

REFINITIV

DELTA REPORT

10-Q

DATS - DATCHAT, INC.

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS 1437

CHANGES	156
DELETIONS	865
ADDITIONS	416

UNITED STATES
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2023March 31, 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 No. 001-40729

DATCHAT, INC.

(Exact name of registrant as specified in its charter)

Nevada

47-2502264

(State or Other Jurisdiction
of Organization)
204 Neilson Street,

IRS Employer
Identification Number

New Brunswick, NJ

08901

(Address of principal executive offices)

(Zip code)

Registrant's telephone number, including area code: **(732) 374-3529**

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.0001 per share	DATS	The Nasdaq Stock Market LLC
Series A Warrants, each warrant exercisable for one share of Common Stock at an exercise price of \$4.98 per share	DATSW	The Nasdaq Stock Market LLC

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the 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 Regulations S-T (\$232.405 of this chapter) during the preceding 12 months (or for shorter period that the registrant was required to submit and post 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 checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of November 9, 2023 May 14, 2024, there were 2,103,321 3,009,329 shares of common stock, par value \$0.0001 per share, issued and outstanding.

DATCHAT, INC.
FORM 10-QDATCHAT, INC.
September 30, 2023 FORM 10-Q
March 31, 2024
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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Any statements in this Quarterly Report on Form 10-Q about our expectations, beliefs, plans, objectives, assumptions or future events or performance are not historical facts and are forward-looking statements. These statements are often, but not always, made through the use of words or phrases such as "believe," "will," "expect," "anticipate," "estimate," "intend," "plan" and "would." For example, statements concerning financial condition, possible or assumed future results of operations, growth opportunities, industry ranking, plans and objectives of management, markets for our common stock and future management and organizational structure are all forward-looking statements. Forward-looking statements are not guarantees of performance. They involve known and unknown risks, uncertainties and assumptions that may cause actual results, levels of activity, performance or achievements to differ materially from any results, levels of activity, performance or achievements expressed or implied by any forward-looking statement.

Any forward-looking statements are qualified in their entirety by reference to the risk factors discussed throughout our Annual Report on Form 10-K as filed with the SEC on **March 31, 2023** **March 29, 2024**. Some of the risks, uncertainties and assumptions that could cause actual results to differ materially from estimates or projections contained in the forward-looking statements include, but are not limited to:

- our business strategies;
- the timing of regulatory submissions;
- our ability to obtain and maintain regulatory approval of our existing product candidates and any other product candidates we may develop, and the labeling under any approval we may obtain;
- risks relating to the timing and costs of clinical trials and the timing and costs of other expenses;
- risks related to market acceptance of products;
- intellectual property risks;
- risks associated to our reliance on third party organizations;
- our competitive position;
- our industry environment;
- our anticipated financial and operating results, including anticipated sources of revenues;
- assumptions regarding the size of the available market, benefits of our products, product pricing and timing of product launches;
- management's expectation with respect to future acquisitions;
- statements regarding our goals, intentions, plans and expectations, including the introduction of new products and markets;
- general business and economic conditions, such as inflationary pressures, geopolitical conditions including, but not limited to, the conflict between Russia and the Ukraine, the conflict between Israel and Gaza, and the effects and duration of outbreaks of public health emergencies, such as COVID-19; and
- our cash needs and financing plans.

The foregoing list sets forth some, but not all, of the factors that could affect our ability to achieve results described in any forward-looking statements. You should read this Quarterly Report on Form 10-Q and the documents that we reference herein and have filed as exhibits our Annual Report on Form 10-K, completely and with the understanding that our actual future results may be materially different from what we expect. You should assume that the information appearing in this Quarterly Report on Form 10-Q is accurate as of the date hereof. Because the risk factors referred to in our Annual Report on Form 10-K, as filed with the SEC on **March 31, 2023** **March 29, 2024**, could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements made by us or on our behalf, you should not place undue reliance on any forward-looking statements. Further, any forward-looking statement speaks only as of the date on which it is made, and except as required by law, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for us to predict which factors will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. We qualify all the information presented in this Quarterly Report on Form 10-Q, and particularly our forward-looking statements, by these cautionary statements.

ITEM 1. FINANCIAL STATEMENTS
PART I. FINANCIAL INFORMATION
DATCHAT, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	September 30, 2023 (Unaudited)	December 31, 2022	March 31, 2024 (Unaudited)	December 31, 2023
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	\$ 672,086	\$ 1,732,956	\$ 249,983	\$ 953,362
Short-term investments, at fair value	6,826,759	11,007,997	5,836,175	5,236,781
Accounts receivable	142	384	200	183
Prepaid expenses	277,928	134,752	230,530	185,675
Total Current Assets	<u>7,776,915</u>	<u>12,876,089</u>	<u>6,316,888</u>	<u>6,376,001</u>
OTHER ASSETS:				
NON-CURRENT ASSETS:				
Property and equipment, net	108,492	79,694	50,783	56,565
Digital currencies and other digital assets	-	23,381		
Operating lease right-of-use asset, net	90,254	134,526	56,854	73,977
Total Other Assets	<u>198,746</u>	<u>237,601</u>		
Total Non-current Assets			<u>107,637</u>	<u>130,542</u>
Total Assets	<u><u>\$ 7,975,661</u></u>	<u><u>\$ 13,113,690</u></u>	<u><u>\$ 6,424,525</u></u>	<u><u>\$ 6,506,543</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Accounts payable and accrued expenses	\$ 390,317	\$ 404,600	\$ 384,449	\$ 322,762
Operating lease liability, current portion	79,354	67,338		
Operating lease liability			64,298	83,674
Contract liabilities	78	186	162	118
Due to related party	-	1,315		
Total Current Liabilities	<u>469,749</u>	<u>473,439</u>	<u>448,909</u>	<u>406,554</u>
LONG-TERM LIABILITIES:				
Operating lease liability, less current portion	<u>22,851</u>	<u>83,675</u>		
Total Long-Term Liabilities	<u>22,851</u>	<u>83,675</u>		
Total Liabilities	<u><u>492,600</u></u>	<u><u>557,114</u></u>	<u><u>448,909</u></u>	<u><u>406,554</u></u>
Commitments and Contingencies (Note 8)				
Commitments and Contingencies (Note 6)				
STOCKHOLDERS' EQUITY:				
Preferred stock (\$0.0001 par value; 20,000,000 shares authorized)				
Series A Preferred stock (\$0.0001 Par Value; 1 Share designated; none issued and outstanding on September 30, 2023 and December 31, 2022)			-	-

Series B Preferred stock (\$0.0001 Par Value; 2,000,000 Share designated; 2,000,000 and none issued and outstanding on September 30, 2023 and December 31, 2022, respectively)	200	-	-
Common stock (\$0.0001 par value; 18,000,000 shares authorized; 2,094,285 and 2,059,717 shares issued and outstanding on September 30, 2023 and December 31, 2022, respectively)	209	206	-
Common stock to be issued (139 shares on September 30, 2023 and December 31, 2022)	-	-	-
Series A Preferred stock (\$0.0001 Par Value; 1 Share designated; none issued and outstanding on March 31, 2024 and December 31, 2023)	-	-	-
Series B Preferred stock (\$0.0001 Par Value; 2,000,000 Share designated; 2,000,000 issued and outstanding on March 31, 2024 and December 31, 2023)	200	200	-
Common stock (\$0.0001 par value; 180,000,000 shares authorized; 3,076,274 and 2,103,321 shares issued and 3,009,329 and 2,036,376 shares outstanding on March 31, 2024 and December 31, 2023, respectively)	308	210	-
Common stock to be issued (139 shares on March 31, 2024 and December 31, 2023)	-	-	-
Additional paid-in capital	54,551,840	52,285,488	56,511,333
Treasury stock, at cost (66,944 shares on September 30, 2023)	(397,969)	-	(397,969)
Treasury stock, at cost (66,945 shares on March 31, 2024 and December 31, 2023)	-	(397,969)	(397,969)
Accumulated other comprehensive gain	108,923	-	34,553
Accumulated deficit	(46,780,142)	(39,729,118)	(49,271,900)
Total DatChat, Inc. Stockholders' Equity	6,841,972	6,099,989	-
Noncontrolling interest	(866,356)	-	-
Total Stockholders' Equity	7,483,061	12,556,576	5,975,616
Total Liabilities and Stockholders' Equity	\$ 7,975,661	\$ 13,113,690	\$ 6,424,525
			\$ 6,506,543

See accompanying notes to unaudited consolidated financial statements.

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DATCHAT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Uaudited)

					For the Three Months Ended	
	For the Three Months Ended		For the Nine Months Ended			
	September 30,		September 30,		March 31,	2024
	2023	2022	2023	2022		2023
NET REVENUES	\$ 175	\$ 3,540	\$ 501	\$ 42,296	\$ 131	\$ 154
OPERATING EXPENSES:						
Compensation and related expenses	1,247,302	1,639,886	4,177,032	5,015,827	897,664	1,549,692
Marketing and advertising expenses	219,008	65,181	379,410	645,825	34,717	113,803
Professional and consulting expenses	483,319	482,338	1,060,396	1,947,535	253,625	255,920
Research and development expense	380,017	258,957	1,064,049	258,957	233,918	282,773
General and administrative expenses	212,680	232,064	651,461	712,103	243,626	197,102
Impairment loss on digital currencies and other digital assets	-	7,024	23,381	91,204	-	23,381
Total operating expenses	2,542,326	2,685,450	7,355,729	8,671,451	1,663,550	2,422,671
LOSS FROM OPERATIONS	(2,542,151)	(2,681,910)	(7,355,228)	(8,629,155)	(1,663,419)	(2,422,517)
OTHER INCOME (EXPENSES):						
Interest income, net	206	4,659	6,058	8,077	114,470	28,238
Gain on initial consolidation of variable interest entities	-	-	106,538	-	-	42,737
Foreign currency loss	(36)	-	(102)	-	-	-
Realized gain on short-term investments	177,401	9,702	239,382	9,702	-	-
Unrealized gain (loss) on short-term investments	-	10,844	(47,672)	7,113	-	-
Gain on deconsolidation of variable interest entities					107	-
Foreign currency exchange loss					(12,965)	-
Realized loss on short-term investments					-	(47,672)
Total other income (expenses), net	177,571	25,205	304,204	24,892	101,612	23,303
NET LOSS	\$ (2,364,580)	\$ (2,656,705)	\$ (7,051,024)	\$ (8,604,263)	\$ (1,561,807)	\$ (2,399,214)
Net loss of subsidiary attributable to noncontrolling interest					423,995	-
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS					\$ (1,137,812)	\$ (2,399,214)
COMPREHENSIVE LOSS:						
Net loss	\$ (2,364,580)	\$ (2,656,705)	\$ (7,051,024)	\$ (8,604,263)	\$ (1,561,807)	\$ (2,399,214)
Other comprehensive (loss) gain:						
Unrealized (loss) gain on short-term investments	(88,681)	-	108,889	-	-	-
Unrealized foreign currency translation (loss) gain	(724)	-	34	-	-	-
Unrealized gain on short-term investments					-	85,035
Unrealized foreign currency translation gain					12,965	176
Comprehensive loss	\$ (2,453,985)	\$ (2,656,705)	\$ (6,942,101)	\$ (8,604,263)	\$ (1,548,842)	\$ (2,314,003)
NET LOSS PER COMMON SHARE:						
Basic and diluted	\$ (1.13)	\$ (1.29)	\$ (3.40)	\$ (4.32)	\$ (0.56)	\$ (1.16)

WEIGHTED AVERAGE NUMBER OF COMMON SHARES**OUTSTANDING:**

Basic and diluted

	2,088,516	2,059,742	2,075,515	1,993,808	2,806,185	2,060,721
See accompanying notes to unaudited consolidated financial statements.						

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DATCHAT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, MARCH 31, 2024 AND 2023 AND 2022
(Uaudited)

	Series B Preferred Stock		Common Stock		Common Stock to be Issued		Additional Paid-in Capital		Treasury Stock		Accumulated other Comprehensive Gain		Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount			Shares	Amount				
Balance, December 31, 2022	-	\$ -	2,059,717	\$ 206	139	\$ -	-	\$ 52,285,488	-	\$ -	-	\$ (39,729,118)	\$ 12,556,576	
Accretion of stock based compensation in connection with stock option grants	-	-	-	-	-	-	-	603,278	-	-	-	-	-	603,278
Accretion of stock-based professional fees in connection with stock option grants and shares	-	-	-	-	-	-	-	21,900	-	-	-	-	-	21,900
Issuance of common stock for professional services	-	-	14,300	1	-	-	-	99,999	-	-	-	-	-	100,000
Purchase of treasury stock	-	-	-	-	-	-	-	-	47,985	(311,174)	-	-	-	(311,174)
Accumulated other comprehensive gain	-	-	-	-	-	-	-	-	-	-	132,883	-	-	132,883
Rounding	-	-	25	-	-	-	-	-	-	-	-	-	-	-
Net loss for the period	-	-	-	-	-	-	-	-	-	-	-	(2,399,214)	(2,399,214)	(2,399,214)
Balance, March 31, 2023	-	-	2,074,042	207	139	-	-	53,010,665	47,985	(311,174)	132,883	(42,128,332)	\$ 10,704,249	
Accretion of stock based compensation in connection with stock option grants	-	-	-	-	-	-	-	752,155	-	-	-	-	-	752,155
Accretion of stock-based professional fees in connection with stock option grants	-	-	-	-	-	-	-	33,058	-	-	-	-	-	33,058
Purchase of treasury stock	-	-	-	-	-	-	-	-	18,959	(86,795)	-	-	-	(86,795)

Accumulated other comprehensive gain	-	-	-	-	-	-	-	-	65,445	-	65,445	
Net loss for the period	-	-	-	-	-	-	-	-	(2,287,230)	(2,287,230)	(2,287,230)	
Balance, June 30, 2023	-	-	2,074,042	207	139	-	53,795,878	66,944	(397,969)	198,328	(44,415,562)	9,180,882
Issuance of common stock for professional services	-	-	19,802	2	-	-	99,998	-	-	-	-	100,000
Accretion of stock based compensation in connection with stock option grants	-	-	-	-	-	-	624,361	-	-	-	-	624,361
Accretion of stock-based professional fees in connection with stock option grants	-	-	-	-	-	-	30,803	-	-	-	-	30,803
Sale of Series B preferred stock	2,000,000	200	-	-	-	-	800	-	-	-	-	1,000
Accumulated other comprehensive loss	-	-	-	-	-	-	-	-	(89,405)	-	(89,405)	(89,405)
Rounding for reverse split	-	-	441	-	-	-	-	-	-	-	-	-
Net loss for the period	-	-	-	-	-	-	-	-	(2,364,580)	(2,364,580)	(2,364,580)	
Balance, September 30, 2023	<u>2,000,000</u>	<u>\$ 200</u>	<u>2,094,285</u>	<u>\$ 209</u>	<u>139</u>	<u>\$ -</u>	<u>\$ 54,551,840</u>	<u>66,944</u>	<u>\$ (397,969)</u>	<u>\$ 108,923</u>	<u>\$ (46,780,142)</u>	<u>\$ 7,483,061</u>
	Series B Preferred Stock	Common Stock	Common Stock to be Issued	Additional Paid-in Capital	Treasury Stock	Accumulated other Comprehensive Gain	Accumulated Deficit	Non controlling Interest	Total Stockholders' Equity			
Balance, December 31, 2023	2,000,000	\$ 200	2,103,321	\$ 210	139	\$ -	\$ 54,597,083	66,945	\$ (397,969)	\$ 34,553	\$ (48,134,088)	\$ 6,099,989
Accretion of stock based compensation in connection with stock option grants	-	-	-	-	-	-	6,695	-	-	-	-	6,695
Accretion of stock-based professional fees in connection with stock option grants	-	-	-	-	-	-	22,019	-	-	-	-	22,019
Issuance of common shares in subsidiary for services	-	-	-	-	-	-	22,500	-	-	-	-	22,500
Issuance of common stock for cash, net of allocated offering costs of \$149,248	-	-	382,972	39	-	-	559,212	-	-	-	-	559,251
Sale of pre-funded warrants, net of allocated offering costs of \$229,919	-	-	-	-	-	-	861,522	-	-	-	-	861,522
Cashless exercise of pre-funded warrants	-	-	589,981	59	-	-	(59)	-	-	-	-	-

Initial recording on noncontrolling interest	-	-	-	-	-	442,361	-	-	-	-	(442,361)	-	
Accumulated other comprehensive gain	-	-	-	-	-	-	-	-	-	-	(34,553)	-	
Net loss for the period	-	-	-	-	-	-	-	-	-	-	(1,137,812)	(423,995)	(1,561,807)
Balance, March 31, 2024	<u>2,000,000</u>	<u>\$ 200</u>	<u>3,076,274</u>	<u>\$ 308</u>	<u>139</u>	<u>\$ -</u>	<u>\$ 56,511,333</u>	<u>66,945</u>	<u>\$ (397,969)</u>	<u>\$ -</u>	<u>\$ (49,271,900)</u>	<u>\$ (866,356)</u>	<u>\$ 5,975,616</u>

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	Series B Preferred Stock		Common Stock		Common Stock to be Issued		Additional Paid-in Capital		Treasury Stock		Accumulated other Comprehensive Gain		Accumulated Deficit		Total Stockholders' Equity	
	Shares	Amount	Shares	Amount	Shares	Amount			Shares	Amount						
Balance, December 31, 2021	-	\$ -	1,959,717	\$ 196	139	\$ -	\$ 47,674,364		-	\$ -	\$ -	\$ -	\$ -	\$ (27,590,546)	\$ 20,084,014	
Accretion of stock based compensation in connection with stock option grants	-	-	-	-	-	-	822,583		-	-	-	-	-	-	822,583	
Accretion of stock-based professional fees in connection with stock option grants and shares	-	-	-	-	-	-	202,275		-	-	-	-	-	-	202,275	
Net loss for the period	-	-	-	-	-	-	-	-	-	-	-	-	-	\$ (3,365,846)	\$ (3,365,846)	
Balance, March 31, 2022	-	-	1,959,717	196	139	-	48,699,222		-	-	-	-	-	\$ (30,956,392)	\$ 17,743,026	
Accretion of stock based compensation in connection with stock option grants	-	-	-	-	-	-	772,197		-	-	-	-	-	-	772,197	
Accretion of stock-based professional fees in connection with stock option grants and shares	-	-	-	-	-	-	35,284		-	-	-	-	-	-	35,284	
Shares issued for asset acquisition	-	-	100,000	10	-	-	1,089,990		-	-	-	-	-	-	1,090,000	
Net loss for the period	-	-	-	-	-	-	-	-	-	-	-	-	-	\$ (2,581,712)	\$ (2,581,712)	
Balance, June 30, 2022	-	-	2,059,717	206	139	-	50,596,693		-	-	-	-	-	\$ (33,538,104)	\$ 17,058,795	
Accretion of stock based compensation in connection with stock option grants	-	-	-	-	-	-	787,585		-	-	-	-	-	-	787,585	
Accretion of stock-based professional fees in connection with stock option grants and shares	-	-	-	-	-	-	51,204		-	-	-	-	-	-	51,204	
Net loss for the period	-	-	-	-	-	-	-	-	-	-	-	-	-	\$ (2,656,705)	\$ (2,656,705)	

Balance, September 30, 2022	-	\$	-	2,059,717	\$	206	139	\$	-	\$	51,435,482	-	\$	-	\$	-	\$	(36,194,809)	\$	15,240,879
	Series B Preferred Stock		Common Stock		Common Stock to be Issued		Additional Paid-in Capital		Treasury Stock		Accumulated other Comprehensive Gain		Accumulated Deficit		Non controlling Interest		Total Stockholders' Equity			
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount										
Balance, December 31, 2022	-	\$	-	2,059,717	\$	206	139	\$	-	\$	52,285,488	-	\$	-	\$	(39,729,118)	\$	-	\$	12,556,576
Accretion of stock based compensation in connection with stock option grants	-	-	-	-	-	-	-	-	-	-	603,278	-	-	-	-	-	-	-	603,278	
Accretion of stock-based professional fees in connection with stock option grants and shares	-	-	-	-	-	-	-	-	-	-	21,900	-	-	-	-	-	-	-	21,900	
Issuance of common stock for professional services	-	-	14,300	1	-	-	-	-	-	-	99,999	-	-	-	-	-	-	-	100,000	
Purchase of treasury stock	-	-	-	-	-	-	-	-	47,985	(311,174)	-	-	-	-	-	-	-	(311,174)		
Accumulated other comprehensive gain	-	-	-	-	-	-	-	-	-	-	-	-	132,883	-	-	-	-	132,883		
Rounding for reverse split	-	-	25	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Net loss for the period	-	-	-	-	-	-	-	-	-	-	-	-	(2,399,214)	-	-	-	(2,399,214)			
Balance, March 31, 2023	-	\$	-	2,074,042	\$	207	139	\$	-	\$	53,010,665	47,985	\$	(311,174)	\$	132,883	\$	(42,128,332)	\$	10,704,249

See accompanying notes to unaudited consolidated financial statements.

DATCHAT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Uaudited)

	For the Nine Months Ended		For the Three Months Ended	
	September 30,		March 31,	
	2023	2022	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss	\$ (7,051,024)	\$ (8,604,263)	\$ (1,561,807)	\$ (2,399,214)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	20,687	67,227	5,782	5,782
Amortization of right of use asset	44,272	36,426	17,123	14,036
Stock-based compensation	1,979,794	2,382,364	6,695	603,278
Stock-based professional fees	204,041	288,764	47,019	35,878
Stock-based professional fees – Dragon Interactive			5,304	-
Gain from initial consolidation of variable interest entities	(106,538)	-	-	(42,737)
Gain on deconsolidation of variable interest entities			(107)	-
Foreign currency exchange loss			12,965	-
Impairment loss on digital currencies and other digital assets	23,381	91,204	-	23,381
Non-cash digital currency and other digital assets fees	-	13,831		
Non-cash revenue from sale of Venvuu NFT digital asset	-	(36,394)		
Realized gain on short-term investments	(239,382)	(9,702)	-	(22,877)
Unrealized loss on short-term investments	47,672	(7,113)	-	47,672
Changes in operating assets and liabilities:				
Accounts receivable	242	86	(17)	(38)
Accounts receivable - related party	42,000	-		
Prepaid expenses	(61,456)	117,396	(52,659)	(33,271)
Accounts payable and accrued expenses	(14,283)	(23,386)	61,794	45,948
Accounts payable - related party			-	(21,801)
Contract liabilities	(108)	(4,997)	44	(51)
Operating lease liability	(48,808)	(39,027)	(19,376)	(15,548)
NET CASH USED IN OPERATING ACTIVITIES	<u>(5,159,510)</u>	<u>(5,727,584)</u>	<u>(1,477,240)</u>	<u>(1,759,562)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from sale of short-term investments	9,845,000	6,430,000	2,688,668	1,995,000
Purchase of short-term investments, net	(5,363,163)	(14,394,340)	(3,337,115)	(964,072)
Purchases of property and equipment	(49,485)	(44,475)		
Increase in cash from consolidation of variable interest entities	64,538	-	-	64,538
Purchases of digital currencies and other digital assets	-	(233,245)		
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	<u>4,496,890</u>	<u>(8,242,060)</u>		
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES			<u>(648,447)</u>	<u>1,095,466</u>
CASH FLOWS FROM FINANCING ACTIVITIES:				
Payments on related party advances	-	(203)		
Repayment of advances - related party	(1,315)	-		
Proceeds from sale of Series B preferred stock	1,000	-		
Repayment of related party advances			-	(1,315)
Proceeds from sale of common stock, net			559,251	-
Proceeds from sale of pre-funded warrants			861,522	-
Purchase of treasury stock	(397,969)	-	-	(311,174)
NET CASH USED IN FINANCING ACTIVITIES	<u>(398,284)</u>	<u>(203)</u>		
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES			<u>1,420,773</u>	<u>(312,489)</u>

NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,060,904)	(13,969,847)	(704,914)	(976,585)
Effect of exchange rate changes on cash	34	-	1,535	176
CASH AND CASH EQUIVALENTS - beginning of period	<u>1,732,956</u>	<u>20,199,735</u>	<u>953,362</u>	<u>1,732,956</u>
CASH AND CASH EQUIVALENTS - end of period	<u><u>\$ 672,086</u></u>	<u><u>\$ 6,229,888</u></u>	<u><u>\$ 249,983</u></u>	<u><u>\$ 756,547</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid for:				
Interest	\$ -	\$ -	\$ -	\$ -
Income taxes	\$ -	\$ -	\$ -	\$ -
NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Digital currencies used to pay accounts payable	\$ -	\$ 112,500		
Initial recording on noncontrolling interest deficit			\$ 442,361	\$ -
Common stock issued for future services	\$ 100,000	\$ -	\$ -	\$ 100,000
Issuance of common shares for intangible assets	\$ -	\$ 1,090,000		

See accompanying notes to unaudited consolidated financial statements.

