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 October 31, 2023

or

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

Commission file number 001-39125

IronNet, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**83-4599446**
(State or other jurisdiction of incorporation)	**(IRS Employer Identification No.)**
6 Waelchli Ave, #7395 Halethorpe, MD	**22102**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (443) 300-6761

(Former Name or Former Address, if Changed Since Last Report)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ No ☒

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☐ No ☒

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

Large accelerated filer	☐	Accelerated filer	☐	Non-accelerated Filer	☒
Smaller reporting company	☒	Emerging growth company	☒		

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

There were 121,506,784 shares of Common Stock, par value $0.0001 per share, outstanding as of January 26, 2024.

IronNet, Inc.
Table of Contents
FORM 10-Q

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (this “Quarterly Report”), including, without limitation, statements under the heading Management’s Discussion and Analysis of Financial Condition and Results of Operations, includes forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. These forward-looking statements can be identified by the use of forward-looking terminology, including the words “believes,” “estimates,” “anticipates,” “expects,” “intends,” “plans,” “may,” “will,” “potential,” “projects,” “predicts,” “continue,” or “should,” or, in each case, their negative or other variations or comparable terminology. There can be no assurance that actual results will not materially differ from expectations. Such statements include, but are not limited to, any statements relating to our ability to consummate any acquisition or other business combination and any other statements that are not statements of current or historical facts. These statements are based on management’s current expectations, but actual results may differ materially due to various factors, including, but not limited to:

- risks and uncertainties relating to the Chapter 11 Cases, including but not limited to:
  - our ability to obtain Bankruptcy Court approval with respect to motions in the Chapter 11 Cases, and our ability to satisfy the conditions precedent to any Chapter 11 plan;
  - the outcome of the Chapter 11 Cases in the Bankruptcy Court, including our ability to successfully market and sell all, substantially all or some of our assets and to develop, negotiate, confirm and consummate a Chapter 11 plan;
  - the effects of the Chapter 11 Cases on the Company and on the interests of various constituents;
  - Bankruptcy Court rulings in the Chapter 11 Cases and the outcome of the Chapter 11 Cases in general;
  - the length of time we will operate under the Chapter 11 Cases and the continued availability of operating capital during the pendency of Chapter 11;
  - whether the period over which we anticipate our existing cash and cash equivalents will be sufficient to fund our Chapter 11 Cases, operating expenses and capital expenditure requirements;
  - risks associated with any third-party motions in the Chapter 11 Cases;
  - the potential adverse effects of the Chapter 11 Cases on our liquidity or results of operations and increased legal and other professional costs necessary to execute the Company’s reorganization;
  - the conditions to which the Company’s cash collateral is subject and the risk that these conditions may not be satisfied for various reasons, including for reasons outside of our control;
  - the consequences of the acceleration of our debt obligations;
  - the trading price and volatility of our common stock;
  - employee attrition and our ability to retain senior management and other key personnel due to the distractions and uncertainties of the Chapter 11 Cases;
  - our ability to maintain relationships with suppliers, customers, employees and other third parties as a result of the Chapter 11 Cases; and
  - the result of our post-petition marketing process is unknown, and there may be insufficient proceeds, if any, to make distributions to equity holders;
- the effects of the delisting of our common stock from the New York Stock Exchange;
- our ability to continue as a going concern;
- changes in our strategy, future operations, financial position, estimated revenues and losses, projected costs, prospects and plans;
- the implementation, market acceptance and success of our business model and growth strategy;
- our expectations and forecasts with respect to the size and growth of the cybersecurity industry and our products and services in particular;
- the ability of our products and services to meet customers’ compliance and regulatory needs;
- our ability to compete with others in the cybersecurity industry;
- our ability to retain pricing power with our products;
- our ability to grow our market share;
- our ability to attract and retain qualified employees and management;
- our ability to adapt to changes in consumer preferences, perception and spending habits and develop and expand our product offerings and gain market acceptance of our products, including in new geographies;
- developments and projections relating to our competitors and industry;
- our ability to develop and maintain our brand and reputation;
- developments and projections relating to our competitors and industry;
- the impact of health epidemics, including the COVID-19 pandemic, on our business and on the economy in general;
- our expectations regarding our ability to obtain and maintain intellectual property protection and not infringe on the rights of others;
- expectations regarding our status as an emerging growth company under the JOBS Act;
- our future capital requirements and sources and uses of cash;
- our ability to obtain funding for our operations and future growth; and
- our business, expansion plans and opportunities.

As previously announced, the Company voluntarily delisted from the New York Stock Exchange, and, as a result, our common stock trades exclusively in over-the-counter markets. The Company's stockholders are cautioned that trading in shares of the Company's common stock during the pendency of the Chapter 11 Cases remains highly speculative and will pose substantial risks. Trading prices for the Company's common stock may bear little or no relation to actual recovery, if any, by holders thereof in the Chapter 11 Cases and the trading market (if any) may be very limited. Accordingly, the Company urges extreme caution with respect to existing and future investments in its common stock.

The forward-looking statements contained in this Quarterly Report are based on our current expectations and beliefs concerning future developments and their potential effects on us. Future developments affecting us may not be those that we have anticipated. These forward-looking statements involve a number of risks, uncertainties (some of which are beyond our control) and other assumptions that may cause actual results or performance to be materially different from those expressed or implied by these forward-looking statements. These risks and uncertainties include, but are not limited to, those factors described under the heading "Risk Factors" in Part I, Item 1A. in our Annual Report on Form 10-K filed on May 16, 2023 (the "Annual Report") as supplemented or restated under the heading "Risk Factors" in Part II, Item 1A. of this Quarterly Report. Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, actual results may vary in material respects from those projected in these forward-looking statements. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, and developments in the industry in which we operate may differ materially from those made in or suggested by the forward-looking statements contained in this Quarterly Report. In addition, even if our results or operations, financial condition and liquidity, and developments in the industry in which we operate are consistent with the forward-looking statements contained in this Quarterly Report, those results or developments may not be indicative of results or developments in subsequent periods.

SUMMARY OF RISK FACTORS

Below is a summary of material factors that make an investment in our securities speculative or risky. Importantly, this summary does not address all of the risks and uncertainties that we face. Additional discussion of the risks and uncertainties summarized in this risk factor summary, as well as other risks and uncertainties that we face, can be found under the section titled “Risk Factors” in this Quarterly Report on Form 10-Q. The below summary is qualified in its entirety by that more complete discussion of such risks and uncertainties. You should consider carefully the risks and uncertainties described under the section titled “Risk Factors” in this Quarterly Report on Form 10-Q as part of your evaluation of an investment in our securities:

- We are subject to the risks and uncertainties associated with Chapter 11 proceedings.
- We may not be able to obtain confirmation of a Chapter 11 plan of reorganization or complete any Bankruptcy Court-approved sales of our Company or assets, or we may not be able to realize adequate consideration for such sales.
- We may be subject to claims that will not be discharged in the Chapter 11 proceedings, which could have a material adverse effect on our financial conditions and results of operations.
- We have experienced, and may continue to experience, increased levels of employee attrition as a result of the Chapter 11 proceedings.
- Our post-bankruptcy capital structure will be determined in accordance with the Chapter 11 plan and changes to our capital structure in accordance with the Chapter 11 plan will have a material adverse effect on existing debt and security holders, including holders of our common stock.
- The Chapter 11 proceedings has caused our common stock to decrease in value materially or may render our common stock worthless.
- Our common stock has been delisted from trading on the New York Stock Exchange, which has negatively impacted the trading price of our common stock and our stockholders and there may be risks involved with trading in an over-the-counter market.
- There is substantial doubt about our ability to continue as a going concern for a period of twelve months from the date of this Quarterly Report on Form 10-Q.
- Our management previously identified material weaknesses in our internal control over financial reporting, which resulted in a restatement of our unaudited condensed consolidated financial statements in a prior fiscal year. In the future, we may identify additional material weaknesses or otherwise fail to maintain effective internal control over financial reporting, which may result in material misstatements of our financial statements or cause us to fail to meet our periodic reporting obligations.
- We have a history of losses and may not be able to achieve or sustain profitability in the future.
- If organizations do not adopt cloud-enabled, and/or SaaS-delivered cybersecurity solutions that may be based on new and untested security concepts, our ability to grow our business and results of operations may be adversely affected.
- Competition from existing or new companies could cause us to experience downward pressure on prices, fewer customer orders, reduced margins, the inability to take advantage of new business opportunities and loss of market share.
- If our solutions fail or are perceived to fail to detect or prevent incidents or have or are perceived to have defects, errors, or vulnerabilities, our brand and reputation would be harmed, which would adversely affect our business and results of operations.
- We rely on third-party data centers and our own colocation data centers to host and operate our platform, and any disruption of or interference with our use of these facilities may negatively affect our ability to maintain the performance and reliability of our platform, which could cause our business to suffer.
- A limited number of customers represent a substantial portion of our revenue. If we fail to retain these customers, our revenue could decline significantly.
- If we are unable to maintain successful relationships with our distribution partners, or if our distribution partners fail to perform, our ability to market, sell and distribute our platform and solutions efficiently will be limited, and our business, financial position and results of operations will be harmed.
- Our business depends, in part, on sales to government organizations, and significant changes in the contracting or fiscal policies of such government organizations could have an adverse effect on our business and results of operations.
- The success of our business will depend in part on our ability to protect and enforce our intellectual property rights.
- We are subject to laws and regulations, including governmental export and import controls, sanctions, and anti-corruption laws, that could impair our ability to compete in our markets and subject us to liability if we are not in full compliance with applicable laws.
- Our international operations expose us to significant risks, and failure to manage those risks could adversely impact our business.

PART I — FINANCIAL INFORMATION
Item 1. Financial Statements
IronNet, Inc.
(Debtor-in-Possession)
Condensed Consolidated Balance Sheets
($ and share data in thousands, except par value per share)
(unaudited)

	October 31, 2023	January 31, 2023
Assets		
Current assets		
Cash and cash equivalents	$ 787	$ 7,568
Accounts receivable	234	3,373
Unbilled receivables	95	717
Accounts receivable	329	4,090
Inventory	872	2,669
Deferred costs	2,657	3,138
Prepaid warranty	1,040	1,218
Prepaid expenses	199	1,743
Other current assets	1,066	818
Total current assets	$ 6,950	$ 21,244
Deferred costs	926	2,975
Property and equipment, net	5,017	5,972
Prepaid warranty	400	1,141
Operating lease right-of-use assets, net	1,562	1,885
Deposits and other assets	224	442
Total assets	$ 15,079	$ 33,659
Liabilities and stockholders' (deficit) equity		
Current liabilities		
Accounts payable	$ 1,001	$ 7,287
Accrued expenses	4,411	9,973
Deferred revenue	12,929	17,180
Related party notes payable	1,499	11,845
Convertible notes payable	—	8,128
Conversion features on convertible notes payable	—	734
Income tax payable	425	412
Other current liabilities	-	735
Total current liabilities	20,265	56,294
Deferred revenue	5,567	9,961
Other long-term liabilities	—	2,128
Total liabilities not subject to compromise	$ 25,832	$ 68,383
Liabilities subject to compromise (Note 12)	$ 40,666	$ —
Total liabilities	$ 66,498	$ 68,383
Stockholders' (deficit) equity		
Preferred stock, $0.0001 par value; 100,000 shares authorized; none issued or outstanding	—	—
Common stock; $0.0001 par value; 500,000 shares authorized; 121,507 and 111,466 shares issued and outstanding at October 31, 2023 and January 31, 2023, respectively	12	11
Additional paid-in capital	499,809	493,902
Accumulated other comprehensive income	51	59
Accumulated deficit	(551,291)	(528,696)
Total stockholders' (deficit) equity	(51,419)	(34,724)
Total liabilities and stockholders' (deficit) equity	$ 15,079	$ 33,659

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

IronNet, Inc.
(Debtor-in-Possession)
Condensed Consolidated Statements of Operations
($ in thousands, except per share data)
(unaudited)

	Three Months Ended October 31, 2023	Three Months Ended October 31, 2022	Nine Months Ended October 31, 2023	Nine Months Ended October 31, 2022
Product, subscription and support revenue	$ 4,562	$ 6,674	$ 17,182	$ 19,331
Professional services revenue	-	314	172	952
Total revenue	4,562	6,988	17,354	20,283
Cost of product, subscription and support revenue	3,828	4,206	8,746	8,875
Cost of professional services revenue	4	83	92	397
Total cost of revenue	3,832	4,289	8,838	9,272
Gross profit	730	2,699	8,516	11,011
Operating expenses				
Research and development	1,456	6,804	7,813	27,246
Sales and marketing	1,001	7,774	4,069	27,194
General and administrative	2,965	19,723	15,262	48,742
Total operating expenses	5,422	34,301	27,144	103,182
Operating loss	(4,692)	(31,602)	(18,628)	(92,171)
Interest expense	(915)	(320)	(3,453)	(482)
Other income	174	493	785	55
Other expense	(65)	(581)	(266)	(995)
Change in fair value of warrants liabilities	-	3	-	6
Loss before reorganization items	(5,498)	(32,007)	(21,562)	(93,587)
Reorganization items (Note 13)	838	-	838	-
Loss before income taxes	(6,336)	(32,007)	(22,400)	(93,587)
Benefit (provision) for income taxes	1	(2)	(13)	(6)
Net loss	(6,335)	(32,009)	(22,413)	(93,593)
Basic and diluted net loss per common share	(0.05)	(0.30)	(0.19)	(0.92)
Weighted average shares outstanding, basic and diluted	123,001	105,033	118,004	101,925

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

IronNet, Inc.

(Debtor-in-possession)
Condensed Consolidated Statements of Comprehensive Loss
($ in thousands)
(unaudited)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2023	**2022**	**2023**	**2022**
Net loss	$ (6,335)	$ (32,009)	$ (22,413)	$ (93,593)
Foreign currency translations adjustment, net of tax	(14)	206	(8)	(58)
Total Comprehensive loss	$ (6,349)	$ (31,803)	$ (22,421)	$ (93,651)

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

IronNet, Inc.
(Debtor-in-possession)
Condensed Consolidated Statements of Changes in Stockholders' Equity
For the Nine Months Ended October 31, 2023 and 2022
($ in thousands, number of common stock in thousands)
(unaudited)

	Common Stock		Additional Paid- In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' (Deficit) Equity
	Shares	Amount				
Balance at January 31, 2023	111,466	$ 11	$ 493,902	$ (528,696)	$ 59	$ (34,724)
Cumulative effect adjustment for new accounting standard	-	-	-	(182)	-	(182)
Vesting of restricted stock units	1,337	-	-	-	-	-
Common stock issued for repayment of convertible debt	8,704	1	3,651	-	-	3,652
Stock-based compensation	-	-	2,256	-	-	2,256
Net loss	-	-	-	(22,413)	-	(22,413)
Foreign currency translation adjustment	-	-	-	-	(8)	(8)
Balance at October 31, 2023	121,507	$ 12	$ 499,809	$ (551,291)	$ 51	$ (51,419)
Balance at January 31, 2022	88,876	$ 9	$ 455,849	$ (417,686)	$ 271	$ 38,443
Exercise of stock options and settlement of restricted stock units	14,847	1	271	-	-	272
Statutory tax withholding related to net-share settlement of restricted stock units	(15)	-	(91)	-	-	(91)
Stock-based compensation	-	-	33,075	-	-	33,075
Net loss	-	-	-	(93,593)	-	(93,593)
Foreign currency translation adjustment	-	-	-	-	(58)	(58)
Balance at October 31, 2022	103,708	$ 10	$ 489,104	$ (511,279)	$ 213	$ (21,952)

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

IronNet, Inc.
(Debtor-in-Possession)
Condensed Consolidated Statements of Changes in Stockholders' Equity
For the Three Months Ended October 31, 2023 and 2022
($ in thousands, number of common stock in thousands)
(unaudited)

	Common Stock		Additional Paid- In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' (Deficit) Equity
	Shares	Amount				
Balance at July 31, 2023	120,865	$ 12	$ 499,806	$ (544,956)	$ 65	$ (45,073)
Vesting of restricted stock units	642	-	-	-	-	-
Stock-based compensation	-	-	3	-	-	3
Net loss	-	-	-	(6,335)	-	(6,335)
Foreign currency translation adjustment	-	-	-	-	(14)	(14)
Balance at October 31, 2023	121,507	$ 12	$ 499,809	$ (551,291)	$ 51	$ (51,419)
Balance at July 31, 2022	101,649	$ 10	$ 474,547	$ (479,270)	$ 6	$ (4,707)
Exercise of stock options and settlement of restricted stock units	2,059	-	66	-	-	66
Statutory tax withholding related to net-share settlement of restricted stock units	-	-	-	-	-	-
Stock-based compensation	-	-	14,492	-	-	14,492
Net loss	-	-	-	(32,009)	-	(32,009)
Foreign currency translation adjustment	-	-	-	-	206	206
Balance at October 31, 2022	103,708	$ 10	$ 489,104	$ (511,279)	$ 213	$ (21,952)

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

IronNet, Inc.

(Debtor-in-Possession)
Condensed Consolidated Statements of Cash Flows
($ in thousands)
(unaudited)

	Nine Months Ended October 31,	
	2023	2022
Cash flows from operating activities		
Net loss	$ (22,413)	$ (93,593)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,535	1,815
(Gain) Loss on sale of fixed assets	-	(11)
Loss of disposal of fixed assets	4	64
Employee stock-based compensation	2,256	33,075
Change in fair value of warrant liabilities	-	(6)
Change in fair value of conversion options	(734)	-
Change in fair value of commitment fee	195	421
Conversion option accretion	443	106
Non-cash interest expense	3,021	381
Inventory adjustment to net realizable value	1,772	1,372
Non-cash reorganization items, net	125	-
Changes in operating assets and liabilities:		
Accounts receivable	3,579	5,572
Deferred costs	2,531	(1,105)
Inventories	24	(908)
Prepaid expenses	1,544	736
Other current assets	(443)	(271)
Prepaid warranty	920	(140)
Deposits and other assets	538	753
Accounts payable and accrued expenses	850	2,525
Income tax payable	13	(178)
Other liabilities	-	(3)
Deferred revenue	(8,646)	(3,331)
Operating lease liability	(452)	(831)
Net cash used in operating activities	(13,338)	(53,557)
Cash flows from investing activities		
Purchases of property and equipment	-	(2,100)
Capitalized software development costs	(583)	-
Proceeds from the sale of fixed assets	-	11
Net cash used in investing activities	(583)	(2,089)
Cash flows from financing activities		
Exercise of stock options and settlement of restricted stock units	-	272
Statutory tax withholding related to net-share settlement of restricted stock units	-	(91)
Cash received to fund employee tax obligation for vested RSUs	77	19,607
Cash remitted to fund employee tax obligation for vested RSUs	(6,678)	(11,398)
Cash received for overpayment of tax obligation for vested RSUs	1,405	-
Payment of equity line commitment fee	-	(1,750)
Proceeds from issuance of convertible notes	-	10,000
Proceeds from issuance of related party debt	12,350	-
Proceeds from DIP financing facility	1,499	-
Repayment of debt	(1,373)	-
Payment of debt issuance costs	-	(284)
Payment of finance lease obligations	(132)	(96)
Net cash provided by financing activities	7,148	16,260
Effect of exchange rate changes on cash and cash equivalents	(8)	(59)
Net change in cash and cash equivalents	(6,781)	(39,445)
Cash and cash equivalents		
Beginning of the period	7,568	$ 47,673
End of the period	$ 787	$ 8,228
Supplemental disclosure of cash flow information		
Cash paid for interest	$ 142	-
Supplemental disclosures of non-cash investing and financing activities		
Non-cash settlement of convertible debt for common stock	3,320	-

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

1.Organization and Summary of Changes in Significant Accounting Policies

IronNet, Inc., formerly known as LGL Systems Acquisition Corporation ("Legacy LGL"), was incorporated in the state of Delaware on April 30, 2019 for the purpose of entering into a merger, share exchange, asset acquisition, stock purchase, recapitalization, reorganization or other similar business combination with one or more businesses or entities.

On March 15, 2021, Legacy LGL entered into an Agreement and Plan of Reorganization and Merger ("Merger Agreement"), as amended on August 6, 2021, by and among Legacy LGL, LGL Systems Merger Sub Inc. (the "Merger Sub") and IronNet Cybersecurity, Inc. ("Legacy IronNet"). On August 26, 2021, the Merger Agreement was consummated and the Merger was completed (the "Merger"). In connection with the Merger, Legacy LGL changed its name to IronNet, Inc., and the New York Stock Exchange ("NYSE") ticker symbols for its Class A common stock and warrants were changed to "IRNT" and "IRNT.WS" respectively.

Throughout the notes to the consolidated financial statements, unless otherwise noted, "we," "us," "our," "IronNet," the "Company," and similar terms refer to Legacy IronNet and its subsidiaries prior to the consummation of the transactions associated with the Merger, and IronNet, Inc. and the Company's subsidiaries after the Merger.

Chapter 11 Cases

On October 12, 2023 ("Petition Date"), the Company and IronNet Cybersecurity, Inc. ("IronNet Cybersecurity"), the Company's wholly-owned subsidiary (collectively, the "Debtors"), filed voluntary petitions for reorganization under the United States Bankruptcy Code (the "Bankruptcy Code") in the United States Bankruptcy Court of Delaware ("Bankruptcy Court") (such cases, the "Chapter 11 Cases"). The Debtors and their subsidiaries continue to operate their businesses as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. The Chapter 11 Cases are currently jointly administered under the caption In re IronNet, Inc. et al., Case No. 23-11710 (Bankr. D. Del. 2023). The filing of the petitions for the Chapter 11 Cases constituted an event of default under all of the Outstanding Indebtedness (as defined below).

Furlough and Temporary Cessation of Business Prior to Voluntary Chapter 11 Filings

As previously reported, on September 2, 2023, the Company furloughed almost all of the Company's employees and substantially curtailed business operations as a result of the Company's liquidity position. Subsequently, on September 29, 2023, given the unavailability of additional sources of liquidity and after considering strategic alternatives, the Company ceased substantially all of its business activities and terminated the remaining employees of the Company and its subsidiaries. The board of directors of the Company further authorized the Company to take such actions necessary to prepare for and, subject to final approval by the board of directors to be given at a subsequent meeting, file a voluntary petition for relief under the applicable provisions of the Bankruptcy Code in the Bankruptcy Court (the "Bankruptcy Filing") as expeditiously as possible. The foregoing furlough and cessation of business operations constituted events of default under the Company's outstanding indebtedness for borrowed money (collectively, the "Outstanding Indebtedness"), including the senior unsecured convertible note issued to 3i, LP ("3i" as discussed below) on September 15, 2022 in the principal amount of approximately $4,233 and the other transaction documents entered into in connection therewith, including the Securities Purchase Agreement and Registration Rights Agreement dated September 14, 2022, the various secured promissory notes and the C5 Notes (as defined below) in the aggregate principal amount of approximately $15,275 outstanding as of the commencement of the Chapter 11 Cases discussed below, the Director Notes (as defined below) issued in December 2022, April 2023, May 2023 and August 29, 2023 to a total of eight lenders, including seven lenders who are either directors of the Company or entities affiliated with directors of the Company in the aggregate principal amount of approximately $8,475 outstanding as of the commencement of the Chapter 11 Cases discussed below, and the amended and restated security agreement related thereto, and the secured promissory note dated July 21, 2023 issued to Korr Acquisitions Group, Inc. in the aggregate principal amount of $556 outstanding as of the commencement of the Chapter 11 Cases discussed below (the "Korr Note").

