness. Equally effective in connected and air-gapped environments.
- **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 the California Consumer Privacy Act ("CCPA"), the General Personal Data Protection Law ("LGPD") (Brazil) and the General Data Protection Regulation ("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 stakeholders 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 privacy rules and regulations from Europe, California, and Brazil, 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

### Acquisition of Certain Assets of Cyren Ltd.

On May 15, 2023 we entered into an agreement to purchase certain assets (the "Cyren Assets") of Cyren Ltd. ("Cyren") a company that provided emerging and high-volume risk mitigation services for some of the world's largest name brand organizations prior to its bankruptcy filing in February 2023. Pursuant to a purchase agreement, the appointed receiver for the Cyren Assets (the "Receiver") agreed to sell, transfer, assign, convey and deliver to us, and we agreed to purchase from the Receiver, all right, title, and interest in and to the Cyren Assets, as further described in the purchase agreement, as amended on December 12, 2023 (as so amended, the "Purchase Agreement"). On December 15, 2023 we closed the transaction.

Under the terms of the Purchase Agreement, we acquired goodwill, clients, proprietary technology and intellectual property related to three services: threat intelligence, URL categorization and email security. We believe the transaction enhances our existing product portfolio and accelerates the development of next-generation solutions. Cyren's technology is based on a combination of artificial intelligence, machine learning and big-data analytics, which we believe enables Cyren to identify and mitigate threats in real time, sooner than many competitors.

Cyren's clients include some of the world's largest name brand organizations and provides fast-breaking threat detection services and threat intelligence to major firewall vendors, email providers, leading cybersecurity vendors, and other industries such as gaming and e-commerce.

We believe that the Cyren technology, services and customers strengthen our competitive position by broadening our product offerings and enhancing our technological capabilities.

## Results of Operations for the Three and Six Months Ended June 30, 2024 Compared to the Three and Six Months Ended June 30, 2023

Our operations for the three months ended June 30, 2024 and 2023 are outlined below:

	Three Months Ended		\$ Change	% Change
	June 30			
	2024	2023		
Revenue	\$ 1,149,085	\$ 619,040	\$ 530,045	86%
Cost of revenue	807,271	244,881	562,390	230%
Gross Profit	342,014	374,159	(32,145)	(9)%
Gross Profit Percentage	30%	60%		
Operating expense	1,095,799	1,699,878	(604,079)	(36)%
Other income (expense)	(757,012)	1,415,259	(2,172,271)	(153)%

Net Income (loss)

\$ (1,510,797)

\$ 89,540

\$ (1,600,337)

(1787)%

## Revenue

The increase in revenue is due to our acquisition of intellectual property from the Appointed Receiver for the Assets of Cyren Ltd. However, we continue to see organic growth in increased consumption of our services that contain storage or volume components, matching our expectations and as is reflected in our continuing Annual Recurring Revenue (“ARR”) growth. We are offering and closing deals based on professional services consulting to further enable our technological capabilities within our existing customer base.

## Cost of Revenue

Cost of revenue consists of direct expenses, such as labor, shipping, and supplies. The increase in cost of revenue is a result of the additional costs associated with our acquisition of intellectual property, specifically a large data center cost footprint, from the Appointed Receiver for the Assets of Cyren Ltd. Significant efforts are underway to reduce/minimize the operating footprint of the Cyren Assets.

## Operating Expenses

For the three months ended June 30, 2024 and 2023 our operating expenses were as follows:

	Three Months Ended June 30,		\$ Change	% Change
	2024	2023		
General and administrative	\$ 1,004,497	\$ 1,635,499	\$ (631,002)	(39)%
Sales and marketing	91,302	64,379	26,923	42%
Total operating expenses	<u>\$ 1,095,799</u>	<u>\$ 1,699,878</u>	<u>\$ (604,079)</u>	<u>(36)%</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, in connection with the projected growth of our business. Additionally, we continue to incur specific one-time costs in relation to our planned national exchange-based uplisting, additional financing activities and related functions. The decrease in general and administrative expense was primarily due to a reduction in payroll expense and professional service fees as well as general cost reduction effort by the Company.