DATCHAT, INC. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, MARCH 31, 2024 AND 2023 AND 2022
(Unaudited)

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

DatChat, Inc. (DatChat" or "the Company" (the "Company") was incorporated in the State of Nevada on December 4, 2014 under the name of YssUp, Inc. On March 4, 2015, the Company's corporate name was changed to Dat Chat, Inc. In August 2016, the Board of Directors of the Company approved to change the name of the Company from Dat Chat, Inc. to DatChat, Inc. The Company established a fiscal year end of December 31. The Company is a **blockchain, cybersecurity, secure messaging, metaverse, and social media** company that not only focuses on protecting privacy on personal devices, but also protects user information after it is shared with others. The Company believes that one's right to privacy should not end the moment they click "send." The Company's flagship product, DatChat Messenger & Private Social Network, is a mobile application that gives users the ability to communicate with privacy and protection.

Recently, the Company has expanded its business and product offerings to include the co-development of a mobile-based social metaverse ("Metaverse"), known as "The Habytat".. The Metaverse is a virtual-reality space in which users can interact with a computer-generated environment and other users.

On June 16, 2022, the Company formed a wholly owned wholly-owned subsidiary, Dragon Interactive Corporation, under the name of SmarterVerse, Inc. ("SmarterVerse" Dragon Interactive), a company incorporated under the laws of the State of Nevada. On February 14, 2024, SmarterVerse, Inc. filed a Certificate of Amendment with the State of Nevada to change its name to Dragon Interactive Corporation. On February 14, 2023, SmarterVerse Dragon Interactive entered into a subscription agreement with Metabizz, LLC. In connection with the subscription agreement, SmarterVerse Dragon Interactive sold Metabizz, LLC 8,000,000 shares of its common stock for \$800, which is was 40% of the issued and outstanding common shares of SmarterVerse. Based Dragon Interactive. On October 2, 2023, pursuant to the Stock Purchase Agreement, Dragon Interactive issued DatChat an additional 12,000,000 shares of its common stock for \$500,000 in Dragon Interactive expenses paid to MetaBizz on behalf of Dragon Interactive Inc. by DatChat, Inc.

On January 10, 2024, VR Interactive LLC ("VR Interactive"), a company 45% owned by Darin Myman, the Company's CEO and 3.75% owned by Peter Shelus, the Company's chief technology officer and director, purchased 8,000,000 shares of Dragon Interactive from the MetaBizz shareholders. Mr. Myman is a partner in VR Interactive. Therefore, VR Interactive, a related party, became a 25% non-controlling interest in Dragon Interactive. On January 25, 2024, Dragon Interactive entered into a 9-month consulting agreement with an individual for business development, financial and market due diligence services to be rendered over the term of the agreement. In connection with this consulting agreement, Dragon Interactive issued 1,500,000 of its shares for services to be rendered. Accordingly, as of March 31, 2024 and December 31, 2023, Dat Chat, Inc. owns 71.64% and 75% of Dragon Interactive, respectively.

On February 14, 2023, based on the Company's analysis, on February 14, 2023, Metabizz, LLC and Metabizz SAS were determined to be variable interest entities (see below). Metabizz, LLC and Metabizz SAS were formed by a group of technology professionals to provide programming services only to Dragon Interactive. One of the founders of Metabizz, LLC was determined to be a variable interest entity (see below), the chief technology officer of Dragon Interactive. On March 31, 2024, based on the Company's analysis, the Company deconsolidated Metabizz, LLC and Metabizz SAS. During the three months ended March 31, 2024, the Company ceased doing business with Metabizz, LLC and Metabizz SAS and will pay technology professionals directly.

On June 29, 2022, the Company, DatChat Patents I, Inc., a Nevada corporation and wholly-owned subsidiary of DatChat that was formed on June 23, 2022 ("Merger Sub I"), DatChat Patents II, LLC, a Nevada limited liability company and wholly-owned subsidiary of DatChat that was formed on June 23, 2022 ("Merger Sub II"), and Avila Security Corporation, a Delaware corporation ("Avila"), entered into an agreement and plan of merger (the "Merger Agreement"). Pursuant to the Merger Agreement, the Company acquired all the issued and outstanding shares of Avila in consideration for the issuance of 100,000 shares (the "Acquisition Shares") of the Company's restricted stock. The acquisition included intellectual property rights in blockchain based digital rights management and object sharing technology, including encrypted WebRTC real-time video and audio streaming communications. Immediately following the merger, Merger Sub I was merged into Avila and Merger Sub I was dissolved and Avila was merged into Merger Sub II. (See Note 3). Other than owning certain patents, Avila had no operations or no employees and was not considered a business.

DATCHAT, INC. AND SUBSIDIARIES
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On September 19, 2023, the Company filed a Certificate of Change (the “Certificate of Change”) with the Secretary of State of the State of Nevada to effectuate a 1-for-10 reverse stock split (the “Reverse Stock Split”) of the Company’s issued and outstanding and authorized shares of common stock, par value \$0.0001 per share (“Common Stock”). The Reverse Stock Split became effective on September 19, 2023. Proportional adjustments for the Reverse Stock Split were made to the Company’s outstanding stock options, warrants and equity incentive plans, plans, and authorized shares. On December 27, 2023, the Company filed a Certificate of Change (the “Certificate of Change”) with the Secretary of State of the State of Nevada to increase the number of authorized common stock from 18,000,000 shares to 180,000,000 shares. All share and per-share data and amounts have been retroactively adjusted as of the earliest period presented in the **unaudited** consolidated financial statements to reflect the Reverse Stock Split.

Basis of presentation

Management acknowledges its responsibility for the preparation of the accompanying unaudited condensed consolidated financial statements which reflect all adjustments, consisting of normal recurring adjustments, considered necessary in its opinion for a fair statement of its financial position and the results of its operations for the periods presented. The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (the “U.S. GAAP”) for interim financial information and with the instructions Article 8-03 of Regulation S-X. Operating results for interim periods are not necessarily indicative of results that may be expected for the fiscal year as a whole.

DATCHAT, INC. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022
(Unaudited)

Certain information and note disclosure normally included in financial statements prepared in accordance with U.S. GAAP has been condensed or omitted from these statements pursuant to such accounting principles and, accordingly, they do not include all the information and notes necessary for comprehensive financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with the summary of significant accounting policies and notes to the financial statements for the year ended **December 31, 2022** December 31, 2023 of the Company which were included in the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on **March 31, 2023** March 29, 2024.

The Company consolidates its subsidiaries that are wholly-owned **and** majority owned, and entities that are variable interest entities ("VIE") where the Company is determined to be the primary beneficiary. The Company's consolidated financial statements include the accounts of its wholly-owned subsidiaries, DatChat, Inc., DatChat Patents II, LLC, its majority owned subsidiary, **SmarterVerse**, Dragon Interactive, and VIE entities, Metabizz, LLC and Metabizz SAS through March 31, 2024, at which date the VIE entities were deconsolidated (collectively the "Company"). All intercompany accounts and transactions have been eliminated in consolidation.

The Company accounts for its noncontrolling interest in Dragon Interactive in accordance with ASC Topic 810-10-45, which requires the Company to present noncontrolling interests as a separate component of total shareholders' equity on the consolidated balance sheets and the consolidated net loss attributable to its noncontrolling interest be clearly identified and presented on the face of the consolidated statements of operations. Through January 10, 2024, the date that VR Interactive purchased 8,000,000 shares of Dragon Interactive from the MetaBizz LLC, any noncontrolling interest eliminated in consolidation. Because this change in ownership moved from a consolidated entity (the VIE entities) to a nonconsolidated entity (VR Interactive), subsequent to January 10, 2024 the Company ceased eliminating the noncontrolling interest in consolidation and recorded an initial negative noncontrolling interest of \$386,480 in total equity for the portion of equity ownership not attributable to DatChat based on the minority interest holders' ownership interest in the carrying value of Dragon Interactive's equity. Additionally, on January 25, 2024, the date that Dragon Interactive issued 1,500,000 of its shares to an individual, the Company recorded an initial negative noncontrolling interest of \$55,881 in total equity for the portion of additional equity ownership not attributable to DatChat based on this minority interest holders' ownership interest in the carrying value of Dragon Interactive's equity.

On March 31, 2024, based on the Company's analysis, the Company deconsolidated Metabizz, LLC and Metabizz SAS. During the three months ended March 31, 2024, the Company ceased doing business with Metabizz, LLC and Metabizz SAS and will pay technology professionals directly. In connection with the deconsolidation of Metabizz, LLC and Metabizz SAS, during the three months ended March 31, 2024, the Company recorded a gain on deconsolidation of \$107.

Variable interest entities

Pursuant to **ASC 810-10-25-22**, an entity is defined as a VIE if it either lacks sufficient equity to finance its activities without additional subordinated financial support, or it is structured such that the holders of the voting rights do not substantively participate in the gains and losses of the entity. When determining whether an entity that meets the definition of a business qualifies for a scope exception from applying VIE guidance, the Company considers whether: (i) it has participated significantly in the design of the entity, (ii) it has provided more than half of the total financial support to the entity, and (iii) substantially all of the activities of the VIE are conducted on its behalf. A VIE is consolidated by its primary beneficiary, the party that has the power to direct the activities that most significantly impact the VIE's economic performance and has the right to receive benefits or the obligation to absorb losses of the entity that could be potentially significant to the VIE. The primary beneficiary assessment must be re-evaluated on an ongoing basis.

DATCHAT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2024 AND 2023
(Unaudited)

Based on the Company's analysis, on February 14, 2023, Metabizz, LLC, a Florida corporation, and Metabizz SAS, a company incorporated under the laws of Columbia (collectively "Metabizz"), were determined to be VIE entities in accordance with ASC 810-10-25-22 because the equity owners in Metabizz ~~do not~~ have the characteristics of a controlling financial interest and the initial equity investments in these entities may be or are insufficient to meet or sustain its operations without additional subordinated financial support from DatChat. The equity owners of Metabizz ~~have had~~ only a nominal equity investment at risk, and the Company ~~absorbs~~ ~~absorbed~~ or receives ~~received~~ a majority of the entity's expected losses or benefits. The Company ~~participates~~ ~~participated~~ significantly in the design of Metabizz. The Company has provided working capital advances to Metabizz to allow Metabizz to fund its ~~day to day~~ day-to-day obligations. Substantially all of the activities of Metabizz ~~are~~ ~~were~~ conducted for the Company's benefit, as evidenced by the fact that the operations of Metabizz ~~consists~~ ~~consisted~~ of development of software and technologies to be used by SmarterVerse Dragon Interactive and the Company ~~provides~~ ~~work~~ ~~provided~~ working capital to Metabizz to pay employees and independent contractors to perform the development services on behalf of the Company. Repayment of the working capital advances is not guaranteed by the equity owner of Metabizz and creditors of Metabizz do not have recourse against the Company. Accordingly, the Company ~~is~~ ~~was~~ required to consolidate the assets, liabilities, revenues and expenses of Metabizz using the fair value method. Additionally, the managing partner of Metabizz ~~is~~ was also the Chief Innovation Officer of SmarterVerse Dragon Interactive. Since Metabizz, LLC and Metabizz SAS were considered VIE's, any noncontrolling interest eliminated in consolidation. In connection with the initial consolidation of Metabizz, on February 14, 2023 (the initial consolidation date), the Company recorded a gain on initial consolidation of variable interest entities of \$106,538.~~\$42,737~~. On March 31, 2024, based on the Company's analysis, the Company deconsolidated Metabizz, LLC and Metabizz SAS. During the three months ended March 31, 2024, the Company ceased doing business with Metabizz, LLC and Metabizz SAS and will pay technology professionals directly. In connection with the deconsolidation of Metabizz, LLC and Metabizz SAS, during the three months ended March 31, 2024, the Company recorded a gain on deconsolidation of \$107.

The Company's consolidated balance sheets included the following assets and liabilities from its VIEs:

	September 30, 2023	February 14, 2023
Cash	\$ 12,540	\$ 64,538
Due from DatChat	-	42,000
Property and equipment, net	46,145	
Total assets	\$ 58,685	\$ 106,538
 Due to DatChat (eliminates in consolidation)	 \$ 859,561	 \$ -
Total liabilities	\$ 859,561	\$ -

	March 31, 2024	December 31, 2023
Cash	\$ -	\$ 5,862
Total assets	<hr/> <hr/>	<hr/> <hr/>
Due to DatChat and Dragon Interactive (eliminates in consolidation)	\$ -	\$ 1,023,746
Total liabilities	<hr/> <hr/>	<hr/> <hr/>
DATCHAT, INC. AND SUBSIDIARIES		

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022
(Unaudited)

Liquidity Going concern

As reflected in the accompanying unaudited consolidated financial statements, for the nine months ended September 30, 2023, the Company incurred had a net loss of \$7,051,024 and \$1,561,807 for the three months ended March 31, 2024. Net cash used cash in operations was \$1,477,240 for the three months ended March 31, 2024. Additionally, as of \$5,159,510. As of September 30, 2023 March 31, 2024, the Company has had an accumulated deficit of \$46,780,142 \$49,271,900 and has generated minimal revenues since inception. As of September 30, 2023 March 31, 2024, after an equity capital raise that occurred on January 16, 2024 (see Note 5) the Company had working capital of \$7,307,166, \$5,867,979, including cash of \$672,086 \$249,983 and short-term investments of \$6,826,759, \$5,836,175. These events served to mitigate the conditions that historically raised factors, including continued net losses, cash used in operations and minimal revenues, raise substantial doubt about the Company's ability to continue as a going concern. The Company believes its cash and short-term investments will provide sufficient cash flows to meet its obligations concern for a minimum period of twelve months from the issuance date of this filing report. Management cannot provide assurance that the Company will ultimately achieve profitable operations or become cash flow positive or raise additional debt and/or equity capital. The Company is seeking to raise capital through additional debt and/or equity financings to fund our operations in the future. Although the Company has historically raised capital from sales of common shares, there is no assurance that it will be able to continue to do so. If the Company is unable to raise additional capital or secure additional lending in the near future, management expects that the Company will need to curtail its operations. These consolidated financial statements do not include any adjustments related to the recoverability and classification of assets or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

DATCHAT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2024 AND 2023
(Unaudited)

Use of estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and the related disclosures at the date of the consolidated financial statements and during the reporting period. Actual results could materially differ from these estimates. Significant estimates include assumptions used in assessing impairment of long-term assets, the valuation of intangible assets, the valuation of digital currencies and other digital assets, the valuation of lease liabilities and related right of use assets, the valuation of short-term investments, the valuation of deferred tax assets, the fair value of assets and liabilities of VIE's on the initial VIE consolidation date, and the fair value of non-cash equity transactions.

Cash and cash equivalents

The Company considers all highly liquid debt instruments and other short-term investments with maturities of three months or less, when purchased, to be cash equivalents. The Company maintains cash and cash equivalent balances at one financial institution that is insured by the Federal Deposit Insurance Corporation ("FDIC"). The Company's account at this institution is insured by the FDIC up to \$250,000. On **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, the Company had cash in excess of FDIC limits of approximately **\$402,283** **\$0** and **\$1,406,033**, **\$446,379**, respectively. To reduce its risk associated with the failure of such financial institution, the Company evaluates at least annually the rating of the financial institution in which it holds deposits. Any material loss that the Company may experience in the future could have an adverse effect on its ability to pay its operational expenses or make other payments and may require the Company to move its cash to other high quality financial institutions. **Currently, the Company is reviewing its bank relationships in order to mitigate its risk to ensure that its exposure is limited or reduced to the FDIC protection limits.**

DATCHAT, INC. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2023 AND 2022
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Fair value measurements and fair value of financial instruments

The carrying value of certain financial instruments, including cash and cash equivalents, accounts payable and accrued expenses, and due to related party are carried at historical cost basis, which approximates their fair values because of the short-term nature of these instruments.

The Company analyzes all financial instruments with features of both liabilities and equity under the Financial Accounting Standard Board's (the "FASB") accounting standard for such instruments. Under this standard, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company did not identify any assets or liabilities that are required to be presented on the balance sheet at fair value in accordance with the Financial Accounting Standard Board ("FASB") Accounting Standards Codification ("ASC") Topic 820.

The following table represents the Company's fair value hierarchy of its financial assets and liabilities measured at fair value on a recurring basis as of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**.

Description	September 30, 2023			December 31, 2022			March 31, 2024			December 31, 2023		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Short-term investments	\$ 6,826,759	\$ -	\$ -	\$ 11,007,997	\$ -	\$ -	\$ 5,836,175	\$ -	\$ -	\$ 5,236,781	\$ -	\$ -

The Company's short-term investments are level 1 measurements and are based on redemption value at each date.

DATCHAT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(Unaudited)

Short-term investments

The Company's portfolio of short-term investments consists of marketable debt securities which are comprised solely of highly rated U.S. government securities with maturities of more than three months, but less than one year. The Company classifies these as available-for-sale at purchase date and will reevaluate such designation at each period end date. The Company may sell these marketable debt securities prior to their stated maturities depending upon changing liquidity requirements. These debt securities are classified as current assets in the consolidated balance sheet and recorded at fair value, with unrealized gains or losses included in accumulated other comprehensive gain (loss) and as a component of the consolidated statements of comprehensive loss. Gains and losses are recognized when realized. Gains and losses are determined using the specific identification method and are reported in other income (expense), net in the consolidated statements of operations. Short-term investments are carried at fair value, which is based on quoted market prices for such securities, if available, or is estimated on the basis of quoted market prices of financial instruments with similar characteristics.

An impairment loss may be recognized when the decline in fair value of the debt securities is determined to be other-than-temporary. The Company evaluates its investments for other-than-temporary declines in fair value below the cost basis each quarter, or whenever events or changes in circumstances indicate that the cost basis of the short-term investments may not be recoverable. The evaluation is based on a number of factors, including the length of time and the extent to which the fair value has been below the cost basis, as well as adverse conditions related specifically to the security, such as any changes to the credit rating of the security and the intent to sell or whether the Company will more likely than not be required to sell the security before recovery of its amortized cost basis.

During the three months ended March 31, 2024 and 2023, the Company recorded an unrealized gain on short-term investments of \$0 and \$85,035, which is as a component of the consolidated statements of comprehensive loss.

Accounts receivable

The Company recorded \$(88,681) recognizes an allowance for losses on accounts receivable and \$108,889 notes receivable in an amount equal to the estimated probable losses net of unrealized (loss) gain recoveries under the current expected credit loss method. The allowance is based on an analysis of historical bad debt experience, current receivables aging and expected future write-offs, as well as an assessment of specific identifiable customer accounts and notes receivable considered at risk or uncollectible. On January 1, 2023, the Company adopted ASC 326, "Financial Instruments - Credit Losses". In accordance with ASC 326, an allowance is maintained for estimated forward-looking losses resulting from the possible inability of customers to make the required payments (current expected losses). The amount of the allowance is determined principally on the basis of past collection experience and known financial factors regarding specific customers. The expense associated with the allowance for doubtful accounts on accounts receivable is recognized in general and administrative expenses. As of March 31, 2024 and December 31, 2023, accounts receivable amounted to \$200 and \$183, respectively, and for the three and nine months ended September 30, 2023, respectively. The March 31, 2024 and 2023, the Company did not recognize any gains or losses on short-term investments for the nine months ended September 30, 2022, bad debt expense.

DATCHAT, INC. AND SUBSIDIARIES
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Accounting for digital currencies and other digital assets

The Company purchases Ethereum cryptocurrency ("Ethereum") accounts for digital currencies and other digital assets and accepts Ethereum as a form of payment for non-fungible tokens sales (NFTs). The Company accounts for these digital assets held as the result of the purchase or receipt of Ethereum and other digital assets, as indefinite-lived intangible assets in accordance with ASC 350, Intangibles—Goodwill and Other ("ASC 350"). The Company has ownership of and control over its digital currencies and digital assets and the Company may use third-party custodial services to secure them. The digital currencies and digital assets are initially recorded at cost and are subsequently remeasured, net of any impairment losses incurred since acquisition. The Company believes that digital currencies and other digital assets meet the definition of indefinite-lived intangible assets and accounts for them at historical cost less impairment, applying the guidance in ASC 350. The Company monitors any standard-setting, regulatory or technological developments that may affect the Company's accounting for digital currencies or its controls and processes related to digital currencies. Digital currencies are included in long-term assets in the consolidated balance sheet.

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The Company determines the fair value of its digital currencies and other digital assets on a nonrecurring basis in accordance with ASC 820, Fair Value Measurement, based on quoted prices on the active exchange(s) that it has determined is the principal market for Ethereum (Level 1 inputs) and other digital assets. The Company performs an analysis each quarter to identify whether events or changes in circumstances, principally decreases in the quoted prices on active exchanges, indicate that it is more likely than not that its digital assets are impaired. In determining if an impairment has occurred, the Company considers the lowest market price quoted on an active exchange since acquiring the respective digital asset. If the then current carrying value of a digital asset exceeds the fair value, an impairment loss has occurred with respect to those digital assets in the amount equal to the difference between their carrying values and the fair value. The impaired digital assets are written down to their fair value at the time of impairment and this new cost basis will not be adjusted upward for any subsequent increase in fair value. Gains are not recorded until realized upon sale, at which point they are presented net of any impairment losses for the same digital assets held. In determining the gain or loss to be recognized upon sale, the Company calculates the difference between the sales price and carrying value of the digital assets sold immediately prior to sale. Impairment losses and gains or losses on sales are recognized within operating expenses in the consolidated statements of operations. During the **nine** **three** months ended **September 30, 2023**, **March 31, 2024** and **2023**, the Company recorded an impairment loss of **\$0** and **\$23,381**, respectively, which consists of **an** **the** impairment of virtual real estate and digital currencies. Based on the Company's impairment analysis, the decrease in value of the virtual real estate and digital currencies, which was based on the lowest market price quoted on an active exchange, was deemed to be other than temporary. Additionally, the Company determined that it will not utilize its virtual real estate.

Property and equipment

Property and equipment are stated at cost and are depreciated using the straight-line method over their estimated useful lives, which range from three to five years. Leasehold improvements are depreciated over the shorter of the useful life or lease term including scheduled renewal terms. Maintenance and repairs are charged to expense as incurred. When assets are retired or disposed of, the cost and accumulated depreciation are removed from the accounts, and any resulting gains or losses are included in income in the year of disposition. The Company examines the possibility of decreases in the value of these assets when events or changes in circumstances reflect the fact that their recorded value may not be recoverable.