DIP Facility

On October 10, 2023, the Debtors, and ITC Global Advisers LLC ("ITC GA"), and/or ITC GA's designated affiliates and/or related funds or accounts, and such other lender parties that have agreed or may agree from time to time to provide commitments to fund the DIP Facility (as defined below) (the "DIP Facility Lender") entered into a binding term sheet for debtor-in-possession financing (the "Term Sheet"), which sets forth the principal terms of a superpriority, senior secured debtor-in-possession credit facility (the "DIP Facility", the credit agreement evidencing the DIP Facility, the "DIP Credit Agreement" and, together with the other definitive documents governing the DIP Facility and the DIP order, collectively, the "DIP Documents"), pursuant to which the DIP Facility Lender would provide the Company with a senior (priming) secured and superpriority debtor-in-possession delayed-draw term loan credit facility in an aggregate principal amount not to exceed $10,000 (the "Maximum Facility Amount"), consisting of up to $8,500 of term loans (the "DIP Term Loans") and $1,499 of the Bridge Amount (as defined below) (collectively, the "DIP Loans"), subject to the terms and conditions set forth in the Term Sheet. Until the entry of a final order approving the DIP Facility by the Bankruptcy Court, a maximum amount of up to $4,500 of the DIP Facility (inclusive of the Bridge Amount) would be available on an interim basis.

Upon the execution of the Term Sheet, the DIP Facility Lender had advanced the Bridge Amount of $1,499 to the Company. The Bridge Amount is secured by all the assets of the Debtors. As of January 29, 2024, the DIP Facility Lender had advanced an aggregate of $9,999 to the Company.

AWS Reinstatement

In connection with the commencement of the Chapter 11 Cases, the Company filed a number of motions with the Bankruptcy Court. Among these was a motion authorizing the Debtors to enter into a reinstatement agreement with Amazon Web Services, Inc. ("AWS") in order to reinstate and reactivate the cloud computing services provided by AWS (the "Reinstatement Agreement"), which had been previously terminated by AWS following the Company's cessation of business activities on September 29, 2023. AWS's termination of the cloud computing services constituted an event of default under certain of the Company's contracts. On October 13, 2023, the Bankruptcy Court entered an interim order approving the motion authorizing the Debtors to enter into the Reinstatement Agreement, and the Reinstatement Agreement was executed and delivered by IronNet Cybersecurity and AWS. Pursuant to the Reinstatement Agreement, IronNet Cybersecurity agreed to assume pursuant to Section 365 of the Bankruptcy Code, and agreed to be bound by, all of the terms and conditions of the Reinstatement Agreement and the customer agreement between IronNet Cybersecurity and AWS dated March 30, 2021 (the "AWS Agreement"). Upon payment to AWS of invoice arrearages and the September 2023 invoice on October 13, 2023, AWS reinstated IronNet Cybersecurity's account and the AWS services pursuant to the AWS Agreement. Further, pursuant to the Reinstatement Agreement, IronNet Cybersecurity will be required to make weekly advance payments to AWS of fees and charges in an amount equal to at least one fourth of the previous month's fees and charges, subject to certain minimum amounts specified in the Reinstatement Agreement. Pursuant to the Reinstatement Agreement, AWS may suspend the AWS services under the Customer Agreement if IronNet Cybersecurity fails to make the advance payments as required or if it does not pay any invoice in full within two business days of invoice issuance.

Rehiring of Certain Employees

On October 13, 2023, certain employees were re-hired by the Company in connection with the Chapter 11 proceedings. Hiring subsequently occurred in the ordinary course of business and, as of January 29, 2024, the Company had 28 active employees.

First Day Motions

On October 13, 2023, the Bankruptcy Court approved a variety of "first day" motions seeking customary relief intended to enable the Debtors to continue ordinary course operations during the Chapter 11 Cases, including the motion relating to the Reinstatement Agreement as described in "— AWS Reinstatement" above and a motion to establish certain procedures to protect any potential value of the Debtor's net operating loss carryforwards and other tax attributes (the "NOL Motion"). On October 13, 2023, the Bankruptcy Court entered an order approving the NOL Motion on an interim basis.

Filing of Joint Plan

On November 2, 2023, the Debtors filed a Joint Chapter 11 Plan of Reorganization of IronNet, Inc. and its Debtor Affiliates (as amended, the "Joint Plan") and a related proposed disclosure statement. On January 18, 2024, the Bankruptcy Court entered the Findings of Fact, Conclusions of Law, and Order Confirming the Joint Plan, which approved and confirmed the Joint Plan (the "Confirmation Order"). Among other things, the Joint Plan will result in in all of the Company's equity securities being automatically cancelled, the issuance of new common equity to holders of certain claims under the Joint Plan, the issuance of certain takeback notes, and the settlement of other claims. The Debtors expect that the Effective Date of the Joint Plan will occur as soon as all conditions precedent to the Joint Plan have been satisfied. Although the Debtors anticipate that all conditions will be satisfied, the Debtors can make no assurances as to when, or ultimately if, the Joint Plan will become effective.

Reorganization Accounting

Beginning on the Petition Date of the Chapter 11 Cases, the Company applied Financial Accounting Standards Board ("FASB") Codification Topic 852, Reorganizations ("ASC 852") in preparing the condensed consolidated financial statements. ASC 852 requires the financial statements, for the periods subsequent to the Petition Date and up to and including the period of emergence from Chapter 11 (the "Effective Date"), to distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Accordingly, certain charges incurred during the bankruptcy proceedings, such as the write-off of unamortized debt issuance costs and premium on debt subject to compromise, legal and professional fees incurred directly as a result of the bankruptcy proceeding are recorded as Reorganization items, net in the condensed consolidated statements of operations and comprehensive loss. In addition, the balance sheet must distinguish between debtor pre-petition liabilities subject to compromise from pre-petition or post-petition liabilities that are not subject to compromise. Liabilities subject to compromise are pre-petition obligations that are not fully secured and have at least a possibility of not being repaid at the full claim amount. These amounts are classified on the condensed consolidated balance sheet as of October 31, 2023 as Liabilities subject to compromise. These liabilities are reported at the amounts expected to be allowed by the Bankruptcy Court, which may differ from the ultimate settlement amounts. Accordingly, the condensed consolidated financial statements for the three and nine months ended October 31, 2023 have been prepared in accordance with ASC 852. Additionally, the Company's condensed consolidated financial statements represent the Debtors and the Company's non-filing entities which are comprised primarily of the Company's international entities. The non-filing entities are not significant to the results of the Company and are not separately presented. These non-debtor subsidiaries are IronNet Australia Pty Ltd, IronNet Cybersecurity Japan, GK, IronNet Cybersecurity Singapore Pte Ltd, , IronNet Cybersecurity, UK, Ltd and IronNet Cybersecurity FZ-LLC. As of October 31, 2023, these entities held liabilities of $732, which are reflected in liabilities not subject to compromise on the condensed consolidated balance sheets.

Debtors-In-Possession

The Debtors are currently operating as debtors-in-possession in accordance with the applicable provisions of the Bankruptcy Code. The Debtors have brought and will seek Bankruptcy Court approval of motions designed primarily to mitigate the impact of the Chapter 11 Cases on the Company's operations, customers and employees. In general, as debtors-in-possession under the Bankruptcy Code, the Debtors are authorized to continue to operate as an ongoing business, but may not engage in transactions outside the ordinary course of business without the prior approval of the Bankruptcy Court. The Debtors have filed motions with the Bankruptcy Court to authorize the Debtors to conduct their business activities in the ordinary course, including, among other things and subject to the terms and conditions of such orders, authorizing the Debtors to, among other things: (i) pay employees' wages and related obligations; (ii) pay prepetition claims of certain lien claimants and critical vendors; (iii) continue to operate their cash management system in a form substantially similar to pre-petition practice (iv) continue to maintain and administer certain existing customer programs; (v) pay taxes in the ordinary course; (vi) maintain their insurance program and surety bond program in the ordinary course; (vii) pay utility providers in the ordinary course; and (viii) to use cash collateral.

Automatic Stay

Subject to certain specific exceptions under the Bankruptcy Code, the petitions for the Chapter 11 Cases automatically stayed most judicial or administrative actions against the Debtors and efforts by creditors to collect on or otherwise exercise rights or remedies with respect to pre-petition claims. Absent an order from the Bankruptcy Court, substantially all of the Debtors' pre-petition liabilities are subject to settlement under the Bankruptcy Code.

Executory Contracts

Subject to certain exceptions, under the Bankruptcy Code, the Debtors may assume, amend or reject certain executory contracts and unexpired leases subject to the approval of the Bankruptcy Court and certain other conditions. Generally, the rejection of an executory contract or unexpired lease is treated as a pre-petition breach of such executory contract or unexpired lease and, subject to certain exceptions, relieves the Debtors from performing their future obligations under such executory contract or unexpired lease but entitles the contract counterparty or lessor to a pre-petition general unsecured claim for damages caused by such deemed breach. Generally, the assumption of an executory contract or unexpired lease requires the Debtors to cure existing monetary defaults under such executory contract or unexpired lease and provide adequate assurance of future performance. Accordingly, any description of an executory contract or unexpired lease with the Debtors in this document, including where applicable a quantification of the Company's obligations under any such executory contract or unexpired lease of the Debtors, is qualified by any overriding rejection rights the Company has under the Bankruptcy Code.

Potential Claims

During October 2023, the Debtors (as defined below) filed with the Bankruptcy Court schedules and statements setting forth, among other things, the assets and liabilities of each of the Debtors, subject to the assumptions filed in connection therewith. These schedules and statements were subject to further amendment or modification after filing. Certain holders of pre-petition claims that are not governmental units were required to file proofs of claim by the deadline for general claims (the "Bar Date") of December 22, 2023. Certain holders of pre-petition claims that are governmental units are required to file proofs of claim by the bar date of April 9, 2024.

As of January 18, 2024, the date of the Confirmation Order, the Debtors received approximately 108 proofs of claim, primarily representing general unsecured claims, for an amount of approximately $99,427. These claims will be reconciled to amounts recorded in the Company's accounting records. Differences in amounts recorded and claims filed by creditors will be investigated and resolved, including through the filing of objections with the Bankruptcy Court, where appropriate. The Company may ask the Bankruptcy Court to disallow claims that the Company believes are duplicative, have been later amended or superseded, are without merit, are overstated or should be disallowed for other reasons. In addition, as a result of this process, the Company may identify additional liabilities that will need to be recorded or reclassified to Liabilities subject to compromise. In light of the number of claims filed, the claims resolution process may take time to complete and likely will continue after the Debtors emerge from bankruptcy.

Reorganization Items, Net

The Debtors have incurred and will continue to incur costs associated with the Chapter 11 Cases and the reorganization under the Joint Plan, primarily related to legal and professional fees. The amount of these costs, which since the Petition Date are being expensed as incurred, are expected to significantly affect the Company's results of operations. The Company also wrote off $125 in pre-petition deferred financing costs and debt discount as of the Petition Date. In accordance with applicable guidance, costs associated with the bankruptcy proceedings have been recorded as Reorganization items, net within the Company's accompanying condensed consolidated statements of operations for the three and nine months ended October 31, 2023. See Note 13, Reorganization items, net.

Financial Statement Classification of Liabilities Subject to Compromise

The accompanying Consolidated Balance Sheet as of October 31, 2023 includes amounts classified as Liabilities subject to compromise, which represent liabilities the Company anticipates will be allowed as claims in the Chapter 11 Cases. These amounts represent the Debtors' current estimate of known or potential obligations to be resolved in connection with the Chapter 11 Cases, and may differ from actual future settlement amounts paid. Differences between liabilities estimated and claims filed, or to be filed, will be investigated, and resolved in connection with the claims resolution process. See Note 12, Liabilities subject to compromise.

Lease Termination

On November 30, 2023, the Company terminated its lease for its McLean, Virginia headquarters with immediate effect. The Company is seeking to establish a new office lease for a smaller facility more appropriate for the resized company in the Northern Virginia or Maryland area and is in active discussions with potential landlords regarding terms and lease language. This is expected to result in monthly savings for the Company. ROU assets and liabilities associated with this terminated lease in total amount to $1,525 and $2,150, respectively.

On December 18, 2023, the Company terminated an equipment lease for equipment primarily used to support Q&A and customer support of an older iteration of the IronDefense solution that is no longer in production. This lease was canceled through the Chapter 11 reorganization process, helping to reduce the Company's expenses. ROU assets and liabilities associated with this terminated lease in total amount to $77 and $82, respectively.

New York Stock Exchange Delisting

As previously disclosed, on July 17, 2023, the board of directors of the Company authorized the Company to voluntarily delist each class of its securities (including its warrants) from the New York Stock Exchange. On July 17, 2023, the Company delivered written notice to the New York Stock Exchange of its intention to voluntarily delist each class of its common stock and its redeemable warrants from the New York Stock Exchange. The Company filed a Form 25 with the Securities and Exchange Commission relating to the delisting on July 27, 2023, and the delisting of its securities became effective on August 6, 2023. As a result of the delisting, the Company's securities are traded on over-the-counter markets. Upon the Effective Date of the Joint Plan, all of the Company's securities outstanding prior to the Effective Date will be automatically cancelled without further action upon the Effective Date. The Debtors expect that the Effective Date of the Joint Plan will occur as soon as all conditions precedent to the Joint Plan have been satisfied. Although the Debtors anticipate that all conditions will be satisfied, the Debtors can make no assurances as to when, or ultimately if, the Joint Plan will become effective.

Letter Agreement with C5

On July 11, 2023, the Letter Agreement (the "Letter Agreement") executed on June 16, 2023 between the Company and C5 CC Ferrous, LLC, a Delaware limited Liability company, as amended on July 11, 2023 was deemed executed and delivered by the Parties in accordance with its terms. The transactions contemplated by the Letter Agreement have been superseded by the Chapter 11 Cases.

Additional Indebtedness

On May 19, 2023, the Company issued a secured convertible promissory note in the principal amount of $475 to GEN Keith B. Alexander (Ret.). Such note has the same terms with respect to interest rate, maturity and conversion as the secured promissory notes previously issued to GEN Alexander and certain other members of the Board or entities affiliated with members of the Board of Directors and C5. As noted above, the furlough of the Company's employees, cessation of business operations and the filing of the Chapter 11 Cases constitute events of default under this note.

Between December 2022 and May 2023, the Company entered into Convertible Secured Promissory Notes, in the aggregate principal amount of $20,770, with certain of its directors and officers and entities affiliated with C5. On June 30, 2023, the Company and the noteholders executed amendments to these notes to extend the maturity dates thereof from June 30, 2023 to December 31, 2023. As noted above, the furlough of the Company's employees, cessation of business operations and the filing of the Chapter 11 Cases constitute events of default under these notes.

On July 21, 2023, the Company entered into the Korr Note with Korr Acquisitions Group, Inc. In the original principal amount of $556. The Korr Note was issued and funded with original issue discount of $55, which is 9.9% of the aggregate principal amount of the Korr Note. The unpaid principal amount of the Korr Note bears interest at a rate of 8% from July 21, 2023, calculated on an actual/360 basis. The Korr Note is secured by receivables owing from time to time to the Company under certain support, solutions or services contract(s), as designated in the Korr Note. As noted above, the furlough of the Company's employees, cessation of business operations and the filing of the Chapter 11 Cases constitute events of default under the Korr Note.

On August 23, 2023, the Company received written notice delivered on behalf of 3i pursuant to the 3i Note and the other transaction documents entered into in connection therewith, stating that, among other things, the Company was in purported payment default and purported covenant default under the 3i Note and other transaction documents. Pursuant to such written notice, 3i made a demand for payment within five business days of the written notice of amounts purportedly owed to 3i by the Company as a result of such purported defaults. 3i indicated that it intended to pursue some or all of its rights and remedies against the Company if the Company did not repay the purported outstanding obligations under the 3i Note and the other transaction documents. As noted above, the furlough of the Company's employees, cessation of business operations and the filing of the Chapter 11 Cases constitute events of default under the 3i Note.

On August 29, 2023, the Company issued secured promissory notes in an aggregate principal amount of $800 (the "August 2023 Notes") to VADM Jan E. Tighe (Ret.) and Donald R. Dixon, members of the Company's board of directors. The August 2023 Notes provided that the principal amount thereof was only to be used as follows: first, to satisfy accrued and unpaid employee payroll-related obligations of the Company; second, to pay an amount not to exceed $100 on account of employee, contractor or vendor expenses needed in the event the Company determined to prepare and file a bankruptcy proceeding; and third, to pay the premium for the Company's director and officer tail insurance policy. The August 2023 Notes have a scheduled maturity date one year after issuance and bear interest at the rate of 13.8% per annum, payable at maturity. The Company's obligations under the August 2023 Notes are secured by substantially all of the assets of the Company, excluding the Company's intellectual property. As noted above, the furlough of the Company's employees, cessation of business operations and the filing of the Chapter 11 Cases constitute events of default under these notes.

As of January 29, 2024, the Company had $4,788 in convertible debt outstanding and $23,750 in non-convertible debt outstanding.

Securities Litigation

On April 22, 2022, a federal securities class action lawsuit was filed by a purported stockholder in the United States District Court for the Eastern District of Virginia (the "Court"). On July 15, 2022, the Court appointed a lead plaintiff for the action, and ordered that the action bear the caption In re IronNet, Inc. Securities Litigation, No. 1:22-cv-004499-RDA-JFA. On August 29, 2022, the lead plaintiff filed an amended complaint on behalf of a proposed class consisting of those who acquired our securities between September 14, 2021 and December 15, 2021. The amended complaint names us, our current Chief Executive Officer, our former co-Chief Executive Officer, and our former Chief Financial Officer as defendants and asserts claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 ("1934 Act"), as amended, for alleged misrepresentations and/or omissions in September 2021 regarding our financial guidance for fiscal year 2022 and a claim under Section 20A of the 1934 Act, as amended, for alleged trading on material nonpublic information by our current Chief Executive Officer. The amended complaint seeks an unspecified amount of damages on behalf of the putative class and an award of costs and expenses, including reasonable attorneys' fees. On October 26, 2022, the defendants filed a motion to dismiss the amended complaint. On November 30, 2022, the lead plaintiff filed an opposition. On December 21, 2022, the defendants filed a reply in support of the motion to dismiss. The defendants' motion to dismiss was denied on August 9, 2023. We believe the claims are without merit, intend to defend the case vigorously, and have not recorded a liability related to this lawsuit because, at this time, we are unable to estimate reasonably possible losses or determine whether an unfavorable outcome is probable.

Appointment of Certain Director

On October 10, 2023, Ivona Smith was elected as a director of the Board of the Company, effective upon the filing of the Chapter 11 Cases. Ms. Smith will serve as an independent director of the Company with respect to the Cases and pursuant to an Independent Director Agreement entered into between Ms. Smith and the Company on October 10, 2023 (the "Independent Director Agreement"). Pursuant to the Independent Director Agreement, Ms. Smith may only be removed as a director of the Company with the prior approval of the Bankruptcy Court. She may otherwise resign as a director at any time, and the Independent Director Agreement will otherwise terminate on the earlier of the effective date of a plan of liquidation of the Company pursuant to Chapter 11 of the Bankruptcy Code or the conversion of the Cases to cases under Chapter 7 of the Bankruptcy Code. Under the Independent Director Agreement, Ms. Smith's compensation for service on the Board and on committees of the Board will consist of a monthly fee of $30 payable in advance each month, with the first monthly fee prorated for only that portion of the month remaining after October 10, 2023. Other than the Independent Director Agreement, there is no agreement or understanding between Ms. Smith and any other person pursuant to which she was selected as a director.

Liquidity and Going Concern

Under ASC Subtopic 205-40, Presentation of Financial Statements—Going Concern ("ASC 205-40"), the Company has the responsibility to evaluate whether conditions and/or events raise substantial doubt about the Company's ability to meet our future obligations as they become due within one year of the financial statements being issued in this Quarterly Report on Form 10-Q.

As of October 31, 2023, the Company had cash and cash equivalents of $787 which is not legally restricted to use, collectable receivables of $329, and accounts payable and accrued expenses not subject to compromise of $5,412, including $1,313 due to taxing authorities.

In February 2022, the Company entered into an equity line with Tumim Stone Capital, LLC ("Tumim") under which the Company may, in its discretion, sell shares of its common stock to Tumim subject to various conditions and limitations set forth in the purchase agreement with Tumim. On June 16, 2023, Tumim notified the Company of Tumim's election to terminate the Purchase Agreement, effective as of June 20, 2023.

On September 14, 2022, the Company entered into a Securities Purchase Agreement ("SPA") with 3i, which is an affiliate of Tumim, pursuant to which the Company agreed to sell and issue senior unsecured convertible promissory notes (the "Convertible Notes") to 3i in the aggregate principal amount of up to $25,750. On September 15, 2022, the Company issued a Convertible Note to 3i in the principal amount of $10,300, net of discount for cash proceeds of $10,000. The Company initially borrowed approximately $10,300 and issued related Convertible Notes to 3i, including a 3% Original Issue Discount ("OID"), with an 18-month term. The Company prepaid approximately $6,067 of the Convertible Notes to 3i and, as a result, approximately $4,233 principal amount of the Convertible Note remained outstanding thereafter. As of the date of this report, the conditions to the additional borrowing have not been met. See Note 9 for additional information.

Between December 14, 2022 and September 17, 2023, the Company issued senior secured promissory notes in an aggregate principal amount of $8,475 to a total of nine lenders including directors of the Company. Between January 11, 2023 and August 31, 2023, the Company issued senior secured convertible promissory notes in the aggregate principal amount of $15,275 to entities affiliated with C5 Capital Limited ("C5"), a beneficial owner of more than 5% of the Company's outstanding common stock.

On July 21, 2023, the Company entered into the Korr Note with Korr Acquisition Group, Inc., in the original principal amount of $556 (the "Korr Note"), which was issued and funded with an original issue discount of $55, or 9.9% of the principal balance.