### Sales and Marketing Expenses

The sales and marketing expenses primarily consisted of additional focus on cross-sell, upsell and growth in existing contracts from customers. As our retention activities of the assets of Cyren customer base has largely transitioned to increased consumption and quality of service delivery efforts. The increase in sales and marketing expense is primarily due to focused investments in marketing campaigns, supporting tools and direct client engagement efforts to form our product roadmaps and continue to deliver significant value to our clients.

### Other income (expense)

Other income (expenses) for the three months ended June 30, 2024 consisted primarily of interest expense. Other expenses for the three months ended June 30, 2023 consisted of interest expense as well as the affect of the settlement of debt.

### Net Loss

Net loss increased 1787% from net income of \$89,540 for the three months ended June 30, 2023 to net loss of \$1,510,797 for the three months ended June 30, 2024. The net loss was mainly derived from an operating loss of \$753,785, and interest expense of \$755,446. The net income for the three months ended June 30, 2023 was mainly derived from an operating loss of \$1,325,719, and interest expense of \$3,488,822 and settlement of debt of \$4,904,081. The increase in net loss was primarily due to the increase in cost of revenue as well as the settlement of debt affect from the prior year’s three months ended June 20, 2023.



**Our operations for the six months ended June 30, 2024 and 2023 are outlined below:**

	Six Months Ended		Change	
	June 30,			
	2024	2023	\$	%
Revenue	\$ 2,660,143	\$ 1,998,846	\$ 661,297	33%
Cost of revenue	1,420,229	453,863	966,166	213%
Gross Profit	1,240,114	1,544,983	(304,869)	(20)%
Gross Profit Percentage	47%	77%		
Operating expense	2,554,212	3,132,861	(578,649)	(19)%
Other income (expense)	(1,825,858)	939,525	(2,765,383)	(294)%
Net loss	\$ (3,139,956)	\$ (648,353)	\$ (2,491,603)	384%

**Revenue**

Revenues increased 33% from \$1,998,846 for the six months ended June 30, 2023 to \$2,660,143 for the six months ended June 30, 2024. The increase in revenue is due to our acquisition of intellectual property from the Appointed Receiver for the Assets of Cyren Ltd. However, we continue to see organic growth in increased consumption of our services that contain storage or volume components, matching our expectations and as is reflected in our continuing Annual Recurring Revenue (“ARR”) growth. We are offering and closing deals based on professional services consulting to further enable our technological capabilities within our existing customer base.

**Cost of Revenue**

Cost of revenue consists of direct expenses, such as labor, software and technology, and supplies. The increase in cost of revenue is a result of the additional costs associated with our acquisition of intellectual property, specifically a large data center cost footprint and additional labor, from the Appointed Receiver for the Assets of Cyren Ltd. Significant efforts are underway to reduce/minimize the operating footprint of the Cyren Assets.

**Operating Expenses**

For the six months ended June 30, 2024 and 2023 our operating expenses were as follows:

	Six Months Ended		Change	
	June 30,			
	2024	2023	\$	%
General and administrative	\$ 2,177,801	\$ 3,036,308	\$ (858,507)	(28)%
Sales and marketing	376,411	96,553	279,858	290%
Total operating expenses	\$ 2,554,212	\$ 3,132,861	\$ (578,649)	(19)%

**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 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 additional focus on cross-sell, upsell and growth in existing contracts from customers. As our retention activities of the assets of Cyren customer base has largely transitioned to increased consumption and quality of service delivery efforts. The increase in sales and marketing expense is primarily due to focused investments in marketing

campaigns, supporting tools and direct client engagement efforts to form our product roadmaps and continue to deliver significant value to our clients.

*Other income (expense)*

Other income (expenses) for the six months ended June 30, 2024 consisted primarily of interest expense. Other income (expenses) for the six months ended June 30, 2023 consisted primarily of interest expense and an forgiveness of debt on note payable of \$4,724,299.

*Net Loss*

Net loss increased 384% from \$648,353 for the six months ended June 30, 2023 to \$3,139,956 for the six months ended June 30, 2024. The net loss was mainly derived from an operating loss of \$1,314,098, and interest expense of \$1,821,338. The net loss for the six months ended June 30, 2023 was mainly derived from an operating loss of \$1,587,878, and interest expense of \$3,964,556 and settlement of debt of \$4,904,081.