Capitalized internal-use software costs

Costs incurred to develop internal-use software, including Metaverse software development, are expensed as incurred during the preliminary project stage. Internal-use software development costs are capitalized during the application development stage, which is after: (i) the preliminary project stage is completed; and (ii) management authorizes and commits to funding the project and it is probable the project will be completed and used to perform the function intended. Capitalization ceases at the point the software project is substantially complete and ready for its intended use, and after all substantial testing is completed. Upgrades and enhancements are capitalized if it is probable that those expenditures will result in additional functionality. Amortization is provided for on a straight-line basis over the expected useful life of the internal-use software development costs and related upgrades and enhancements. When existing software is replaced with new software, the unamortized costs of the old software are expensed when the new software is ready for its intended use. Software development costs incurred during the **nine** **three** months ended **September 30, 2023** **March 31, 2024** and **2022** **2023** were expensed since the Metaverse software development project is in the preliminary project stage. Such costs are included in research and development costs on the accompanying **unaudited** consolidated statement of operations and were incurred with Metabizz (see Note **6** **4**).

Intangible assets

Intangible assets, consisting of patents, are carried at cost less accumulated amortization, computed using the straight-line method over the estimated useful life, less any impairment charges. Based on the Company's impairment analysis, management determined that an intangible impairment charge was required for the year ended December 31, 2022 and accordingly, the Company recorded an impairment loss of \$981,000. (See Note 5 for additional information regarding intangible assets).

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Impairment of long-lived assets

In accordance with ASC Topic 360, the Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable, or at least annually. The Company recognizes an impairment loss when the sum of expected undiscounted future cash flows is less than the carrying amount of the asset. The amount of impairment is measured as the difference between the asset's estimated fair value and its book value.

Revenue recognition

The Company recognizes revenue in accordance with ASC Topic 606 Revenue from Contracts with Customers, which requires revenue to be recognized in a manner that depicts the transfer of goods or services to customers in amounts that reflect the consideration to which the entity expects to be entitled in exchange for those goods or services.

In accordance with ASU Topic 606 - *Revenue from Contracts with Customers*, the Company recognizes revenue in accordance with that core principle by applying the following steps:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

The Company recognizes revenues from subscription fees on the Company's messaging application in the month they are earned. Annual and lifetime subscription payments received that are related to future periods are recorded as deferred revenue to be recognized as revenues over the contract term or period. Lifetime subscriptions are being recognized to revenues over a 12-month period.

The Company's NFT revenues were generated from the sale of NFTs. The Company accepted Ethereum as a form of payment for NFT sales. The Company's NFTs existed on the Ethereum Blockchain under the Company's VenVuu brand. VenVuu is a Metaverse advertising platform that allows advertisers and Metaverse landowners to connect using the Company's proprietary Metaverse ad network and dynamic NFT technology. The Company used the NFT exchange, OpenSea, to facilitate its sales of NFTs. The Company, through OpenSea, has custody and control estimated useful life of the NFT prior to the delivery to the customer and records revenue at a point in time when the NFT is delivered to the customer and the customer pays. The Company has no obligations for returns, refunds or warranty after the NFT sale. The value subscription of the sale was determined based on the value of the Ethereum crypto currency received as consideration. Each NFT generated produces a unique identifying code. The Company does not expect to generate revenues from the sale of NFT's in the future.12 months.

The Company tracks its revenue by product. The following table summarizes revenue by product for the three and nine months ended September 30, 2023 March 31, 2024 and 2022: 2023:

	For the Three Months Ended		For the Nine Months Ended		For the Three Months Ended	
	September 30,		September 30,		March 31,	
	2023	2022	2023	2022	2024	2023
Subscription revenues	\$ 175	\$ 3,540	\$ 501	\$ 5,902	\$ 131	\$ 154
NFT revenues	-	-	-	36,394		
Total	<u>\$ 175</u>	<u>\$ 3,540</u>	<u>\$ 501</u>	<u>\$ 42,296</u>	<u>\$ 131</u>	<u>\$ 154</u>

Research and Development

Research and development costs incurred in the development of the Company's products are expensed as incurred and include costs such as outside development costs, salaries and other allocated costs incurred. During the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, research and development costs incurred in the development of the Company's software products were \$380,017 \$233,918 and \$258,957, respectively. During the nine months ended September 30, 2023 and 2022, research and development costs incurred in the development of the Company's software products were \$1,064,049 and \$258,957, \$282,773, respectively. Research and development costs are included in research and development expense on the accompanying unaudited consolidated statements of operations.

Advertising Costs

The Company applies ASC 720 "Other Expenses" to account for advertising related costs. Pursuant to ASC 720-35-25-1, the Company expenses the advertising costs as they are incurred. Advertising costs were \$219,008 and \$65,181 \$34,717 and \$113,803 for the three months ended September 30, 2023 March 31, 2024 and 2022, respectively, and advertising costs were \$379,410 and \$645,825 for the nine months ended September 30, 2023 and 2022, 2023, respectively, and are included in marketing and advertising expenses on the unaudited consolidated statements of operations.

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Leases

The Company applied ASC Topic 842, Leases (Topic 842) to arrangements with lease terms of 12 months or more. Operating lease right of use assets ("ROU") represents the right to use the leased asset for the lease term and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. As most leases do not provide an implicit rate, the Company use an incremental borrowing rate based on the information available at the adoption date in determining the present value of future payments. Lease expense for minimum lease payments is amortized on a straight-line basis over the lease term and is included in general and administrative expenses in the statements of operations.

Income taxes

The Company accounts for income taxes pursuant to the provision of Accounting Standards Codification ("ASC") 740-10, "Accounting for Income Taxes" ("ASC 740-10"), which requires, among other things, an asset and liability approach to calculating deferred income taxes. The asset and liability approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. A valuation allowance is provided to offset any net deferred tax assets for which management believes it is more likely than not that the net deferred asset will not be realized.

The Company follows the provision of ASC 740-10 related to Accounting for Uncertain Income Tax Positions. When tax returns are filed, there may be uncertainty about the merits of positions taken or the amount of the position that would be ultimately sustained. In accordance with the guidance of ASC 740-10, the benefit of a tax position is recognized in the consolidated financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more likely than not recognition threshold are measured at the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefit associated with tax positions taken that exceed the amount measured as described above should be reflected as a liability for uncertain tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. The Company believes its tax positions are all more likely than not to be upheld upon examination. As such, the Company has not recorded a liability for uncertain tax benefits.

The Company has adopted ASC 740-10-25, "Definition of Settlement", which provides guidance on how an entity should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits and provides that a tax position can be effectively settled upon the completion and examination by a taxing authority without being legally extinguished. For tax positions considered effectively settled, an entity would recognize the full amount of tax benefit, even if the tax position is not considered more likely than not to be sustained based solely on the basis of its technical merits and the statute of limitations remains open. The federal and state income tax returns of the Company are subject to examination by the IRS and state taxing authorities, generally for three years after they are filed.

Stock-based compensation

Stock-based compensation is accounted for based on the requirements of ASC 718 – "Compensation–Stock Compensation", which requires recognition in the consolidated financial statements of the cost of employee, non-employee and director services received in exchange for an award of equity instruments over the period the employee or director is required to perform the services in exchange for the award (presumptively, the vesting period). The ASC also requires measurement of the cost of employee and director services received in exchange for an award based on the grant-date fair value of the award. The Company has elected to account for forfeitures as they occur.

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Foreign currency translation

The reporting currency of the Company is the U.S. dollar. Except for Metabizz SAS, the functional currency of the Company is the U.S. dollar. The functional currency of the Company's VIE, Metabizz SAS, is the Colombian Peso ("COP"). For Metabizz SAS, results of operations and cash flows are translated at average exchange rates during the period, assets and liabilities are translated at the unified exchange rate at the end of the period, and equity is translated at historical exchange rates. As a result, amounts relating to assets and liabilities reported on the statements of cash flows may not necessarily agree with the changes in the corresponding balances on the balance sheets. Translation adjustments resulting from the process of translating the local currency financial statements into U.S. dollars are included in determining comprehensive loss. The cumulative translation adjustment and effect of exchange rate changes on cash for the ~~three~~ months ended September 30, 2023 March 31, 2024 and 2023 was \$34, \$1,535 and \$176, respectively. Transactions denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing on the transaction dates. Assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing at the balance sheet date with any transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency included in the results of operations as incurred.

For On March 31, 2024, based on the Company's analysis, the Company deconsolidated Metabizz SAS which is located in Columbia, asset and liability accounts on September 30, 2023 were translated at 0.000245 COP to \$1.00, which was the exchange rate on the balance sheet date, and results of operations and cash flows are translated at the average exchange rates during the period of 0.000229 COP to \$1.00.(See Note 2).

Basic and diluted net loss per share

Basic net loss per share is computed by dividing the net loss by the weighted average number of common shares during the period. Diluted net loss per share is computed using the weighted average number of common shares and potentially dilutive securities outstanding during the period.

The following were excluded from the computation of diluted shares outstanding as they would have had an anti-dilutive impact on the Company's net loss.

	September 30,		March 31,	
	2023	2022	2024	2023
Common stock equivalents:				
Common stock warrants	67,385	67,385	67,385	67,385
Common stock options	166,420	161,420	141,170	171,545
Total	233,805	228,805	208,555	238,930

Reclassifications

Certain line items on the statement of operations and comprehensive loss for the three months ended March 31, 2023 have been reclassified to conform to the current period presentation. Specifically, realized gains on short-term investments of \$22,877 was reclassified to interest income and gain on initial consolidation of variable interest entities of \$63,801 was reclassified to research and development expense. These reclassifications did not change the Company's reported net loss or comprehensive loss for the three months ended March 31, 2023.

Recent accounting pronouncements

Management does not believe that any recently issued, but not yet effective accounting pronouncements, if adopted, would have a material effect on its financial statements.

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NOTE 2 – SHORT-TERM INVESTMENTS

On September 30, 2023 March 31, 2024 and December 31, 2022 December 31, 2023, the Company's short-term investments consisted of the following:

	September 30, 2023			December 31, 2022		
	Unrealized		Fair Value	Unrealized		Fair Value
	Cost	Gain		Cost	Loss	
US Treasury bills	\$ 6,717,870	\$ 108,889	\$ 6,826,759	\$ 10,715,325	\$ 48,226	\$ 10,763,551
Certificates of deposit	-	-	-	245,000	(554)	244,446
Total short-term investments	\$ 6,717,870	\$ 108,889	\$ 6,826,759	\$ 10,960,325	\$ 47,672	\$ 11,007,997

	March 31, 2024			December 31, 2023		
	Unrealized		Fair Value	Unrealized		Fair Value
	Cost	Gain		Cost	Gain	
US Treasury zero coupon bills	\$ 5,836,175	\$ -	\$ 5,836,175	\$ 5,189,263	\$ 47,518	\$ 5,236,781
Total short-term investments	\$ 5,836,175	\$ -	\$ 5,836,175	\$ 5,189,263	\$ 47,518	\$ 5,236,781

Short-term As of March 31, 2024, short-term investments mature between October 2023 April 2024 and February August 2024.

NOTE 3 – ACQUISITION

On June 29, 2022, the Company, DatChat Patents I, Inc., a Nevada corporation and wholly-owned subsidiary of DatChat that was formed on June 23, 2022 ("Merger Sub I"), DatChat Patents II, LLC, a Nevada limited liability company and wholly-owned subsidiary of DatChat that was formed on June 23, 2022 ("Merger Sub II"), and Avila Security Corporation, a Delaware corporation ("Avila"), entered into an agreement and plan of merger (the "Merger Agreement"). Pursuant to the Merger Agreement, the Company acquired all the issued and outstanding shares of Avila in consideration of the issuance of an aggregate of 100,000 shares (the "Acquisition Shares") of the Company's common stock. These shares were valued at \$1,090,000, or \$10.90 per share, based on the quoted closing price of the Company's common stock on the measurement date. The acquisition included intellectual property rights in blockchain based digital rights management and object sharing technology, including encrypted WebRTC real-time video and audio streaming communications. Immediately following the merger, Merger Sub I was merged into Avila and Merger Sub I was dissolved and Avila was merged into Merger Sub II. Other than owning certain patents, Avila had no operations or no employees and was not considered a business.

Pursuant to ASU 2017-01 and ASC 805, the Company analyzed the Merger Agreement and the business of Avila to determine if the Company acquired a business or acquired assets. Based on this analysis, it was determined that the Company acquired assets. No goodwill was recorded since the Merger Agreement was accounted for as an asset purchase. In accordance with ASC 805, the fair value of the assets acquired is based on either the fair value of the consideration given or the fair value of the assets acquired, whichever is more clearly evident, and thus, more reliably measurable. The Company used the market price of the 100,000 common shares issued of \$1,090,000 as the fair value of the assets acquired since this value was more clearly evident, and thus, a more reliable measurable than the fair value of the patents acquired. (see Note 5)

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NOTE 4 – OPERATING LEASE RIGHT-OF-USE ASSETS AND OPERATING LEASE LIABILITIES

In January 2019, the Company renewed and extended the term of its lease facility for another three-year period from January 2019 to December 2021 starting with a monthly base rent of \$2,567 plus a pro rata share of operating expenses beginning January 2019. The base rent was subject to annual increases beginning the 2nd and 3rd lease year as defined in the lease agreement. In addition to the monthly base rent, the Company is charged separately for common area maintenance which is considered a non-lease component. These non-lease component payments are expensed as incurred and are not included in operating lease assets or liabilities. On August 27, 2021, the Company entered into an amendment agreement with the same landlord to modify the facility lease to relocate and increase the square footage of the lease premises. The term of the lease commenced on October 1, 2021 and will expire on December 31, 2024 with a new monthly base rent of \$7,156 plus a pro rata share of operating expenses beginning January 2022. The base rent will be subject to 3% annual increases beginning in the 2nd and 3rd lease year as defined in the amended lease agreement. For the **nine** **three** months ended **September 30, 2023** **March 31, 2024** and **2022, 2023**, rent expense amounted to **\$68,215** **\$22,738** and **\$70,816** **\$22,738**, respectively, and were included in general and administrative expenses.

On August 27, 2021, upon the execution of the amendment agreement, the Company recorded right-of-use assets and operating lease liabilities of \$198,898. The remaining lease term for the operating lease is **159** months as of **March 31, 2024** and the incremental borrowing rate is 18.0% (based on historical borrowing rates).

Right-of-use assets are summarized below:

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Office lease	\$ 198,898	\$ 198,898	\$ 198,898	\$ 198,898
Less accumulated amortization	(108,644)	(64,372)	(142,044)	(124,921)
Right-of-use asset, net	\$ 90,254	\$ 134,526	\$ 56,854	\$ 73,977

Operating Lease Liabilities are summarized below:

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Office lease	\$ 198,898	\$ 198,898	\$ 198,898	\$ 198,898
Reduction of lease liability	(96,693)	(47,885)	(134,600)	(115,224)
Total lease liability	102,205	151,013	64,298	83,674
Less: current portion	79,354	67,338	64,298	83,674
Long term portion of lease liability	\$ 22,851	\$ 83,675	\$ -	\$ -

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Minimum lease payments under the non-cancelable operating lease on **September 30, 2023** **March 31, 2024** are as follows:

For the year ended September 30:

2024	\$	91,415
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For the year ended March 31:

2025	23,540	\$ 69,247
Total	114,955	69,247
Less: present value discount	(12,750)	(4,949)
Total operating lease liability	\$ 102,205	\$ 64,298

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NOTE 5 – INTANGIBLE ASSETS

On June 29, 2022, in connection with the acquisition of Avila, the Company issued an aggregate of 100,000 shares of the Company's common stock. These shares were valued at \$1,090,000, or \$10.90 per share, based on the quoted closing price of the Company's common stock on the measurement date. The acquisition included patents for intellectual property rights in blockchain based digital rights management and object sharing technology, including encrypted WebRTC real-time video and audio streaming communications (See Note 3). The Company was amortizing the patents over 5 years. During the year ended December 31, 2022, activities related to intangible assets is as follows:

	For the Year Ended December 31, 2022
Acquisition of patents	\$ 1,090,000
Less: amortization of patents	(109,000)
Less: impairment of patents	(981,000)
Intangible assets, net	<u><u>\$ -</u></u>

The Company periodically evaluates its finite intangible assets for impairment upon occurrence of events or changes in circumstances that indicate the carrying amount of intangible assets may not be recoverable. The Company concluded that the undiscounted cash flows did not support the carrying values of its intangible assets as of December 31, 2022. As of December 31, 2022, the Company has no projected future revenues or cash flows related to the patents and has no current plans to exploit the patents. Accordingly, the Company determined the value of the patents acquired were fully impaired as of December 31, 2022 and recognized an impairment loss on its long-lived intangible assets of \$981,000.

NOTE 6 4 – RELATED PARTY TRANSACTIONS

Due to Related Party

The Company's officer, Mr. Darin Myman, from time to time, provides advances to the Company for working capital purposes. On September 30, 2023 and December 31, 2022, the Company had a payable to the officer of \$0 and \$1,315, respectively, which is presented as due to related party on the consolidated balance sheets. These advances are short-term in nature and non-interest bearing. During the ~~nine~~ three months ended September 30, 2023 March 31, 2023, the Company repaid \$1,315. On March 31, 2024 and December 31, 2023, the Company had a payable to the officer of \$0.

Research and Development

On July 19, 2022, the Company entered into a software development agreement with Metabizz. On February 14, 2023, the Company began consolidating Metabizz as VIEs. For the period from January 1, 2023 to date of consolidation (February 14, 2023), the Company paid Metabizz \$185,600 for software development services which is included in research and development expense on the accompanying unaudited consolidated statements of operations.

Other

See Note 6 for Employment Agreement with the Company's chief executive officer, Darin Myman.

During the three months ended March 31, 2024 and 2023, the wife of the Company's chief executive officer was employed as an executive secretary and earned \$18,000 and \$18,000, respectively.

On January 10, 2024, VR Interactive LLC ("VR Interactive"), a company 45% owned by Darin Myman, the Company's CEO and 3.75% owned by Peter Shelus, the Company's chief technology officer and director, purchased 8,000,000 shares of Dragon Interactive from the MetaBizz shareholders for cash amounting to \$120,000. Mr. Myman is a partner in VR Interactive. Therefore, VR Interactive, a related party, became a 25% non-controlling interest in Dragon Interactive.

NOTE 7 5 – STOCKHOLDERS' EQUITY

Shares Authorized

On September 19, 2023, the Company filed a Certificate of Change (the "Certificate of Change") with the Secretary of State of the State of Nevada to effectuate a 1-for-10 reverse stock split (the "Reverse Stock Split") of the Company's issued and outstanding and authorized shares of common stock, par value \$0.0001 per share ("Common Stock"). The Reverse Stock Split became effective on September 19, 2023. Proportional adjustments for the Reverse Stock Split were made to the Company's outstanding stock options, warrants and equity incentive plans, plans, and authorized shares.

On November 9, 2023, the Company filed a Certificate of Correction with the Secretary of State of the State of Nevada to correct a typographical error contained in the Certificate of Change that was filed with the Secretary of State of the State of Nevada on September 19, 2023 in order to effectuate the Reverse Stock Split. The Certificate of Change incorrectly stated that the authorized shares of preferred stock, par value \$0.0001 per share following the change was 1,000,000. The Reverse Stock Split had no impact on the number of authorized shares of preferred, par value \$0.0001, which remains unchanged at 20,000,000 shares.

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On December 27, 2023, the Company filed a Certificate of Change (the “Certificate of Change”) with the Secretary of State of the State of Nevada to increase the number of authorized common stock from 18,000,000 shares to 180,000,000 shares.

All share and per-share data and amounts have been retroactively adjusted as of the earliest period presented in the **unaudited** consolidated financial statements to reflect the Reverse Stock Split.

Shares Authorized

The authorized capital stock consists of **38,000,000** **200,000,000** shares, of which **18,000,000** **180,000,000** are shares of common stock and 20,000,000 are shares of preferred stock.

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2021 Omnibus Equity Incentive Plan

On July 26, 2021, the Company adopted the 2021 Omnibus Equity Incentive Plan, and authorized the reservation of 200,000 shares of common stock for future issuances under the plan. The Plan provides that the Company may grant options, stock appreciation rights, restricted stock, restricted stock units, other stock-based awards or any combination of the foregoing. On December 19, 2022, Company held its 2022 annual meeting of stockholders, and the shareholders approved to amend the Company's 2021 Omnibus Equity Incentive Plan to increase the number of shares reserved for issuance thereunder to 300,000 shares from 200,000. On November 10, 2023, the board of directors of the Company approved the adoption of the Amended and Restated 2021 Omnibus Equity Incentive Plan, the sole purpose of which was to remove any inadvertent references to the Company being a Delaware corporation or the 2021 Omnibus Equity Incentive Plan being governed under Delaware law and to properly state that the Company is a Nevada corporation and that the 2021 Omnibus Equity Incentive Plan is governed by Nevada law.

Preferred Stock

Series A Preferred Stock

In August 2016, the Company designated **1.00** one share of Series A Preferred Stock, par value \$0.0001 per share (the "Series A Preferred Stock"), which has a stated value equal to \$1.00 as may be adjusted for any stock dividends, combinations or splits. Each one (1) share of the Series A Preferred Stock shall have voting rights equal to (x) the total issued and outstanding Common Stock eligible to vote at the time of the respective vote divided by (y) forty-nine one hundredths (0.49) minus (z) the total issued and outstanding Common Stock eligible to vote at the time of the respective vote. The Series A Preferred Stock does not convert into securities of the Company. The Series A Preferred Stock does not contain any redemption provision. In the event of liquidation of the Company, the holder of Series A Preferred shall not have any priority or preferences with respect to any distribution of any assets of the Company and shall be entitled to receive equally with the holders of the Company's common stock. As of **September 30, 2023** **March 31, 2024** and **December 31, 2022** **December 31, 2023**, there were no Series A Preferred Stock outstanding.

Series B Preferred Stock

On August 4, 2023, the Board filed the Certificate of Designation of Preferences ("COD"), Rights and Limitations of Series B Preferred Stock (the "Series B COD") with the Secretary of State of the State of Nevada designating 2,000,000 shares of preferred stock as Series B (the "Series B Preferred"). The outstanding shares of Series B Preferred Stock shall have 10 votes per share and shall vote together with the outstanding shares of the Company's common stock as a single class exclusively with respect to the Authorized Stock Increase (as defined in the Series B COD) and shall not be entitled to vote on any other matter. The shares of Series B Preferred Stock shall be voted, without action by the holder, on the Authorized Stock Increase in the same proportion as shares of Common Stock are voted (excluding any shares of Common Stock that are not voted) on the Authorized Stock Increase. The Series B Preferred shall not have the right to vote and/or consent on any matter other than an Authorized Stock Increase Proposal. The Series B Preferred Stock shall not be entitled to participate in any distribution of assets or rights upon any liquidation, dissolution or winding up of the Company, shall not be convertible into Common Stock or any other security of the Company, and shall not be entitled to any dividends or distributions.

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The outstanding shares of Series B preferred shall be redeemed in whole, but not in part (i) if such redemption is ordered by the board of directors, or (ii) automatically and effective immediately after the effectiveness of an anticipated Authorized Stock increase. The aggregate consideration payable for the outstanding Series B Preferred redeemed in the redemption shall be \$10 in cash (the "Redemption Price").

From and after the time at which the shares of Series B Preferred Stock is called for Redemption (whether automatically or otherwise) in accordance with Series B COD, such shares of Series B Preferred Stock shall cease to be outstanding, and the only right of the former holder of such shares of Series B Preferred Stock, as such, will be to receive the applicable Redemption Price. The shares of Series B Preferred Stock redeemed by the Company pursuant to the Series B COD shall be automatically retired and restored to the status of an authorized but unissued share of Preferred Stock, effective immediately after such Redemption.

On August 4, 2023, the Company issued 2,000,000 of Series B preferred for aggregate cash of \$1,000.

Common Stock

Sale of Common Stock and Warrants

On January 16, 2024, the Company entered into an underwriting agreement (the "Underwriting Agreement") with EF Hutton LLC (the "Representative"), as the representative of the underwriters named therein (the "Underwriters"), relating to an underwritten public offering (the "Offering") of 382,972 shares of the Company's common stock (the "Shares") and pre-funded warrants to purchase up to 590,000 shares of Common Stock (the "Pre-Funded Warrants"). The public offering price for each share of Common Stock was \$1.85 for aggregate gross proceeds of \$708,498, and public offering price for the Pre-Funded Warrants was \$1.8499 for each Pre-Funded Warrant for aggregate gross proceeds of \$1,091,441. In connection with this Offering, the Company raised aggregate gross proceeds of \$1,799,939 and received net proceeds of \$1,420,773, net of Underwriters discounts and offering costs of \$279,166 and legal fees of \$100,000.