The Company's future capital requirements will depend on many factors, including, but not limited to the rate of its growth, its ability to attract and retain customers and their willingness and ability to pay for the Company's products and services, and the timing and extent of spending to support its multiple and ongoing efforts to market and continue to develop its products. Further, the Company may enter into future arrangements to acquire or invest in businesses, products, services, strategic partnerships, and technologies. The Company needs additional equity or debt financing in order to continue its operations, which it may not be able to raise on terms acceptable to it or at all. If additional funds are not available to the Company on acceptable terms, or at all, the Company's business, financial condition, and results of operations would be adversely affected.

Despite the Company's current operating plans to implement the Joint Plan and emerge from bankruptcy, focus its business, reduce its expenses, improve its margins and mitigate uncertainties related to the foregoing, management believes that the Company does not have sufficient cash and cash equivalents on hand to support current operations for at least one year from the date of issuance of these consolidated financial statements without additional financing. Management has concluded that there is substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might become necessary should the Company be unable to continue as a going concern.

Based on its current planned operations, in the absence of additional sources of liquidity, management anticipates that the Company's existing cash and cash equivalents and anticipated cash flows from operations will not be sufficient to meet the Company's operating and liquidity needs for any meaningful period of time following the date of this report. Given that additional sources of liquidity have not been available to it, the Company filed the Chapter 11 Cases. The Chapter 11 Cases have not been determined to alleviate the previously identified substantial doubt about the Company's ability to continue as a going concern, including following the Effective Date of the Joint Plan. The Joint Plan was confirmed by the Bankruptcy Court on January 18, 2024. The Debtors expect that the Effective Date of the Joint Plan will occur as soon as all conditions precedent to the Joint Plan have been satisfied. Although the Debtors anticipate that all conditions will be satisfied, the Debtors can make no assurances as to when, or ultimately if, the Joint Plan will become effective.

On September 2, 2023, the Company furloughed almost all of the Company's employees and substantially curtailed business operations as a result of the Company's liquidity position. Subsequently, on September 29, 2023, given the unavailability of additional sources of liquidity and after considering strategic alternatives, the Company ceased substantially all of its business activities and terminated the remaining employees of the Company and its subsidiaries. The furlough of employees and cessation of business operations constituted events of default on all of the Company's outstanding indebtedness.

On October 10, 2023, the Debtors, and the DIP Facility Lender entered into a Term Sheet, which sets forth the principal terms of the DIP Documents, pursuant to which the DIP Facility Lender would provide the Company with a Maximum Facility Amount not to exceed $10,000, consisting of up to $8,500 of DIP Term Loans and $1,499 of the

Bridge Amount, subject to the terms and conditions set forth in the Term Sheet. Until the entry of a final order approving the DIP Facility by the Bankruptcy Court, a maximum amount of up to $4,500 of the DIP Facility (inclusive of the Bridge Amount) would be available on an interim basis.

Upon the execution of the Term Sheet, the DIP Facility Lender had advanced the Bridge Amount of $1,499 to the Company. The Bridge Amount is secured by all the assets of the Debtors. As of January 29, 2024, the DIP Facility Lender had advanced an aggregate of $9,999 to the Company.

On October 12, 2023, the Debtors, filed the Chapter 11 Cases. In connection with the filing of the Chapter 11 Cases, the Debtors resumed business operations and rehired a portion of the previously furloughed and terminated employees. The Debtors and their subsidiaries continue to operate their businesses as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. The filing of the Charter 11 Cases constituted an event of default on all of the Company's outstanding indebtedness.

The Company's ability to continue as a going concern is contingent upon its ability to generate sufficient liquidity to meet its contractual obligations and operating needs. Beginning on the Petition Date, it is also contingent upon its ability to, subject to the Bankruptcy Court's approval, implement a Chapter 11 plan of reorganization and emerge from the Chapter 11 Cases. As noted above, the Bankruptcy Court entered the Confirmation Order for the Joint Plan on January 18, 2024, and the Joint Plan will become effective upon satisfaction of the conditions precedent to the Joint Plan, including the adoption of the Company's new organization documents, the recapitalization of the Company in accordance with the Joint Plan, the filing of any final plan supplements, the Debtors shall have entered into the exit financing facility contemplated by the Joint Plan, and other customary conditions. Although the Debtors anticipate that all conditions will be satisfied, the Debtors can make no assurances as to when, or ultimately if, the Joint Plan will become effective. The Debtors expect that the Effective Date of the Joint Plan will occur as soon as all conditions precedent to the Joint Plan have been satisfied. Although the Debtors anticipate that all conditions will be satisfied, the Debtors can make no assurances as to when, or ultimately if, the Joint Plan will become effective. See Note 13, Subsequent Events, for additional information.

Basis of Presentation and Principles of Consolidation

The interim condensed consolidated financial statements and accompanying notes are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") and regulations of the U.S. Securities and Exchange Commission ("SEC") for interim financial reporting. The Company's condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated upon consolidation.

These unaudited interim condensed consolidated financial statements should be read in conjunction with the annual consolidated financial statements of IronNet, Inc. and accompanying notes thereto included in the Company's Annual Report on Form 10-K for the year ended January 31, 2023. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

The Company's fiscal year ends on January 31. References to fiscal 2024, for example, refer to the fiscal year ending January 31, 2024. The results of operations for the three and nine months ended October 31, 2023 are not necessarily indicative of the operating results that may be expected for the full fiscal year ending January 31, 2024 or any future period.

The accompanying unaudited condensed consolidated financial statements contain all adjustments, consisting of only normal recurring adjustments (except as otherwise noted), necessary for a fair statement of the Company's financial position as of October 31, 2023, its results of operations for the three and nine months ended October 31, 2023 and 2022, changes in stockholders' equity for the three and nine months ended October 31, 2023 and 2022, and cash flows for the nine months ended October 31, 2023 and 2022. Certain prior-period amounts have been reclassified in the accompanying condensed consolidated financial statements and notes thereto in order to conform to the current period presentation.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates and assumptions include, but are not limited to, the period of benefit for deferred commissions, the useful life of property and equipment, stock-based compensation expense, fair value of warrants, fair value of conversion options of debt, obsolescence reserves for inventory, and income taxes. If the underlying estimates and assumptions upon which the financial statements are based change in future periods, actual amounts may differ from those included in the accompanying condensed consolidated financial statements.

New Accounting Pronouncement Adopted in Fiscal 2024

In June 2016, the FASB issued Accounting Standards Update ("ASU") 2016-13, Measurement of Credit Losses on Financial Instruments (Topic 326). This standard requires a new method for recognizing credit losses that is referred to as the current expected credit loss ("CECL") method. The CECL method requires the recognition of all losses expected over the life of a financial instrument upon origination or purchase of the instrument, unless the Company elects to recognize such instruments at fair value with changes in profit and loss (the fair value option). This standard is effective for the Company for the earlier of the fiscal years beginning after December 15, 2022 or the time at which the Company no longer qualifies as an emerging growth company ("EGC") under SEC rules. The Company adopted the standard as of February 1, 2023 on a modified retrospective basis resulting in an increase to the beginning balance of accumulated deficit of approximately $182 as of February 1, 2023. The adoption of ASU 2016-13 did not have a material impact on the Company's condensed consolidated financial statements and related disclosures for the nine-month period ended October 31, 2023. Results for reporting periods prior to FY2024 continue to be presented in accordance with previously applicable GAAP while results for subsequent reporting periods are presented under ASC 326.

Newly Issued Accounting Pronouncements Not Yet Adopted

In November 2023, the FASB issued ASU No. 2023-07, "Segment Reporting (Topic 280) - Improvements to Reportable Segment Disclosures", which improves reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. This ASU also expands disclosure requirements to enable users of financial statements to better understand the entity's measurement and assessment of segment performance and resource allocation. This guidance is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted.

In December 2023, the FASB issued ASU No. 2023-09, "Income Taxes (Topic 740) - Improvements to Income Tax Disclosures", which enhances the transparency, effectiveness and comparability of income tax disclosures by requiring consistent categories and greater disaggregation of information related to income tax rate reconciliations and the jurisdictions in which income taxes are paid. This guidance is effective for annual periods beginning after December 15, 2024, with early adoption permitted.

Segment and Geographic Information

Segments are defined as components of an enterprise for which separate financial information is evaluated regularly by the chief operating decision maker ("CODM"), in deciding how to allocate resources and assess performance. The CODM reviews financial information presented on a consolidated basis for the purposes of allocating resources and evaluating financial performance. Accordingly, management has determined that the Company operates as one operating segment.

The following table presents revenue by geographic location:

	Three Months Ended October 31,	
	2023	2022
United States	$ 3,493	$ 5,634
International	1,069	1,354
Total	$ 4,562	$ 6,988

	Nine Months Ended October 31,	
	2023	2022
United States	$ 13,766	$ 17,478
International	3,588	2,805
Total	$ 17,354	$ 20,283

Substantially all of the Company's long-lived assets are located in the United States.

2. Revenue

Product, Subscription and Support Revenue

The Company sells a collective defense software solution that is comprised of three product offerings, IronDefense, IronDome, and IronRadar. Through December 2022, the software platform was delivered through both on-premises licenses bundled with on-premises hardware and through subscription software. The Company stopped offering on-premises deployment options in December 2022.

The security appliance deliverables include proprietary operating system software and hardware together with regular threat intelligence updates and support, maintenance, and warranty. The Company combines intelligence dependent hardware and software licenses with the related threat intelligence and support and maintenance as a single performance obligation, as it delivers the essential functionality of the cybersecurity solution. The Company recognizes revenue for this single performance obligation ratably over the expected term. Judgment is required for the assessment of material rights relating to renewal options associated with the Company's contracts.

Revenue from subscriptions, which allow customers to use the Company's security software over a contracted period without taking possession of the software, and managed services, where the Company provides managed detection and response services for customers, is recognized over the contractual term. The cloud-based subscription revenue, where the Company also provides hosting, recognized for the three months ended October 31, 2023 and 2022 was $3,924 and $5,651, respectively, and for the nine months ended October 31, 2023 and 2022 were $14,774 and $16,069 respectively. Overall product, subscription, and support revenue recognized for the three months ended October 31, 2023 and 2022, were $4,562 and $6,674, respectively, and for the nine months ended October 31, 2023 and 2022, was $17,182 and $19,331, respectively.

Professional Services Revenue

The Company sells professional services, including cyber operations monitoring, security, training and tailored maturity assessments. Revenue derived from these services is recognized as the services are delivered. Revenue recognized from professional services for the three months ended October 31, 2023 and 2022, was $0 and $314, respectively. Revenue recognized from professional services for the nine months ended October 31, 2023 and 2022, were $172 and $952, respectively.

Customer Concentration

For the nine months ended October 31, 2023, 4 customers accounted for 51%, or $8,932, of the Company's revenue, and for the nine months ended October 31, 2022, 2 customers accounted for 23%, or $4,534, of the Company's revenue. Two customers represented 98% and 56% of the total accounts receivable balance as of October 31, 2023 and January 31, 2023, respectively. Customer C elected not to renew the contract with the Company that ended in September 2023. The Company continues to pursue a subsequent contract with Customer C.

Significant customers are those which represent at least 10% of the Company's total revenue for a period. The following table presents customers that represented 10% or more of the Company's total revenue in the respective periods:

	For the Three Months Ended October 31,		For the Nine Months Ended October 31,	
	2023	2022	2023	2022
Customer A	11%	13%	11%	12%
Customer B	13%	10%	12%	11%
Customer C	11%	*	13%	*
Customer D	17%	*	15%	*
	52%	23%	51%	23%

* - less than 10%

Deferred Costs

The Company defers contract fulfillment costs that include appliance hardware. The balances in deferred costs are as follows:

Balance at February 1, 2023	$ 4,362
Amounts recognized in cost of revenue	(1,820)
Costs deferred	120
Balance at October 31, 2023	$ 2,662
Balance at February 1, 2022	$ 4,604
Amounts recognized in cost of revenue	(9,294)
Costs deferred	9,640
Balance at October 31, 2022	$ 4,950

Capitalized costs are included in deferred costs on the consolidated balance sheet, of which $1,960 is current and $702 is long-term as of October 31, 2023. The balance of deferred commissions at October 31, 2023 and January 31, 2023 were $921 and $1,751, respectively. Deferred commissions are included in the deferred costs on the condensed consolidated balance sheets, of which $697 is current and $224 is long-term as of October 31, 2023.

Deferred Revenue

Deferred revenue represents amounts received from and/or billed to customers in excess of revenue recognized. Amounts that have been invoiced are recorded in accounts receivable and in deferred revenue or revenue depending on whether the revenue recognition criteria have been met.

The balance in deferred revenue is as follows:

Balance at February 1, 2023	$	27,141
Revenue recognized		(17,354)
Amounts deferred		8,709
Balance at October 31, 2023	$	18,496
Balance at February 1, 2022	$	33,566
Revenue recognized		(20,283)
Amounts deferred		16,952
Balance at October 31, 2022	$	30,235

Of the revenue recognized in the nine months ended October 31, 2023 and 2022, $14,641 and $13,078 was included in deferred revenue as of January 31, 2023 and 2022, respectively.

Remaining Performance Obligations

As of October 31, 2023, the remaining performance obligations totaled $22,253.The Company's recognition of revenue in the future thereon will be in:

Years Ending January 31,		
2024 (3 months)	$	4,977
2025		13,144
2026		3,593
2027		539
	$	22,253

3. Equity

Common Stock

As of October 31, 2023, the Company had 500,000 shares of common stock authorized and 121,507 shares of common stock issued and outstanding with a par value of $0.0001 per share.

Each share of Common Stock has 1 vote.

Tumim Common Stock Purchase Agreement

On February 11, 2022, the Company entered into a Common Stock Purchase Agreement (the "Purchase Agreement") with Tumim, pursuant to which Tumim has committed to purchase up to $175,000 of common stock (the "Total Commitment"), at the Company's direction from time to time, subject to the satisfaction of the conditions in the Purchase Agreement. Also on February 11, 2022, the Company entered into a registration rights agreement with Tumim (the "Registration Rights Agreement"), pursuant to which the Company filed with the SEC a registration statement to register for resale under the Securities Act (the "ELOC Registration Statement"), the shares of common stock that may be issued to Tumim under the Purchase Agreement. The SEC declared the ELOC Registration Statement effective on March 17, 2022.

The sales of common stock to Tumim under the Purchase Agreement, if any, are subject to certain limitations and may occur, from time to time at the Company's sole discretion, over the approximately 36-month period commencing upon the initial satisfaction of all conditions to Tumim's purchase obligations set forth in the Purchase Agreement (the "Commencement Date").

From and after the Commencement Date, the Company has the right, but not the obligation from time to time to direct Tumim to purchase amounts of common stock, subject to certain limitations in the Purchase Agreement, specified in purchase notices that will be delivered to Tumim under the Purchase Agreement (each such purchase, a "Purchase"). Shares of common stock will be issued from the Company to Tumim at either a (i) 3% discount to the average daily volume weighted average price (the "VWAP") of the common stock during the three consecutive trading days from the date that a purchase notice with respect to a particular purchase (a "VWAP Purchase Notice") is delivered from the Company to Tumim (a "Forward VWAP Purchase"), or (ii) 5% discount to the lowest daily VWAP during the three consecutive trading days from the date that a VWAP Purchase Notice with respect to a particular purchase is delivered from the Company to Tumim (an "Alternative VWAP Purchase"). There is no upper limit on the price per share that Tumim could be obligated to pay for the common stock under the Purchase Agreement. The purchase price per share of common stock to be sold in a Purchase will be appropriately adjusted for any reorganization, recapitalization, non-cash dividend, stock split, reverse stock split or other similar transaction.

Pursuant to the terms of the Purchase Agreement, at the time the Purchase Agreement and the Registration Rights Agreement were signed, the Company paid a cash fee of $1,750, or 1% of the Total Commitment, to Tumim as consideration for its commitment to purchase shares of the Company's common stock under the Purchase Agreement. The cash paid related to the Commitment Fee was recorded in the consolidated statement of cash flows as a financing activity. The Commitment Fee qualifies as a derivative asset under ASC 815-40 Derivatives and Hedging — Contracts in Entity's Own Equity and was established as an asset on the condensed consolidated balance sheet, which will be adjusted over the period of the agreement to reflect fair value, with changes in fair value being recognized as a component of other expense. The Commitment Fee is measured at fair value categorized within Level 3 of the fair value hierarchy and the value derived was not determined to be material. Change in fair value of the Commitment Fee for the nine months ended October 31, 2023 of $195 was recognized in other expense in the condensed consolidated statement of operations. As of October 31, 2023, the Commitment Fee has no value.

There were no purchases of common stock under the Purchase Agreement during the nine months ended October 31, 2023 and October 31, 2022. On June 16, 2023, Tumim notified the Company of Tumim's election to terminate the Purchase Agreement, effective as of June 20, 2023. See Note 1, including under the heading "— Liquidity and Going Concern" for additional information.

Preferred Stock

The Company is authorized to issue 100,000 shares of preferred stock with a par value of $0.0001 per share with such designation, rights and preferences as may be determined from time to time by the Company's Board of Directors. At October 31, 2023, there were no shares of preferred stock issued or outstanding.

Public Warrants

On November 12, 2019, Legacy LGL sold 17,250 units at a price of $10.00 per unit (the "Units") in its Initial Public Offering, which included the full exercise by the underwriters of the over-allotment option to purchase an additional 2,250 units. Each Unit consisted of one share of Legacy LGL Class A common stock, par value $0.0001 per share, and one-half of one warrant to purchase one share of Legacy LGL Class A common stock (the "Public Warrants").

Public Warrants may only be exercised for a whole number of shares at a price of $11.50 per share. No fractional shares will be issued upon exercise of the Public Warrants. The Public Warrants became exercisable in September 2021 and will expire five years after the completion of the Merger or earlier upon redemption or liquidation.

Once the Public Warrants became exercisable upon the effective date of the Company's S-1 registration statement filed in September 2021, the Company obtained the ability to redeem the Public Warrants:

- in whole and not in part;

- at a price of $0.01 per warrant;
- upon not less than 30 days' prior written notice of redemption; and
- if, and only if, the reported last sale price of the Company's common stock equals or exceeds $18.00 per share (as adjusted for stock splits, stock dividends, reorganizations, recapitalizations and the like and subject to adjustment as described below) for any 20 trading days within a 30-trading day period ending on the third business day prior to the notice of redemption to the warrant holders.

If the Company calls the Public Warrants for redemption, management will have the option to require all holders that wish to exercise the Public Warrants to do so on a "cashless basis," as described in the Warrant Agreement.

As of October 31, 2023, the Company had 8,596 Public Warrants outstanding and not exercised.

4. Stock Incentive Plan

Legacy IronNet's Board of Directors adopted, and its stockholders approved Legacy IronNet's 2014 Stock Incentive Plan (the "2014 Plan") on September 29, 2014, and on October 17, 2014, respectively. The 2014 Plan was periodically amended, most recently on June 7, 2019. The 2014 Plan permitted the grant of incentive stock options ("ISOs"), non-qualified stock options ("NSOs"), stock appreciation rights, restricted stock, restricted stock units ("RSUs"), and other stock-based awards. ISOs were only able to be granted to Legacy IronNet's employees and to Legacy IronNet's subsidiary corporations' employees. All other awards could be granted to employees, directors and consultants of Legacy IronNet and to any of Legacy IronNet's parent or subsidiary corporation's employees or consultants. As of August 26, 2021, the closing date of the Merger, no additional awards will be granted under the 2014 Plan. The terms of the 2014 Plan will continue to govern the terms of outstanding equity awards that were granted prior to the closing date.

On August 26, 2021, per the Merger Agreement, the outstanding Legacy IronNet ISO and RSU grants issued under the 2014 Plan were converted to their post-transaction equivalents based on the conversion ratio, totaling 18,972 shares in the Company when exercised or converted.

The 2021 Equity Incentive Plan (the "2021 Plan") was approved by Legacy LGL's board of directors and by its stockholders on August 26, 2021. Under the 2021 Plan, upon its effectiveness, the Company was able to grant ISOs, RSUs and other equity securities to acquire, to convert into, or to receive up to 13,500 shares of common stock. The terms of the 2021 Plan include an evergreen provision that provides for an automatic share increase on February 1 of each year, in an amount equal to 5.0% of the sum of (a) the total number of shares of the Company's common stock outstanding on January 31 of the immediately preceding fiscal year, plus (b) the number of shares of common stock reserved for issuance under the 2021 Plan as of January 31 of the immediately preceding fiscal year, but which have not yet been issued. In accordance with the evergreen provision, on February 1, 2022, the number of shares that can be issued under the 2021 Plan increased by 4,934 shares, and on February 1, 2023, the number of shares that can be issued under the 2021 plan increased by 5,818 shares, with a new limit following the increases of 24,252 shares.

As of October 31, 2023, 16,362 share equivalents remained available to issue under the 2021 Plan.

Awards under the 2014 Plan and the 2021 Plan (together, the "Stock Incentive Plans") normally vest over a forty-eight month period, some of which have a first year cliff vest for the first 25% of their vesting, during which time no vesting occurs. In limited cases, vesting as short as twelve months with no cliff, vesting based on performance criteria and acceleration under certain events have also been permitted; however, such exceptions apply to less than 20% of the shares underlying awards currently outstanding under the Stock Incentive Plans.

Stock Options

The exercise price of each stock option granted under the Stock Incentive Plans may not be less than the fair market value per share of the underlying Class A common stock on the date of grant. The Board of Directors establishes the term and the vesting of all options issued under the Stock Incentive Plans; however, in no event will the term exceed ten years.

Presented below is a summary of the status of the stock options under the 2014 Stock Incentive Plan, as no stock options have been granted under the 2021 Plan:

	Number of Shares		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)		Intrinsic Value of Outstanding Options
Outstanding at February 1, 2023	530	$	0.56	3.8	$	773
Granted	-		-	-		-
Exercised	-		-	-		-
Forfeited or expired	(65)		0.36	2.4		-
Outstanding at October 31, 2023	465	$	0.59	3.1	$	—
Exercisable at October 31, 2023	465	$	0.59	3.1	$	—

For the three months ended October 31, 2023 and 2022, the Company recorded no compensation cost. For the nine months ended October 31, 2023 and 2022, the Company recorded no compensation cost and an insignificant amount of compensation cost related to stock options, respectively. The fair value of the shares under stock options granted that vested during the nine month periods ended October 31, 2023 and 2022 totaled $0 and $2, respectively.

Stock compensation expense for stock options is recognized on a straight line basis and with a provision for forfeitures matched to historical experience for matured grant cohorts. At October 31, 2023, there was no unrecognized compensation cost related to unvested stock options.