*Accumulated Losses*

We had a net operating loss carryforwards of approximately \$6 million from prior operations in 2017, before our current President and Chief Executive Officer acquired a controlling interest in the company. Subsequent to this and through June 30, 2024, 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 \$16.3 million expensed for interest and amortization of debt discounts for financing and other origination fees.

## Liquidity and Capital Resources

### Working Capital

The following table provides selected financial data about our company as of June 30, 2024 and December 31, 2023, respectively.

	June 30, 2024	December 31, 2023	Change	%
Current assets	\$ 132,425	\$ 423,805	\$ (291,380)	(69)%
Current liabilities	\$ 15,509,184	\$ 13,801,416	\$ 1,707,768	12%
Working capital deficiency	\$ (15,376,759)	\$ (13,377,611)	\$ (1,999,148)	(15)%

We require cash to fund our operating expenses and working capital requirements, including outlays for capital expenditures. As of June 30, 2024, we had cash balance of \$47,580 and our principal sources of liquidity were trade accounts receivable of \$36,510, and prepaid expenses and other current assets of \$48,335, as compared to cash of \$84,570, trade accounts receivable of \$309,768 and prepaid and other current assets of \$29,467 as of December 31, 2023.

During the last two years, and through the date of this Report, we have faced an increasingly challenging liquidity situation that has limited our ability to execute our operating plan. We will need to obtain capital to continue operations. There is no assurance that we will be able to secure such funding on acceptable terms. During the six months ended June 30, 2024, we reported a loss from operations of \$3,139,956.

As of June 30, 2024, we had assets of cash in the amount of \$47,580 and other current assets in the amount of \$84,845. As of June 30, 2024, we had current liabilities of \$15,509,184. Our accumulated deficit as of June 30, 2024 was \$58,796,792.

As of December 31, 2023, we had assets of cash in the amount of \$84,570 and other current assets in the amount of \$339,235. As of December 31, 2023, we had current liabilities of \$13,801,416. We accumulated deficit as of December 31, 2023 was \$55,656,836.

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

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

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

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

### Cash Flow

	Six Months Ended		Change
	June 30,		
	2024	2023	
Cash provided by (used in) operating activities	\$ 567,271	\$ 175,918	\$ 226,382
Cash used in investing activities	\$ -	\$ (167,427)	\$ 167,427
Cash provided by financing activities	\$ (604,261)	\$ 5,701	\$ (458,254)

Cash on hand

\$ 47,580 \$ 15,904 \$ 31,676

### *Operating Activities*

During the six months ended June 30, 2024, we generated \$567,271 by operating activities, compared to \$175,918 provided by during the three months ended June 30, 2023.

### *Investing Activities*

During the six months ended June 30, 2024, we used \$-0- funds in investing activities. During the six months ended June 30, 2023, we used funds in investing activities of \$167,427 to acquire property and equipment.

### *Financing Activities*

During the six months ended June 30, 2024, we raised \$310,910 from issuance of convertible debt; proceeds from related party of \$155,862; repayment of convertible note payable of \$300,652 repayment of \$570,084 on notes payable; and repayment to related party of \$200,297. For June 30, 2024 we had net cash outflows for financing activities of \$604,261. By comparison, during the six months ended June 30, 2023, we (i) raised \$564,070 from issuance of convertible debt; (ii) received proceeds from a related party of \$229,426; and (iii) received proceeds of \$417,427 from issuance of notes payable; (iv) repaid of convertible note payable of \$146,663; (v) repaid of \$1,047,218 on notes payable; and (vi) repaid to a related party of \$21,000. For June 30, 2023 we had net cash inflows for financing activities of \$5,701.

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

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

As of June 30, 2024, 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.



### ***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 Annual 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 June 30, 2024.

#### ***Management’s Report of Internal Control over Financial Reporting***

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

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

Based on our evaluation under the criteria set forth in 2013 Internal Control — Integrated Framework, our management concluded that, as of June 30, 2024 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 but do not currently have independent directors or an audit committee. Until there are independent directors and an audit committee, we will mitigate the lack of segregation of duties by (i) continuing to use third party specialists to assist us with accounting and finance; and (ii) commissioning frequent reconciliations of significant accounts using independent auditors.