The per share exercise price for the Pre-Funded Warrants was \$0.0001 and the Pre-Funded Warrants were exercisable immediately. The Underwriters immediately exercised the 590,000 Pre-Funded Warrants and the Underwriters received 589,981 shares of Common Stock since the exercise was cashless. The Pre-Funded Warrants are not and will not be listed for trading on any national securities exchange or other nationally recognized trading system.

The Company is using the net proceeds from the Offering for general corporate purposes, for sales and marketing and for research and development.

The Underwriting Agreement contains customary representations, warranties and covenants made by the Company. It also provides for customary indemnification by each of the Company and the Underwriters, severally and not jointly, for losses or damages arising out of or in connection with the Offering, including for liabilities under the Securities Act of 1933, as amended, other obligations of the parties and termination provisions. In addition, pursuant to the terms of the Underwriting Agreement, each of the Company's directors and executive officers have entered into "lock-up" agreements with the Representative that generally prohibit, without the prior written consent of the Representative and subject to certain exceptions, the sale, transfer or other disposition of securities of the Company until July 17, 2024. Further, pursuant to the terms of the Underwriting Agreement, the Company has agreed for a period of 180-days from the closing date, subject to certain exceptions, not to issue, enter into any agreement to issue or announce the issuance or proposed issuance of any shares of capital stock of the Company or any securities convertible or exercisable or exchangeable for shares of capital stock of the Company; (ii) file any registration statement; (iii) complete any offering of debt securities of the Company, other than entering into a line of credit with a traditional bank, or (iv) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of capital stock of the Company.

DATCHAT, INC. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, MARCH 31, 2024 AND 2023 AND 2022
(Unaudited)

Common Stock

2023 Stock Repurchase Plan

On January 6, 2023, the Board of Directors of the Company approved a stock repurchase program authorizing the purchase of up to \$2 million of the Company's common stock (the "2023 Stock Repurchase Program"). In connection with the 2023 Stock Repurchase Program, during the nine months year ended September 30, 2023 December 31, 2023, the Company purchased 66,944 66,945 shares of its common stock for \$397,969, or at an average price of \$5.94 per share, which has been reflected as treasury stock on the accompanying unaudited consolidated balance sheet on September 30, 2023 March 31, 2024 and December 31, 2023. During the three months ended March 31, 2024, the Company did not purchase any treasury shares. During the three months ended March 31, 2023, the Company purchased 47,985 shares of its common stock for \$311,174, or at an average price of \$6.48 per share.

Common Stock Issued for Professional Services

In February 2021, the Company entered into a one-year Advisory Board Agreement with an individual who will act as an advisor to the Company's Board. In accordance with this agreement the Company issued 10,000 shares of its common stock as consideration for the services provided. The Company valued these common shares at a fair value of \$400,000 or \$40.00 per common share based on sales of common stock in the recent private placement. During the nine months ended September 30, 2022, the Company recorded stock-based consulting fees of \$50,000, which was included in professional and consulting expenses in the accompanying unaudited statements of operations.

On March 6, 2023, the Company entered into a six-month consulting agreement with an entity for investor relations services. In connection with this consulting agreement, the Company issued 14,300 restricted common shares of the Company to the consultant. These shares vest immediately. These shares were valued at \$100,000, or \$6.99 per common share, based on the quoted closing price of the Company's common stock on the measurement date. In connection with this consulting agreement, during the month three months ended September 30, 2023, March 31, 2024 and 2023, the Company recorded stock-based professional fees of \$100,000.00 and \$13,978, respectively.

On July 25, 2023, the Company issued 19,802 of its common shares pursuant to a one-year consulting agreement. These shares were valued at \$100,000, or a per share price of \$5.05, based on the quoted closing price of the Company's common stock on the measurement date. In connection with these shares, during the three months ended March 31, 2024, the Company shall record recorded stock-based professional fees of \$100,000 \$25,000 with the remaining \$31,720 recorded as a prepaid asset as of March 31, 2024, which will be amortized into stock-based professional fees over the remaining term.

On January 25, 2024, Dragon Interactive entered into a 9-month consulting agreement with an individual for business development, financial and market due diligence services to be rendered over the term of the agreement. In connection with this consulting agreement, Dragon Interactive issued 1,500,000 of its shares for services to be rendered. The Dragon Interactive shares were valued at \$22,500, or \$0.015 per shares, based on the sale of the Dragon Interactive shares in a private transaction. In the connection with the issuance of these shares, during the three months ended March 31, 2024, the Company recorded stock-based compensation of \$5,304, and as of March 31, 2024, the Company recorded prepaid expenses of \$17,196, which will be amortized into professional fees over the remaining term of the agreement.

Stock Options

2023

2022

On December 26, 2021 and effective January 10, 2022, the Company approved the grant of 15,000 options to purchase the Company's common stock to a newly hired employee of the Company. The options have a term of 5 years from the date of grant and are exercisable at an exercise price of \$40.00 per share. The options vest 25% every six months from date of grant for two years. The employee service date shall start on January 10, 2022 or the grant date which is when the Company started recognizing stock-based compensation expenses.

On January 19, 2022, the Company granted an aggregate of 8,500 options to purchase the Company's common stock to four newly hired employees of the Company. The options have a term of 5 years from the date of grant and are exercisable at an exercise price of \$40.00 per share. The options vest 25% every six months from date of grant for two years. The employee service date started on January 19, 2022 or the grant date which is when the Company started recognizing stock-based compensation expenses.

DATCHAT, INC. AND SUBSIDIARIES
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(Unaudited)

On July 22, 2022, the Company granted an aggregate of 32,500 options to purchase the Company's common stock to employees and consultants of the Company. The options have a term of 5 years from the date of grant and are exercisable at an exercise price of \$40.00 per share. The options vest 25% every six months from date of grant for two years. The stock options were valued at the grant date using a Black-Scholes option pricing model which will be recognized as stock-based compensation expense over the vesting period.

The 2022 stock option grants were valued at the respective grant dates using a Black-Scholes option pricing model using the assumptions discussed below. In connection with the stock option grants, the Company valued these stock options at a fair value of \$751,681 and records stock-based compensation expense over the vesting period. Upon cancellation of unvested stock options, the fair value of these cancelled options will be reversed.

2023

On February 3, 2023, the Company granted an aggregate of 7,500 options to purchase the Company's common stock to the Company's board of directors. The options each have a term of 5 years from the date of grant and are exercisable at an exercise price of \$12.50 per share. The options vest six months from date of grant. The stock options were valued at the grant date using a Black-Scholes option pricing model which will be recognized as stock-based compensation expense over the vesting period.

DATCHAT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(Unaudited)

On February 3, 2023, the Company granted an aggregate of 21,500 options to purchase the Company's common stock to an officers, employees and consultants of the Company. The options each have a term of 5 years from the date of grant and are exercisable at an exercise price of \$12.50 per share. The options vest 25% every six months from date of grant for 2 years. The stock options were valued at the grant date using a Black-Scholes option pricing model which will be recognized as stock-based compensation expense over the vesting period.

On September 6, 2023, the Company granted an aggregate of 10,000 options to purchase the Company's common stock to the Company's chief financial officer (5,000 options) and to an employee of the Company (5,000 options). The options each have a term of 5 years from the date of grant and are exercisable at an exercise price of \$15.00 per share. The options vest immediately. The stock options were valued at the grant date using a Black-Scholes option pricing model which will be recognized as stock-based compensation expense over the vesting period.

The 2023 stock option grants were valued at the respective grant dates using a Black-Scholes option pricing model using the assumptions discussed below. In connection with the stock option grants, the Company valued these stock options at a fair value of \$185,628, or an average of \$4.76 per option, and records stock-based compensation expense over the vesting period. Upon cancellation of unvested stock options, the fair value of these cancelled options will be reversed.

During the **nine** three months ended **September 30, 2023** March 31, 2024, an employee was terminated. Accordingly, 17,500 unvested options were forfeited and \$27,031 of previously recognized stock-based compensation was reversed. During the three months ended March 31, 2023, certain employees and consultants were terminated. Accordingly, **33,000** 178,750 unvested options were forfeited and **\$133,190** \$132,366 of previously recognized stock-based compensation and **\$25,525** \$20,701 of previously recognized stock-based professional fees was reversed.

During the **nine** three months ended **September 30, 2023** March 31, 2024, accretion of stock-based expense related to stock options, which is net of the reversal of previously recognized stock-based expense due to forfeiture, amounted to **\$2,065,555** \$28,714 of which **\$1,979,794** \$6,695 was recorded in compensation and related expenses and **\$85,761** \$22,019 was recorded in professional and consulting expenses as reflected in the **unaudited** consolidated statements of operations. During the **nine** three months ended **September 30, 2022** March 31, 2023, the Company recognized total stock-based expenses related to stock options of **\$2,621,129** \$625,178 of which **\$2,382,364** \$603,278 was recorded in compensation and related expenses and **\$238,764** \$21,900 was recorded in professional and consulting expenses as reflected in the **unaudited condensed** statements of operations. As of **September 30, 2023** March 31, 2024, a balance of **\$147,844** \$38,861 remains to be expensed over future vesting periods related to unvested stock options issued for services to be expensed over a weighted average period of **0.55** 0.60 years.

DATCHAT, INC. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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During the **nine** three months ended **September 30, 2023 and 2022, March 31, 2023**, the stock options were valued at the grant date using a Black-Scholes option pricing model with the following assumptions. The simplified method was used for the expected option term and expected volatility was based on historical volatility:

	2023	2022
Dividend rate	—%	—%
Term (in years)	3 years	2 to 3 years
Volatility	137.0% to 168.0%	155.9% to 160.0%
Risk—free interest rate	3.96% - 4.73%	1.53% to 2.93%
	2023	
Dividend rate	—%	
Term (in years)	3 years	
Volatility	168.0%	
Risk—free interest rate	3.96%	

DATCHAT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2024 AND 2023
(Uaudited)

The following is a summary of the Company's stock option activity for the **nine** **three** months ended **September 30, 2023** **March 31, 2024** as presented below:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Balance on December 31, 2022	160,420	\$ 109.90	3.91
Granted	39,000	13.14	-
Cancelled	(33,000)	(33.05)	-
Balance on September 30, 2023	<u>166,420</u>	<u>\$ 102.50</u>	<u>3.36</u>
Options exercisable on September 30, 2023	<u>143,545</u>	<u>\$ 113.68</u>	<u>3.27</u>
Weighted average fair value of options granted during the period		<u>\$ 4.76</u>	

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Balance on December 31, 2023	158,670	\$ 105.30	3.12
Granted	-	-	-
Cancelled	(17,500)	28.93	-
Balance on March 31, 2024	<u>141,170</u>	<u>\$ 114.76</u>	<u>2.76</u>
Options exercisable on March 31, 2024	<u>126,883</u>	<u>\$ 123.97</u>	<u>2.69</u>
Weighted average fair value of options granted during the 2024 period		<u>\$ -</u>	

On **September 30, 2023** **March 31, 2024**, the aggregate intrinsic value of options outstanding was \$0.

Common Stock Warrants

On January 16, 2024, in connection with the Underwriting Agreement, the Company sold pre-funded warrants to purchase up to 590,000 shares of Common Stock (the "Pre-Funded Warrants"). The public offering price was \$1.8499 for each Pre-Funded Warrant for aggregate gross proceeds of \$1,091,441. The per share exercise price for the Pre-Funded Warrants was \$0.0001 and the Pre-Funded Warrants were exercisable immediately. The Underwriters immediately exercised the 590,000 Pre-Funded Warrants and the Underwriters received 589,981 shares of Common Stock since the exercise was cashless.

A summary of the Company's outstanding stock warrants, including 44,252 Series A public warrants, is presented below:

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Balance on December 31, 2022	67,385	\$ 49.80	3.65
Granted	-	-	-
Balance on September 30, 2023	<u>67,385</u>	<u>\$ 49.80</u>	<u>2.90</u>
Warrants exercisable on September 30, 2023	<u>67,385</u>	<u>\$ 49.80</u>	<u>2.90</u>

	Number of Warrants	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
Balance on December 31, 2023	67,385	\$ 49.80	2.65
Issued	590,000	-	-
Exercised	(590,000)	-	-
Balance on March 31, 2024	<u>67,385</u>	<u>\$ 49.80</u>	<u>2.40</u>
Warrants exercisable on March 31, 2024	<u>67,385</u>	<u>\$ 49.80</u>	<u>2.40</u>

On **September 30, 2023** **March 31, 2024**, the aggregate intrinsic value of warrants outstanding was \$0.

DATCHAT, INC. AND SUBSIDIARIES
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(Unaudited)

NOTE 86 – COMMITMENTS AND CONTINGENCIES

Operating Lease Agreement

See Note 43 for disclosure on the Company's operating lease for its offices.

DATCHAT, INC. AND SUBSIDIARIES
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MARCH 31, 2024 AND 2023
(Unaudited)

Employment Agreement

On August 27, 2021 (the "Effective Date"), the Company entered into an agreement (the "Employment Agreement") with Darin Myman effective as of August 15, 2021 pursuant to which Mr. Myman's (i) base salary will increase to \$450,000 per year, and (ii) Mr. Myman may be entitled to receive an annual bonus in an amount up to \$350,000, which annual bonus may be increased by the Compensation Committee of the Board of Directors of the Company (the "Compensation Committee"), in its sole discretion, upon the achievement of additional criteria established by the Compensation Committee from time to time (the "Annual Bonus"). The Employment Agreement provides for a term of one (1) year (the "Initial Term") from the date of the Effective Date and shall automatically be extended for additional terms of one (1) year each (each a "Renewal Term") unless either party gives prior written notice of non-renewal to the other party no later than six (6) months prior to the expiration of the Initial Term, or the then current Renewal Term, as the case may be. In addition, pursuant to the Employment Agreement, upon termination of Mr. Myman's employment for death or Total Disability (as defined in the Employment Agreement), in addition to any accrued but unpaid compensation and vacation pay through the date of his termination and any other benefits accrued to him under any Benefit Plans (as defined in the Employment Agreement) outstanding at such time and the reimbursement of documented, unreimbursed expenses incurred prior to such termination date (collectively, the "Payments"), Mr. Myman shall be entitled to the following severance benefits: (i) 24 months of his then base salary; (ii) if Mr. Myman elects continuation coverage for group health coverage pursuant to COBRA Rights (as defined in the Employment Agreement), then for a period of 24 months following Mr. Myman's termination he will be obligated to pay only the portion of the full COBRA Rights cost of the coverage equal to an active employee's share of premiums (if any) for coverage for the respective plan year; and (iii) payment on a pro-rated basis of any Annual Bonus or other payments earned in connection with any bonus plan to which Mr. Myman was a participant as of the date of his termination (together with the Payments, the "Severance"). Furthermore, pursuant to the Employment Agreement, upon Mr. Myman's termination (i) at his option (A) upon 90 days prior written notice to the Company or (B) for Good Reason (as defined in the Employment Agreement), (ii) termination by the Company without Cause (as defined in the Employment Agreement) or (iii) termination of Mr. Myman's employment within 40 days of the consummation of a Change in Control Transaction (as defined in the Employment Agreement), Mr. Myman shall receive the Severance; provided, however, Mr. Myman shall be entitled to a pro-rated Annual Bonus of at least \$200,000. In addition, any equity grants issued to Mr. Myman shall immediately vest upon termination of Mr. Myman's employment by him for Good Reason or by the Company at its option upon 90 days prior written notice to Mr. Myman, without Cause.

NASDAQ Notice

On October 14, 2022, During the Company received written notice from Nasdaq that three months ended March 31, 2024 and 2023, the Company was not in compliance with Nasdaq Listing Rule 5550(a)(2), as the minimum bid price compensation committee of our common stock had been below \$1.00 per share for 30 consecutive business days. In accordance with Nasdaq Listing Rule 5810, the Company has a period of 180 calendar days, or until April 12, 2023, to regain compliance with the minimum bid price requirement. To regain compliance, the closing bid price of the Company's common stock must meet or exceed \$1.00 per share for at least 10 consecutive business days during this 180 calendar day period. In the event the Company does not regain compliance by April 12, 2023, the Company may be eligible for an additional 180 calendar day grace period if it meets the continued listing standards, with the exception of bid price, for The Nasdaq Capital Market, and the Company provides written notice to Nasdaq of its intention to cure the deficiency during the second compliance period. On April 13, 2023, the Company was notified (the "Second Notification Letter") by the Staff that we are eligible for an additional 180 calendar day period, or until October 9, 2023 to regain compliance and cure the deficiency, so long as we meet the Nasdaq continued listing requirements (except for the bid price requirement). On October 4, 2023, the Company received notice from Nasdaq that the Company has regained compliance with the minimum bid price requirement for continued listing on The Nasdaq Capital Market.

NOTE 9 – SUBSEQUENT EVENTS

On November 9, 2023, the Company filed a Certificate of Correction with the Secretary of State of the State of Nevada to correct a typographical error contained in the Certificate of Change that was filed with the Secretary of State of the State of Nevada on September 19, 2023 in order to effectuate the Reverse Stock Split. The Certificate of Change incorrectly stated that the authorized shares of preferred stock, par value \$0.0001 per share following the change was 1,000,000. The Reverse Stock Split had no impact on the number of authorized shares of preferred, par value \$0.0001, which remains unchanged at 20,000,000 shares.

On November 10, 2023, the board of directors of the Company approved and the adoption Company recorded a bonus to the Company's chief executive officer in the amount of \$300,000 and \$300,000, respectively.

Underwriting Engagement Letter

On February 23, 2024, Dragon Interactive entered into an engagement letter agreement (the "Agreement") with EF Hutton LLC ("EF Hutton"), whereby EF Hutton will act as the lead underwriter, deal manager and investment banker for a proposed initial public offering (the "Offering") for a period of (i) 12 months from the date of this Agreement, or (ii) the final closing, if any, of the Amended Offering (the "Engagement Period"); provided, however, that (a) the Company may terminate this Agreement on or after the 180th day following the date hereof upon fifteen days prior written notice to EF Hutton, and Restated 2021 Omnibus Equity Incentive Plan, (b) EF Hutton may terminate this Agreement on or after the sole purpose 120th day following the date of the Agreement upon thirty days prior written notice to the Company. During the Engagement Period, the Company also hereby engages EF Hutton as its placement agent in a bridge financing with an offering size/transactional size of up to approximately \$5.0 million; EF Hutton shall receive a placement fee of 10.0% of the aggregate gross proceeds of the bridge financing. Such placement fee shall be provided to EF Hutton at the closing of the bridge financing. In connection with the Offering, an underwriting discount of 8.0% (the "Underwriting Discount") of the total gross proceeds of the Offering shall be provided to EF Hutton at the closing of the Offering, and each closing of the Over-Allotment Option (if any). As additional compensation for EF Hutton's services, the Company shall issue to EF Hutton or its designees at the closing of the Offering (the "Closing"), and each closing of the Over-Allotment Option (if any), warrants (the "Underwriter's Warrants") to purchase that number of shares of common stock of the Company equal to 5.0% of the aggregate number of shares of common stock sold in the Offering. The Underwriter's Warrants will be exercisable at any time and from time to time, in whole or in part, during the four and a half-year period commencing six (6) months from the effective date of the Offering, at a price per share equal to 100.0% of the public offering price per security. Additionally, the Company will provide an expense advance (the "Advance") to EF Hutton of \$50,000, of which \$25,000 was paid upon the execution of the Agreement and included in prepaid expenses on the accompanying unaudited consolidated balance sheet as of March 31, 2024, and an additional \$25,000 is due upon the initial filing of a registration statement, which has not occurred as of the date of this report.

NOTE 7 – SUBSEQUENT EVENTS

On April 3, 2024, Dragon Interactive entered into a Securities Purchase Agreement (the "Purchase Agreement") with an institutional and accredited investor, pursuant to remove any inadvertent references which Dragon Interactive agreed to sell an aggregate of 120,000 shares of Dragon Interactive's common stock, par value \$0.0001 per share for an aggregate purchase price of \$36,000. Following the sale, the Company being a Delaware corporation or the 2021 Omnibus Equity Incentive Plan being governed under Delaware law and to properly state that the Company is a Nevada corporation and that the 2021 Omnibus Equity Incentive Plan is governed by Nevada law, retains approximately 71.4% ownership of Dragon Interactive.

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

You should read the following discussion and analysis of our financial condition and results of operations together with our **unaudited** consolidated financial statements and the related notes appearing elsewhere in this Quarterly Report on Form 10-Q and the audited financial statements and related notes for the year ended **December 31, 2022** **December 31, 2023** included in our Annual Report on Form 10-K filed with the Securities Exchange Commission, or SEC. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results may differ materially from those discussed below. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled "Risk Factors" included elsewhere in this Quarterly Report on Form 10-Q. All amounts in this report are in U.S. dollars, unless otherwise noted.

Overview

We are a blockchain, cybersecurity, and social media company that not only focuses on protecting privacy on personal devices, but also protects user information after it is shared with others. We believe that one's right to privacy should not end the moment they click "send", and that we all deserve the same right to privacy online that we enjoy in our own living rooms. Our flagship product, DatChat Messenger & Private Social Network, is a privacy platform and mobile application that gives users the ability to communicate with the privacy and protection they deserve. Recently, we have expanded our business and product offerings to include the co-development of a mobile-based social and gaming metaverse, ("Metaverse"), known as "The Habytat". Recently, we developed, VenVū "Habytat", an advertising as well as the development of Museum, a social network and non-fungible token ("NFT") monetization platform. We are no longer developing VenVū. The Metaverse is a virtual-reality space in which users can interact with a computer-generated environment multi-media storage platform for consumers and other users.enterprises.

DatChat Messenger & Private Social Network

Our platform allows users to exercise control over their messages and posts, even after they are sent. Through our application, users can delete messages that they have sent, on their own device and the recipient's device as well. There is no set time limit within which they must exercise this choice. A user can elect at any time to delete a message that they previously sent to a recipient's device.

The application also enables users to hide secret and encrypted messages behind a cover, which messages can only be unlocked by the recipient and which are automatically destroyed after a fixed number of views or fixed amount of time. Users can decide how long their messages last on the recipient's device. The application also includes a screen shot protection system, which makes it virtually impossible for the recipient to screenshot a message or picture before it gets destroyed. In addition, users can delete entire conversations at any time, making it like the conversation never even happened.

In addition to the foregoing, the application also provides users with the ability to connect via an encrypted live video chat that also is designed to prevent screenshots or screen grabs.

The application integrates with iMessage, making private messages potentially available to hundreds of millions of users.

The Habytat

In June 2022, we formed a wholly owned subsidiary, Dragon Interactive, Inc. (formerly, SmarterVerse, Inc.) ("SmarterVerse" Dragon Interactive"). In July 2022, SmarterVerse entered into a development agreement with Metabizz, LLC, an infrastructure firm that creates and develops 4D experiences in the Metaverse. The owners of Metabizz, LLC also own Metabizz SAS (together referred to as ("Metabizz")). As of February 2023, based on the Company's analysis, on February 14, 2023, Metabizz was determined to be a VIE entity in accordance with ASC 810-10-25-22.

In November August 2022, we launched The Habytat, the "Habytat", a virtual space that blends real world and virtual realities into one, in real time, using emerging technology like virtual and augmented reality, to create a highly immersive 3D environment. Habytat is supported by proprietary artificial intelligence ("AI") and utilizes a machine learning engine to develop more realistic looking content, daily rewards, games, and new utilities that are designed to further enhance the user experience in an engaging way. Our goal is to leverage our patents and develop new technology that leads to more people joining and seeing the value in the metaverse. Currently, the development agreement is not active.