The Company uses the Black-Scholes option pricing model to estimate the fair value of options granted. The Black-Scholes model takes into account the fair value of an ordinary share and the contractual and expected term of the stock option, expected volatility, dividend yield, and risk-free interest rate. Prior to becoming a public company, the fair value of the Company's common stock was determined utilizing an external third-party pricing specialist.

The contractual term of the option ranges from the one to ten years. Expected volatility is the average volatility over the expected terms of comparable public entities from the same or similar industry as a substitute for the historical volatility of the Company's common shares, which is not determinable without an active external or internal market. The risk-free interest rate for periods within the expected life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The Company has not historically distributed dividends and does not expect to distribute any dividends.

Restricted Stock Units

In addition to the applicable time or performance-based vesting criteria, the RSUs granted under the 2014 Plan contained an additional vesting requirement that required the occurrence of a liquidity event. On August 26, 2021, the date of the Merger, the Board of Directors resolved that the Merger constituted a liquidity event, which triggered the liquidity event criteria for vesting under then outstanding RSU awards.

As the closing of the Merger represented the satisfaction of the liquidity event vesting requirement for outstanding RSUs, and vesting was not probable until that time, all RSUs issued prior to the completion of the Merger were re-valued at the date of the Merger using the closing share price on that date. All RSUs were assigned a fair value of $12.85 per share. Subsequent to the closing of the Merger, the fair value of RSUs is based on the fair value of the Company's common stock on the date of the grant or any further modification.

Presented below is a summary of the status of outstanding RSUs:

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested at February 1, 2023	4,361	$ 6.76
Granted	28	0.21
Vested	(1,223)	2.31
Forfeited or expired	(3,134)	5.26
Non-vested at October 31, 2023	32	$ 8.18

For the three months ended October 31, 2023, the Company recorded $3 of stock-based compensation expense, net of actual forfeitures, related to RSUs, of which ($376) is associated with RSUs on a graded vesting schedule and $380 is associated with RSUs on a straight-line vesting schedule. For the nine months ended October 31, 2023, the Company recorded $2,252 of stock-based compensation expense, net of actual forfeitures, related to RSUs, of which ($713) is associated with RSUs on a graded vesting schedule and $2,965 is associated with RSUs on a straight-line vesting schedule. For the three months ended October 31, 2022, the Company recorded $14,495 of stock-based compensation expense, net of actual forfeitures, related to RSUs, of which $2,684 is associated with RSUs on a graded vesting schedule and $11,811 is associated with RSUs on a straight-line vesting schedule. For the nine months ended October 31, 2022, the Company recorded $33,075 of stock-based compensation expense, net of actual forfeitures, related to RSUs, of which $15,630 is associated with RSUs on a graded vesting schedule and $17,445 is associated with RSUs on a straight-line vesting schedule.

Stock compensation expense for RSUs granted under the 2014 Plan, which contain both service and performance conditions, is recognized on a graded-scale basis, recognizing expense over the respective vesting period for each tranche of shares under each award granted. Stock compensation expense for RSUs granted under the 2021 Plan, which have only service vesting conditions, is recognized on a straight-line basis over the vesting period. In the event that an RSU holder is terminated before the award is fully vested for RSUs granted under either Plan, the full amount of the unvested portion of the award will be recognized as a forfeiture in the period of termination.

The Company's default tax withholding method for RSUs is the sell-to-cover method, under which shares with a market value equivalent to the tax withholding obligation are sold on behalf of the holder of the RSUs upon vesting and settlement to cover the tax withholding liability and the cash proceeds from such sales are then remitted by the Company to taxing authorities.

As of September 30, 2023, all employees of the Company were terminated, which resulted in the cancellation of unvested RSUs. However, the RSUs issued to board members remained outstanding. As of October 31, 2023, the unrecognized compensation cost related to unvested RSUs without performance obligations is $214. The weighted average remaining vesting period was 2.13 years.

5. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset in an orderly transaction or paid to settle a liability in an orderly transaction between market participants at the measurement date. Accounting standards utilize a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels, which are described below:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Observable inputs other than quoted prices that are either directly or indirectly observable for the asset or liability.

Level 3 – Unobservable inputs that are supported by little or no market activity.

These levels are not necessarily an indication of the risk of liquidity associated with the financial assets or liabilities disclosed. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement, as required under ASC 820-10 "Fair Value Measurement."

On September 15, 2022, the Company issued the Convertible Note. Pursuant to the terms of the Convertible Note, under certain circumstances the Company may be required to redeem all or a portion of the Convertible Note in cash. The convertible feature is measured at fair value categorized within Level 3 of the fair value hierarchy, with the fair value determined to be $774 on the date of issuance, which was determined to not be material. The fair value of the convertible feature was determined based on management assumptions and quotes received from financial institutions for obtaining additional debt financing. As of January 31, 2023, the convertible feature had a value of $671 and as of October 31, 2023, the convertible feature has no value. The Company recognized non-cash income of $167 and $671 related to the change in fair value of the convertible feature during the three and nine months ended October 31, 2023, respectively.

During the fiscal year ended January 31, 2023, the Company issued two senior secured convertible promissory notes to C5 in the amount of $5,000. During the nine months ended October 31, 2023, the Company issued additional senior secured promissory notes to C5 in the amount of $10,275. These senior secured convertible promissory notes all may require the Company to convert all or a portion of the principal and accrued and unpaid interest into shares of redeemable stock at the option of the holder up to five calendar days prior to maturity. The convertible feature is measured at fair value categorized within Level 3 of the fair value hierarchy, with the fair value of the convertible feature related to the two senior secured convertible promissory notes issued during the year ended January 31, 2023 determined to be $63. The convertible feature related to the senior secured convertible promissory notes during the nine months ended October 31, 2023 was determined to have a nominal value at issuance. The Company made this determination using a Black-Scholes option-pricing model. The Company recognized non-cash income of $0 and $63 related to the change in fair value of the convertible features during the three and nine months ended October 31, 2023, respectively.

During the fiscal year ended January 31, 2023, the Company established a derivative asset related to the Commitment Fee incurred when entering into the Securities Purchase Agreement with 3i, which is measured at fair value categorized within Level 3 of the fair value hierarchy, with the value determined to not be material. As of October 31, 2023, the Commitment Fee has no value.

The Company's Private Warrants have similar terms and are subject to substantially the same redemption features as the Public Warrants, as the transfer of a Private Warrant to anyone who is not a permitted transferee would result in the Private Warrant being converted to a Public Warrant. The Company determined that the fair value of each Private Warrant is equivalent to that of a Public Warrant. There have been observable transactions in the Company's Public Warrants and the Public Warrants had adequate trading volume between independent investors on the public market to provide a reliable indication of value. As of October 31, 2023 and 2022, the fair value of the Private Warrants was equal to that of the Public Warrants as they had substantially the same terms. However, as they are not actively traded, they are listed as a Level 2 in the fair value hierarchy table below.

Investments with an original maturity of three months or less at the date of purchase are considered cash equivalents, while all other investments are classified as short-term or long-term based on their maturities and their availability for use in current operations.

The following table presents our assets measured at fair value on a recurring basis:

	October 31, 2023				January 31, 2023			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets								
Cash equivalents	$ 6	$ —	$ —	$ 6	$ 6	$ —	$ —	$ 6
Commitment Fee	$ —	$ —	$ —	$ —	$ —	$ —	$ 195	$ 195
Total financial assets	$ 6	$ —	$ —	$ 6	$ 6	$ —	$ —	$ 201
Liabilities							$ —	
Warrants	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Conversion options	$ —	$ —	$ —	$ —	$ —	$ —	$ 734	$ 734
Total financial liabilities	$ —	$ —	$ —	$ —	$ —	$ —	$ 734	$ 734

The following table presents a summary of the changes in the fair value of the Company's Level 3 financial instruments during the nine months ended October 31, 2023 and 2022:

	Convertible Notes Derivative Liability	C5 Notes Derivative Liability	Commitment Fee Derivative Asset
Fair Value as of January 31, 2023	$ 671	$ 63	$ 195
Change in fair value	(671)	(63)	(195)
Fair value as of October 31, 2023	$ -	$ -	$ -
Fair Value as of January 31, 2022	$ -	$ -	$ -
Change in fair value	774	-	1,330
Fair value as of October 31, 2022	$ 774	$ -	$ 1,330

6. Supplemental Balance Sheet Information

Accrued Expenses

Accrued expenses consisted of the following:

	October 31, 2023	January 31, 2023
Accrued expenses	$ 4,150	$ 976
Taxes payable on behalf of employees related to vested RSUs	265	6,987
Estimated additional taxes payable related to vested RSUs	1,048	-
Unvouched payables	1,215	2,010
Accrued expenses	6,678	9,973
Accrued expenses subject to compromise (Note 12)	(2,267)	-
Accrued expenses not subject to compromise	4,411	9,973

The balance of accrued expenses as of October 31, 2023 and January 31, 2023 includes cash proceeds from the sale of shares on behalf of the holders of vested RSUs to cover the associated tax withholding liability under the sell-to-cover method. The Company made payments of $6,335 to the Internal Revenue Service ("IRS") during May 2023 to cover the portion owed to taxing authorities. In September 2023, a refund of $1,405 was received for overpayment of taxes due.

The $2,267 of accrued expenses subject to compromise consists of $69 in accrued expenses and $2,198 in accrued interest on debt subject to compromise. See Note 12 for additional information.

7. Commitments and Contingencies

In the ordinary course of business, the Company and its subsidiaries may become defendants in certain shareholder claims and other litigation. The Company records a liability when it is probable that a loss has been incurred and the amount is reasonably estimable. To date, no such liability has been recorded.

8. Leases

The Company leases office space under the terms of noncancelable operating leases that expire at various dates through November 2026. Certain operating lease agreements provide for an annual 2.75% escalation of the base rent. The Company is also responsible for operating expenses, which are classified as variable lease costs. Lease terms may include options to extend or terminate the lease, typically at the Company's own discretion. Renewal options are regularly evaluated and the renewal period will be included in the lease term when exercise of the renewal option is considered reasonably certain. There are no active leases that have a renewal option that is reasonably certain of being exercised.

The Company holds leases that include both lease (e.g., payments including rent, taxes, and insurance costs) and non-lease components (e.g., common-area or other maintenance costs). As the Company has elected the practical expedient to group lease and non-lease components for all leases, these are accounted for as a single lease component. The Company's leases do not include any residual value guarantees or material restrictive covenants.

Lease expense for both operating and finance leases is recognized on a straight-line basis over the lease term and is recorded in operating expenses on the consolidated statements of operations. Interest expense incurred on finance lease liabilities is calculated using the effective interest method and is recorded in interest expense on the consolidated statements of operations.

The lease balances are located in the following positions on the consolidated balance sheet.

	Balance Sheet Location	October 31, 2023	January 31, 2023
Assets			
Operating	Operating lease right-of-use assets, net	$ 1,562	$ 1,885
Financing	Property and equipment, net	108	205
Liabilities			
Current			
Operating	Other current liabilities	$ 653	$ 607
Financing	Other current liabilities	37	130
Non-current			
Operating	Other long-term liabilities	1,549	2,047
Financing	Other long-term liabilities	51	81

The ROU liabilities are subject to compromise at October 31, 2023. See Note 12 for further information.

Total lease costs for the three and nine months ended October 31, 2023 and 2022 were:

	Three Months Ended October 31, 2023	Three Months Ended October 31, 2022	Nine Months Ended October 31, 2023	Nine Months Ended October 31, 2022
Operating lease cost	$ 146	$ 222	$ 437	$ 815
Short-term lease cost	359	447	985	1,630
Variable lease cost	51	13	29	60
Finance lease cost:				
Amortization of right-of-use assets	32	23	65	68
Interest on lease liabilities	4	1	7	4
Total finance lease cost	$ 36	$ 24	$ 72	$ 72

The following table summarizes future scheduled lease payments as of October 31, 2023:

	Operating Leases	Finance Leases
Remaining three months of fiscal year 2024	189	12
2025	775	48
2026	797	45
2027	658	-
Total	$ 2,419	$ 105
Less: Imputed Interest	217	17
Present value of net lease payments	$ 2,202	$ 88
Lease liability, current portion	653	37
Lease liability, net of current portion	1,549	51
Total lease liability	$ 2,202	$ 88

Supplemental information and non-cash activities related to operating and finance leases as of October 31, 2023 and 2022 are as follows:

Cash paid for amounts included in the measurement of lease liabilities as of October 31, 2023	
Operating cash flows from operating leases	$ 566
Operating cash flows from finance leases	11
Financing cash flows from finance leases	36
	$ 612
Weighted average remaining lease term (in years)	
Operating leases	3.08
Finance leases	2.25
Weighted average discount rate	
Operating leases	6.36 %
Finance leases	13.80 %

Cash paid for amounts included in the measurement of lease liabilities as of October 31, 2022	
Operating cash flows from operating leases	$ 950
Operating cash flows from finance leases	4
Financing cash flows from finance leases	96
	$ 1,050
Weighted average remaining lease term (in years)	
Operating leases	4.08
Finance leases	1.25
Weighted average discount rate	
Operating leases	6.36 %
Finance leases	5.67 %

On November 30, 2023, the Company terminated the lease for and vacated its McLean, Virginia headquarters. See Note 15, Subsequent Events, for additional information.

9. Debt

5% Convertible Promissory Notes due 2024

On September 14, 2022, the Company entered into the SPA with 3i, under which the Company agreed to sell and issue Convertible Notes to 3i in an aggregate principal amount of up to $25,750, which are convertible into shares of the Company's common stock, subject to certain conditions. On September 15, 2022, the Company issued a Convertible Note under the SPA in the principal amount of $10,300, including a 3% Original Issue Discount ("OID"), with an 18-month term. The Company prepaid approximately $6,067 of the Convertible Notes to 3i and, as a result, approximately $4,233 principal amount of the Convertible Note remained outstanding thereafter. As of the date of this report, the conditions to the additional borrowing have not been met. See Note 15, Subsequent Events, for additional information, including with respect to events of default under the Convertible Notes.

The Convertible Notes bear interest at an annual rate of 5.00% per annum, payable monthly on the first of each month (the "Installment Date"), beginning the first month that is 90 days following the issuance date, payable in cash and/or shares of the Company's common stock, at the Company's option. The interest rate will increase to an annual rate of 10.00% per annum upon the occurrence and during the continuance of an event of default as defined in the Convertible Notes. Each Convertible Note issued pursuant to the SPA will have a maturity date of 18 months from the date of issuance, which may be extended at the option of 3i in certain instances.

The Convertible Notes provide a conversion right pursuant to which 3i may convert any portion of the principal, together with any unpaid interest and other unpaid amounts, into shares of common stock at a conversion price of $7.50 per share, subject to adjustments in accordance with the terms of the Convertible Notes. The Convertible Note also contains provisions that provide 3i with the right, subject to certain exceptions, to require the Company to redeem all or a portion of the Convertible Note in cash. This convertible feature has been bifurcated from the host contract and accounted for separately as a derivative. The bifurcation of the embedded derivative created a debt discount of $774 which reduced the book value of the $10,300 Convertible Note and increases prospectively the amount of interest expense to be recognized over the life of the Convertible Note. Due to the provisions that may provide 3i with the right to require the Company to redeem all or a portion of the Convertible Note in cash, the balance of the Convertible Note is included in current liabilities on the consolidated balance sheet. As of October 31, 2023, the fair value of the Convertible Notes was approximately $2,934 based on Level 3 inputs.

On each monthly Installment Date, the Company shall repay the lesser of $687 and the principal amount then outstanding, plus accrued and unpaid interest, in cash and/or shares of common stock, at the Company’s option (the "Installment Amount"). In certain instances, but no more than once per calendar month, 3i will also have the right to accelerate the repayment of one monthly repayment obligation based on the conversion price on the acceleration date. For any Installment Amount paid in the form of shares of common stock, the applicable conversion price will be equal to the lesser of (a) $7.50, and (b) the greater of (x) 95% of the lowest VWAP in the five trading days immediately prior to such conversion, and (y) a “floor price” of approximately $0.44, subject to adjustment in accordance with the terms of the Convertible Notes. For any Installment Amount paid in cash, the price paid will be equal to 105% of the Installment Amount. The proceeds received from the Convertible Notes were used to fund general corporate and working capital needs.

During the nine months ended October 31, 2023, the Company paid two of the Installment Amounts due in cash and elected to pay $3,320 of the principal balance, along with $332 in accrued interest, through the issuance of common stock, which resulted in the issuance of 8,704 shares of common stock.

As of October 31, 2023, the effective interest rate on the Convertible Notes was 16.79%. The Company failed to pay Installment Amounts in December 2022 and April 2023, then from July 2023 through October 2023, which qualifies as an event of default per the Convertible Notes, and has resulted in the Company incurring interest at a rate of 10.0% per annum since the original event of default.

Interest expense for the three months ended October 31, 2023 related to the Convertible Notes was $200, which was a result of effective interest of $67 incurred under the $10,300 Convertible Note, as well as $57 in interest expense related to the amortization of related debt issuance costs and OID and $76 of interest expense related to the accretion of the debt discount created by the embedded conversion feature. Interest expense for the nine months ended October 31, 2023 related to the Convertible Notes was $1,239, which was a result of effective interest of $559 incurred under the $10,300 Convertible Note, as well as $292 in interest expense related to the amortization of related debt issuance costs and OID and $388 of interest expense related to the accretion of the debt discount created by the embedded conversion feature. Interest expense is included in interest expense in the condensed consolidated statement of operations. As a result of the Court issued Automatic Stay and in accordance with ASC 852, Reorganizations, we have accrued interest expense on the Convertible Note only up to the Petition Date.

As a result of the Chapter 11 Cases, the Company wrote off the balance of debt issuance costs and OID, including the debt discount created by the embedded conversion feature, for a total amount of $118. The outstanding principle amount of $4,233, as well as accrued and unpaid interest of $22, was reclassified as liabilities subject to compromise as of October 12, 2023. See Note 12 for additional information.

Promissory Notes with Directors

In December 2022, the Company issued and sold secured promissory notes in an aggregate principal amount of $6,900 (the "Initial Director Notes") to a total of eight lenders, including seven lenders who are either directors of the Company or entities affiliates with directors of the Company. At the time of issuance of the Initial Directors Notes, each of the holders of the Director Notes executed a Security Agreement, under which the Company's obligations under the Initial Director Notes were secured by substantially all of the assets of the Company, excluding the Company's intellectual property. The Director Notes, together with the C5 Notes described below, rank senior in right of payment to any of the Company's existing and future indebtedness for borrowed money.

On January 11, 2023, the Company and the holders agreed to amend and restate the Initial Director Notes to be substantially in the form of the secured promissory notes issued to C5 and discussed below (the "Director Notes"). As amended and restated, the Director Notes bear interest at a rate of 13.8% per annum from the respective dates of the Initial Director Notes. On April 20, 2023, the Company issued and sold an additional Director Note in the amount of $300 to one of the initial lenders from the December 2022 issuances who is not affiliated with the board of directors. Upon issuance of the Director Notes, each of the holders executed an Amended and Restated Security Agreement which secure the Company's obligations under the Director Notes by substantially all of the assets of the Company, excluding the Company's intellectual property. The proceeds received from the Director Notes will be used to fund general corporate and working capital needs, including for purposes of remitting amounts due to taxing authorities for tax withholdings received for RSUs settled under the sell-to-cover method.

On May 19, 2023, the Company issued a secured convertible promissory note in the principal amount of $475 to GEN Keith B. Alexander (Ret.). Such note has the same terms with respect to interest rate, maturity and conversion as the secured promissory notes previously issued to GEN Alexander and certain other members of the Board or entities affiliated with members of the Board of Directors and C5.

On June 30, 2023, the Company and the noteholders executed amendments to these notes to extend the maturity dates thereof from June 30, 2023 to December 31, 2023.

On August 29, 2023, the Company issued secured promissory notes in an aggregate principal amount of $800 (the "August 2023 Notes") to VADM Jan E. Tighe (Ret.) and Donald R. Dixon, members of the Company's board of directors. The August 2023 Notes provided that the principal amount thereof was only to be used as follows: first, to satisfy accrued and unpaid employee payroll-related obligations of the Company; second, to pay an amount not to exceed $100 on account of employee, contractor or vendor expenses needed in the event the Company determined to prepare and file a bankruptcy proceeding; and third, to pay the premium for the Company's director and officer tail insurance policy. The August 2023 Notes have a scheduled maturity date one year after issuance and bear interest at the rate of 13.8% per annum, payable at maturity. The Company's obligations under the August 2023 Notes are secured by substantially all of the assets of the Company, excluding the Company's intellectual property.

As of October 31 2023, there is $8,475 in Director Notes outstanding. The outstanding principle amount, along with accrued and unpaid interest of $859 was reclassified as liabilities subject to compromise as of October 12, 2023. See Note 12 for additional information.

As of October 31, 2023, the fair value of the Director Notes was approximately $5,875 based on Level 3 inputs. Interest expense for the three and nine months ended October 31, 2023 was $228 and $732 and is included in interest expense in the condensed consolidated statement of operations. As a result of the Court issued Automatic Stay and in accordance with ASC 852, the Company has accrued interest expense on the BOD Notes only up to the Petition Date.

Convertible Promissory Notes with C5

On December 30, 2022, the Company issued a secured convertible promissory note in the principal amount of $2,000 (the "Initial C5 Note") to an affiliate of C5, which was amended and restated on January 11, 2023 (as amended and restated, the "Restated C5 Note"). The Company issued additional senior secured convertible promissory notes to affiliates of C5 (together with the Restated C5 Note, the "C5 Notes") in total principal amounts of $3,000 in fiscal 2023, $6,845 during the three months ended April 30, 2023, $3,030 during the three months ended July 31, 2023, and $400 during the three months ended October 31, 2023.

Each of the C5 Notes bear interest at an annual rate of 13.8% per annum from the date of issuance (or in the case of the Restated C5 Note, from the date of the Initial C5 Note), and were originally payable at scheduled maturity on June 30, 2023, subject to acceleration in certain circumstances. On June 30, 2023, the Company and the noteholders executed amendments to these notes to extend the maturity dates thereof from June 30, 2023 to December 31, 2023.

The C5 Notes, together with the Director Notes, rank senior in right of payment to any of the Company's existing and future indebtedness for borrowed money. The Company's obligations under the C5 Notes are secured by substantially all of the assets of the Company, excluding the Company's intellectual property, as governed by an Amended and Restated Security Agreement executed by C5 on January 4, 2023.The C5 Notes provide C5 with the right, at any time on or after the date that is five calendar days prior to maturity, to convert all or any portion of the aggregate principal amount of the C5 Notes, together with any accrued and unpaid interest and any other unpaid amounts, into shares of the Company's common stock, par value $0.0001 per share, at a conversion price of $2.00 per share. In the event that any shares of common stock are issued upon conversion of the C5 Notes, the Company has agreed to grant specified registration rights to C5.