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

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

There were no changes in our internal control over financial reporting that occurred during the six months ended June 30, 2024 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**

From time to time, we may be involved in routine legal proceedings, as well as demands, claims and threatened litigation that arise in the normal course of our business. The ultimate amount of liability, if any, for any claims of any type (either alone or in the aggregate) may materially and adversely affect our financial condition, results of operations and liquidity. In addition, the ultimate outcome of any litigation is uncertain. Any outcome (including any for the actions described above), whether favorable or unfavorable, may materially and adversely affect us due to legal costs and expenses, diversion of management attention and other factors. We expense legal costs in the period incurred. We cannot assure you that additional contingencies of a legal nature or contingencies having legal aspects will not be asserted against us in the future, and these matters could relate to prior, current or future transactions or events.

On August 9, 2024, Plaintiff Guy Gissin, Adv., in his capacity as the Appointed Receiver for the Assets of Cyren Ltd. (“Plaintiff”) filed a lawsuit against Data443 Risk Mitigation, Inc., a North Carolina corporation, the Company’s wholly-owned subsidiary (the “Subsidiary”), in US District Court Eastern District of North Carolina, naming the Subsidiary as the defendant (the “Complaint”). The Subsidiary is in the process of engaging local litigation counsel to defend itself in the litigation. An answer to the Complaint will be filed shortly. Based on the early stages of the Complaint, and the inherent uncertainty as to the outcome, at this time, the Company is not able to reasonably estimate a possible range of loss.

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

We are not aware of any other pending or threatened litigation against us that in our view would have a material adverse effect on our business, financial condition, liquidity, or operating results. However, legal claims are inherently uncertain, and we cannot assure you that we will not be adversely affected in the future by 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 six months ended June 30, 2024, 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 January 11, 2024, we issued 13,469 shares of Common Stock to GS Capital Partners LLC pursuant to an agreement with GS Capital Partners LLC, in exchange for \$17,458 in note payable principal and \$5,547 of accrued interest.
- On April 23, 2024, we issued 20,491 shares of Common Stock to Fast Partners LLC pursuant to an agreement with Fast Partners LLC, in exchange for \$25,000 in note payable principal.
- On May 30, 2024, we issued 7,132 shares of Common Stock to Root Ventures LLC pursuant to an agreement with Root Ventures LLC, in exchange for \$3,340 in note payable principal and \$1,660 of accrued interest.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

<b>Exhibit</b>	<b>Number</b>	<b>Exhibit Description</b>	<b>Incorporated by Reference</b>		
			<b>Form</b>	<b>Exhibit</b>	<b>Filing Date/ Period End Date</b>
	4.1	<a href="#">Convertible Promissory Note issued the Company in favor of 1800 Diagonal Lending LLC on 4 April 2024 in the original principal amount of \$126,000.</a>			
	4.2	<a href="#">Convertible Promissory Note issued the Company in favor of 1800 Diagonal Lending LLC on 10 May 2024 in the original principal amount of \$102,000.</a>			
	31.1	<a href="#">Rule 13a-14(a) / 15d-14(a) Certification of Chief Executive Officer.</a>			
	31.2	<a href="#">Rule 13a-14(a) / 15d-14(a) Certification of Chief Financial Officer.</a>			
	32.1	<a href="#">Section 1350 Certification of Chief Executive Officer.</a>			
	32.2	<a href="#">Section 1350 Certification of Chief Financial Officer.</a>			
	101	Inline XBRL Document Set for the condensed consolidated financial statements and accompanying notes in Part I, Item 1, "Financial Statements" of this Quarterly Report on Form 10-Q.			
	104	Inline XBRL for the cover page of this Quarterly Report on Form 10-Q, included in the Exhibit 101 Inline XBRL Document Set.			

**SIGNATURES**

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

Date: August 14, 2024

DATA443 RISK MITIGATION, INC.

By: /s/ Jason Remillard

Name: JASON REMILLARD

Title: Chief Executive Officer, (Principal Executive Officer)