In January 2023, we launched Geniuz City, the first world within The Habytat. Geniuz City is intended to be a near photo-realistic world that is based on the city of Miami and its surrounding areas. Geniuz City has been designed in a manner that can enable users to participate in a number of different activities, such as parties, business conferences, shopping, socializing, and game play.

Currently, once users download The Each Habytat application, we plan to grant each user is granted user rights to use a designated piece of virtual property in Geniuz City, the first world within Habytat, through the minting and issuance of a unique NFT. NFTs (or non-fungible tokens) are digital assets that can represent Geniuz City is designed to be a unique real-world asset, such as near photo-realistic world based on Miami's Wynwood arts district and its surrounding areas. Geniuz City enables users to visit art music, in-game items, videos, or a piece galleries, explore the town, interact with other users, take selfies with famous landmarks, customize their properties and enjoy the culture of real estate or virtual property. Geniuz City.

Users will initially be able to choose the style of house they want, then start customizing it to customize their virtual property to represent their personal style and taste. Users will then be able to accumulate reward points when they visit and interact with such virtual property or invite others to join The Habytat, and such rewards can be used to enhance, expand, and improve their virtual property. The official in-world currency of Habytat is the "Nirad," which can be earned through participation on the DatChat Social Network+ or Habytat and used to upgrade properties and experiences in Habytat.

As of May 12, 2024, we had over 140,000 Habytat users.

Mobile Metaverse

In addition, May 2023, we plan launched the open mobile metaverse, Habytat 1.0, as part of our mission to offer democratize access to the metaverse. We hope that by making Habytat available via mobile devices and offering free ownership of virtual land and homes, that Habytat will break down obstacles that previously limited participation, such as the necessity for expensive virtual reality ("VR") gear or metaverse properties. We have assembled a team of over twenty game developers, graphic artists and back-end developers to create Habytat 1.0. HabyPets

In August 2023, we launched a series of novel AI-powered pets called "HabyPets." HabyPets provides an interactive experience within the Habytat world, creating a more immersive and personal experience for users. Supported by Habytat's proprietary AI and machine learning engine, HabyPets grow over time from playful companions to mature adult pets. Similar to real-life pets, these AI pets can be trained by users via a range of behavioral commands, replicating the ability natural progression of real pets over time. These include, but are not limited to, have catching frisbees, playing with toys, engaging in tug of war, and even participating in thrilling races with other pets at the park. By actively engaging with their own pets, users can establish a connection and provide proper care for their virtual companions, fostering a realistic experience within the Habytat metaverse.

Myseum

We are currently developing "Myseum," a platform that will allow users to create a personal museum designed to easily share pictures, videos and documents utilizing planned features, such as creating instant sharing spaces at family gatherings, time released video messages, multi-tiered social media, and secure family document storage and sharing. Currently, Myseum is scheduled to launch in the Habytat, which they second quarter of 2024 and will need encompass features and social networking technology designed to care for unlock and can train to follow basic obedience commands, share digital media.

Spin-off and Name Change

In January 2024, we announced plans to spin-off the Habytat platform business into a new standalone public company pursuant to a distribution the Dragon Interactive shares as further discussed below. As of the date of this Quarterly Report, we currently own approximately 71.4% of Dragon Interactive, the entity that owns and operates the Habytat platform business. This marked a significant step forward in our corporate strategy to reposition the Company as a pureplay social media ecosystem centered around our Myseum assets.

In February 2024, SmarterVerse changed its name to Dragon Interactive Corporation (“Dragon Interactive”).

In February 2024, Darin Myman was appointed as President of Dragon Interactive.

If the share distribution proceeds, our shareholders will maintain their current shares in the Company and receive a pro-rata distribution of a portion of our shares of Dragon Interactive. The share proposed distribution remains subject to approval by our board of directors as well as other customary conditions, including the filing and effectiveness of either a Form S-1 or Form 10 registration statement with the U.S. Securities and Exchange Commission and obtaining of any other required regulatory approvals. Upon consummation of the proposed distribution, Dragon Interactive would become a standalone public company with plans to list on a national stock exchange. No assurance can be given that the spin-off and/or the distribution will occur as anticipated or at all.

Recent Events

On January 16, 2024, we entered into an underwriting agreement with EF Hutton LLC, as the representative of the underwriters named therein, relating to an underwritten public offering of 382,972 shares of our common stock and pre-funded warrants to purchase up 590,000 shares of our common stock for gross proceeds of approximately \$1.4 million, after deducting underwriting discounts and commissions and estimated offering expenses payable by the Company.

Risks and Uncertainties

In February 2022, the Russian Federation and Belarus commenced a military action with the country of Ukraine. As a result of this action, various nations, including the United States, have instituted economic sanctions against the Russian Federation and Belarus. Further, the impact of this action and related sanctions on the world economy is not determinable as of the date of these consolidated financial statements, and the specific impact on the Company’s financial condition, results of operations, and cash flows is also not determinable as of the date of these financial statements.

On August 16, 2022, the Inflation Reduction Act of 2022 (the “IR Act”) was signed into federal law. The IR Act provides for, among other things, a new U.S. federal 1% excise tax on certain repurchases of stock by publicly traded U.S. domestic corporations and certain U.S. domestic subsidiaries of publicly traded foreign corporations occurring on or after January 1, 2023. The excise tax is imposed on the repurchasing corporation itself, not its shareholders from which shares are repurchased. The amount of the excise tax is generally 1% of the fair market value of the shares repurchased at the time of the repurchase. However, for purposes of calculating the excise tax, repurchasing corporations are permitted to net the fair market value of certain new stock issuances against the fair market value of stock repurchases during the same taxable year. In addition, certain exceptions apply to the excise tax. The U.S. Department of the Treasury (the “Treasury”) has been given authority to provide regulations and other guidance to carry out and prevent the abuse or avoidance of the excise tax. Management continues to evaluate the impact of the COVID-19 pandemic on the industry and has concluded that while it is reasonably possible that the virus could have a negative effect on our the Company’s financial position and results of its operations, the specific impact is not readily determinable as of the date of these financial statements. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis of presentation Presentation

The financial statements contained herein have been prepared in accordance with accounting principles generally accepted in the United States of America (the “U.S. GAAP”) and the requirements of the Securities and Exchange Commission.

Critical Accounting Policies and Significant Judgments and Estimates

This management's discussion and analysis of financial condition and results of operations is based on our financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reported period. In accordance with U.S. GAAP, we base our estimates on historical experience and on various other assumptions we believe to be reasonable under the circumstances. Actual results may differ from these estimates if conditions differ from our assumptions. While our significant accounting policies and significant estimates are more fully described in Note 1 in the "Notes to Financial Statements", we believe the following accounting policies estimates are critical to the process of making significant judgments and estimates in preparation of our consolidated financial statements.

Use of estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and the related disclosures at the date of the consolidated financial statements and during the reporting period. Actual results could materially differ from these estimates. Significant estimates include assumptions used in assessing impairment of long-term assets, the valuation of intangible assets, the valuation of digital currencies and other digital assets, the valuation of lease liabilities and related right of use assets, the valuation of deferred tax assets, and the fair value of non-cash equity transactions.

Variable interest entities

Pursuant to ASC 810-10-25-22, an entity is defined as a VIE if it either lacks sufficient equity to finance its activities without additional subordinated financial support, or it is structured such that the holders of the voting rights do not substantively participate in the gains and losses of the entity. When determining whether an entity that meets the definition of a business qualifies for a scope exception from applying VIE guidance, we consider whether: (i) it has participated significantly in the design of the entity, (ii) it has provided more than half of the total financial support to the entity, and (iii) substantially all of the activities of the VIE are conducted on its behalf. A VIE is consolidated by its primary beneficiary, the party that has the power to direct the activities that most significantly impact the VIE's economic performance and has the right to receive benefits or the obligation to absorb losses of the entity that could be potentially significant to the VIE. The primary beneficiary assessment must be re-evaluated on an ongoing basis.

Based on our analysis, on February 14, 2023, Metabizz, LLC, a Florida corporation, and Metabizz SAS, a company incorporated under the laws of Columbia (collectively "Metabizz"), were determined to be VIE entities in accordance with ASC 810-10-25-22 because the equity owners in Metabizz do not have the characteristics of a controlling financial interest and the initial equity investments in these entities may be or are insufficient to meet or sustain its operations without additional subordinated financial support from us. The equity owners of Metabizz have only a nominal equity investment at risk, and we absorb or receive a majority of the entity's expected losses or benefits. We participate significantly in the design of Metabizz. We have provided working capital advances to Metabizz to allow Metabizz to fund its day to day obligations. Substantially all of the activities of Metabizz are conducted for our benefit, as evidenced by the fact that the operations of Metabizz consists of development of software and technologies to be used by SmarterVerse and we provide working capital to Metabizz to pay employees and independent contractors to perform the development services on our behalf. Repayment of the working capital advances is not guaranteed by the equity owner of Metabizz. Creditors of Metabizz do not have recourse to our general credit. Accordingly, we are required to consolidate the assets, liabilities, revenues and expenses of Metabizz. Additionally, the managing partner of Metabizz is also the Chief Innovation Officer of SmarterVerse.

Short-term investments

Our portfolio of short-term investments consists of marketable debt securities which are comprised solely of that are highly rated U.S. government securities with maturities of more than three months, but less than one year. We classify these as available-for-sale at purchase date and will reevaluate such designation at each period end date. We may sell these marketable debt securities prior to their stated maturities depending upon changing liquidity requirements. These debt securities are classified as current assets in the consolidated balance sheet and recorded at fair value, with unrealized gains or losses included in accumulated other comprehensive gain (loss) and as a component of the consolidated statements of comprehensive loss. Gains and losses are recognized when realized. Gains and losses are determined using the specific identification method and are reported in other income (expense), net in the consolidated statements of operations. Short-term investments are carried at fair value, which is based on quoted market prices for such securities, if available, or is estimated on the basis of quoted market prices of financial instruments with similar characteristics.

An impairment loss may be recognized when the decline in fair value of the debt securities is determined to be other-than-temporary. We evaluate our investments for other-than-temporary declines in fair value below the cost basis each quarter, or whenever events or changes in circumstances indicate that the cost basis of the short-term investments may not be recoverable. The evaluation is based on a number of factors, including the length of time and the extent to which the fair value has been below the cost basis, as well as adverse conditions related specifically to the security, such as any changes to the credit rating of the security and the intent to sell or whether we will more likely than not be required to sell the security before recovery of its amortized cost basis.

Accounting for digital currencies and other digital assets

We may purchase Ethereum cryptocurrency ("Ethereum") and other digital assets and may accept Ethereum as a form of payment for non-fungible tokens sales (NFTs). We account for these digital assets held as the result of the purchase or receipt of Ethereum and other digital assets, as indefinite-lived intangible assets in accordance with ASC 350, Intangibles—Goodwill and Other ("ASC 350"). We have ownership of and control over our digital currencies and digital assets and we may use third-party custodial services to secure them. The digital currencies and digital assets are initially recorded at cost and are subsequently remeasured, net of any impairment losses incurred since acquisition. We believe that digital currencies and other digital assets meet the definition of indefinite-lived intangible assets and accounts for them at historical cost less impairment, applying the guidance in ASC 350. We monitor any standard-setting, regulatory or technological developments that may affect our accounting for digital currencies or our controls and processes related to digital currencies. Digital currencies are included in long-term assets in the consolidated balance sheet.

We determine the fair value of its digital currencies and other digital assets on a nonrecurring basis in accordance with ASC 820, Fair Value Measurement, based on quoted prices on the active exchange(s) that it has determined is the principal market for Ethereum (Level 1 inputs) and other digital assets. We perform an analysis each quarter to identify whether events or changes in circumstances, principally decreases in the quoted prices on active exchanges, indicate that it is more likely than not that its digital assets are impaired. In determining if an impairment has occurred, we consider the lowest market price quoted on an active exchange since acquiring the respective digital asset. If the then current carrying value of a digital asset exceeds the fair value, an impairment loss has occurred with respect to those digital assets in the amount equal to the difference between their carrying values and the fair value. The impaired digital assets are written down to their fair value at the time of impairment and this new cost basis will not be adjusted upward for any subsequent increase in fair value. Gains are not recorded until realized upon sale, at which point they are presented net of any impairment losses for the same digital assets held. In determining the gain or loss to be recognized upon sale, we calculate the difference between the sales price and carrying value of the digital assets sold immediately prior to sale. Impairment losses and gains or losses on sales are recognized within operating expenses in the consolidated statements of operations. During the nine months ended September 30, 2023, we recorded an impairment loss of \$23,381.

Capitalized internal-use software costs

Costs incurred to develop internal-use software including Metaverse software development, are expensed as incurred during the preliminary project stage. Internal-use software development costs are capitalized during the application development stage, which is after: (i) the preliminary project stage is completed; and (ii) management authorizes and commits to funding the project and it is probable the project will be completed and used to perform the function intended. Capitalization ceases at the point the software project is substantially complete and ready for its intended use, and after all substantial testing is completed. Upgrades and enhancements are capitalized if it is probable that those expenditures will result in additional functionality. Amortization is provided for on a straight-line basis over the expected useful life of the internal-use software development costs and related upgrades and enhancements. When existing software is replaced with new software, the unamortized costs of the old software are expensed when the new software is ready for its intended use. Through September 30, 2023, software development costs incurred during the three months ended March 31, 2024 and 2023 were expensed since the Metaverse software development project is in the preliminary project stage. Such costs are included in research and development costs on the accompanying consolidated statement of operations.

Revenue recognition Variable interest entities

We recognize revenue Pursuant to ASC 810-10-25-22, an entity is defined as a VIE if it either lacks sufficient equity to finance its activities without additional subordinated financial support, or it is structured such that the holders of the voting rights do not substantively participate in the gains and losses of the entity. When determining whether an entity that meets the definition of a business qualifies for a scope exception from applying VIE guidance, the Company considers whether: (i) it has participated significantly in the design of the entity, (ii) it has provided more than half of the total financial support to the entity, and (iii) substantially all of the activities of the VIE are conducted on its behalf. A VIE is consolidated by its primary beneficiary, the party that has the power to direct the activities that most significantly impact the VIE's economic performance and has the right to receive benefits or the obligation to absorb losses of the entity that could be potentially significant to the VIE. The primary beneficiary assessment must be re-evaluated on an ongoing basis.

Based on the Company's analysis, on February 14, 2023, Metabizz, LLC, a Florida corporation, and Metabizz SAS, a company incorporated under the laws of Columbia (collectively "Metabizz"), were determined to be VIE entities in accordance with ASC Topic 606 Revenue 810-10-25-22 because the equity owners in Metabizz did not have the characteristics of a controlling financial interest and the initial equity investments in these entities may be or were insufficient to meet or sustain its operations without additional subordinated financial support from Contracts with Customers, which requires revenue DatChat. The equity owners of Metabizz had only a nominal equity investment at risk, and the Company absorbed or received a majority of the entity's expected losses or benefits. The Company participated significantly in the design of Metabizz. The Company provided working capital advances to Metabizz to allow Metabizz to fund its day-to-day obligations. Substantially all of the activities of Metabizz were conducted for the Company's benefit, as evidenced by the fact that the operations of Metabizz consisted of development of software and technologies to be recognized used by Dragon Interactive and the Company provided working capital to Metabizz to pay employees and independent contractors to perform the development services on behalf of the Company. Repayment of the working capital advances is not guaranteed by the equity owner of Metabizz and creditors of Metabizz do not have recourse against the Company. Accordingly, the Company was required to consolidate the assets, liabilities, revenues and expenses of Metabizz using the fair value method. Additionally, the managing partner of Metabizz was also the Chief Innovation Officer of Dragon Interactive. Since Metabizz, LLC and Metabizz SAS were considered VIE's, any noncontrolling interest eliminated in consolidation. In connection with the initial consolidation of Metabizz, on February 14, 2023 (the initial consolidation date), the Company recorded a manner that depicts the transfer gain on initial consolidation of goods or services to customers in amounts that reflect the consideration to which the entity expects to be entitled in exchange for those goods or services. We recognize revenues from subscription fees on our messaging application in the month they are earned. Annual and lifetime subscription payments received that are related to future periods are recorded as deferred revenue to be recognized as revenues over the contract term or period. Lifetime subscriptions are being recognized to revenues over a 12-month period. variable interest entities of \$42,737.

Our NFT revenues were generated from the sale of NFTs. We accepted Ethereum as a form of payment for NFT sales. Our NFTs exist on the Ethereum Blockchain under our VenVüü brand. VenVüü is a Metaverse advertising platform that allows advertisers and Metaverse landowners to connect using our proprietary Metaverse ad network and dynamic NFT technology. We used the NFT exchange, OpenSea, to facilitate its sales of NFTs. Through OpenSea, we have custody and control of the NFT prior to the delivery to the customer and records revenue at a point in time when the NFT is delivered to the customer and the customer pays. We have no obligations for returns, refunds or warranty after the NFT sale. The value of the sale is determined based on the value of the Ethereum crypto currency received as consideration. Each NFT that is generated produces a unique identifying code. We do not expect to generate revenues from the sale of NFT's in the future.

On March 31, 2024, based on the Company's analysis, the Company deconsolidated Metabizz, LLC and Metabizz SAS. During the three months ended March 31, 2024, the Company ceased doing business with Metabizz, LLC and Metabizz SAS and will pay technology professionals directly. In connection with the deconsolidation of Metabizz, LLC and Metabizz SAS, during the three months ended March 31, 2024, the Company recorded a gain on deconsolidation of \$107.

Stock-based compensation

Stock-based compensation is accounted for based on the requirements of the Share-Based Payment Topic of ASC 718, "Compensation — Stock Compensation" ("ASC 718"), which requires recognition in the financial statements of the cost of employee, non-employee and director services received in exchange for an award of equity instruments over the period the employee, non-employee or director is required to perform the services in exchange for the award (presumptively, the vesting period). ASC 718 also requires measurement of the cost of employee, non-employee, and director services received in exchange for an award based on the grant-date fair value of the award. We have elected to account for forfeitures as they occur.

Research and development

Research and development costs incurred in the development of our products are expensed as incurred and includes costs such as outside development costs and other allocated costs incurred.

Leases

We applied ASC Topic 842, Leases (Topic 842) to arrangements with lease terms of 12 months or more. Operating lease right of use assets ("ROU") represents the right to use the leased asset for the lease term and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. As most leases do not provide an implicit rate, we use an incremental borrowing rate based on the information available at the adoption date in determining the present value of future payments. Lease expense for minimum lease payments is amortized on a straight-line basis over the lease term and is included in general and administrative expenses in the statements of operations.

Recently Issued Accounting Pronouncements

Refer to the notes to the unaudited consolidated financial statements.

Results of Operations

Revenue

During the three and nine months ended September 30, 2023, March 31, 2024 and 2023, we generated revenue in the amount minimal revenues of \$175 \$131 and \$501, respectively, from subscriptions. For the three and nine months ended September 30, 2022, we generated revenue in the amount of \$3,540 and \$42,296, \$154, respectively.

Operating expenses

For the three months ended September 30, 2022 March 31, 2024, revenue consisted of revenue from subscriptions of \$3,540. For operating expenses amounted to \$1,663,550 as compared to \$2,422,671 for the nine three months ended September 30, 2022, revenue consisted March 31 2023, a decrease of revenue from subscriptions of \$5,902 and revenue from the sale of our Venvuu NFT of \$36,394.

Operating Expenses

\$759,121, or 31.3%. For the three months ended September 30, 2023, operating expenses amounted to \$2,542,326 as compared to \$2,685,450 for the three months ended September 30 2022, a decrease of \$143,124, or 5.3%. For the nine months ended September 30, 2023, operating expenses amounted to \$7,355,729 as compared to \$8,671,451 for the nine months ended September 30, 2022, a decrease of \$1,315,722, or 14.7%.

For the three March 31, 2024 and nine months ended September 30 2023, and 2022, operating expenses consisted of the following:

	Three Months Ended		Nine Months Ended		Three Months Ended	
	September 30,		September 30,		March 31,	
	2023	2022	2023	2022	2024	2023
Compensation and related expenses	\$ 1,247,302	\$ 1,639,886	\$ 4,177,032	\$ 5,015,827	\$ 897,664	\$ 1,549,692
Marketing and advertising expenses	219,008	65,181	379,410	645,825	34,717	113,803
Professional and consulting expenses	483,319	482,338	1,060,396	1,947,535	253,625	255,920
Research and development	380,017	258,957	1,064,049	258,957	233,918	282,773
General and administrative expenses	212,680	232,064	651,461	712,103	243,626	197,102
Impairment loss on digital currencies and other digital assets	-	7,024	23,381	91,204	-	23,381
Total	\$ 2,542,326	\$ 2,685,450	\$ 7,355,729	\$ 8,671,451	\$ 1,663,550	\$ 2,422,671

Compensation and related expenses

Compensation and related expenses include salaries, stock-based compensation, health insurance and other benefits.

During the three months ended **September 30, 2023** **March 31, 2024** and **2022**, compensation and related expenses amounted to **\$1,247,302** **\$897,664** and **\$1,639,886**, **\$1,549,692**, respectively, a decrease of **\$392,584**, **\$652,028**, or **23.9%**. The decrease was attributable to an increase in other compensation expense of **\$555,807**, offset by a decrease in stock-based compensation of **\$163,223**.

During the nine months ended **September 30, 2023** and **2022**, compensation and related expenses amounted to **\$4,177,032** and **\$5,015,827**, respectively, a decrease of **\$838,795**, or **16.7%** **42.1%**. The decrease was attributable to a decrease in stock-based compensation of **\$402,570** **\$596,583** and **an overall decrease in other** compensation and other related expenses of **\$436,225**, **\$55,445**.

Marketing and advertising expenses

During the three months ended **September 30, 2023** **March 31, 2024** and **2022, 2023**, marketing and advertising expenses amounted to **\$219,008** **\$34,717** and **\$65,181**, respectively, an increase of **\$153,827**, or **236.0%**. During the nine months ended **September 30, 2023** and **2022**, marketing and advertising expenses amounted to **\$379,410** and **\$645,825**, **\$113,803**, respectively, a decrease of **\$266,415**, **\$79,086**, or **41.2%** **69.5%**, primarily due to an overall decrease in promotions, branding and digital marketing strategies and social media ads.

Professional and consulting expenses

During the three months ended **September 30, 2023** **March 31, 2024** and **2022, 2023**, we reported professional and consulting expenses of **\$483,319** **\$253,625** and **\$482,338**, respectively, an increase of **\$981**, or **0.2%**.

During the nine months ended **September 30, 2023** and **2022**, we reported professional and consulting expenses of **\$1,060,396** and **\$1,947,535**, **\$255,920**, respectively, a decrease of **\$887,139**, **\$2,295**, or **45.6%** **0.9%**. The decrease is attributable to a decrease in consulting fees of **\$67,144**, **\$1,343**, a decrease in accounting fees of **\$1,099**, and a decrease in investor relations fees of **\$310,200**, a decrease **\$9,805**, offset by an increase in legal fees of **\$227,462**, **\$9,918**, and a decrease in recruiting fees of **\$322,000**, offset by an increase in other professional fees of **\$39,667**, **\$34**.

Research and development costs expenses

During the three months ended **September 30, 2023** **March 31, 2024** and **2022, 2023**, we incurred **\$380,017** **\$233,918** and **\$258,957** **\$282,773** in research and development costs, an increase in expenses, a decrease of **\$121,060**, **\$48,855**, or **46.7%**. During the nine months ended **September 30, 2023** and **2022**, we incurred **\$1,064,049** and **\$258,957** in research and development costs, an increase of **\$805,092**, or **310.9%** **17.3%**. Research and development costs were incurred in connection with our Metaverse software development project, including the development of The Habytat which is in the preliminary stage.