The convertible feature included within the C5 Notes issued through January 31, 2023 was bifurcated from the host contract and accounted for separately as a derivative. The bifurcation of the embedded derivative created a debt discount of $63, which reduced the book value of the $5,000 C5 Notes outstanding at January 31, 2023 and increases prospectively the amount of interest expense to be recognized over the life of the C5 Notes.

The convertible features for the C5 Notes issued during the nine months ended October 31, 2023 were determined to have no value and were not bifurcated from the host contract as separate derivatives. Refer to Note 5 for more information. The proceeds received from the C5 Notes have been used to fund general corporate and working capital needs.

As of October 31, 2023, the fair value of the C5 Notes is approximately $10,520 based on Level 3 inputs. Interest expense related to the C5 Notes for the three and nine months ended October 31, 2023 was $423 and $1,316. The Company also recognized interest expense of $0 and $55 related to the accretion of the debt discount created by the embedded conversion feature included within the C5 Notes issued during the three and nine months ended October 31, 2023, respectively, which is included in interest expense in the condensed consolidated statement of operations. As a result of the Court issued Automatic Stay and in accordance with ASC 852, the Company has accrued interest expense on the C5 Notes only up to the Petition Date.

As of October 31, 2023, the Company had issued secured convertible promissory notes to C5 in the amount of $15,275. The outstanding principle amount, along with accrued and unpaid interest of $1,307 was reclassified as liabilities subject to compromise as of October 12, 2023. See Note 12 for additional information.

Korr Note

On July 21, 2023, the Company entered into the Korr Note with Korr Acquisitions Group, Inc. in the original principal amount of $556. The Korr Note was issued and funded with original issue discount of $55, which is 9.9% of the aggregate principal amount. The Korr Note bears interest at a rate of 8% from July 21, 2023, calculated on an actual/360 basis. The Korr Note is payable upon the earlier of October 21, 2023 and the time at which the Company receives all amounts payable under certain covered agreements and is secured by receivables owing from time to time to the Company under those certain support, solutions or services contract(s), as designated in the Korr Note. The proceeds received from the Korr Note were used to fund general corporate and working capital needs.

As of October 31, 2023, the fair value of the Korr Note is approximately $347 based on Level 3 inputs. As of October 31, 2023, the effective interest rate on the Korr Note was 50.71%. Interest expense related to the Korr Note for the nine months ended October 31, 2023 was $59, which was a result of effective interest of $10 incurred under the Korr Note, as well as $49 in interest expense related to the amortization of related OID, which is included in interest expense in the condensed consolidated statement of operations. Interest expense related to the Korr Note for the three months ended October 31, 2023 was $53, which was a result of effective interest of $8 incurred under the Korr Note, as well as $44 in interest expense related to the amortization of related OID, which is included in interest expense in the condensed consolidated statement of operations. As a result of the Court issued Automatic Stay and in accordance with ASC 852, the Company has accrued interest expense on the Korr Note only up to the Petition Date.

As noted above, the furlough of the Company's employees, cessation of business operations and the filing of the Chapter 11 Cases constitute events of default under the Korr Note. As a result of the Chapter 11 Cases, the Company wrote off the balance of OID of $6. The outstanding principle amount, along with accrued an unpaid interest of $10, was reclassified as liabilities subject to compromise as of October 12, 2023. See Note 12 for additional information.

DIP Facility

On October 10, 2023, the Debtors, and the DIP Facility Lender entered into a Term Sheet, which sets forth the principal terms of the DIP Documents, pursuant to which the DIP Facility Lender would provide the Company with a Maximum Facility Amount not to exceed $10,000, consisting of up to $8,500 of DIP Term Loans and $1,499 of the Bridge Amount, subject to the terms and conditions set forth in the Term Sheet. Until the entry of a final order approving the DIP Facility by the Bankruptcy Court, a maximum amount of up to $4,500 of the DIP Facility (inclusive of the Bridge Amount) would be available on an interim basis. As of October 31, 2023, the DIP Facility Lender advanced the Bridge Amount of $1,499 to the Company. The Bridge Amount is secured by all the assets of the Debtors.

10. Income Taxes

The income tax provision for interim periods is determined using an estimate of the Company's annual effective tax rate as adjusted for discrete items arising in that quarter. The effective income tax rate was (0.1%) and 0.00% for the nine months ended October 31, 2023 and 2022, respectively. The effective tax rate differs from the U.S. statutory rate primarily due to the full valuation allowances on the Company's net domestic deferred tax assets and impact of foreign tax rate differential.

11. Related Party Transactions

Product, subscription and support revenue from Related Parties

Certain investors and companies who the Company is affiliated with purchased software, subscription and support revenue during the periods presented and the contracts with related parties ended in October 2022. There was no revenue from contracts with related parties recognized for the three and nine months ended October 31, 2023. The Company recognized $210 and $948 of revenue from contracts with related parties for the three and nine months ended October 31, 2022, respectively. There is no receivable balance as of October 31, 2023. The corresponding receivable was $0 as of January 31, 2023 after the Company recorded an allowance for bad debt of $1,283.

Indebtedness and Other Transactions

See Note 1 and Note 9 for additional information relating to indebtedness held by certain affiliates of the Company, including the BOD Notes, C5 Notes, and the Korr Note.

12. Liabilities Subject to Compromise

As discussed in Note 1. Organization and Summary of Changes in Significant Accounting Policies, since the Petition Date, the Company has been operating as debtor in possession under the jurisdiction of the Bankruptcy Court and in accordance with provisions of the Bankruptcy Code. On the accompanying condensed consolidated balance sheet, the caption "Liabilities subject to compromise" reflects the expected allowed amount of the pre-petition claims of the debtor entities that are not fully secured and that have at least a possibility of not being repaid at the full claim amount. On January 18, 2024, the Bankruptcy Court entered the Findings of Fact, Conclusions of Law, and Order Confirming the Joint Plan, which approved and confirmed the Joint Plan (the "Confirmation Order"). The Debtors expect that the Effective Date of the Joint Plan will occur as soon as all conditions precedent to the Joint Plan have been satisfied. Although the Debtors anticipate that all conditions will be satisfied, the Debtors can make no assurances as to when, or ultimately if, the Joint Plan will become effective. Liabilities subject to compromise at October 31, 2023, consisted of the following:

		October 31, 2023
Accounts payable	$	7,570
Accrued expenses		69
Other current liabilities		690
Debt subject to compromise		28,539
Accrued interest on debt subject to compromise		2,198
Other long-term liabilities		1,600
Total liabilities subject to compromise	$	40,666

13. Reorganization Items, net

Reorganization items incurred as a result of the Chapter 11 Cases are presented separately in the accompanying statements of operations for the nine months ended October 31, 2023 and were as follows:

Reorganization		Nine Months Ended October 31,
Write-off of pre-petition deferred financing costs and debt discount	$	125
Professional fees		713
Reorganization items, net	$	838

Professional fees included in Reorganization items, net represent fees for post-petition expenses related to the Chapter 11 Cases. Deferred long-term debt fees and original issue discount are included in Reorganization items, net. No cash was paid for Reorganization items, net as of October 31, 2023.

14. Net Loss Per Share Attributable to Common Stockholders

Net Loss per common share

The Company computes basic earnings (loss) per share (“EPS") by dividing net income or loss available to common stockholders by the weighted average number of common shares outstanding for the reporting period. Diluted EPS is computed similarly to basic net earnings per shares, except that it reflects the effect of potential shares that would be issued if stock option awards, restricted stock units, convertible notes, warrants and preferred shares, to the extent issued, were converted into or exercised for common stock, to the extent dilutive.

The following table summarizes the computation of basic and diluted net loss per share attributable to common stockholders:

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2023	2022	2023	2022
Numerator: Net loss	$ (6,335)	$ (32,009)	$ (22,413)	$ (93,593)
Denominator: Basic and Diluted Weighted-average shares in computing net loss per share attributable to common stockholders	123,001	105,033	118,004	101,925
Net loss attributable to common stockholders—basic and diluted	$ (0.05)	$ (0.30)	$ (0.19)	$ (0.92)

Since the Company was in a net loss position for all periods presented, diluted net loss per share attributable to common stockholders will be the same as the basic net loss per share, as, in a net loss position, the inclusion of all potential common shares outstanding would be antidilutive. The potential shares of common stock excluded from the computation of diluted net loss per share for the periods presented due to their antidilutive impacts are as follows:

	As of October 31, 2023	As of October 31, 2022
Shares of common stock issuable from stock options	465	810
Unvested RSUs	—	7,030
Convertible notes	—	1,373
Warrants	8,606	8,606
Potential common shares excluded from diluted net loss per share	9,071	17,819

15. Subsequent Events

On November 2, 2023, the Debtors filed the Joint Plan and a related proposed disclosure statement with the Bankruptcy Court. On January 18, 2024, the Bankruptcy Court entered the Findings of Fact, Conclusions of Law, and Order Confirming the Joint Plan. The Debtors expect that the Effective Date of the Joint Plan will occur as soon as all conditions precedent to the Joint Plan have been satisfied. Although the Debtors anticipate that all conditions will be satisfied, the Debtors can make no assurances as to when, or ultimately if, the Joint Plan will become effective.

On January 17, 2024, IronNet Cybersecurity, Ferrous Investors LP, ITC Global Advisers, LLC and certain other parties entered into a Post-Bankruptcy Financing Term Sheet providing for the issuances of $15,000 of secured convertible notes following the Effective Date of the Joint Plan. Such post-Effective Date financing consists of secured convertible notes issuable by IronNet Cybersecurity that bear interest at 6.00% per annum and that will mature 48 months after issuance, unless converted into shares of Series A preferred stock of the Company. As of January 29, 2024, $500 has been issued to the Company under the Post-Bankruptcy Financing Term Sheet.

Lease Termination

On November 30, 2023, the Company terminated its lease for its McLean, Virginia headquarters with immediate effect. The Company is seeking to establish a new office lease for a smaller facility more appropriate for the resized company in the Northern Virginia or Maryland area and is in active discussions with potential landlords regarding terms and lease language. This is expected to result in a significant monthly savings for the Company. ROU assets and liabilities associated with this terminated lease in total amount to $1,525 and 2,150, respectively.

On December 18, 2023, the Company terminated an equipment lease for equipment primarily used to support Q&A and customer support of an older iteration of the IronDefense solution that is no longer in production. This lease was canceled through the Chapter 11 reorganization process, helping to reduce the Company's expenses. ROU assets and liabilities associated with this terminated lease in total amount to $77 and $82, respectively.

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

Unless otherwise indicated or the context otherwise requires, references in this section to "IronNet," "we," "us," "our", "the Company" and other similar terms refer to IronNet, Inc. and its subsidiaries after giving effect to the Merger.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q ("Quarterly Report"), and the annual consolidated financial statements for the year ended January 31, 2023 and related notes included in our Annual Report on Form 10-K filed on May 16, 2023 (the "Annual Report"). The interim condensed consolidated financial statements in this Quarterly Report are presented in U.S. dollars rounded to the nearest thousand, with the amounts in this Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") rounded to the nearest tenth of a million. Therefore, differences in the tables between totals and sums of the amounts listed may occur due to such rounding.

All forward-looking statements included herein are made only as of the date hereof. Our fiscal year end is January 31, and our fiscal quarters end on April 30, July 31, October 31, and January 31. Our fiscal years ending January 31, 2024 and ended January 31, 2023 are referred to herein as "fiscal 2024" and "fiscal 2023," respectively.

Overview

GEN. Keith B. Alexander (Ret.) founded our company in 2014 to solve the major cybersecurity problem he witnessed and defined during his tenure as former head of the NSA and founding Commander of U.S. Cyber Command: You can't defend against threats you can't see. Our innovative approach provides the ability for groups of organizations—within an industry sector, supply chain, state or country, for example—to see, detect and defend against sophisticated cyber attacks earlier and faster than ever before.

IronNet has defined a new market category called Collective Defense. IronNet has developed the Collective Defense platform, a solution that can identify anomalous (potentially suspicious or malicious) behaviors on computer networks and share this intelligence anonymously and in real time among Collective Defense community members. Collective Defense communities comprise groups of organizations that have common risks, such as a supply chain, a business ecosystem, or across an industry sector, a state, or a country. This cybersecurity model delivers timely, actionable, and contextual alerts and threat intelligence on attacks targeting enterprise networks, and functions as an early-warning detection system for all community members.

This new platform addresses a large and unwavering compound problem: limited threat visibility for increasingly borderless enterprises across sectors and at the national level, paired with ineffective threat knowledge sharing across companies and sectors and a "go it alone" approach to cybersecurity. These operational gaps, combined with market dynamics like the increased velocity of sophisticated cyber attacks and the deepening scarcity of qualified human capital, have set our mission to transform how cybersecurity is waged.

Our Business

We have focused on the development and delivery of a suite of advanced cybersecurity capabilities for detection, alerting, situational awareness and hunt/remediation combined into a comprehensive Collective Defense platform. In addition to our Collective Defense platform, our product offering also includes a threat intelligence feed sold primarily though our partner ecosystem that enables the cybersecurity stack to block adversary infrastructure immediately. We complement these capabilities, delivered to both commercial and public sector enterprises, with professional services.

Product, Subscription and Support Revenue

Our primary line of business is the delivery of integrated software capabilities through our Collective Defense platform. The platform, targeting larger organizations with a more mature cybersecurity infrastructure, is comprised of two flagship products:

IronDefense is an advanced Network Detection Response ("NDR") solution that uses AI-driven behavioral analytics to detect and prioritize anomalous activity inside individual enterprises. IronNet leverages advanced AI/ML algorithms to detect previously unknown threats, which are those that have not been identified and "fingerprinted" by industry researchers), in addition to screening known threats, and applies its Expert System to prioritize the severity of the behaviors—all at machine speed and cloud scale.

IronDome is a threat-sharing solution that facilitates a crowdsource-like environment in which the IronDefense threat detections from an individual company are shared among members of a Collective Defense community, consisting of our customers who have elected to permit their information to be anonymously shared and cross-correlated by our IronDome systems. IronDome analyzes threat detections across the community to identify broad attack patterns and provides anonymized intelligence back to all community members in real time, giving all members early insight into potential incoming attacks. Automated sharing across the Collective Defense community enables faster detection of attacks at earlier stages.

Our Collective Defense platform is designed to deliver strong network effects. Every customer contributing its threat data (anonymously) into the community is able to reap benefits from the shared intelligence of the other organizations. The collaborative aspect of Collective Defense, and the resulting prioritization of alerts based on their potential severity, helps address the known problem of "alert fatigue" that plagues overwhelmed security analysts.

Our Collective Defense platform is cloud-deployed and is scalable to include small-to-medium businesses and public-sector agencies as well as multinational corporations. The Collective Defense platform was available to customers on-premise and in hybrid environments until December 2022. We provide professional cybersecurity services such as incident response and threat hunting, as well as programs to help customers assess cybersecurity governance, maturity, and readiness. Our cybersecurity services are designed to create shared long-term success measures with our customers, differentiating us from other cybersecurity vendors by working alongside customers as partners and offering consultative and service capabilities beyond implementation.

Our Collective Defense platform is a subscription-based pricing and flexible delivery model, with 85.1% of our revenue for the nine months ended October 31, 2023 related to deployments involving our key partner, AWS. To make it as easy as possible for customers to add Collective Defense into their existing security stack, we have built a rich set of APIs that enable integrations with standard security products, including SIEM, SOAR, EDR, NGFW tools, and cloud-native logs from the major public cloud providers.

IronRadar is a threat-sharing solution that proactively and automatically updates customer cybersecurity tools to be able to detect and block malicious indicators of adversary infrastructure. IronRadar, which we launched during the fiscal year ended January 31, 2023, is intended to broaden our market reach to companies of all sizes, including those with less sophisticated cybersecurity infrastructure, and leverage our key partner relationships as the primary route to market. Developed by our team of elite threat hunters, IronRadar scours the internet fingerprinting servers to determine whether they are C2 infrastructure while being stood up, even before a cyber attack, such as ransomware, is initiated. This threat detection and response solution identifies known and unknown C2 infrastructure and is built from the ground up to be easy to deploy, making it easy for security teams to integrate IronRadar into existing tools, including SIEM/SOAR, TIP, EDRs, and firewalls, to increase effectiveness and defense. Once set up, IronRadar is regularly updated and automatically fed into a customer's security landscape to proactively block threats, enabling faster response and creating efficiencies for security teams. IronRadar is currently available for purchase as an annual subscription and also sold directly from the AWS Marketplace.

Professional Services

We sell professional services, including development of national cybersecurity strategies, cyber operations monitoring, security, training, red team, incident response and tailored maturity assessments. Revenue derived from these services is recognized as the services are delivered.

Financing to Date

Historically, we have financed our operations primarily through private placements of common stock, issuance of debt, warrants and redeemable convertible preferred stock.

In connection with the execution of the Merger Agreement, a number of purchasers (each, a “Subscriber”) purchased an aggregate of 12,500,000 shares of our common stock (the “PIPE Shares”), for a purchase price of $10.00 per share and an aggregate purchase price of $125.0 million. As a result of the Merger, we also received $13.3 million held in Legacy LGL’s trust account from proceeds related to public trust shares, net of stockholder redemptions. Transaction costs related to the issuance of the trust shares were $9.0 million.

On September 15, 2022, we issued a senior unsecured convertible promissory note to 3i, LP (“3i”) for an aggregate principal amount of $10.3 million, net of debt discount for cash proceeds of $10.0 million. The Company prepaid approximately $6.1 million of the convertible notes to 3i and, as a result, approximately $4.2 million principal amount of the convertible notes remained outstanding thereafter. As of December 31, 2023, the conditions to the additional borrowing have not been met and, as such, the Company is in default under these convertible notes. For more information, see "Liquidity and Capital Resources-3i Convertible Debt Facility" and see Note 9 to our interim condensed consolidated financial statements included in this report.

From December 2022 to August 2023, we issued and sold senior secured promissory notes in an aggregate principal amount of $8.5 million to a total of eight lenders, including certain members of our Board of Directors or their affiliates. For more information see "Liquidity and Capital Resources-Director and C5 Loans." The Company is in default under these secured promissory notes. See Note 9, Debt, to our interim condensed consolidated financial statements included in this report.

Between December 2022 and September 2023, we issued and sold senior secured convertible promissory notes in an aggregate amount of approximately $15.3 million to C5 Capital Limited ("C5"), one of our major stockholders. For more information see "Liquidity and Capital Resources-Director and C5 Loans.” The Company is in default under these notes. See Note 9, Debt to our interim condensed consolidated financial statements included in this report.

In July, 2023, we entered into the Korr Note with Korr Acquisition Group, Inc., in the original principal amount of $0.6 million (the "Korr Note"), which was issued and funded with an original issue discount of 9.9%. For more information see "Liquidity and Capital Resources-Korr Note.” The Company is in default under the Korr Note. See Note 9, Debt to our interim condensed consolidated financial statements included in this report.

On October 10, 2023, the DIP Lenders advanced the $1.5 million Bridge Amount to the Company, which is secured by all of the assets of the Debtors. For more information see "Liquidity and Capital Resources-DIP Facility." See Note 9, Debt, to our interim condensed consolidated financial statements included in this report.

During the nine months ended October 31, 2023, we incurred a net loss of $22.4 million, of which $2.3 million related to non-cash expense related to stock-based compensation, and used $13.3 million in cash to fund our operations. As of October 31, 2023, we had $0.8 million of cash on hand to continue to fund our operations.

See Note 15, Subsequent Events, to our interim condensed consolidated financial statements included in this report, including, without limitation, with respect to additional indebtedness incurred after October 31, 2023, various events of default under the Company’s outstanding indebtedness and the filing of the Chapter 11 Cases.

Recent Developments

Chapter 11 Cases

On October 12, 2023, the Company and IronNet Cybersecurity, Inc. ("IronNet Cybersecurity"), the Company’s wholly-owned subsidiary (collectively, the “Debtors”), filed voluntary petitions for reorganization under the Bankruptcy Code in the Bankruptcy Court (such cases, the “Chapter 11 Cases”). The Debtors and their subsidiaries continue to operate their businesses as “debtors-in-possession” under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. The Chapter 11 Cases are currently jointly administered under the caption In re IronNet, Inc. et al., Case No. 23-11710 (Bankr. D. Del. 2023).

On November 2, 2023, the Debtors filed the Joint Plan and a related proposed disclosure statement with the Bankruptcy Court. On January 18, 2024, the Bankruptcy Court entered the Findings of Fact, Conclusions of Law, and Order Confirming the Joint Plan. The Debtors expect that the Effective Date of the Joint Plan will occur as soon as all conditions precedent to the Joint Plan have been satisfied. Although the Debtors anticipate that all conditions will be satisfied, the Debtors can make no assurances as to when, or ultimately if, the Joint Plan will become effective.

On January 17, 2024, the IronNet Cybersecurity, Inc., Ferrous Investors LP, ITC Global Advisers, LLC and certain other parties entered into a Post-Bankruptcy Financing Term Sheet providing for the issuances of $15.0 million of secured convertible notes following the Effective Date of the Joint Plan. Such post-Effective Date financing consists of secured convertible notes issuable by IronNet Cybersecurity that bear interest at 6.00% per annum and that will mature 48 months after issuance, unless converted into shares of Series A preferred stock of the Company. As of January 29, 2024, $0.5 million has been issued to the Company under the Post-Bankruptcy Financing Term Sheet.

See Note 15, Subsequent Events, to our interim condensed consolidated financial statements included in this report with respect to additional recent developments.

Liquidity and Going Concern

As of October 31, 2023, the Company had cash and cash equivalents of $0.8 million which is not legally restricted to use, collectable receivables of $0.3 million, and accounts payable and accrued expenses not subject to compromise of $5.4 million, including $1.3 million due to taxing authorities.

In February 2022, the Company entered into an equity line with Tumim Stone Capital, LLC (“Tumim”) under which the Company may, in its discretion, sell shares of its common stock to Tumim subject to various conditions and limitations set forth in the purchase agreement with Tumim. On June 16, 2023, Tumim notified the Company of Tumim’s election to terminate the Purchase Agreement, effective as of June 20, 2023.

On September 14, 2022, the Company entered into a Securities Purchase Agreement ("SPA") with 3i, which is an affiliate of Tumim, pursuant to which the Company agreed to sell and issue senior unsecured convertible promissory notes (the "Convertible Notes") to 3i in the aggregate principal amount of up to $25.8 million. On September 15, 2022, the Company issued a Convertible Note to 3i in the principal amount of $10.3 million, net of discount for cash proceeds of $10 million. The Company initially borrowed approximately $10.3 million and issued related Convertible Notes to 3i, including a 3% Original Issue Discount ("OID"), with an 18-month term. The Company prepaid approximately $6.1 million of the Convertible Notes to 3i and, as a result, approximately $4.2 million principal amount of the Convertible Note remained outstanding thereafter. As of the date of this report, the conditions to the additional borrowing have not been met. We are currently in default under the Convertible Notes. See Note 9 to our interim condensed consolidated financial statements for additional information.

Between December 14, 2022 and September 17, 2023, the Company issued senior secured promissory notes in an aggregate principal amount of $8.5 million to a total of nine lenders including directors of the Company. Between January 11, 2023 and August 31, 2023, the Company issued senior secured convertible promissory notes in the aggregate principal amount of $15.3 million to entities affiliated with C5 Capital Limited (“C5”), a beneficial owner of more than 5% of the Company’s outstanding common stock. As of October 31, 2023, the Company had issued $8.5 million in senior secured promissory notes to eight lenders and $15.3 million in senior secured convertible promissory notes to C5. We are currently in default under the BOD and C5 Notes. See Note 9 to our interim condensed consolidated financial statements for additional information.

On July 21, 2023, the Company entered into the Korr Note with Korr Acquisitions Group, Inc. In the original principal amount of $0.6 million (the "Korr Note"), which was issued with an original issue discount of 9.9%. We are currently in default under the Korr Note. See Note 9 to our interim condensed consolidated financial statements for additional information.

The Company’s future capital requirements will depend on many factors, including, but not limited to the rate of its growth, its ability to attract and retain customers and their willingness and ability to pay for the Company's products and services, and the timing and extent of spending to support its multiple and ongoing efforts to market and continue to develop its products. Further, the Company may enter into future arrangements to acquire or invest in businesses, products, services, strategic partnerships, and technologies. The Company needs additional equity or debt financing in order to continue its operations, which it may not be able to raise on terms acceptable to it or at all. If additional funds are not available to the Company on acceptable terms, or at all, the Company’s business, financial condition, and results of operations would be adversely affected.

Despite the Company's current operating plans to implement the Joint Plan and emerge from bankruptcy, focus its business, reduce its expenses, improve its margins and mitigate uncertainties related to the foregoing, management believes that the Company does not have sufficient cash and cash equivalents on hand to support current operations for at least one year from the date of issuance of these consolidated financial statements without additional financing. Management has concluded that there is substantial doubt about the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might become necessary should the Company be unable to continue as a going concern.

Based on its current planned operations, in the absence of additional sources of liquidity, management anticipates that the Company's existing cash and cash equivalents and anticipated cash flows from operations will not be sufficient to meet the Company's operating and liquidity needs for any meaningful period of time following the date of this report. Given that additional sources of liquidity have not been available to it, the Company filed the Chapter 11 Cases. The Chapter 11 Cases have not been determined to alleviate the previously identified substantial doubt about the Company's ability to continue as a going concern, including following the Effective Date of the Joint Plan. The Joint Plan was confirmed by the Bankruptcy Court on January 18, 2024. The Debtors expect that the Effective Date of the Joint Plan will occur as soon as all conditions precedent to the Joint Plan have been satisfied. Although the Debtors anticipate that all conditions will be satisfied, the Debtors can make no assurances as to when, or ultimately if, the Joint Plan will become effective.

On September 2, 2023, the Company furloughed almost all of the Company's employees and substantially curtailed business operations as a result of the Company's liquidity position. Subsequently, on September 29, 2023, given the unavailability of additional sources of liquidity and after considering strategic alternatives, the Company ceased substantially all of its business activities and terminated the remaining employees of the Company and its subsidiaries. The furlough of employees and cessation of business operations constituted events of default on all of the Company's outstanding indebtedness.

On October 10, 2023, the Debtors, and the DIP Facility Lender entered into a Term Sheet, which sets forth the principal terms of the DIP Documents, pursuant to which the DIP Facility Lender would provide the Company with a Maximum Facility Amount not to exceed $10.0 million, consisting of up to $8.5 million of DIP Term Loans and $1.5 million of the Bridge Amount, subject to the terms and conditions set forth in the Term Sheet. Until the entry of a final order approving the DIP Facility by the Bankruptcy Court, a maximum amount of up to $4.5 million of the DIP Facility (inclusive of the Bridge Amount) would be available on an interim basis.

Upon the execution of the Term Sheet, the DIP Facility Lender advanced the Bridge Amount of $1.5 million to the Company. The Bridge Amount is secured by all the assets of the Debtors.

On October 12, 2023, the Debtors, filed the Chapter 11 Cases. In connection with the filing of the Chapter 11 Cases, the Debtors resumed business operations and rehired a portion of the previously furloughed and terminated employees. The Debtors and their subsidiaries continue to operate their businesses as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. The filing of the Charter 11 Cases constituted an event of default on all of the Company's outstanding indebtedness.

The Company's ability to continue as a going concern is contingent upon its ability to generate sufficient liquidity to meet its contractual obligations and operating needs. Beginning on the Petition Date, it is also contingent upon its ability to, subject to the Bankruptcy Court's approval, implement a Chapter 11 plan of reorganization and emerge from the Chapter 11 Cases. As noted above, the Bankruptcy Court entered the Confirmation Order for the Joint Plan on January 18, 2024, and the Joint Plan will become effective upon satisfaction of the conditions precedent to the Joint Plan, including the adoption of the Company's new organization documents, the recapitalization of the Company in accordance with the Joint Plan, the filing of any final plan supplements, the Debtors shall have entered into the exit financing facility contemplated by the Joint Plan, and other customary conditions. Although the Debtors anticipate that all conditions will be satisfied, the Debtors can make no assurances as to when, or ultimately if, the Joint Plan will become effective. The Debtors expect that the Effective Date of the Joint Plan will occur as soon as all conditions precedent to the Joint Plan have been satisfied. Although the Debtors anticipate that all conditions will be satisfied, the Debtors can make no assurances as to when, or ultimately if, the Joint Plan will become effective. See Note 13, Subsequent Events, for additional information.

Reductions in force

Between September 2022 and November 2022, our headcount was reduced by approximately 111 employees, or approximately 44% of our workforce as part of our initiatives to re-balance our cost structure.

We do not expect to incur future material charges in connection with these reductions in force. These reductions in force are expected to result in approximately $20.0 million of annualized cost savings in total. We may incur additional expenses not currently contemplated due to events associated with the reductions in force. The annualized cost savings are estimates and subject to a number of assumptions, and actual results may differ materially.

On September 2, 2023, the Company furloughed almost all of the Company's employees and substantially curtailed business operations as a result of the Company's liquidity position. Subsequently, on September 29, 2023, given the unavailability of additional sources of liquidity and after considering strategic alternatives, the Company ceased substantially all of its business activities and terminated the remaining employees of the Company and its subsidiaries. On October 13, 2023, certain employees were re-hired by the Company in connection with the Chapter 11 proceedings.

As of October 31, 2023, the company had approximately 90 employees. As of January 29, 2024, the Company had approximately 28 employees.

New York Stock Exchange Delisting

On October 25, 2022, we received a written notice (the "Initial Notice") from the New York Stock Exchange (the "NYSE") that we are no longer in compliance with the NYSE continued listing standards, set forth in Section 802.01C of the NYSE Listed Company Manual because the average closing price of our common stock was less than $1.00 per share over a period of 30 consecutive trading days. On December 21, 2022, we received a second written notice (the "Second Notice") from the NYSE that we are no longer in compliance with the NYSE continued listing standards, set forth in Section 802.01E of the NYSE Listed Company Manual as a result of our failure to timely this Quarterly Report. On January 24, 2023, we received a third written notice (the "Third Notice", together with the Initial Notice and Second Notice, the "Notices") from the NYSE that we are no longer in compliance with the NYSE continued listing standards, set forth in Section 802.01B of the NYSE Listed Company Manual because our average global market capitalization over a consecutive 30 trading-day period was less than $50.0 million and, at the same time, our last reported shareholders' equity was less than $50.0 million.

The Notices had no immediate impact on the listing of our common stock, which continued to be listed and traded on the NYSE during applicable cure periods, and did not result in a default under our material debt or other agreements during the period covered by this report.

On July 17, 2023, the board of directors of the Company authorized the Company to voluntarily delist each class of its securities (including its warrants) from the New York Stock Exchange. On July 17, 2023, the Company delivered written notice to the Exchange of its intention to voluntarily delist each class of its common stock and its redeemable warrants from the New York Stock Exchange. The Company filed a Form 25 with the Securities and Exchange Commission relating to the delisting on July 27, 2023, and the delisting of its securities became effective on August 6, 2023. As a result of the delisting, the Company's securities are traded on over-the-counter markets.

Tumim Purchase Notices

Between November 25, 2022 and December 14, 2022, we issued a series of purchase notices (the "Purchase Notices") to Tumim Stone Capital, LLC ("Tumim") pursuant to the terms of a Common Stock Purchase Agreement (the "Purchase Agreement") we entered into with Tumim on February 11, 2022. Pursuant to the Purchase Notices, we issued 2,511,365 shares of our common stock to Tumim and received aggregate proceeds of approximately $0.6 million. On June 16, 2023, Tumim notified the Company of Tumim's election to terminate the Purchase Agreement, effective as of June 20, 2023. As of October 31, 2023, the Company was not able to raise additional funds under the equity line with Tumim. For more information on the Purchase Agreement, see "Liquidity and Capital Resources—Tumim Stone Capital Committed Equity Financing" in our interim condensed consolidated financial statements included in this report.

C5 Strategic Transaction

On December 28, 2022, we entered into an agreement with C5 pursuant to which we agreed to a mutual exclusivity period through January 31, 2023 to seek to negotiate definitive agreements with respect to a potential offer by C5 to acquire all of the outstanding common stock of the Company not presently owned by C5 and certain of its affiliates (the "Proposed Transaction"). Commencement of the exclusivity period was subject to C5 providing $2.0 million of financing described above under " *Director and C5 Loans*." The exclusivity period was subsequently extended on multiple occasions following additional financing from C5. Subsequently, on July 11, 2023, the Letter Agreement (the "Letter Agreement") executed on June 16, 2023 between the Company and C5 CC Ferrous, LLC, a Delaware limited Liability company, as amended on July 11, 2023, was deemed executed and delivered by the Parties in accordance with its terms. The transactions contemplated by the Letter Agreement have been superseded by the Chapter 11 Cases.

Key Business Metrics

We monitor the following key metrics to measure our performance, identify trends, formulate business plans and make strategic decisions.

Recurring Software Customers

We believe that our ability to increase the number of subscription and other recurring contract type customers on our platform is an indicator of our market penetration, the growth of our business, and our potential future business opportunities. Our recurring software customers include customers who have a recurring contract for either or both of our IronDefense and IronDome platforms. These platforms are generally sold together, but they also can be purchased on a standalone basis. The following table sets forth the number of recurring software customers as of the dates presented:

	October 31,	
	2023	**2022**
Recurring Software Customers	43	70
Year-over-year growth	(39)%	(5)%

Our recurring software customer count was negatively impacted in the first quarter of fiscal year 2024 by our current liquidity situation. We believe that our ability to strengthen our financial position and liquidity will also improve our customer retention and net new customer acquisition.

Annual Recurring Revenue ("ARR")

ARR is calculated at a particular measurement date as the annualized value of our then existing customer subscription contracts and the portions of other software and product contracts that are to be recognized over the course of the contracts and that are designed to renew, assuming any contract that expires during the 12 months following the measurement date is renewed on its existing terms. The following table sets forth our ARR as of the dates presented:

	October 31,	
	2023	**2022**
Annual recurring revenue	$ 15.8	$ 28.2
Year-over-year growth	-44 %	3 %

ARR decreased during the nine months ended October 31, 2023 as a result of the decrease in recurring software customer count and the decrease in the number of existing contracts.

Dollar-Based Average Contract Length

Our dollar-based average contract length is calculated from a set of customers against the same metric as of a prior period end. Because many of our customers have similar buying patterns and the average term of our contracts is more than 12 months, this metric provides a means of assessing the degree of built-in revenue repetition that exists across our customer base.

We calculate our dollar-based average contract length as follows:

a. Numerator: We multiply the average total length of the contracts, measured in years or fractions thereof, by the respective revenue recognized for the nine months ended October 31, 2023 and 2022, as applicable.

b. Denominator: We use the revenue attributable to software and product customers for the nine months ended October 31, 2023 and 2022 in the numerator. This effectively represents the revenue base that is being generated by those customers.

Dollar-based average contract length is obtained by dividing the Numerator by the Denominator. Our dollar-based average contract length increased from 3.0 to 3.2 years, or 7%, as of the end of the nine month period ended October 31, 2023 as compared to the end of the same period in fiscal 2023 due to the addition of two longer term contracts and a short term contract ending.

	Nine Months Ended October 31,	
	2023	**2022**
	(in years)	
Dollar-based average contract length	3.2	3.0

Calculated Billings

Calculated billings is a non-GAAP financial measure that we believe is a key metric to measure our periodic performance. Calculated billings represent our total revenue plus the change in deferred revenue in a period. Calculated billings in any particular period aims to reflect amounts invoiced to customers to access our software-based, cybersecurity analytics products, cloud platform and professional services, together with related support services, for our new and existing customers. We typically invoice our customers on multi-year or annual contracts in advance, either annually or monthly.

Calculated billings decreased by $8.3 million, or 49%, for the nine months ended October 31, 2023 as compared to the nine months ended October 31, 2022, and decreased by $2.4 million, or 76%, for the three months ended October 31, 2023 as compared to the three months ended October 31, 2022. We expect that calculated billings will be affected by the timing of entering into agreements with customers and the mix of billings in each reporting period as we typically invoice customers multi-year or annually in advance and, to a lesser extent, monthly in advance.

While we believe that calculated billings may be helpful to investors because it provides insight into the cash that will be generated from sales of our subscriptions, this metric may vary from period-to-period for a number of reasons, and therefore has a number of limitations as a quarter-to-quarter or year-over-year comparative measure. In addition, other companies, including companies in our industry, may calculate similarly-titled non-GAAP measures differently or may use other measures to evaluate their performance, all of which could reduce the usefulness of our metric of calculated billings as a tool for comparison. Because of these and other limitations, you should consider calculated billings along with revenue and our other GAAP financial results.

The following table presents a reconciliation of revenue, the most directly comparable financial measure calculated in accordance with GAAP, to calculated billings:

	Three Months Ended October 31,			
	2023	2022	2023 vs 2022	
	(in millions)			
Revenue	$ 4.6	$ 7.0	(2.4)	(34.7)%
Add: Total Deferred revenue, end of period	18.5	30.2	(11.7)	(38.8)%
Less: Total Deferred revenue, beginning of period	22.3	34.1	(11.8)	(34.6)%
Calculated billings	$ 0.8	$ 3.1	(2.4)	(75.9)%

	Nine Months Ended October 31,			
	2023	2022	2023 vs 2022	
	(in millions)			
Revenue	$ 17.4	$ 20.3	(2.9)	(14.4)%
Add: Total Deferred revenue, end of period	18.5	30.2	(11.7)	(38.8)%
Less: Total Deferred revenue, beginning of period	27.1	33.5	(6.4)	(19.0)%
Calculated billings	$ 8.7	$ 17.0	(8.3)	(48.8)%

Components of Our Results of Operations

Revenue

Our revenues are derived from sales of product, subscriptions, subscription-like software products and software support contracts as well as from professional services. Products, subscription and support revenues accounted for 100% and 95% of our revenue in the three month periods ended October 31, 2023 and 2022, respectively. Products, subscriptions and support revenues accounted for 99% and 96% of our revenue in the nine month periods ended October 31, 2023 and 2022, respectively. Professional services revenues accounted for 0% and 5% of our revenue in the three months ended October 31, 2023 and 2022, respectively. Professional services revenues accounted for 1% and 4% of our revenue in the three month periods ended October 31, 2023 and 2022, respectively.

Our typical customer contracts and subscriptions range from one to five years. We typically invoice customers annually, in advance. We combine intelligence dependent hardware and software licenses as well as subscription-type deliverables with the related threat intelligence and support and maintenance as a single performance obligation, as it delivers the essential functionality of our cybersecurity solution. Most companies also participate in the IronDome collective defense software solution that provides them access to our collective defense infrastructure linking participating stakeholders. As a result, we recognize revenue for this single performance obligation ratably over the expected term with the customer. Amounts that have been invoiced are recorded in deferred revenue or they are recorded in revenue if the revenue recognition criteria have been met. Judgment is required for the assessment of material rights relating to renewal options associated with our contracts.

Professional services revenues are generally sold separately from our products and include services such as development of national cyber security strategies, cyber operations monitoring, security, training, red team, incident response and tailored maturity assessments. Revenue derived from these services is recognized as the services are delivered.

Cost of Revenue

Cost of product, subscription and support revenue includes expenses related to our hosted security software and AWS Marketplace, employee-related costs of our customer facing support, such as salaries, bonuses and benefits, an allocated portion of administrative costs and the amortization of deferred costs.

Cost of professional services revenue consists primarily of employee-related costs, such as salaries, bonuses and benefits, cost of contractors and an allocated portion of administrative costs.

Gross Profit

Gross profit, calculated as total revenue less total costs of revenue is affected by various factors, including the timing of our acquisition of new customers, renewals from existing customers, the data center and bandwidth costs associated with operating our cloud platform, the extent to which we expand our customer support organization, and the extent to which we can increase the efficiency of our technology and infrastructure through technological improvements. Also, we view our professional services in the context of our larger business and as a significant lead generator for future product sales. Because of these factors, our services revenue and gross profit may fluctuate over time.

Operating Expenses

Research and development

Our research and development efforts are aimed at continuing to develop and refine our products, including adding new features and modules, increasing their functionality, and enhancing the usability of our platform. Research and development costs primarily include personnel-related costs and acquired software costs. Research and development costs are expensed as incurred.

Sales and marketing

Sales and marketing expenses consist primarily of employee compensation and related expenses, including salaries, bonuses and benefits for our sales and marketing employees, sales commissions that are recognized as expenses over the period of benefit, marketing programs, travel and entertainment expenses, and allocated overhead costs. We capitalize our sales commissions and recognize them as expenses over the estimated period of benefit.

General and administrative

General and administrative costs include salaries, stock-based compensation expenses, and benefits for personnel involved in our executive, finance, legal, people and culture, and administrative functions, as well as third-party professional services and fees, and overhead expenses.

Interest expense

Interest expense primarily consists of interest expense incurred on the Convertible Notes and the notes issued to the Board of Directors and C5.

Other income

Other income consists primarily of changes in fair value of the conversion option derivative liabilities established related to the Convertible Notes and related party notes to reflect fair value at the end of the reporting period and foreign currency gains.

Other expense

Other expense consists primarily of losses on the disposal of fixed assets, foreign currency exchange losses, and the change in fair value of the conversion option derivative asset established related to the Purchase Agreement entered into with Tumim during fiscal year 2023 to reflect its fair value at the end of the reporting period.

Reorganization items, net

Reorganization items, net consists of costs incurred associated with the reorganization in connection with the Chapter 11 Cases, principally professional fees, as well as the write-off of debt issuance costs and OID as of the Petition Date.

Provision for income taxes

Provision for income taxes consists of federal and state income taxes in the United States and income taxes and withholding taxes in certain foreign jurisdictions in which we conduct business. We maintain a full valuation allowance on our U.S. federal and state deferred tax assets.

Results of Operations

Comparison of the Three Months Ended October 31, 2023 and 2022

The following tables set forth our consolidated statement of operations data for each period presented:

	Three Months Ended October 31,				2023 vs 2022	
	2023	Percentage of Revenue	2022	Percentage of Revenue	Change $	Change %
		($ in thousands)				
Product, subscription and support revenue	$ 4,562	100 %	$ 6,674	96 %	$ (2,112)	(32)%
Professional services revenue	-	— %	314	4 %	(314)	(100)%
Total revenue	4,562	100 %	6,988	100 %	(2,426)	(35)%
Cost of product, subscription and support revenue	3,828	84 %	4,206	60 %	(378)	(9)%
Cost of professional services revenue	4	0 %	83	1 %	(79)	(95)%
Total cost of revenue	3,832	84 %	4,289	61 %	(457)	(11)%
Gross profit	730	16 %	2,699	39 %	(1,969)	(73)%
Operating expenses						
Research and development	1,456	32 %	6,804	97 %	(5,348)	(79)%
Sales and marketing	1,001	22 %	7,774	111 %	(6,773)	(87)%
General and administrative	2,965	65 %	19,723	282 %	(16,758)	(85)%
Total operating expenses	5,422	119 %	34,301	491 %	(28,879)	(84)%
Operating loss	(4,692)	(103)%	(31,602)	(452)%	26,910	(85)%
Interest expense	(915)	(20)%	(320)	(5)%	(595)	186 %
Other income	174	4 %	493	7 %	(319)	(65)%
Other expense	(65)	(1)%	(581)	(9)%	516	(89)%
Change in fair value of warrants liabilities	-	— %	3	1 %	(3)	(100)%
Loss before reorganization items	(5,498)	(121)%	(32,007)	(459)%	26,509	(83)%
Reorganization items (Note 13)	838	18 %	-	— %	838	100 %
Loss before income taxes	(6,336)	(139)%	(32,007)	(458)%	25,671	(80)%
Provision for income taxes	1	0 %	(2)	(0)%	3	(150)%
Net loss	$ (6,335)	(139)%	(32,009)	(458)%	25,674	(80)%

Revenue

Total revenue decreased by $2.4 million or 35% in the three months ended October 31, 2023, as compared to the same period in fiscal 2023.

Product, subscription and support revenue decreased by $2.1 million or 32% primarily due to the net effect of our transition from contracts that had non-recurring elements which did not renew in full, replaced by revenues from contract forms that were designed to fully renew with legacy customers and signing new customers.

Professional services revenue decreased by $0.3 million or 100% in the three months ended October 31, 2023, as compared to the same period in fiscal 2023.

Cost of Revenue

Total cost of revenue decreased by $0.5 million or 11% in the three months ended October 31, 2023, as compared to the same period in fiscal 2023. Cost of product, subscription and support revenue decreased by $0.4 million or 9% in the three months ended October 31, 2023, as compared to the same period in fiscal 2023. The change was primarily due to a decrease in cloud subscription customers and optimization of cloud computing costs offset by an increase in hardware costs due to inventory write off..

Cost of professional service cost of revenue decreased by $0.1 million or 95% in the three months ended October 31, 2023, as compared to the same period in fiscal 2023. The change was primarily due to a decrease in headcount and a decrease in the volume of professional services provided to customers.