General and administrative expenses

During the three months ended **September 30, 2023** **March 31, 2024** and **2022, 2023**, general and administrative expenses amounted to **\$212,680** **\$243,626** and **\$232,064**, a decrease **\$197,102**, an increase of **\$19,384**, **\$46,524**, or **8.3%**. During the nine months ended **September 30, 2023** and **2022**, general and administrative expenses amounted to **\$651,461** and **\$712,103**, a decrease of **\$60,642**, or **8.5%** **23.6%**. The decreases increases are primarily attributable to a decrease in conference fees proxy meeting expenses of **\$28,465**, an increase in computer expenses of **\$16,709**, and a decrease in other general and administrative expenses of **\$26,058**, offset by an increase in travel expense expense of **\$24,708**.

Impairment loss on digital currencies and other digital assets

During the three months ended **September 30, 2023** **March 31, 2024** and **2022, 2023**, operating expenses included an impairment charge related to the write down of digital assets of **\$0** and **\$7,024**, **\$23,381**, respectively. During the nine months ended **September 30, 2023** and **2022**, operating expenses included an impairment charge related to the write down of digital assets of **\$23,381** and **\$91,204**, respectively.

Loss from Operations

During the three months ended **September 30, 2023** **March 31, 2024**, loss from operation amounted to **\$2,542,151** **\$1,663,419** as compared to **\$2,681,910** **\$2,422,517** during the three months ended **September 30, 2022** **March 31, 2023**, a decrease of **\$139,759**, **\$759,098**, or **5.2%** **31.3%**. During the nine months ended **September 30, 2023**, loss from operation amounted to **\$7,355,228** as compared to **\$8,629,155** during the nine months ended **September 30, 2022**, a decrease of **\$1,273,927**, or **14.7%**.

Other Income (Expense)

Other income (expenses) primarily consisted of interest income, gain on initial consolidation of variable interest entities, and realized gain on short-term investments deconsolidation of variable interest entities, foreign currency exchange loss, and unrealized gains or losses on short-term investments. During the three months ended **September 30, 2023** **March 31, 2024** and **2022, 2023**, we reported other income, (expenses) net of **\$177,571** **\$101,612** and **\$25,205**, **\$23,303**, respectively.

During the **nine** three months ended **September 30, 2023** and **2022**, we reported other income (expenses) of **\$304,204** and **\$24,892**, respectively. During the nine months ended **September 30, 2023** **March 31, 2024**, other income, net primarily consisted of interest income of **\$6,058**, **\$114,470**, a gain on deconsolidation of variable interest entities of **\$107**, and a foreign currency exchange loss of **\$12,965**. During the three months ended **March 31, 2023**, other income, net primarily consisted of interest income of **\$28,238**, a gain on initial consolidation of variable interest entities of **\$106,538**, **\$42,737**, and a realized gain on short-term investments of **\$239,382**, and an unrealized loss on short-term investments of **\$47,672**. During the nine months ended **September 30, 2022**, other income primarily consisted of interest income of **\$8,077**, a realized gain on short-term investments of **\$9,702**, and an unrealized gain on short-term investments of **\$7,113**.

Net Loss

Due to the foregoing reasons, during the three months ended **September 30, 2023** **March 31, 2024** and **2022, 2023**, our net loss was **\$2,364,580**, **\$1,561,807**, or **\$(1.13)****\$(0.56)** per common share (basic and diluted) and **\$2,656,705**, **\$2,399,214**, or **\$(1.29)****\$(1.16)** per common share (basic and diluted), respectively, a decrease of **\$292,125**, **\$837,407**, or **11.0%** **34.9%**. During the nine months ended September 30, 2023 and 2022, our net loss was **\$7,051,024**, or **\$(3.40)** per common share (basic and diluted) and **\$8,604,263**, or **\$(4.32)** per common share (basic and diluted), respectively, a decrease of **\$1,553,239**, or **18.0%**.

Liquidity, Capital Resources and Plan of Operations

As of **September 30, 2023** **March 31, 2024**, we had cash and cash equivalents of **\$672,086** **\$249,983** and short-term investments of **\$6,826,759**, **\$5,836,175**. Short-term investments include U.S. Treasury zero coupon bills that are all highly rated and have initial maturities between four and twelve months.

The consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. As reflected in the accompanying unaudited consolidated financial statements, for the nine months ended **September 30, 2023**, we incurred had a net loss of **\$7,051,024** and **\$1,561,807** for the three months ended **March 31, 2024**. Net cash used cash in operations was **\$1,477,240** for the three months ended **March 31, 2024**. Additionally, as of **\$5,159,510**. As of **September 30, 2023** **March 31, 2024**, we have had an accumulated deficit of **\$46,780,142** **\$49,271,900** and have generated minimal revenues since inception. As of **September 30, 2023** **March 31, 2024**, we had working capital of **\$7,307,166**, **\$5,867,979**, including cash of **\$672,086** **\$249,983** and short-term investments of **\$6,826,759**, **\$5,836,175**. These events served to mitigate the conditions that historically raised factors raise substantial doubt about our ability to continue as a going concern. We believe our cash and short-term investments will provide sufficient cash flows to meet our obligations concern for a minimum period of twelve months from the issuance date of this filing report. Management cannot provide assurance that we will ultimately achieve profitable operations or become cash flow positive or raise additional debt and/or equity capital. We are seeking to raise capital through additional debt and/or equity financings to fund our operations in the future. Although we have historically raised capital from sales of common shares, there is no assurance that it will be able to continue to do so. If we are unable to raise additional capital or secure additional lending in the near future, management expects that the Company will need to curtail its operations. These consolidated financial statements do not include any adjustments related to the recoverability and classification of assets or the amounts and classification of liabilities that might be necessary should we be unable to continue as a going concern.

On January 16, 2024, we entered into an underwriting agreement (the "Underwriting Agreement") with EF Hutton LLC (the "Representative"), as the representative of the underwriters named therein (the "Underwriters"), relating to an underwritten public offering (the "Offering") of 382,972 shares of the Company's common stock (the "Shares") and pre-funded warrants to purchase up to 590,000 shares of Common Stock (the "Pre-Funded Warrants"). The public offering price for each share of Common Stock was \$1.85 for aggregate gross proceeds of \$708,498, and public offering price for the Pre-Funded Warrants was \$1.8499 for each Pre-Funded Warrant for aggregate gross proceeds of \$1,091,441. In connection with this Offering, we raised aggregate gross proceeds of \$1,799,939 and received net proceeds of \$1,420,773, net of Underwriters discounts and offering costs of \$279,166 and legal fees of \$100,000.

Our primary uses of cash have been for compensation and related expenses, fees paid to third parties for professional services, marketing and advertising expenses, and general and administrative expenses. All funds received have been expended in the furtherance of growing the business. We received funds from the sale of our common stock and the exercise of warrants. The following trends are reasonably likely to result in changes in our liquidity over the near to long term:

- An increase in working capital requirements to finance our current business,
- Cost of research and development,
- Addition of administrative, technical and sales personnel as the business grows, and
- The cost of being a public company.

Cash Flow Activities for the Nine Months Three months ended September 30, 2023 March 31, 2024 and 2022 2023

Cash Flows from Operating Activities

Net cash used in operating activities totaled ~~\$5,159,510~~ \$1,477,240 and ~~\$5,727,584~~ \$1,759,562 for the ~~nine~~ three months ended ~~September 30, 2023~~ March 31, 2024, and ~~2022~~ 2023, respectively, a decrease of ~~\$568,074~~ \$282,322.

Net cash flow used in operating activities for the ~~nine~~ three months ended ~~September 30, 2023~~ March 31, 2024 primarily reflected a net loss of ~~\$7,051,024~~ \$1,561,807 adjusted for the add-back (reduction) of non-cash items consisting of depreciation and amortization of \$5,782, amortization of right of use assets of \$17,123, accretion of stock-based stock option and common stock expense of \$59,018, a non-cash gain from deconsolidation of variable interest entities of \$(107), and foreign currency exchange loss of \$12,965, offset by changes in operating assets and liabilities primarily consisting of an increase in prepaid expenses of \$52,659, an increase in accounts payable and accrued expenses of \$61,794, and a decrease in operating lease liabilities of \$19,376.

Net cash flow used in operating activities for the three months ended March 31, 2023 primarily reflected a net loss of \$2,399,214 adjusted for the add-back (reduction) of non-cash items consisting of depreciation of \$20,687, \$5,782, amortization of right of use assets of \$44,272, \$14,036, accretion of stock-based stock option and common stock expense of \$2,183,835, \$639,156, a non-cash gain from initial consolidation of variable interest entities of \$(106,568) \$(42,737), impairment loss on digital assets of \$23,381, and net unrealized and realized gain loss on short-term investments of \$191,710, \$24,795, offset by changes in operating assets and liabilities primarily consisting of a decrease in accounts receivable payable – related party of \$42,000, \$21,801, an increase in prepaid expenses of \$61,456, a decrease \$33,271, an increase in accounts payable and accrued expenses of \$14,283, \$45,948, and a decrease in operating lease liabilities of \$48,808, \$15,548.

Net cash flow used in operating activities for the nine months ended September 30, 2022 primarily reflected a net loss of \$8,604,263 adjusted for the add-back of non-cash items consisting of depreciation and amortization of \$67,227, stock-based compensation and professional fees from the accretion of stock-based stock option and common stock expense of \$2,671,128, unrealized and realized gains on short-term investments, and an impairment loss on digital currencies and other digital assets of \$91,204, offset by changes in operating assets and liabilities primarily consisting of a decrease in prepaid expenses of \$117,396, a decrease in accounts payable and accrued expenses of \$23,386 and a decrease in operating lease liability of \$39,027.

Cash Flows from Investing Activities

Net cash (used in) provided by (used in) investing activities amounted to \$4,496,890 \$(648,447) and \$(8,242,060) \$1,095,466 for the nine three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively.

During the nine three months ended September 30, 2023 March 31, 2024, we purchased short-term investments of \$5,363,163 \$3,337,115 and received gross proceeds from the sale of short-term investments of \$9,845,000, \$2,688,668.

During the three months ended March 31, 2023, we purchased short-term investments of \$964,072 and received gross proceeds from the sale of short-term investments of \$1,995,000. Additionally, we received \$64,538 in cash upon initial consolidation of variable interest entities and purchased property and equipment of \$49,485, entities.

During the nine months ended September 30, 2022, we purchased property and equipment of \$44,475, purchased digital currencies and other digital assets of \$233,245, and we purchased short-term investments of \$14,394,340 and received gross proceeds from the sale of short-term investments of \$6,430,000.

Cash Flows from Financing Activities

Net cash used in provided by (used in) financing activities totaled approximately \$398,284 \$1,420,773 and \$203 \$(312,489) for the nine three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively.

During the nine three months ended September 30, 2023 March 31, 2024, we received \$559,251 from the sale of common stock, net, and received \$861,522 from the sale of pre-funded warrants.

During the three months ended March 31, 2023, we repaid related party advances of \$1,315 and we used cash of \$397,969 \$311,174 to purchase 66,944 treasury stock at an average price of \$5.94 per share, and we receive \$1,000 from the sale of Series B preferred stock.

During the nine months ended September 30, 2022, we repaid related party advances of \$203.

Off-Balance Sheet Arrangements

We have not entered into any other financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholders' equity or that are not reflected in our financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

We are a “smaller reporting company,” as defined in Rule 12b-2 of the Exchange Act and are not required to provide the information required by this Item.

ITEM 4. CONTROLS AND PROCEDURES.**Evaluation of Disclosure Controls and Procedures**

Our principal executive officer and principal financial officer, after evaluating the effectiveness of the Company’s “disclosure controls and procedures” (as defined in Exchange Act Rule 13a-15(e) and 15d-15(e)) as of September 30, 2023, the end of the period covered by this Quarterly Report on Form 10-Q, have concluded that our We maintain disclosure controls and procedures were not effective such that the are designed to ensure that material information required to be disclosed by us in our periodic reports filed under the Securities Exchange Act of 1934, as amended, or 1934 Act, is (i) recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms and (ii) to ensure that such information is accumulated and communicated to our management, including our principal chief executive officer and principal chief financial officer as appropriate, to allow timely decisions regarding required disclosure. We carried out an evaluation, under the supervision and with the participation of our management, including the principal executive officer and the principal financial officer (principal financial officer), of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13(a)-15(e) under the 1934 Act, as of the end of the period covered by this report. Based on this evaluation, because of the Company’s limited resources and limited number of employees, management concluded that our disclosure controls and procedures were not effective as of March 31, 2024.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Exchange Act Rule 13a-15(f). Internal control over financial reporting is a process designed under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with GAAP. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

As of September 30, 2023, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the Committee of Sponsoring Organizations of the Treadway Commission following material weaknesses which we identified in Internal Control-Integrated Framework - 2013. Based on this assessment, our management concluded that, as of September 30, 2023, our internal control over financial reporting was not effective because it identified a material weakness. A material weakness is a significant deficiency or a combination of significant deficiencies in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

- We lack segregation of duties within accounting functions duties as a result of our limited financial resources to support hiring of personnel.
- We lack control over the custody of and accounting for digital currencies and other digital assets accounts.
- The lack of multiple levels of management review on complex business, accounting and financial reporting issues.
- We have not implemented adequate system and manual controls.

Remediation Plans

Management is committed to the remediation of the material weaknesses described above, as well as the improvement of the Company's overall internal control over financial reporting. Management plans on implementing actions to remediate the underlying causes of the control deficiencies that gave rise to the material weaknesses. Remediation efforts include the possible hiring of additional accounting and finance personnel with appropriate expertise to strengthen overall controls and the establishment of disbursement review and approval processes. The material weaknesses will not be considered remediated until management designs and implements effective controls that operate for a sufficient period of time and management has concluded, through testing, that these controls are effective. Our management will monitor the effectiveness of our remediation plan and will make changes management determines to be appropriate. Until the remediation efforts (including any additional measures management identifies as necessary) are completed, the material weaknesses described above will continue to exist.

Changes in Internal Control over Financial Reporting.

There have been no changes in our internal control over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

From time to time, we may become involved in various lawsuits and legal proceedings, which arise in the ordinary course of business. Litigation is subject to inherent uncertainties, and an adverse result in these or other matters may arise from time to time that may harm our business. We are currently not aware of any such legal proceedings or claims that will have, individually or in the aggregate, a material adverse effect on our business, financial condition or operating results.

ITEM 1A. RISK FACTORS.

Risk factors that affect our business and financial results are discussed in Part I, Item 1A "Risk Factors," in our Annual Report on Form 10-K for the year ended **December 31, 2022** December 31, 2023 as filed with the SEC on **March 31, 2023** March 29, 2024 ("Annual Report"). Except as set forth below, there have been no material changes in our risk factors from those previously disclosed in our Annual Report. You should carefully consider the risks described in our Annual Report, which could materially affect our business, financial condition or future results. The risks described in our Annual Report are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, and/or operating results. If any of the risks actually occur, our business, financial condition, and/or results of operations could be negatively affected.

If we fail to comply with the continued listing requirements of The Nasdaq Capital Market, our common stock may be delisted and the price of our common stock and our ability to access the capital markets could be negatively impacted.

On October 14, 2022, we were notified (the "Notification Letter") by the Staff of the Listing Qualifications Department (the "Staff") of The Nasdaq Stock Market LLC ("Nasdaq") that based on the previous 30 consecutive business days, our listed security no longer met the minimum \$1 bid price per share requirement. Therefore, in accordance with the Nasdaq Listing Rules (the "Rules"), we were provided 180 calendar days, or until April 12, 2023, to regain compliance, and that if we were unable to regain compliance by April 12, 2023, an additional 180-days may be granted, so long as we meet the Nasdaq continued listing requirements (except for the bid price requirement) and notify Nasdaq in writing of our intention to cure the deficiency during the second compliance period.

In accordance with the Notification Letter and Rules, on April 7, 2023, we notified Nasdaq in writing of our intention to cure the deficiency and requested an additional 180-calendar days in order to do so. On April 13, 2023, we were notified (the "Second Notification Letter") by the Staff that we are eligible for an additional 180 calendar day period, or until October 9, 2023 to regain compliance and cure the deficiency, so long as we meet the Nasdaq continued listing requirements (except for the bid price requirement). On October 4, 2023, the Company received notice from Nasdaq that the Company has regained compliance with the minimum bid price requirement for continued listing on The Nasdaq Capital Market.

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

On July 25, 2023 Dragon Interactive Corporation, f/k/a SmarterVerse, Inc. ("Dragon Interactive"), we issued 19,802 a majority owned subsidiary of our common shares DatChat, Inc., entered into a Securities Purchase Agreement (the "Purchase Agreement") with an institutional and accredited investor (the "Investor"), pursuant to a one-year consulting agreement. These which Dragon Interactive agreed to sell an aggregate of 120,000 shares (the "Shares") of Dragon's common stock, par value \$0.0001 per share, for an aggregate purchase price of \$36,000. Following the sale, the Company retains approximately 71.4% ownership of Dragon Interactive. The Dargon Interactive shares were valued at \$100,000, or a per share price of \$5.05, based offered and sold in reliance on the quoted closing price of the Company's common stock on the measurement date.

On August 4, 2023, we issued 2,000,000 of Series B preferred stock for aggregate cash of \$1,000.

The above securities were issued in reliance upon the exemptions provided by Section 4(a)(2) exemption from registration under the Securities Act of 1933, as amended, amended (the "Securities Act") provided by Section 4(a)(2) and Regulation D (Rule 506) under the Securities Act."

Issuer Purchases of Equity Securities

On January 6, 2023, our Board of Directors authorized a stock repurchase plan to repurchase up to \$2,000,000 of our issued and outstanding common stock, from time to time, with such program to be in place until December 31, 2023. Through September 30, 2023, the Company purchased 66,944 shares of its common stock for \$397,969, or at an average price of \$5.94 per share, which has been reflected as treasury stock on the accompanying unaudited consolidated balance sheet on September 30, 2023.

We did not have any common stock repurchases during the quarterly period ended **September 30, 2023** March 31, 2024.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

Exhibit No.	Description of Exhibits
3.1* 4.1	Certificate of Correction filed on November 9, 2023
4.1*	Amended and Restated 2021 Omnibus Equity Incentive Plan (Incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q filed on November 13, 2023)
4.2	Underwriting Agreement dated January 16, 2024 between DatChat, Inc. and EF Hutton LLC (Incorporated by reference to Exhibit 1.1 to the Company's Form 8-K filed on January 19, 2024)
4.3	Form of Pre-Funded Warrant (included as Exhibit A to Exhibit 1.1) (Incorporated by reference to Exhibit 4.1 to the Company's Form 8-K filed on January 19, 2024)
31.1*	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Principal Financial and Accounting Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1**	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	Certification of Principal Financial and Accounting Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE *	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File - the cover page from the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2023, is formatted in Inline XBRL

* Filed herewith.

** Furnished herewith.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: November 13, 2023 May 14, 2024

DATCHAT, INC.

/s/ Darin Myman

Darin Myman
Chief Executive Officer and Director
(Principal Executive Officer)

/s/ Brett Blumberg

Brett Blumberg
Chief Financial Officer
(Principal Financial and Accounting Officer)

Dated: November 13, 2023 May 14, 2024

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Exhibit 3.1

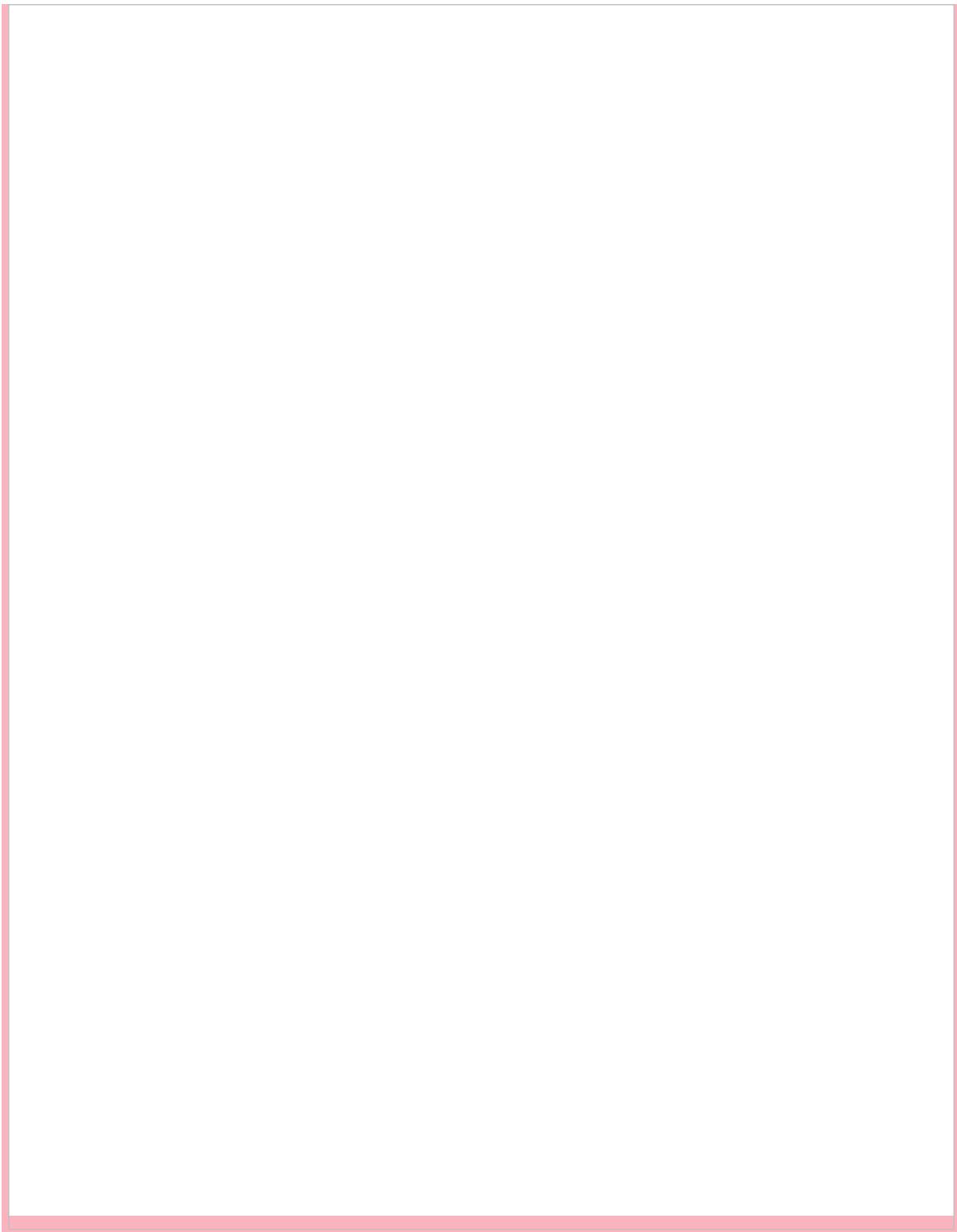




Exhibit 4.1

DATCHAT, INC.

2021 OMNIBUS EQUITY INCENTIVE PLAN

Section 1. Purpose of Plan.

The name of the Plan is the DatChat, Inc. (the “Company” or “DatChat”) 2021 Omnibus Equity Incentive Plan (the “Plan”). The purposes of the Plan are to (i) provide an additional incentive to selected employees, directors, and independent contractors of the Company or its Affiliates whose contributions are essential to the growth and success of the Company, (ii) strengthen the commitment of such individuals to the Company and its Affiliates, (iii) motivate those individuals to faithfully and diligently perform their responsibilities

and (iv) attract and retain competent and dedicated individuals whose efforts will result in the long-term growth and profitability of the Company. To accomplish these purposes, the Plan provides that the Company may grant Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Other Stock-Based Awards or any combination of the foregoing.

Section 2. Definitions.