Gross Profit and Gross Margin

Mix changes in cost of revenue resulted in a decrease in product, subscription and support gross margin to 16% in the three months ended October 31, 2023, as compared to 37% in the same period in fiscal 2023, and a decrease in professional services gross margin to 0% in the three months ended October 31, 2023 as compared to 74% in the same period in fiscal 2023. The period over period decrease in margin for product was primarily the result of a decrease in revenue and an increase in hardware costs due to inventory write offs.

The following tables show gross profit and gross margin, respectively, for product, subscription and support revenue and professional services revenue for the three months ended October 31, 2023 and 2022.

	Three Months Ended October 31,		2023 vs 2022	
	2023	2022	Change $	Change %
	($ in millions)			
Product, subscription and support gross profit	$ 0.7	$ 2.5	$ (1.8)	(71)%
Professional services gross profit	$ (0.0)	$ 0.2	$ (0.2)	(102)%
Total gross profit	$ 0.7	$ 2.7	$ (2.0)	(173)%

	Three Months Ended October 31,		
	2023	2022	Change
Product, subscription and support margin	16.1 %	37.0 %	(20.9)%
Professional services margin	— %	73.7 %	-73.7 %
Total gross margin	16.0 %	38.6 %	(22.6)%

Operating expenses

Research and development

Research and development expenses decreased by $5.3 million or 79% in the three months ended October 31, 2023, due to a decrease in headcount of $3.8 million, stock compensation expense decreasing by $0.8 million, cloud hosting expense decreasing by $0.5, and the remaining decrease of $0.3 million primarily relates to a decrease in outside services.

Sales and marketing

Sales and marketing cost decreased by $6.8 million or 87% in the three months ended October 31, 2023, due to a decrease in headcount of $4.0 million. The remaining decrease of $2.8 million is driven primarily by additional cost saving, actions.

General and administrative

General and administrative costs decreased by $16.8 million or 85% in the three months ended October 31, 2023, due to a decrease in non-cash stock compensation expense of $13.0 million, with the remaining decrease of $3.6 million primarily driven by the decrease in headcount and cost saving actions.

Interest expense

Interest expense increased by $0.6 million or 186% in the three months ended October 31, 2023, primarily as the result of interest expense incurred on the Convertible Note, C5 Notes, and Director Notes.

Other income

Other income decreased by $0.3 million or 65% in the three months ended October 31, 2023, primarily as the result of a gain on a fixed asset disposal in the prior comparable period.

Other expense

Other expense decreased by $0.5 million or 89% in the three months ended October 31, 2023 as compared to the same period in fiscal 2023, primarily as the result of a cumulative impact of foreign currency losses in the prior year.

Reorganization items, net

Reorganization items, net increased by $0.8 million in the three months ended October 31, 2023, as the result of a write off of debt issuance costs and OID of $0.1 million and $0.7 million in professional fees incurred in connection with the Chapter 11 Cases.

Provision for income taxes

The change in provision for income taxes was immaterial to the results of operations primarily due to our continued net loss position, the accumulation of net loss carryforwards, and offsetting valuation allowance.

Comparison of the Nine Months Ended October 31, 2023 and 2022

The following tables set forth our consolidated statement of operations data for each period presented:

	Nine Months Ended October 31,				2023 vs 2022	
	2023	Percentage of Revenue	2022	Percentage of Revenue	Change $	Change %
		($ in thousands)				
Product, subscription and support revenue	$ 17,182	99 %	$ 19,331	95 %	$ (2,149)	(11)%
Professional services revenue	172	1 %	952	5 %	(780)	(82)%
Total revenue	17,354	100 %	20,283	100 %	(2,929)	(14)%
Cost of product, subscription and support revenue	8,746	50 %	8,875	44 %	(129)	(1)%
Cost of professional services revenue	92	1 %	397	2 %	(305)	(77)%
Total cost of revenue	8,838	51 %	9,272	46 %	(434)	(5)%
Gross profit	8,516	49 %	11,011	54 %	(2,495)	(23)%
Operating expenses						
Research and development	7,813	45 %	27,246	134 %	(19,433)	(71)%
Sales and marketing	4,069	23 %	27,194	134 %	(23,125)	(85)%
General and administrative	15,262	88 %	48,742	240 %	(33,480)	(69)%
Total operating expenses	27,144	156 %	103,182	509 %	(76,038)	(74)%
Operating loss	(18,628)	(107)%	(92,171)	(454)%	73,543	(80)%
Interest expense	(3,453)	(20)%	(482)	(2)%	(2,971)	616 %
Other income	785	5 %	55	0 %	730	1,327 %
Other expense	(266)	(2)%	(995)	(5)%	729	(73)%
Change in fair value of warrants liabilities	-	— %	6	0 %	(6)	(100)%
Loss before reorganization items	(21,562)	(124)%	(93,587)	(461)%	72,025	(77)%
Reorganization items (Note 13)	838	5 %	—	— %	838	100 %
Loss before income taxes	(22,400)	(129)%	(93,587)	(461)%	71,187	(76)%
Provision for income taxes	(13)	(0)%	(6)	(0)%	(7)	129 %
Net loss	$ (22,413)	(129)%	(93,593)	(461)%	71,180	(76)%

Revenue

Total revenue decreased by $2.9 million or 14% in the nine months ended October 31, 2023, as compared to the same period in fiscal 2023.

Product, subscription and support revenue decreased by $2.1 million or 11% primarily due to the net effect of the Company's transition from contracts that had material nonrecurring elements which would not renew in full, replaced by revenues from contract forms that were designed to fully renew with legacy customers and signing new customers.

Professional services revenue decreased by $0.8 million or 82% in the nine months ended October 31, 2023, as compared to the same period in fiscal 2023.

Cost of Revenue

Total cost of revenue decreased by $0.4 million or 5% in the nine months ended October 31, 2023, as compared to the same period in fiscal 2023. Cost of product, subscription and support revenue decreased by $0.1 million or 1% in the nine months ended October 31, 2023, as compared to the same period in fiscal 2023. The decrease was due to a decrease in cloud subscription customers and optimization of cloud computing costs offset by an increase in hardware costs due to inventory write off.

Cost of professional services revenue decreased by $0.3 million or 77% in the nine months ended October 31, 2023, as compared to the same period in fiscal 2023.

Gross Profit and Gross Margin

Mix changes in cost of revenue resulted in a decrease in product, subscription and support gross margin to 49% in the nine months ended October 31, 2023, as compared to 54% in the same period in fiscal 2023, and a decrease in professional services gross margin to 47% in the nine months ended October 31, 2023, as compared to 58% in the same period in fiscal 2023. The period over period decrease in margin for software was primarily the result of a decrease in revenue and an increase in hardware costs due to inventory write offs. Professional services margin will continue to be volatile contract to contract.

The following tables show gross profit and gross margin, respectively, for product, subscription and support revenue and professional services revenue for the nine months ended October 31, 2023 and 2022.

	Nine Months Ended October 31,		2023 vs 2022	
	2023	2022	Change $	Change %
	($ in millions)			
Product, subscription and support gross profit	$ 8.4	$ 10.5	$ (2.1)	(20)%
Professional services gross profit	0.1	$ 0.5	$ (0.4)	(84)%
Total gross profit	$ 8.5	$ 11.0	$ (2.5)	(104)%

	Nine Months Ended October 31,		
	2023	2022	Change
Product, subscription and support margin	49.1 %	54.1 %	(5.0)%
Professional services margin	46.5 %	58.3 %	-11.8 %
Total gross margin	49.1 %	54.3 %	(5.2)%

Operating expenses

Research and development

Research and development expenses decreased by $19.4 million or 71% in the nine months ended October 31, 2023 due to a decrease in headcount of $11.6 million, stock compensation expense decreasing by $4.5 million, cloud hosting expense decreasing by $1.2, and the remaining decrease of $2.1 million primarily relates to a decrease in outside services.

Sales and marketing

Sales and marketing cost decreased by $23.1 million or 85% in the nine months ended October 31, 2023 is partially due to a decrease in non-cash stock compensation of $2.9 million. The remaining decrease of $20.2 million is driven by the decrease in headcount and cost saving actions.

General and administrative

General and administrative costs decreased by $33.5 million or 69% in the nine months ended October 31, 2023 due to a decrease in non-cash stock compensation expense of $23.3 million, with the remaining decrease of $10.0 million primarily driven by the decrease in headcount and cost saving actions.

Interest expense

Interest expense increased by $3.0 million or 616% in the nine months ended October 31, 2023, primarily as the result of interest expense incurred on the Convertible Note, C5 Notes, and Director Notes.

Other income

Other income increased by $0.7 million in the nine months ended October 31, 2023, primarily as the result of the decrease in fair value of the conversion option derivative liabilities established related to the Convertible Note and C5 Notes.

Other expense

Other expense decreased by $0.7 million or 73% in the nine months ended October 31, 2023 as compared to the same period in fiscal 2023, primarily as the result of a cumulative impact of foreign currency losses in the prior year.

Reorganization items, net

Reorganization items, net increased by $0.8 million in the nine months ended October 31, 2023, as the result of a write off of debt issuance costs and OID of $0.1 million and $0.7 million in professional fees incurred in connection with the Chapter 11 Cases.

Provision for income taxes

The change in provision for income taxes was immaterial to the results of operations primarily due to our continued net loss position, the accumulation of net loss carryforwards, and offsetting valuation allowance.

Liquidity and Capital Resources

Based on our current planned operations, in the absence of additional sources of liquidity, management anticipates that our existing cash and cash equivalents and anticipated cash flows from operations will not be sufficient to meet our operating and liquidity needs for any meaningful period of time following the date of this report. There is no assurance that management will be able to obtain additional liquidity or be successful in raising additional funds or that such required funds, if available, will be available on attractive terms or that they will not have a significant dilutive effect on our existing stockholders.

Voluntary Chapter 11 Filings and Subsequent Events

Given that additional sources of liquidity were not available to us and after considering strategic alternatives, on September 2, 2023, we furloughed almost all of our employees and substantially curtailed business operations as a result of our liquidity position. Subsequently, on September 29, 2023, given the unavailability of additional sources of liquidity and after considering strategic alternatives, we ceased substantially all of our business activities and terminated our remaining employees. On October 12, 2023, we filed voluntary petitions for reorganization under the Bankruptcy Code in the Bankruptcy Court (such cases, the “Chapter 11 Cases”). As noted above, on January 18, 2024, the Bankruptcy Court entered the Findings of Fact, Conclusions of Law, and Order Confirming the Chapter 11 plan. The Debtors expect that the Effective Date of the Joint Plan will occur as soon as all conditions precedent to the Chapter 11 plan have been satisfied. Although the Debtors anticipate that all conditions will be satisfied, the Debtors can make no assurances as to when, or ultimately if, the Chapter 11 plan will become effective.

In addition to the Chapter 11 Cases, our liquidity position and capital resources have been adversely impacted by numerous events, we issued additional indebtedness (including a debtor-in-possession financing facility in connection with the Chapter 11 Cases) and defaulted under all of our outstanding indebtedness. See above under “— Financing to Date”, “— Recent Developments”, “— Reductions in Force”, “— NYSE Delisting”, and Note 15 to our interim condensed consolidated financial statements included in this report.

SVB Matters

Prior to March 10, 2023, we had a banking relationship with SVB. As of the closure of SVB on March 10, 2023, we held approximately $8.1 million in cash, cash equivalents and investments at or through SVB, which represented approximately 96% of our total cash, cash equivalents and investments as of that date. SVB was closed on March 10, 2023 by the California Department of Financial Protection and Innovation, which appointed the FDIC as receiver. On March 12, 2023, the U.S. Treasury, Federal Reserve, and FDIC announced that SVB depositors would have access to all of their money starting March 13, 2023. On March 13, 2023, we were able to access all $8.1 million in cash, cash equivalents and investments held at or through SVB. While we did not experience any losses in such accounts, the recent failure of SVB exposed us to significant credit risk prior to the completion by the FDIC of the resolution of SVB in a manner that fully protected all depositors. To limit risk subsequent to the SVB failure, we took steps to diversify across multiple banks. As liquidity became tighter and the amount of funds held were reduced, we consolidated to one bank to make necessary payments.

Sources of Liquidity

We have incurred losses and negative cash flows from operations since inception. Through October, 2023, we have funded our operations with proceeds from sales of common stock and redeemable convertible preferred stock, proceeds related to the public trust shares held by Legacy LGL that were received as part of the Merger and recapitalization, the sale of Convertible Notes (as described below) to 3i, loans issued to the Board of Directors and C5, and receipts from sales of our products and services to customers in the ordinary course of business. As of October 31, 2023, we had cash and cash equivalents of $0.8 million, $4.2 million in convertible debt outstanding under the Convertible Note, $15.3 million in convertible debt outstanding under the C5 Notes, $8.5 million in debt outstanding under the Director Notes, $0.6 million in debt outstanding under the Korr Note. We are in default under all of these notes, which are included in liabilities subject to compromise as of October 31, 2023. The Bridge Amount of $1.5 million was also issued under the DIP facility. Through October 31, 2023, our primary source of liquidity has been the financing transactions described below and we are seeking additional debt funding in order to continue our operations.

Tumim Stone Capital Committed Equity Financing

On February 11, 2022, we entered into the Purchase Agreement with Tumim, pursuant to which Tumim has committed to purchase up to $175 million of common stock (the "Total Commitment"), at our direction from time to time, subject to the satisfaction of the conditions in the Purchase Agreement. Also on February 11, 2022, we entered into a registration rights agreement with Tumim (the "Registration Rights Agreement"), pursuant to which we have filed with the SEC a registration statement to register for resale under the Securities Act the shares of common stock that may be issued to Tumim under the Purchase Agreement. Pursuant to the terms of the Purchase Agreement, at the time we signed the Purchase Agreement and the Registration Rights Agreement, we paid a cash fee of $1.8 million, or 1% of the Total Commitment, to Tumim as consideration for its commitment to purchase shares of our common stock under the Purchase Agreement.

Shares of common stock will be issued to Tumim at either a (i) 3% discount to the average daily volume weighted average price (the "VWAP") of the common stock during the three consecutive trading days from the date that a purchase notice with respect to a particular purchase (a "VWAP Purchase Notice") is delivered to Tumim (a "Forward VWAP Purchase"), or (ii) 5% discount to the lowest daily VWAP during the three consecutive trading days from the date that a VWAP Purchase Notice with respect to a particular purchase is delivered to Tumim (an "Alternative VWAP Purchase"). Each VWAP Purchase Notice to Tumim will specify whether the applicable purchase is a Forward VWAP Purchase or an Alternative VWAP Purchase, and will direct that Tumim purchase the applicable number of shares of common stock at the applicable purchase price. There is no upper limit on the price per share that Tumim could be obligated to pay for the common stock under the Purchase Agreement. The purchase price per share of common stock to be sold in a Purchase will be appropriately adjusted for any reorganization, recapitalization, non-cash dividend, stock split, reverse stock split or other similar transaction.

Through January 31, 2023, we sold 2,511,365 shares to Tumim for gross proceeds of $0.6 million under the Purchase Agreement. On June 16, 2023, Tumim notified the Company of Tumim's election to terminate the Purchase Agreement, effective as of June 20, 2023.

3i Convertible Debt Facility

On September 14, 2022, we entered into a Securities Purchase Agreement (the "SPA") with 3i, under which we agreed to sell and issue senior unsecured convertible promissory notes (the "Convertible Notes") to 3i in an aggregate principal amount of up to approximately $25.8 million, which are convertible into shares of our common stock, subject to certain conditions and limitations. On September 15, 2022, we issued a Convertible Note under the SPA with a maturity date of March 15, 2024 in the aggregate principal amount of $10.3 million for net cash proceeds after debt discount of $10.0 million.

The Convertible Notes bear interest at an annual rate of 5.00% per annum, payable monthly on the first of each month (the "Installment Date"), beginning the first month that is 90 days following the issuance date, payable in cash and/or shares of common stock, at our option. The interest rate will increase to an annual rate of 10.00% per annum upon the occurrence and during the continuance of an event of default under the Convertible Notes. Each Convertible Note issued pursuant to the SPA will have a maturity date of 18 months from issuance, which may be extended at the option of 3i in certain instances.

The Convertible Notes provide a conversion right in which 3i may convert any portion of the principal, together with any unpaid interest and other unpaid amounts, into shares of common stock at a conversion price of $7.50 per share, subject to adjustments in accordance with the terms of the Convertible Notes. However, we will not issue any shares of common stock upon conversion of any Convertible Notes, or otherwise, if the issuance of such common stock, together with any common stock issued in connection with the SPA and the transaction contemplated thereby, would exceed 20,373,592 shares, except that such limitation shall not apply in the event that we obtain the approval of our stockholders as required by the applicable rules of the NYSE for issuances of shares of common stock in excess of such amount. The Convertible Notes also contains provisions that provide 3i with the right, subject to certain exceptions, to require the Company to redeem all or a portion of the Convertible Notes in cash. This convertible feature has been bifurcated from the host contract and accounted for separately as a derivative.

On each monthly Installment Date, we shall repay the lesser of $0.7 million and the principal amount then outstanding, plus accrued and unpaid interest, in cash and/or shares of common stock, at our option (the "Installment Amount"). In certain instances, 3i will also have the right to accelerate some of the monthly repayment obligations. For any Installment Amount paid in the form of shares of common stock, the applicable conversion price will be equal to the lesser of (a) $7.50, and (b) the greater of (x) 95% of the lowest VWAP in the five trading days immediately prior to such conversion, and (y) a "floor price" of approximately $0.44, subject to adjustment in accordance with the terms of the Convertible Notes. For any Installment Amount paid in cash, the price paid will be equal to 105% of the Installment Amount.

On September 14, 2022, in connection with our entry into the SPA, we also entered into a Registration Rights Agreement with 3i (the "Registration Rights Agreement"). Pursuant to the Registration Rights Agreement, we agreed to file with the Securities and Exchange Commission (the "SEC"), within 60 calendar days following the date of the Registration Rights Agreement, a registration statement covering the resale of the shares of common stock issuable upon conversion of the outstanding Convertible Notes. This registration statement was filed on November 14, 2022 and declared effective by the SEC on November 30, 2022. As of the date of this report, this is not accessible.

During the year ended January 31, 2023, we elected to pay one of the Installment Amounts due in cash and one Installment Amount through a combination of cash and the issuance of common stock, which resulted in the issuance of 1,363,636 shares of common stock for an aggregate conversion amount of $0.4 million. During the nine months ended October 31, 2023, the Company paid two of the Installment Amounts due in cash and elected to pay $3.3 million of the principal balance, along with $0.3 million in accrued interest, through the issuance of common stock, which resulted in the issuance of 8,703,636 shares of common stock. The Company failed to pay Installment Amounts in December 2022 and April 2023, then from July 2023 through October 2023, which qualifies as an event of default per the Convertible Notes, and has resulted in the Company incurring interest at a rate of 10.0% per annum since the original event of default.

As of October 31, 2023, we had $4.2 million in principal and accrued and unpaid interest outstanding related to the Convertible Notes. We are currently in default under the Convertible Notes.

Director and C5 Loans

Between December 14, 2022 and December 16, 2022, we issued and sold senior secured promissory notes in an aggregate principal amount of $6.9 million (the "Initial Director Notes") to a total of eight lenders, which included seven lenders who are either our directors or entities affiliated with our directors. Subsequently we and the holders of the Initial Director Notes agreed to amend and restate the Initial Director Notes to be substantially in the form to be issued to C5 (the "Director Notes"). This amendment and restatement occurred on January 11, 2023. On April 20, 2023, we issued and sold an additional Director Note in the amount of $0.3 million to the lender not affiliated with our directors. On May 19, 2023, the Company issued a secured convertible promissory note in the principal amount of $0.5 million to GEN Keith B. Alexander (Ret.). On August 29, 2023, the Company issued secured promissory notes in an aggregate principal amount of $0.8 million (the "August 2023 Notes") to VADM Jan E. Tighe (Ret.) and Donald R. Dixon, members of the Company's board of directors.

The Director Notes bear interest at a rate of 13.8% per annum from the respective dates of the Initial Director Notes, and the Director Notes were originally payable at scheduled maturity on June 30, 2023. On June 30, 2023, the Company and the noteholders executed amendments to these notes to extend the maturity dates thereof from June 30, 2023 to December 31, 2023. As of October 31, 2023, we had $8.5 million in principal and accrued interest outstanding related to the Director Notes.

On December 30, 2022, we issued a senior secured convertible promissory note in the principal amount of $2.0 million (the "Initial C5 Note") to an affiliate of C5, which was amended and restated on January 11, 2023 (as amended and restated, the "Restated C5 Note"). On January 12, 2023, February 8, 2023, February 27, 2023, April 13, 2023, May 2, 2023 and May 8, 2023, we issued additional senior secured convertible promissory notes to affiliates of C5 (together with the Restated C5 Note, the "C5 Notes") in principal amounts of $3.0 million, $4.0 million, $2.25 million, $0.6 million, $0.9 million, and $0.4 million, respectively. From June 12, 2023 through September 17, 2023, the Company issued $2.2 million in additional senior secured convertible promissory notes to affiliates of C5. Each of the C5 Notes bear interest at a rate of 13.8% per annum from the date of issuance (or in the case of the Restated C5 Note, from the date of the Initial C5 Note), and all such notes were originally payable at scheduled maturity on June 30, 2023, subject to acceleration in certain circumstances. On June 30, 2023, the Company and the noteholders executed amendments to these notes to extend the maturity dates thereof from June 30, 2023 to December 31, 2023.

Our obligations under the Director Notes and the C5 Notes are secured by substantially all of our assets, excluding our intellectual property.

The C5 Notes provide C5 with the right, at any time on or after the date that is five calendar days prior to maturity, to convert all or any portion of the aggregate principal amount of the C5 Notes, together with any accrued and unpaid interest and any other unpaid amounts, into shares of our common stock at a conversion price of $2.00 per share. In the event that any shares of common stock are issued upon conversion of the C5 Notes, we have agreed to grant specified registration rights to C5.

As of October 31, 2023, we had $15.3 million in principal and accrued interest outstanding related to the C5 Notes. We are currently in default under the Director Notes and the C5 Notes.

Korr Note

On July 21, 2023, the Company entered into the Korr Note with Korr Acquisitions Group, Inc. In the original principal amount of $0.6 million. The Korr Note was issued and funded with original issue discount of 9.9% of the aggregate principal amount. The Korr Note bears interest at a rate of 8% from July 21, 2023, calculated on an actual/360 basis. The Korr Note is payable upon the earlier of October 21, 2023 and the time at which the Company receives all amounts payable under certain covered agreements and is secured by receivables owing from time to time to the Company under those certain support, solutions or services contract(s), as designated in the Korr Note. The proceeds received from the Korr Note were used to fund general corporate and working capital needs. We are currently in default under the Korr Note.