For purposes of the Plan, the following terms shall be defined as set forth below:

- (a) **“Administrator”** means the Board, or, if and to the extent the Board does not administer the Plan, the Committee in accordance with Section 3 hereof.
- (b) **“Affiliate”** means a Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the Person specified as of any date of determination.
- (c) **“Applicable Laws”** means the applicable requirements under U.S. federal and state corporate laws, U.S. federal and state securities laws, including the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any other country or jurisdiction where Awards are granted under the Plan, as are in effect from time to time.
- (d) **“Award”** means any Option, Stock Appreciation Right, Restricted Stock, Restricted Stock Unit or Other Stock-Based Award granted under the Plan.
- (e) **“Award Agreement”** means any written notice, agreement, contract or other instrument or document evidencing an Award, including through electronic medium, which shall contain such terms and conditions with respect to an Award as the Administrator shall determine, consistent with the Plan.
- (f) **“Beneficial Owner”** (or any variant thereof) has the meaning defined in Rule 13d-3 under the Exchange Act.
- (g) **“Board”** means the Board of Directors of the Company.
- (h) **“Bylaws”** mean the bylaws of the Company, as may be amended and/or restated from time to time.

(i) **Cause** has the meaning assigned to such term in any individual service, employment or severance agreement or Award Agreement with the Participant or, if no such agreement exists or if such agreement does not define “Cause,” then “Cause” means (i) the conviction, guilty plea or plea of “no contest” by the Participant to any felony or a crime involving moral turpitude or the Participant’s commission of any other act or omission involving dishonesty or fraud, (ii) the substantial and repeated failure of the Participant to perform duties of the office held by the Participant, (iii) the Participant’s gross negligence, willful misconduct or breach of fiduciary duty with respect to the Company or any of its Subsidiaries or Affiliates, (iv) any breach by the Participant of any restrictive covenants to which the Participant is subject, and/or (v) the Participant’s engagement in any conduct which is or can reasonably be expected to be materially detrimental or injurious to the business or reputation of the Company or its Affiliates. Any voluntary termination of employment or service by the Participant in anticipation of an involuntary termination of the Participant’s employment or service, as applicable, for Cause shall be deemed to be a termination for Cause.

(j) **Change in Capitalization** means any (i) merger, consolidation, reclassification, recapitalization, spin-off, spin-out, repurchase or other reorganization or corporate transaction or event, (ii) special or extraordinary dividend or other extraordinary distribution (whether in the form of cash, Common Stock or other property), stock split, reverse stock split, share subdivision or consolidation, (iii) combination or exchange of shares or (iv) other change in corporate structure, which, in any such case, the Administrator determines, in its sole discretion, affects the Shares such that an adjustment pursuant to Section 5 hereof is appropriate.

(k) **Change in Control** means the first occurrence of an event set forth in any one of the following paragraphs following the Effective Date:

(1) any Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including the securities Beneficially Owned by such Person which were acquired directly from the Company or any Affiliate thereof) representing more than fifty percent (50%) of the combined voting power of the Company’s then outstanding securities, excluding any Person who becomes such a Beneficial Owner in connection with a transaction described in clause (i) of paragraph (3) below; or

(2) the date on which individuals who constitute the Board as of the Effective Date and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including, but not limited to, a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board or nomination for election by the Company’s stockholders was approved or recommended by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors on the Effective Date or whose appointment, election or nomination for election was previously so approved or recommended cease for any reason to constitute a majority of the number of directors serving on the Board; or

(3) there is consummated a merger or consolidation of the Company or any direct or indirect Subsidiary with any other corporation or other entity, other than (i) a merger or consolidation (A) which results in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any Subsidiary, fifty percent (50%) or more of the combined voting power of the securities of the Company or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation and (B) following which the individuals who comprise the Board immediately prior thereto constitute at least a majority of the board of directors of the Company, the entity surviving such merger or consolidation or, if the Company or the entity surviving such merger or consolidation is then a Subsidiary, the ultimate parent thereof, or (ii) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including in the securities Beneficially Owned by such Person any securities acquired directly from the Company or its Affiliates) representing more than fifty percent (50%) of the combined voting power of the Company’s then outstanding securities; or

(4) the stockholders of the Company approve a plan of complete liquidation or dissolution of the Company or there is consummated an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets, other than (A) a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, more than fifty percent (50%) of the combined voting power of the voting securities of which are owned by stockholders of the Company following the completion of such transaction in substantially the same proportions as their ownership of the Company immediately prior to such sale or (B) a sale or disposition of all or substantially all of the Company's assets immediately following which the individuals who comprise the Board immediately prior thereto constitute at least a majority of the board of directors of the entity to which such assets are sold or disposed or, if such entity is a subsidiary, the ultimate parent thereof.

Notwithstanding the foregoing, (i) a Change in Control shall not be deemed to have occurred by virtue of the consummation of any transaction or series of integrated transactions immediately following which the holders of Common Stock immediately prior to such transaction or series of transactions continue to have substantially the same proportionate ownership in an entity which owns all or substantially all of the assets of the Company immediately following such transaction or series of transactions and (ii) to the extent required to avoid accelerated taxation and/or tax penalties under Section 409A of the Code, a Change in Control shall be deemed to have occurred under the Plan with respect to any Award that constitutes deferred compensation under Section 409A of the Code only if a change in the ownership or effective control of the Company or a change in ownership of a substantial portion of the assets of the Company shall also be deemed to have occurred under Section 409A of the Code. For purposes of this definition of Change in Control, the term "Person" shall not include (i) the Company or any Subsidiary thereof, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any Subsidiary thereof, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities, or (iv) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of shares of the Company.

(l) "Code" means the Internal Revenue Code of 1986, as amended from time to time, or any successor thereto.

(m) "Committee" means any committee or subcommittee the Board may appoint to administer the Plan. Subject to the discretion of the Board, the Committee shall be composed entirely of individuals who meet the qualifications of a "non-employee director" within the meaning of Rule 16b-3 under the Exchange Act and any other qualifications required by the applicable stock exchange on which the Common Stock is traded.

(n) "Common Stock" means the common stock of the Company, par value \$0.0001.

(o) "Company" means DatChat, Inc., a Nevada corporation (or any successor company, except as the term "Company" is used in the definition of "Change in Control" above).

(p) "Disability" has the meaning assigned to such term in any individual service, employment or severance agreement or Award Agreement with the Participant or, if no such agreement exists or if such agreement does not define "Disability," then "Disability" means that a Participant, as determined by the Administrator in its sole discretion, (i) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, or (ii) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering employees of the Company or an Affiliate thereof.

(q) "Effective Date" has the meaning set forth in Section 17 hereof.

(r) "Eligible Recipient" means an employee, director or independent contractor of the Company or any Affiliate of the Company who has been selected as an eligible participant by the Administrator; provided, however, to the extent required to avoid accelerated taxation and/or tax penalties under Section 409A of the Code, an Eligible Recipient of an Option or a Stock Appreciation Right means an employee, non-employee director or independent contractor of the Company or any Affiliate of the Company with respect to whom the Company is an "eligible issuer of service recipient stock" within the meaning of Section 409A of the Code.

(s) **Exchange Act** means the Securities Exchange Act of 1934, as amended from time to time.

(t) **Exempt Award** shall mean the following:

(1) An Award granted in assumption of, or in substitution for, outstanding awards previously granted by a corporation or other entity acquired by the Company or any of its Subsidiaries or with which the Company or any of its Subsidiaries combines by merger or otherwise. The terms and conditions of any such Awards may vary from the terms and conditions set forth in the Plan to the extent the Administrator at the time of grant may deem appropriate, subject to Applicable Laws.

(2) An award that an Eligible Recipient purchases at Fair Market Value (including awards that an Eligible Recipient elects to receive in lieu of fully vested compensation that is otherwise due) whether or not the Shares are delivered immediately or on a deferred basis.

(u) **Exercise Price** means, (i) with respect to any Option, the per share price at which a holder of such Option may purchase Shares issuable upon exercise of such Award, and (ii) with respect to a Stock Appreciation Right, the base price per share of such Stock Appreciation Right.

(v) **Fair Market Value** of a share of Common Stock or another security as of a particular date shall mean the fair market value as determined by the Administrator in its sole discretion; provided, that, (i) if the Common Stock or other security is admitted to trading on a national securities exchange, the fair market value on any date shall be the closing sale price reported on such date, or if no shares were traded on such date, on the last preceding date for which there was a sale of a share of Common Stock on such exchange, or (ii) if the Common Stock or other security is then traded in an over-the-counter market, the fair market value on any date shall be the average of the closing bid and asked prices for such share in such over-the-counter market for the last preceding date on which there was a sale of such share in such market.

(w) **Free Standing Rights** has the meaning set forth in Section 8.

(x) **Good Reason** has the meaning assigned to such term in any individual service, employment or severance agreement or Award Agreement with the Participant or, if no such agreement exists or if such agreement does not define "Good Reason," "Good Reason" and any provision of this Plan that refers to "Good Reason" shall not be applicable to such Participant.

(y) **Incentive Compensation** means annual cash bonus and any Award.

(z) **ISO** means an Option intended to be and designated as an "incentive stock option" within the meaning of Section 422 of the Code.

(aa) **Nonqualified Stock Option** shall mean an Option that is not designated as an ISO.

(bb) **Option** means an option to purchase shares of Common Stock granted pursuant to Section 7 hereof. The term "Option" as used in the Plan includes the terms "Nonqualified Stock Option" and "ISO."

(cc) **Other Stock-Based Award** means a right or other interest granted pursuant to Section 10 hereof that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, Common Stock, including, but not limited to, unrestricted Shares, dividend equivalents or performance units, each of which may be subject to the attainment of performance goals or a period of continued provision of service or employment or other terms or conditions as permitted under the Plan.

(dd) "Participant" means any Eligible Recipient selected by the Administrator, pursuant to the Administrator's authority provided for in Section 3 below, to receive grants of Awards, and, upon his or her death, his or her successors, heirs, executors and administrators, as the case may be.

(ee) "Person" shall have the meaning given in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof.

(ff) "Plan" means this 2020 Omnibus Equity Incentive Plan.

(gg) "Related Rights" has the meaning set forth in Section 8.

(hh) "Restricted Stock" means a Share granted pursuant to Section 9 below subject to certain restrictions that lapse at the end of a specified period (or periods) of time and/or upon attainment of specified performance objectives.

(ii) "Restricted Period" has the meaning set forth in Section 9.

(jj) "Restricted Stock Unit" means the right granted pursuant to Section 9 hereof to receive a Share at the end of a specified restricted period (or periods) of time and/or upon attainment of specified performance objectives.

(kk) "Rule 16b-3" has the meaning set forth in Section 3.

(ll) "Section 16 Officer" means any officer of the Company whom the Board has determined is subject to the reporting requirements of Section 16 of the Exchange Act, whether or not such individual is a Section 16 Officer at the time the determination to recoup compensation is made.

(mm) "Shares" means Common Stock reserved for issuance under the Plan, as adjusted pursuant to the Plan, and any successor (pursuant to a merger, consolidation or other reorganization) security.

(nn) "Stock Appreciation Right" means a right granted pursuant to Section 8 hereof to receive an amount equal to the excess, if any, of (i) the aggregate Fair Market Value, as of the date such Award or portion thereof is surrendered, of the Shares covered by such Award or such portion thereof, over (ii) the aggregate Exercise Price of such Award or such portion thereof.

(oo) "Subsidiary" means, with respect to any Person, as of any date of determination, any other Person as to which such first Person owns or otherwise controls, directly or indirectly, more than 50% of the voting shares or other similar interests or a sole general partner interest or managing member or similar interest of such other Person.

(pp) "Transfer" has the meaning set forth in Section 15.

Section 3. Administration.

(a) The Plan shall be administered by the Administrator and shall be administered, to the extent applicable, in accordance with Rule 16b-3 under the Exchange Act "Rule 16b-3".

(b) Pursuant to the terms of the Plan, the Administrator, subject, in the case of any Committee, to any restrictions on the authority delegated to it by the Board, shall have the power and authority, without limitation:

(1) to select those Eligible Recipients who shall be Participants;

(2) to determine whether and to what extent Options, Stock Appreciation Rights, Restricted Stock, Restricted Stock Units, Other Stock-Based Awards or a combination of any of the foregoing, are to be granted hereunder to Participants;

(3) to determine the number of Shares to be covered by each Award granted hereunder;

(4) to determine the terms and conditions, not inconsistent with the terms of the Plan, of each Award granted hereunder (including, but not limited to, (i) the restrictions applicable to Restricted Stock or Restricted Stock Units and the conditions under which restrictions applicable to such Restricted Stock or Restricted Stock Units shall lapse, (ii) the performance goals and periods applicable to Awards, (iii) the Exercise Price of each Option and each Stock Appreciation Right or the purchase price of any other Award, (iv) the vesting schedule and terms applicable to each Award, (v) the number of Shares or amount of cash or other property subject to each Award and (vi) subject to the requirements of Section 409A of the Code (to the extent applicable) any amendments to the terms and conditions of outstanding Awards, including, but not limited to, extending the exercise period of such Awards and accelerating the payment schedules of such Awards and/or, to the extent specifically permitted under the Plan, accelerating the vesting schedules of such Awards);

(5) to determine the terms and conditions, not inconsistent with the terms of the Plan, which shall govern all written instruments evidencing Awards;

(6) to determine the Fair Market Value in accordance with the terms of the Plan;

(7) to determine the duration and purpose of leaves of absence which may be granted to a Participant without constituting termination of the Participant's service or employment for purposes of Awards granted under the Plan;

(8) to adopt, alter and repeal such administrative rules, regulations, guidelines and practices governing the Plan as it shall from time to time deem advisable;

(9) to construe and interpret the terms and provisions of, and supply or correct omissions in, the Plan and any Award issued under the Plan (and any Award Agreement relating thereto), and to otherwise supervise the administration of the Plan and to exercise all powers and authorities either specifically granted under the Plan or necessary and advisable in the administration of the Plan; and

(10) to prescribe, amend and rescind rules and regulations relating to sub-plans established for the purpose of satisfying applicable non-United States laws or for qualifying for favorable tax treatment under applicable non-United States laws, which rules and regulations may be set forth in an appendix or appendixes to the Plan.

(c) Subject to Section 5, neither the Board nor the Committee shall have the authority to (i) reprice or cancel and regrant any Award at a lower exercise, base or purchase price or cancel any Award with an exercise, base or purchase price in exchange for cash, property or other Awards without first obtaining the approval of the Company's stockholders; or (ii) accelerate the vesting of any Awards (except pursuant to Section 11).

(d) All decisions made by the Administrator pursuant to the provisions of the Plan shall be final, conclusive and binding on all Persons, including the Company and the Participants.

(e) The expenses of administering the Plan shall be borne by the Company and its Affiliates.

(f) If at any time or to any extent the Board shall not administer the Plan, then the functions of the Administrator specified in the Plan shall be exercised by the Committee. Except as otherwise provided in the Articles of Incorporation or Bylaws of the Company, any action of the Committee with respect to the administration of the Plan shall be taken by a majority vote at a meeting at which a quorum is duly constituted or unanimous written consent of the Committee's members.

Section 4. Shares Reserved for Issuance Under the Plan.

(a) Subject to Section 5 hereof, the number of shares of Common Stock that are reserved and available for issuance pursuant to Awards granted under the Plan shall be equal to 2.0 million shares; provided, that, shares of Common Stock issued under the Plan with respect to an Exempt Award shall not count against such share limit.

(b) Shares issued under the Plan may, in whole or in part, be authorized but unissued Shares or Shares that shall have been or may be reacquired by the Company in the open market, in private transactions or otherwise. If an Award entitles the Participant to receive or purchase Shares, the number of Shares covered by such Award or to which such Award relates shall be counted on the date of grant of such Award against the aggregate number of Shares available for granting Awards under the Plan. If any Shares subject to an Award are forfeited, cancelled, exchanged or surrendered or if an Award otherwise terminates or expires without a distribution of Shares to the Participant, the Shares with respect to such Award shall, to the extent of any such forfeiture, cancellation, exchange, surrender, termination or expiration, again be available for granting Awards under the Plan. Notwithstanding the foregoing, Shares surrendered or withheld as payment of either the Exercise Price of an Award (including Shares otherwise underlying a Stock Appreciation Right that are retained by the Company to account for the Exercise Price of such Stock Appreciation Right) and/or withholding taxes in respect of an Award shall no longer be available for grant under the Plan. In addition, (i) to the extent an Award is denominated in shares of Common Stock, but paid or settled in cash, the number of shares of Common Stock with respect to which such payment or settlement is made shall again be available for grants of Awards pursuant to the Plan and (ii) shares of Common Stock underlying Awards that can only be settled in cash shall not be counted against the aggregate number of shares of Common Stock available for Awards under the Plan. Upon the exercise of any Award granted in tandem with any other Awards, such related Awards shall be cancelled to the extent of the number of Shares as to which the Award is exercised and, notwithstanding the foregoing, such number of Shares shall no longer be available for grant under the Plan.

(c) No more than 2.0 million Shares shall be issued pursuant to the exercise of ISOs.

Section 5. Equitable Adjustments.

In the event of any Change in Capitalization, an equitable substitution or proportionate adjustment shall be made in (i) the aggregate number and kind of securities reserved for issuance under the Plan pursuant to Section 4, (ii) the kind, number of securities subject to, and the Exercise Price subject to outstanding Options and Stock Appreciation Rights granted under the Plan, (iii) the kind, number and purchase price of Shares or other securities or the amount of cash or amount or type of other property subject to outstanding Restricted Stock, Restricted Stock Units or Other Stock-Based Awards granted under the Plan; and/or (iv) the terms and conditions of any outstanding Awards (including, without limitation, any applicable performance targets or criteria with respect thereto); provided, however, that any fractional shares resulting from the adjustment shall be eliminated. Such other equitable substitutions or adjustments shall be made as may be determined by the Administrator, in its sole discretion. Without limiting the generality of the foregoing, in connection with a Change in Capitalization, the Administrator may provide, in its sole discretion, but subject in all events to the requirements of Section 409A of the Code, for the cancellation of any outstanding Award granted hereunder in exchange for payment in cash or other property having an aggregate Fair Market Value equal to the Fair Market Value of the Shares, cash or other property covered by such Award, reduced by the aggregate Exercise Price or purchase price thereof, if any; provided, however, that if the Exercise Price or purchase price of any outstanding Award is equal to or greater than the Fair Market Value of the shares of Common Stock, cash or other property covered by such Award, the Administrator may cancel such Award without the payment of any consideration to the Participant. Further, without limiting the generality of the foregoing, with respect to Awards subject to foreign laws, adjustments made hereunder shall be made in compliance with applicable requirements. Except to the extent determined by the Administrator, any adjustments to ISOs under this Section 5 shall be made only to the extent not constituting a "modification" within the meaning of Section 424(h)(3) of the Code. The Administrator's determinations pursuant to this Section 5 shall be final, binding and conclusive.

Section 6. Eligibility.

The Participants in the Plan shall be selected from time to time by the Administrator, in its sole discretion, from those individuals that qualify as Eligible Recipients.

Section 7. Options.

(a) **General.** Options granted under the Plan shall be designated as Nonqualified Stock Options or ISOs. Each Participant who is granted an Option shall enter into an Award Agreement with the Company, containing such terms and conditions as the Administrator shall determine, in its sole discretion, including, among other things, the Exercise Price of the Option, the term of the Option and provisions regarding exercisability of the Option, and whether the Option is intended to be an ISO or a Nonqualified Stock Option (and in the event the Award Agreement has no such designation, the Option shall be a Nonqualified Stock Option). The provisions of each Option need not be the same with respect to each Participant. More than one Option may be granted to the same Participant and be outstanding concurrently hereunder. Options granted under the Plan shall be subject to the terms and conditions set forth in this Section 7 and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Administrator shall deem desirable and set forth in the applicable Award Agreement.

(b) **Exercise Price.** The Exercise Price of Shares purchasable under an Option shall be determined by the Administrator in its sole discretion at the time of grant, but in no event shall the exercise price of an Option be less than one hundred percent (100%) of the Fair Market Value of a share of Common Stock on the date of grant.

(c) **Option Term.** The maximum term of each Option shall be fixed by the Administrator, but no Option shall be exercisable more than ten (10) years after the date such Option is granted. Each Option's term is subject to earlier expiration pursuant to the applicable provisions in the Plan and the Award Agreement. Notwithstanding the foregoing, subject to Section 4(d) of the Plan, the Administrator shall have the authority to accelerate the exercisability of any outstanding Option at such time and under such circumstances as the Administrator, in its sole discretion, deems appropriate.

(d) **Exercisability.** Each Option shall be exercisable at such time or times and subject to such terms and conditions, including the attainment of performance goals, as shall be determined by the Administrator in the applicable Award Agreement. The Administrator may also provide that any Option shall be exercisable only in installments, and the Administrator may waive such installment exercise provisions at any time, in whole or in part, based on such factors as the Administrator may determine in its sole discretion.

(e) **Method of Exercise.** Options may be exercised in whole or in part by giving written notice of exercise to the Company specifying the number of whole Shares to be purchased, accompanied by payment in full of the aggregate Exercise Price of the Shares so purchased in cash or its equivalent, as determined by the Administrator. As determined by the Administrator, in its sole discretion, with respect to any Option or category of Options, payment in whole or in part may also be made (i) by means of consideration received under any cashless exercise procedure approved by the Administrator (including the withholding of Shares otherwise issuable upon exercise), (ii) in the form of unrestricted Shares already owned by the Participant which have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which such Option shall be exercised, (iii) any other form of consideration approved by the Administrator and permitted by Applicable Laws or (iv) any combination of the foregoing.

(f) **ISOs.** The terms and conditions of ISOs granted hereunder shall be subject to the provisions of Section 422 of the Code and the terms, conditions, limitations and administrative procedures established by the Administrator from time to time in accordance with the Plan. At the discretion of the Administrator, ISOs may be granted only to an employee of the Company, its "parent corporation" (as such term is defined in Section 424(e) of the Code) or a Subsidiary of the Company.

(1) ISO Grants to 10% Stockholders. Notwithstanding anything to the contrary in the Plan, if an ISO is granted to a Participant who owns shares representing more than ten percent (10%) of the voting power of all classes of shares of the Company, its “parent corporation” (as such term is defined in Section 424(e) of the Code) or a Subsidiary of the Company, the term of the ISO shall not exceed five (5) years from the time of grant of such ISO and the Exercise Price shall be at least one hundred and ten percent (110%) of the Fair Market Value of the Shares on the date of grant.

(2) \$100,000 Per Year Limitation For ISOs. To the extent the aggregate Fair Market Value (determined on the date of grant) of the Shares for which ISOs are exercisable for the first time by any Participant during any calendar year (under all plans of the Company) exceeds \$100,000, such excess ISOs shall be treated as Nonqualified Stock Options.

(3) Disqualifying Dispositions. Each Participant awarded an ISO under the Plan shall notify the Company in writing immediately after the date the Participant makes a “disqualifying disposition” of any Share acquired pursuant to the exercise of such ISO. A “disqualifying disposition” is any disposition (including any sale) of such Shares before the later of (i) two years after the date of grant of the ISO and (ii) one year after the date the Participant acquired the Shares by exercising the ISO. The Company may, if determined by the Administrator and in accordance with procedures established by it, retain possession of any Shares acquired pursuant to the exercise of an ISO as agent for the applicable Participant until the end of the period described in the preceding sentence, subject to complying with any instructions from such Participant as to the sale of such Shares.

(g) Rights as Stockholder. A Participant shall have no rights to dividends, dividend equivalents or distributions or any other rights of a stockholder with respect to the Shares subject to an Option until the Participant has given written notice of the exercise thereof, and has paid in full for such Shares and has satisfied the requirements of Section 15 hereof.

(h) Termination of Employment or Service. Treatment of an Option upon termination of employment of a Participant shall be provided for by the Administrator in the Award Agreement.

(i) Other Change in Employment or Service Status. An Option shall be affected, both with regard to vesting schedule and termination, by leaves of absence, including unpaid and un-protected leaves of absence, changes from full-time to part-time employment, partial Disability or other changes in the employment status or service status of a Participant, in the discretion of the Administrator.

Section 8. Stock Appreciation Rights.

(a) General. Stock Appreciation Rights may be granted either alone (“Free Standing Rights”) or in conjunction with all or part of any Option granted under the Plan (“Related Rights”). Related Rights may be granted either at or after the time of the grant of such Option. The Administrator shall determine the Eligible Recipients to whom, and the time or times at which, grants of Stock Appreciation Rights shall be made. Each Participant who is granted a Stock Appreciation Right shall enter into an Award Agreement with the Company, containing such terms and conditions as the Administrator shall determine, in its sole discretion, including, among other things, the number of Shares to be awarded, the Exercise Price per Share, and all other conditions of Stock Appreciation Rights. Notwithstanding the foregoing, no Related Right may be granted for more Shares than are subject to the Option to which it relates. The provisions of Stock Appreciation Rights need not be the same with respect to each Participant. Stock Appreciation Rights granted under the Plan shall be subject to the following terms and conditions set forth in this Section 8 and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Administrator shall deem desirable, as set forth in the applicable Award Agreement.

(b) **Awards; Rights as Stockholder.** A Participant shall have no rights to dividends or any other rights of a stockholder with respect to the shares of Common Stock, if any, subject to a Stock Appreciation Right until the Participant has given written notice of the exercise thereof and has satisfied the requirements of Section 15 hereof.

(c) **Exercise Price.** The Exercise Price of Shares purchasable under a Stock Appreciation Right shall be determined by the Administrator in its sole discretion at the time of grant, but in no event shall the exercise price of a Stock Appreciation Right be less than one hundred percent (100%) of the Fair Market Value of a share of Common Stock on the date of grant.

(d) **Exercisability.**

(1) Stock Appreciation Rights that are Free Standing Rights shall be exercisable at such time or times and subject to such terms and conditions as shall be determined by the Administrator in the applicable Award Agreement.

(2) Stock Appreciation Rights that are Related Rights shall be exercisable only at such time or times and to the extent that the Options to which they relate shall be exercisable in accordance with the provisions of Section 7 hereof and this Section 8 of the Plan.

(e) **Payment Upon Exercise.**

(1) Upon the exercise of a Free Standing Right, the Participant shall be entitled to receive up to, but not more than, that number of Shares equal in value to the excess of the Fair Market Value as of the date of exercise over the Exercise Price per share specified in the Free Standing Right multiplied by the number of Shares in respect of which the Free Standing Right is being exercised.

(2) A Related Right may be exercised by a Participant by surrendering the applicable portion of the related Option. Upon such exercise and surrender, the Participant shall be entitled to receive up to, but not more than, that number of Shares equal in value to the excess of the Fair Market Value as of the date of exercise over the Exercise Price specified in the related Option multiplied by the number of Shares in respect of which the Related Right is being exercised. Options which have been so surrendered, in whole or in part, shall no longer be exercisable to the extent the Related Rights have been so exercised.

(3) Notwithstanding the foregoing, the Administrator may determine to settle the exercise of a Stock Appreciation Right in cash (or in any combination of Shares and cash).

(f) **Termination of Employment or Service.** Treatment of a Stock Appreciation Right upon termination of employment of a Participant shall be provided for by the Administrator in the Award Agreement.

(g) **Term.**

(1) The term of each Free Standing Right shall be fixed by the Administrator, but no Free Standing Right shall be exercisable more than ten (10) years after the date such right is granted.

(2) The term of each Related Right shall be the term of the Option to which it relates, but no Related Right shall be exercisable more than ten (10) years after the date such right is granted.

(h) **Other Change in Employment or Service Status.** Stock Appreciation Rights shall be affected, both with regard to vesting schedule and termination, by leaves of absence, including unpaid and un-protected leaves of absence, changes from full-time to part-time employment, partial Disability or other changes in the employment or service status of a Participant, in the discretion of the Administrator.

Section 9. Restricted Stock and Restricted Stock Units.

(a) **General.** Restricted Stock or Restricted Stock Units may be issued under the Plan. The Administrator shall determine the Eligible Recipients to whom, and the time or times at which, Restricted Stock or Restricted Stock Units shall be made. Each Participant who is granted Restricted Stock or Restricted Stock Units shall enter into an Award Agreement with the Company, containing such terms and conditions as the Administrator shall determine, in its sole discretion, including, among other things, the number of Shares to be awarded; the price, if any, to be paid by the Participant for the acquisition of Restricted Stock or Restricted Stock Units; the period of time restrictions, performance goals or other conditions that apply to Transferability, delivery or vesting of such Awards (the "Restricted Period"); and all other conditions applicable to the Restricted Stock and Restricted Stock Units. If the restrictions, performance goals or conditions established by the Administrator are not attained, a Participant shall forfeit his or her Restricted Stock or Restricted Stock Units, in accordance with the terms of the grant. The provisions of the Restricted Stock or Restricted Stock Units need not be the same with respect to each Participant.

(b) **Awards and Certificates.** Except as otherwise provided below in Section 9(c), (i) each Participant who is granted an Award of Restricted Stock may, in the Company's sole discretion, be issued a share certificate in respect of such Restricted Stock; and (ii) any such certificate so issued shall be registered in the name of the Participant, and shall bear an appropriate legend referring to the terms, conditions and restrictions applicable to any such Award. The Company may require that the share certificates, if any, evidencing Restricted Stock granted hereunder be held in the custody of the Company until the restrictions thereon shall have lapsed, and that, as a condition of any Award of Restricted Stock, the Participant shall have delivered a share transfer form, endorsed in blank, relating to the Shares covered by such Award. Certificates for shares of unrestricted Common Stock may, in the Company's sole discretion, be delivered to the Participant only after the Restricted Period has expired without forfeiture in such Restricted Stock Award. With respect to Restricted Stock Units to be settled in Shares, at the expiration of the Restricted Period, share certificates in respect of the shares of Common Stock underlying such Restricted Stock Units may, in the Company's sole discretion, be delivered to the Participant, or his legal representative, in a number equal to the number of shares of Common Stock underlying the Restricted Stock Units Award. Notwithstanding anything in the Plan to the contrary, any Restricted Stock or Restricted Stock Units to be settled in Shares (at the expiration of the Restricted Period, and whether before or after any vesting conditions have been satisfied) may, in the Company's sole discretion, be issued in uncertificated form. Further, notwithstanding anything in the Plan to the contrary, with respect to Restricted Stock Units, at the expiration of the Restricted Period, Shares, or cash, as applicable, shall promptly be issued (either in certificated or uncertificated form) to the Participant, unless otherwise deferred in accordance with procedures established by the Company in accordance with Section 409A of the Code, and such issuance or payment shall in any event be made within such period as is required to avoid the imposition of a tax under Section 409A of the Code.

(c) **Restrictions and Conditions.** The Restricted Stock or Restricted Stock Units granted pursuant to this Section 9 shall be subject to the following restrictions and conditions and any additional restrictions or conditions as determined by the Administrator at the time of grant or, subject to Section 409A of the Code where applicable, thereafter:

(1) The Administrator may, in its sole discretion, provide for the lapse of restrictions in installments and may accelerate or waive such restrictions in whole or in part based on such factors and such circumstances as the Administrator may determine, in its sole discretion, including, but not limited to, the attainment of certain performance goals, the Participant's termination of employment or service with the Company or any Affiliate thereof, or the Participant's death or Disability. Notwithstanding the foregoing, upon a Change in Control, the outstanding Awards shall be subject to Section 11 hereof.

(2) Except as provided in the applicable Award Agreement, the Participant shall generally have the rights of a stockholder of the Company with respect to Restricted Stock during the Restricted Period; provided, however, that dividends declared during the Restricted Period with respect to an Award, shall only become payable if (and to the extent) the underlying Restricted Stock vests. Except as provided in the applicable Award Agreement, the Participant shall generally not have the rights of a stockholder with respect to Shares subject to Restricted Stock Units during the Restricted Period; provided, however, that, subject to Section 409A of the Code, an amount equal to dividends declared during the Restricted Period with respect to the number of Shares covered by Restricted Stock Units shall, unless otherwise set forth in an Award Agreement, be paid to the Participant at the time (and to the extent) Shares in respect of the related Restricted Stock Units are delivered to the Participant. Certificates for Shares of unrestricted Common Stock may, in the Company's sole discretion, be delivered to the Participant only after the Restricted Period has expired without forfeiture in respect of such Restricted Stock or Restricted Stock Units, except as the Administrator, in its sole discretion, shall otherwise determine.

(3) The rights of Participants granted Restricted Stock or Restricted Stock Units upon termination of employment or service as a director or independent contractor to the Company or to any Affiliate thereof terminates for any reason during the Restricted Period shall be set forth in the Award Agreement.

(d) **Form of Settlement.** The Administrator reserves the right in its sole discretion to provide (either at or after the grant thereof) that any Restricted Stock Unit represents the right to receive the amount of cash per unit that is determined by the Administrator in connection with the Award.

Section 10. Other Stock-Based Awards.

Other Stock-Based Awards may be issued under the Plan. Subject to the provisions of the Plan, the Administrator shall have sole and complete authority to determine the individuals to whom and the time or times at which such Other Stock-Based Awards shall be granted. Each Participant who is granted an Other Stock-Based Award shall enter into an Award Agreement with the Company, containing such terms and conditions as the Administrator shall determine, in its sole discretion, including, among other things, the number of shares of Common Stock to be granted pursuant to such Other Stock-Based Awards, or the manner in which such Other Stock-Based Awards shall be settled (e.g., in shares of Common Stock, cash or other property), or the conditions to the vesting and/or payment or settlement of such Other Stock-Based Awards (which may include, but not be limited to, achievement of performance criteria) and all other terms and conditions of such Other Stock-Based Awards. In the event that the Administrator grants a bonus in the form of Shares, the Shares constituting such bonus shall, as determined by the Administrator, be evidenced in uncertificated form or by a book entry record or a certificate issued in the name of the Participant to whom such grant was made and delivered to such Participant as soon as practicable after the date on which such bonus is payable. Notwithstanding anything set forth in the Plan to the contrary, any dividend or dividend equivalent Award issued hereunder shall be subject to the same restrictions, conditions and risks of forfeiture as apply to the underlying Award.

Section 11. Change in Control.

Unless otherwise determined by the Administrator and evidenced in an Award Agreement, in the event that (a) a Change in Control occurs, and (b) the Participant is employed by the Company or any of its Affiliates immediately prior to the consummation of such Change in Control then upon the consummation of such Change in Control, the Administrator, in its sole and absolute discretion, may:

- (a) provide that any unvested or unexercisable portion of any Award carrying a right to exercise become fully vested and exercisable; and
- (b) cause the restrictions, deferral limitations, payment conditions and forfeiture conditions applicable to an Award granted under the Plan to lapse and such Awards shall be deemed fully vested and any performance conditions imposed with respect to such Awards shall be deemed to be fully achieved at target performance levels.

If the Administrator determines in its discretion pursuant to Section 3(b)(4) hereof to accelerate the vesting of Options and/or Share Appreciation Rights in connection with a Change in Control, the Administrator shall also have discretion in connection with such action to provide that all Options and/or Stock Appreciation Rights outstanding immediately prior to such Change in Control shall expire on the effective date of such Change in Control.

Section 12. Amendment and Termination.

The Board may amend, alter or terminate the Plan at any time, but no amendment, alteration or termination shall be made that would impair the rights of a Participant under any Award theretofore granted without such Participant's consent. The Board shall obtain approval of the Company's stockholders for any amendment that would require such approval in order to satisfy the requirements of any rules of the stock exchange on which the Common Stock is traded or other Applicable Law. Subject to Section 3(c), the Administrator may amend the terms of any Award theretofore granted, prospectively or retroactively, but, subject to Section 5 of the Plan and the immediately preceding sentence, no such amendment shall materially impair the rights of any Participant without his or her consent.

Section 13. Unfunded Status of Plan.

The Plan is intended to constitute an "unfunded" plan for incentive compensation. With respect to any payments not yet made to a Participant by the Company, nothing contained herein shall give any such Participant any rights that are greater than those of a general creditor of the Company.

Section 14. Withholding Taxes.

Each Participant shall, no later than the date as of which the value of an Award first becomes includable in the gross income of such Participant for purposes of applicable taxes, pay to the Company, or make arrangements satisfactory to the Administrator regarding payment of an amount up to the maximum statutory tax rates in the Participant's applicable jurisdiction with respect to the Award, as determined by the Company. The obligations of the Company under the Plan shall be conditional on the making of such payments or arrangements, and the Company shall, to the extent permitted by Applicable Laws, have the right to deduct any such taxes from any payment of any kind otherwise due to such Participant. Whenever cash is to be paid pursuant to an Award, the Company shall have the right to deduct therefrom an amount sufficient to satisfy any applicable withholding tax requirements related thereto. Whenever Shares or property other than cash are to be delivered pursuant to an Award, the Company shall have the right to require the Participant to remit to the Company in cash an amount sufficient to satisfy any related taxes to be withheld and applied to the tax obligations; provided, that, with the approval of the Administrator, a Participant may satisfy the foregoing requirement by either (i) electing to have the Company withhold from delivery of Shares or other property, as applicable, or (ii) delivering already owned unrestricted shares of Common Stock, in each case, having a value not exceeding the applicable taxes to be withheld and applied to the tax obligations. Such already owned and unrestricted shares of Common Stock shall be valued at their Fair Market Value on the date on which the amount of tax to be withheld is determined and any fractional share amounts resulting therefrom shall be settled in cash. Such an election may be made with respect to all or any portion of the Shares to be delivered pursuant to an award. The Company may also use any other method of obtaining the necessary payment or proceeds, as permitted by Applicable Laws, to satisfy its withholding obligation with respect to any Award.

Section 15. Transfer of Awards.

Until such time as the Awards are fully vested and/or exercisable in accordance with the Plan or an Award Agreement, no purported sale, assignment, mortgage, hypothecation, transfer, charge, pledge, encumbrance, gift, transfer in trust (voting or other) or other disposition of, or creation of a security interest in or lien on, any Award or any agreement or commitment to do any of the foregoing (each, a "Transfer") by any holder thereof in violation of the provisions of the Plan or an Award Agreement will be valid, except with the prior written consent of the Administrator, which consent may be granted or withheld in the sole discretion of the Administrator. Any purported Transfer of an Award or any economic benefit or interest therein in violation of the Plan or an Award Agreement shall be null and void *ab initio* and shall not create any obligation or liability of the Company, and any Person purportedly acquiring any Award or any economic benefit or interest therein transferred in violation of the Plan or an Award Agreement shall not be entitled to be recognized as a holder of such Shares or other property underlying such Award. Unless otherwise determined by the Administrator in accordance with the provisions of the immediately preceding sentence, an Option or a Stock Appreciation Right may be exercised, during the lifetime of the Participant, only by the Participant or, during any period during which the Participant is under a legal Disability, by the Participant's guardian or legal representative.

Section 16. Continued Employment or Service.

Neither the adoption of the Plan nor the grant of an Award shall confer upon any Eligible Recipient any right to continued employment or service with the Company or any Affiliate thereof, as the case may be, nor shall it interfere in any way with the right of the Company or any Affiliate thereof to terminate the employment or service of any of its Eligible Recipients at any time.

Section 17. Effective Date.

The Plan was approved by the Board on July [__], 2021 and shall be adopted and become effective on the date that it is approved by the Company's stockholders (the "Effective Date").

Section 18. Electronic Signature.

Participant's electronic signature of an Award Agreement shall have the same validity and effect as a signature affixed by hand.

Section 19. Term of Plan.

No Award shall be granted pursuant to the Plan on or after the tenth anniversary of the Effective Date, but Awards theretofore granted may extend beyond that date.

Section 20. Securities Matters and Regulations.

(a) Notwithstanding anything herein to the contrary, the obligation of the Company to sell or deliver Shares with respect to any Award granted under the Plan shall be subject to all Applicable Laws, rules and regulations, including all applicable federal and state securities laws, and the obtaining of all such approvals by governmental agencies as may be deemed necessary or appropriate by the Administrator. The Administrator may require, as a condition of the issuance and delivery of certificates evidencing shares of Common Stock pursuant to the terms hereof, that the recipient of such shares make such agreements and representations, and that such certificates bear such legends, as the Administrator, in its sole discretion, deems necessary or advisable.

(b) Each Award is subject to the requirement that, if at any time the Administrator determines that the listing, registration or qualification of Shares is required by any securities exchange or under any state or federal law, or the consent or approval of any governmental regulatory body is necessary or desirable as a condition of, or in connection with, the grant of an Award or the issuance of Shares, no such Award shall be granted or payment made or Shares issued, in whole or in part, unless listing, registration, qualification, consent or approval has been effected or obtained free of any conditions not acceptable to the Administrator.

(c) In the event that the disposition of Shares acquired pursuant to the Plan is not covered by a then current registration statement under the Securities Act and is not otherwise exempt from such registration, such Shares shall be restricted against transfer to the extent required by the Securities Act or regulations thereunder, and the Administrator may require a Participant receiving Common Stock pursuant to the Plan, as a condition precedent to receipt of such Common Stock, to represent to the Company in writing that the Common Stock acquired by such Participant is acquired for investment only and not with a view to distribution.

Section 21. Section 409A of the Code.

The Plan as well as payments and benefits under the Plan are intended to be exempt from, or to the extent subject thereto, to comply with Section 409A of the Code, and, accordingly, to the maximum extent permitted, the Plan shall be interpreted in accordance therewith. Notwithstanding anything contained herein to the contrary, to the extent required in order to avoid accelerated taxation and/or tax penalties under Section 409A of the Code, the Participant shall not be considered to have terminated employment or service with the Company for purposes of the Plan and no payment shall be due to the Participant under the Plan or any Award until the Participant would be considered to have incurred a "separation from service" from the Company and its Affiliates within the meaning of Section 409A of the Code. Any payments described in the Plan that are due within the "short term deferral period" as defined in Section 409A of the Code shall not be treated as deferred compensation unless Applicable Law requires otherwise. Notwithstanding anything to the contrary in the Plan, to the extent that any Awards (or any other amounts payable under any plan, program or arrangement of the Company or any of its Affiliates) are payable upon a separation from service and such payment would result in the imposition of any individual tax and penalty interest charges imposed under Section 409A of the Code, the settlement and payment of such awards (or other amounts) shall instead be made on the first business day after the date that is six (6) months following such separation from service (or death, if earlier). Each amount to be paid or benefit to be provided under this Plan shall be construed as a separate identified payment for purposes of Section 409A of the Code. The Company makes no representation that any or all of the payments or benefits described in this Plan will be exempt from or comply with Section 409A of the Code and makes no undertaking to preclude Section 409A of the Code from applying to any such payment. The Participant shall be solely responsible for the payment of any taxes and penalties incurred under Section 409A.

Section 22. Notification of Election Under Section 83(b) of the Code.

If any Participant shall, in connection with the acquisition of shares of Common Stock under the Plan, make the election permitted under Section 83(b) of the Code, such Participant shall notify the Company of such election within ten (10) days after filing notice of the election with the Internal Revenue Service.

Section 23. No Fractional Shares.

No fractional shares of Common Stock shall be issued or delivered pursuant to the Plan. The Administrator shall determine whether cash, other Awards, or other property shall be issued or paid in lieu of such fractional shares or whether such fractional shares or any rights thereto shall be forfeited or otherwise eliminated.

Section 24. Beneficiary.

A Participant may file with the Administrator a written designation of a beneficiary on such form as may be prescribed by the Administrator and may, from time to time, amend or revoke such designation. If no designated beneficiary survives the Participant, the executor or administrator of the Participant's estate shall be deemed to be the Participant's beneficiary.

Section 25. Paperless Administration.

In the event that the Company establishes, for itself or using the services of a third party, an automated system for the documentation, granting or exercise of Awards, such as a system using an internet website or interactive voice response, then the paperless documentation, granting or exercise of Awards by a Participant may be permitted through the use of such an automated system.

Section 26. Severability.

If any provision of the Plan is held to be invalid or unenforceable, the other provisions of the Plan shall not be affected but shall be applied as if the invalid or unenforceable provision had not been included in the Plan.

Section 27. Clawback.

(a) If the Company is required to prepare a financial restatement due to the material non-compliance of the Company with any financial reporting requirement, then the Committee may require any Section 16 Officer to repay or forfeit to the Company, and each Section 16 Officer agrees to so repay or forfeit, that part of the Incentive Compensation received by that Section 16 Officer during the three-year period preceding the publication of the restated financial statement that the Committee determines was in excess of the amount that such Section 16 Officer would have received had such Incentive Compensation been calculated based on the financial results reported in the restated financial statement. The Committee may take into account any factors it deems reasonable in determining whether to seek recoupment of previously paid Incentive Compensation and how much Incentive Compensation to recoup from each Section 16 Officer (which need not be the same amount or proportion for each Section 16 Officer), including any determination by the Committee that a Section 16 Officer engaged in fraud, willful misconduct or committed grossly negligent acts or omissions which materially contributed to the events that led to the financial restatement. The amount and form of the Incentive Compensation to be recouped shall be determined by the Committee in its sole and absolute discretion, and recoupment of Incentive Compensation may be made, in the Committee's sole and absolute discretion, through the cancellation of vested or unvested Awards, cash repayment or both.

(b) Notwithstanding any other provisions in this Plan, any Award which is subject to recovery under any Applicable Laws, government regulation or stock exchange listing requirement, will be subject to such deductions and clawback as may be required to be made pursuant to such Applicable Law, government regulation or stock exchange listing requirement (or any policy adopted by the Company pursuant to any such law, government regulation or stock exchange listing requirement).

Section 28. Governing Law.

The Plan shall be governed by, and construed in accordance with, the laws of the State of Nevada, without giving effect to principles of conflicts of law of such state.

Section 29. Indemnification.

To the extent allowable pursuant to applicable law, each member of the Board and the Administrator and any officer or other employee to whom authority to administer any component of the Plan is designated shall be indemnified and held harmless by the Company from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by such member in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be a party or in which he or she may be involved by reason of any action or failure to act pursuant to the Plan and against and from any and all amounts paid by him or her in satisfaction of judgment in such action, suit, or proceeding against him or her; provided, however, that he or she gives the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such individuals may be entitled pursuant to the Company's Articles of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

Section 30. Titles and Headings, References to Sections of the Code or Exchange Act.

The titles and headings of the sections in the Plan are for convenience of reference only and, in the event of any conflict, the text of the Plan, rather than such titles or headings, shall control. References to sections of the Code or the Exchange Act shall include any amendment or successor thereto.

Section 31. Successors.

The obligations of the Company under the Plan shall be binding upon any successor corporation or organization resulting from the merger, consolidation or other reorganization of the Company, or upon any successor corporation or organization succeeding to substantially all of the assets and business of the Company.

Section 32. Relationship to other Benefits.

No payment pursuant to the Plan shall be taken into account in determining any benefits under any pension, retirement, savings, profit sharing, group insurance, welfare, or other benefit plan of the Company or any Affiliate except to the extent otherwise expressly provided in writing in such other plan or an agreement thereunder.

CERTIFICATION OF CHIEF EXECUTIVE OFFICER OF DATCHAT, INC.
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Darin Myman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of DatChat, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2023

May 14, /s/ Darin Myman
2024

Name: Darin Myman
Title: Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER OF DATCHAT, INC.
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Brett Blumberg, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of DatChat, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 13, 2023

May 14, /s/ Brett Blumberg
2024

Name: Brett Blumberg
Title: Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of DatChat, Inc., (the "Company") on Form 10-Q for the period ended September 30, 2023 March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Darin Myman, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 13, 2023

May 14, /s/ Darin Myman
2024

Name: Darin Myman
Title: Chief Executive Officer
(Principal Executive Officer)

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of DatChat, Inc., (the "Company") on Form 10-Q for the period ended September 30, 2023 March 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Brett Blumberg, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 13, 2023

May 14, /s/ Brett Blumberg
2024

Name: Brett Blumberg
Title: Chief Financial Officer
(Principal Financial and Accounting Officer)

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