DIP Facility

On October 10, 2023, the Debtors and the DIP Lenders entered into the DIP Documents, pursuant to which the DIP Facility Lender would provide the Company with a senior (priming) secured and superpriority debtor-in-possession delayed-draw term loan credit facility in an aggregate principal amount not to exceed $10.0 million (the "Maximum Facility Amount"), consisting of up to $8.5 million of DIP Term Loans and $1.5 million of the Bridge Amount (as defined below) (collectively, the "DIP Loans"), subject to the terms and conditions set forth in the Term Sheet. Until the entry of a final order approving the DIP Facility by the Bankruptcy Court, a maximum amount of up to $4.5 million of the DIP Facility (inclusive of the Bridge Amount) would be available on an interim basis. As of October 31, 2023, the DIP Facility Lender advanced the Bridge Amount of $1.5 million to the Company. The Bridge Amount is secured by all the assets of the Debtors.

Long-Term Liquidity Requirements

Based on our current operating plan, management believes that we do not have sufficient cash and cash equivalents on hand to support our current operations for any meaningful period of time following the date of this report. Management has concluded that there is substantial doubt about our ability to continue as a going concern.

Given that additional sources of liquidity were not available to us and after considering strategic alternatives, on September 2, 2023, we furloughed almost all of our employees and substantially curtailed business operations as a result of our liquidity position. Subsequently, on September 29, 2023, given the unavailability of additional sources of liquidity and after considering strategic alternatives, we ceased substantially all of our business activities and terminated our remaining employees. On October 12, 2023, we filed the Chapter 11 Cases. On October 13, 2023, certain employees were re-hired by the Company in connection with the Chapter 11 proceedings. As noted above, on January 18, 2024, the Bankruptcy Court entered the Findings of Fact, Conclusions of Law, and Order Confirming the Chapter 11 plan. The Debtors expect that the Effective Date of the Joint Plan will occur as soon as all conditions precedent to the Chapter 11 plan have been satisfied. Although the Debtors anticipate that all conditions will be satisfied, the Debtors can make no assurances as to when, or ultimately if, the Chapter 11 plan will become effective.

In addition to the Chapter 11 Cases, subsequent to October 31, 2023, our liquidity position and capital resources were adversely impacted by numerous events, we issued additional indebtedness (including a debtor-in-possession financing facility in connection with the Chapter 11 Cases) and defaulted under all of our outstanding indebtedness. See above under "— Financing to Date", "— Recent Developments", "— Reductions in Force", "— NYSE Delisting", and Note 15 to our interim condensed consolidated financial statements included in this report.

While the Chapter 11 plan of reorganization has been confirmed by the Bankruptcy Court, we will require additional equity or debt financing in order to continue our operations, including following our emergence from bankruptcy. We may not be able to raise financing on terms acceptable to us or at all. If additional funds are not available to us on acceptable terms, or at all, we will likely need to wind down our operations.

Cash Flows

For the Nine Months Ended October 31, 2023 and 2022

The following table summarizes our cash flows for the periods presented:

	Nine Months Ended October 31,	
	2023	2022
	(in millions)	
Net cash used in operating activities	$ (13.3)	$ (53.6)
Net cash used in investing activities	$ (0.6)	$ (2.1)
Net cash provided by financing activities	$ 7.1	$ 16.3

Operating Activities

Net cash used in operating activities during the nine months ended October 31, 2023 was $13.3 million, which was primarily driven by a net loss of $22.4 million and non cash charges of $8.6 million. Non-cash charges primarily consisted of $2.3 million of stock compensation expense, $1.5 million of depreciation and amortization expense, and $3.0 million of non-cash interest expense. Cash used in operating activities during the year was primarily driven by a decrease in accounts receivable of $3.6 million, a decrease in deferred costs of $2.5 million, and a decrease in prepaid expenses of $1.5 million, offset by a decrease in deferred revenue of $8.6 million, which is the result of timing of new customer contracts.

Net cash used in operating activities during the nine months ended October 31, 2022 was $53.6 million, which resulted from a net loss of $93.6 million, primarily driven by growth-related operating expenses exceeding the gross profits from sales, adjusted for non-cash charges of $37.2 million and net cash inflows of $2.8 million from changes in operating assets and liabilities. Non-cash charges primarily consisted of $33.1 million of stock compensation expense and $1.8 million of depreciation and amortization expense. Cash used in operating activities during the nine months ended October 31, 2022 was primarily driven by cash collections of accounts receivable of $5.6 million and an increase in accounts payable of $5.0 million, offset by a decrease in deferred revenue of $3.3 million, a decrease in accrued expenses of $2.5 million, and an increase in inventory of $1.0 million, which is the result of timing of new customer contracts.

Investing Activities

Net cash used in investing activities during the nine months ended October 31, 2023 of $0.6 million was primarily a result of capitalized software development costs.

Net cash used in investing activities during the nine months ended October 31, 2022 of $2.1 million was primarily a result of purchases of property and equipment.

Financing Activities

Net cash provided by financing activities of $7.1 million during the nine months ended October 31, 2023 was primarily due to $12.4 million net cash proceeds from related party debt and $1.4 million received for overpayment of tax obligations for vested RSUs, which is offset by $6.7 million in cash remitted to taxing authorities to fund employee tax obligations for vested RSUs and a $1.4 million repayment of debt.

Net cash provided by financing activities of $16.3 million during the nine months ended October 31, 2022 was primarily due to net cash proceeds of approximately $9.7 million from the issuance of the Convertible Note and $8.2 million net cash proceeds received to fund employees' tax withholding obligations associated with vested RSUs, which will be disbursed to the appropriate taxing authorities, offset by the $1.8 million payment to Tumim for the commitment fee in connection with the equity line.

Contractual Obligations

Our principal commitments consist of the obligations to repay amounts borrowed under (i) the Convertible Note issued to 3i, unless earlier converted into shares of our common stock under the terms of the Convertible Note, (ii) the Director Notes, (iii) the C5 Notes, (iv) the Korr Note, and (v) the DIP Facility. For more information regarding our indebtedness, see Note 9 to our interim condensed consolidated financial statements included in this report.

We also have commitments consisting of lease obligations for office space and equipment. For more information regarding our lease obligations, see Note 8 to our interim condensed consolidated financial statements included in this report.

We have made and expect to continue to make additional investments in our product, scale our operations, and continue to enhance our security measures. We will continue to expand the use of software systems to scale with our overall growth.

Critical Accounting Policies and Estimates

Our financial statements are prepared in accordance with GAAP. The preparation of these financial statements require us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, as well as related disclosures. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our actual results could differ from these estimates.

The critical accounting policies, assumptions and judgments that we believe have the most significant impact on our consolidated financial statements are described below.

Revenue Recognition

Our revenues are derived from sales of product, subscriptions, support and maintenance, and other services. We satisfy performance obligations to recognize revenue for a single performance obligation ratably over the expected term with the customer.

Revenue is recognized when all of the following criteria are met:

1. **Identification of the contract, or contracts, with a customer**—A contract with a customer to account for exists when (i) we enter into an enforceable contract with a customer that defines each party's rights regarding the goods or services to be transferred and identifies the payment terms related to these goods or services, (ii) the contract has commercial substance and the parties are committed to perform, and (iii) we determine that collection of substantially all consideration to which we will be entitled in exchange for goods or services that will be transferred is probable based on the customer's intent and ability to pay the promised consideration.

2. **Identification of the performance obligations in the contract**—Performance obligations promised in a contract are identified based on the goods or services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the goods or service either on its own or together with other resources that are readily available from third parties or from us, and are distinct in the context of the contract, whereby the transfer of the goods or services is separately identifiable from other promises in the contract. To the extent a contract includes multiple promised goods or services, we apply judgment to determine whether promised goods or services are capable of being distinct and distinct in the context of the contract. If these criteria are not met the promised goods or services are accounted for as a combined performance obligation.

3. **Determination of the transaction price**—The transaction price is determined based on the consideration to which we will be entitled in exchange for transferring goods or services to the customer.

4. **Allocation of the transaction price to the performance obligations in the contract**—We allocate the transaction price to each performance obligation based on the amount of consideration expected to be received in exchange for transferring goods and services to the customer. If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation.

5. **Recognition of revenue when, or as, we satisfy performance obligations**—We satisfy performance obligations either over time or at a point in time. Revenue is recognized at or over the time the related performance obligation is satisfied by transferring a promised good or service to a customer.

Costs to Obtain or Fulfill a Contract

We capitalize incremental costs of obtaining a non-cancelable subscription and support revenue contract and on professional services revenue as contract acquisition costs. The capitalized amounts consist primarily of sales commissions paid to our direct sales force. The capitalized amounts are recoverable through future revenue streams under all non-cancelable customer contracts. Amortization of capitalized costs, which occurs on a straight line basis, is included in sales and marketing expense in the accompanying condensed consolidated statements of operations. Contract fulfillment costs include appliance hardware and installation costs that are essential in providing the future benefit of the solution, which are also capitalized. We amortize our contract fulfillment costs ratably over the contract term in a manner consistent with the related revenue recognition on that contract and are included in cost of revenue.

Stock-Based Compensation

Stock compensation expense for stock options is recognized on a straight line basis and with a provision for forfeitures matched to historical experience for matured grant cohorts. Stock compensation expense for RSUs granted under the 2014 Plan, which contain both service and performance conditions, is recognized on a graded-scale basis matched to the length and vesting tranches for each grant. Stock compensation expense for RSUs granted under the 2021 Plan have only service vesting conditions. Expense will be recognized on a straight-line basis for all RSU awards with only service conditions. In the event that a RSU grant holder is terminated before the award is fully vested for RSUs granted under either Plan, the full amount of the unvested portion of the award will be recognized as a forfeiture in the period of termination. The fair value of RSUs is based on the fair value of our common stock on the date of the grant.

We use the Black-Scholes pricing model to estimate the fair value of options on the date of grant. The use of a valuation model requires management to make certain assumptions with respect to selected model inputs. We grant stock options at exercise prices determined equal to the fair value of common stock on the date of the grant. The fair value of our common stock at each measurement date is based on a number of factors, including the results of third-party valuations, our historical financial performance, and observable arms-length sales of our capital stock including convertible preferred stock, and the prospects of a liquidity event, among other inputs. We estimate an expected forfeiture rate for stock options, which is factored into the determination of stock-based compensation expense. The volatility assumption is based on the historical and implied volatility of our peer group with similar business models. The risk-free interest rate is based on U.S. Treasury zero-coupon issues with a remaining term equal to the expected life assumed at the date of grant. The dividend yield percentage is zero because we do not currently pay dividends nor do we intend to do so in the future.

These estimates involve inherent uncertainties and the use of different assumptions may have resulted in stock-based compensation expense that was different from the amounts recorded.

As of September 30, 2023, all employees of the Company were terminated, which resulted in the cancellation of unvested RSUs. However, the RSUs issued to board members remained outstanding. As of October 31, 2023, the unrecognized compensation cost related to unvested RSUs without performance obligations is $214. The weighted average remaining vesting period was 2.13 years.

Leases

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, Leases (Topic 842) Section A- Leases: Amendments to the FASB Accounting Standards Codification. The standard requires lessees to recognize the assets and liabilities arising from leases on the balance sheet and retains a distinction between finance leases and operating leases. The classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in the previous lease guidance. We adopted this standard and related amendments in the first quarter of fiscal 2023, using the modified retrospective approach.

The modified retrospective approach provides a method for recording existing leases at adoption with a cumulative adjustment to retained earnings. We elected the package of practical expedients which permits us to not reassess (1) whether any expired or existing contracts are or contain leases, (2) the lease classification for any expired or existing leases, and (3) any initial direct costs for any expired or existing leases as of the effective date. We also elected the practical expedient lease considerations to not allocate lease considerations between lease and non-lease components for real estate leases. As such, real estate lease considerations are treated as a single lease-component and accounted for accordingly.

We applied a portfolio approach to effectively account for the lease liabilities and right-of-use lease assets. We exclude leases with an initial term of 12 months or less from the application of Topic 842.

Recently Issued Accounting Standards

Refer to Note 1 to our unaudited condensed consolidated financial statements included in this Form 10-Q for our assessment of recently issued and adopted accounting standards.

Commitments and Contingencies

Refer to Note 7, Commitments and contingencies, of the notes to our unaudited condensed consolidated financial statements included in this Form 10-Q.

Emerging Growth Company (“EGC”) Status

We are an emerging growth company, as defined in the JOBS Act. Under the JOBS Act, emerging growth companies can delay adopting new or revised accounting standards issued subsequent to the enactment of the JOBS Act until those standards apply to private companies. We have elected to use this extended transition period for complying with certain new or revised accounting standards that have different effective dates for public and private companies until the earlier of the date we (i) are no longer an EGC or (ii) affirmatively and irrevocably opt out of the extended transition period provided in the JOBS Act. As a result, our consolidated financial statements may or may not be comparable to companies that comply with new or revised accounting pronouncements as of public companies’ effective dates.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We have operations in the United States and internationally, and we are exposed to market risk in the ordinary course of our business, including the effects of foreign currency fluctuation. Information relating to quantitative and qualitative disclosures about these market risks is set forth below.

Foreign Currency Risk

The significant majority of our sales contracts are denominated in U.S. dollars, with a small number of contracts denominated in foreign currencies. A portion of our operating expenses are incurred outside the United States, denominated in foreign currencies and subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the Singapore Dollar, British Pound, Japanese Yen and Australian Dollar. Additionally, fluctuations in foreign currency exchange rates may cause us to recognize transaction gains and losses in our condensed consolidated statements of operations. The effect of a hypothetical 10% change in foreign currency exchange rates applicable to our business would not have a material impact on our historical condensed consolidated financial statements for fiscal 2024 or fiscal 2023. As the impact of foreign currency exchange rates has not been material to our historical operating results, we have not entered into derivative or hedging transactions, but we may do so in the future if our exposure to foreign currency becomes more significant.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures (as such terms are defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. In designing and evaluating 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.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures as of October 31, 2023, the end of this period covered by this report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were not effective as of October 31, 2023 due to the material weaknesses in our internal control over financial reporting described below.

Material Weaknesses in Internal Control over Financial Reporting

Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP and includes those policies and procedures that: (1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect our transactions and the dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP and that receipts and expenditures are being made only in accordance with appropriate authorizations of our management and board of directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on our financial statements.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

Management determined that, as of January 31, 2022, we did not have a sufficient number of personnel with an appropriate degree of accounting and internal controls knowledge, experience, and training to appropriately analyze, record and disclose accounting matters commensurate with our accounting and reporting requirements, which resulted in an inability to consistently establish appropriate authorities and responsibilities in pursuit of our financial reporting objectives, which constitutes a material weakness. This material weakness contributed to the following additional material weaknesses:

- We did not design and maintain effective controls over the accounting for stock-based compensation modifications. This material weakness resulted in the restatement of our unaudited condensed consolidated financial statements as of and for the three months ended October 31, 2021. The error was corrected within our Annual report on Form 10-K, filed on May 2, 2022.
- We did not design and maintain effective controls over the review of journal entries and account reconciliations. Specifically, certain personnel have had the ability to both (i) create and post journal entries within our general ledger system, and (ii) prepare and review account reconciliations. This material weakness did not result in a material misstatement to the consolidated financial statements.
- We did not design and maintain effective controls over information technology ("IT") general controls for information systems that are relevant to the preparation of our financial statements. Specifically, we did not design and maintain: (i) program change management controls for the financial systems to ensure that information technology program and data changes affecting financial IT applications and underlying accounting records are identified, tested, authorized and implemented appropriately; (ii) appropriate user access controls to ensure appropriate segregation of duties and that adequately restrict user and privileged access to financial applications, programs and data to appropriate personnel; (iii) computer operations controls to ensure data backups are authorized and restorations monitored; and (iv) testing and approval controls for program development to ensure that new software development is aligned with business and IT requirements. This material weakness did not result in a material misstatement to the consolidated financial statements.

Management determined that these material weaknesses continued to exist as of October 31, 2023. These material weaknesses could result in a misstatement of substantially all accounts or disclosures that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected

Changes in Internal Control Over Financial Reporting

As discussed below, staffing changes during the quarter ended October 31, 2023 have impacted our implementation of the plan to remediate the existing material weaknesses. Other than what is discussed below, there were no changes in our internal control over financial reporting during the quarter ended October 31, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Remediation Plan

We have continued implementation of a plan to remediate these material weaknesses. However, staffing changes during the latter half of the third quarter have prevented us from further implementation of the plan to remediate these material weaknesses. These remediation measures are ongoing and include the following:

- we hired additional accounting and finance resources with public company experience, including expertise in technical accounting and complex transactions, including stock-based compensation arrangements, in addition to utilizing third-party consultants and specialists, to supplement our internal resources. However, due to lack of funding, we were forced to disengage with third-party consultants and specialists used to supplement our internal resources in September 2023. In November 2023, we reengaged these consultants and will continue to utilize their services until remediated;
- we continue to revise account reconciliation controls within all business processes to require proper segregation of duties of preparer and reviewer utilizing the additional personnel mentioned above. However, reductions in staff have prevented us from maintaining the same level of segregation of duties, including those related to the preparation and review of journal entries and reconciliations;
- we continued to maintain comprehensive access control protocols to restrict user and privileged access to certain applications and establishing additional controls over the preparation and review of journal entries; and
- we are redesigning and strengthening financial system and application change management controls, testing and approval controls for program development, as well as data backup and restoration controls. However, we have paused redesigning and strengthening financial system and application change management controls, testing and approval controls for program development, as well as data backup and restoration controls due to budget constraints and elimination of the compliance officer position.

The elements of our remediation plan can only be accomplished over time and are subject to continued review, implementation and testing by management, as well as oversight by the audit committee of our board of directors, to determine that it is achieving our objectives. The material weaknesses will not be considered remediated until our remediation plan has been fully designed and implemented, the applicable controls operate for a sufficient period of time, and we have concluded, through testing, that the newly implemented and enhanced controls are operating effectively.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may become involved in legal proceedings arising in the ordinary course of our business. Except as set forth below, we are not currently a party to any material legal proceedings, and we are not aware of any pending or threatened legal proceeding against us that we believe could have an adverse effect on our business, operating results or financial condition. For information regarding subsequent legal proceedings, particularly the Chapter 11 Cases, see Note 15 to our interim condensed consolidated financial statements included in this report.

Securities Litigation

On April 22, 2022, a federal securities class action lawsuit was filed by a purported stockholder in the United States District Court for the Eastern District of Virginia (the “Court”). On July 15, 2022, the Court appointed a lead plaintiff for the action, and ordered that the action bear the caption In re IronNet, Inc. Securities Litigation, No. 1:22-cv-004499-RDA-JFA. On August 29, 2022, the lead plaintiff filed an amended complaint on behalf of a proposed class consisting of those who acquired our securities between September 14, 2021 and December 15, 2021. The amended complaint names us, our current Chief Executive Officer, our former co-Chief Executive Officer, and our former Chief Financial Officer as defendants and asserts claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (“1934 Act”), as amended, for alleged misrepresentations and/or omissions in September 2021 regarding our financial guidance for fiscal year 2022 and a claim under Section 20A of the 1934 Act, as amended, for alleged trading on material nonpublic information by our current Chief Executive Officer. The amended complaint seeks an unspecified amount of damages on behalf of the putative class and an award of costs and expenses, including reasonable attorneys’ fees.

On October 26, 2022, the defendants filed a motion to dismiss the amended complaint. On November 30, 2022, the lead plaintiff filed an opposition. On December 21, 2022, the defendants filed a reply in support of the motion to dismiss. The defendants' motion to dismiss was denied on August 9, 2023.

We believe the claims are without merit, intend to defend the case vigorously, and have not recorded a liability related to this lawsuit because, at this time, we are unable to estimate reasonably possible losses or determine whether an unfavorable outcome is probable.

Item 1A. Risk Factors

Investing in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below together with all of the other information contained in this Quarterly Report on Form 10-Q, including our financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations," before deciding to invest in our common stock. If any of the events or developments described below were to occur, our business, prospects, operating results and financial condition could suffer materially, the trading price of our common stock could decline, and you could lose all or part of your investment. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business.

Risks Associated with Chapter 11 Proceedings
We are subject to the risks and uncertainties associated with Chapter 11 proceedings.

For the duration of our Chapter 11 proceedings, our operations and our ability to develop and execute our business plan, as well as our continuation as a going concern, are subject to the risks and uncertainties associated with bankruptcy. These risks include the following:

- our ability to successfully conduct a sale, execute a transaction, develop, confirm and consummate a Chapter 11 plan or alternative restructuring transaction, satisfy the conditions precedent to any Chapter 11 plan, or otherwise realize any value with respect to our assets;
- our ability to obtain and/or maintain court approval with respect to motions filed in Chapter 11 proceedings from time to time;
- our ability to operate within the restrictions and the liquidity limitations of any orders, including orders related to cash collateral, entered by the Bankruptcy Court in connection with the Chapter 11 Cases;
- our ability to obtain sufficient financing, including the use of cash collateral, to allow us to emerge from bankruptcy and execute our business plan of reorganization post-emergence;
- our ability to maintain our relationships with our customers, business partners, counterparties, employees and other third parties;
- our ability to maintain contracts that are critical to our operations;
- our ability to execute on our business plan;
- our ability to attract, motivate and retain key employees;
- the imposition of restrictions or obligations on the Company by regulators related to the bankruptcy and emergence from Chapter 11;
- the ability of third parties to seek and obtain court approval to terminate contracts and other agreements with us;
- the ability of third parties to seek and obtain court approval to terminate or shorten the exclusivity period for us to propose and confirm a Chapter 11 plan, to appoint a Chapter 11 trustee, or to convert the Chapter 11 proceedings to a Chapter 7 proceeding;
- the substantial costs associated with Chapter 11 Cases, particularly if delays in the Chapter 11 Cases increase costs;
- the ability of third parties to assert claims against the Company, which may be substantial;
- the actions and decisions of our creditors and other third parties who have interests in our Chapter 11 proceedings that may be inconsistent with our plans; and
- uncertainties and continuing risks associated with our ability to achieve our stated goals and continue as a going concern.

Delays in our Chapter 11 Cases increase the risks of us being unable to reorganize our business and emerge from bankruptcy and increase our costs associated with the bankruptcy process.

These risks and uncertainties could affect our business and operations in various ways. For example, negative events associated with our Chapter 11 proceedings could adversely affect our relationships with our customers, business partners, counterparties, employees and other third parties, which in turn could adversely affect our operations and financial condition. Also, we need the prior approval of the Bankruptcy Court for transactions outside the ordinary course of business, including a sale of all or part of our business, which may limit our ability to respond timely to certain events or take advantage of certain opportunities. Because of the risks and uncertainties associated with our Chapter 11 proceedings, we cannot accurately predict or quantify the ultimate impact of events that will occur during our Chapter 11 proceedings that may be inconsistent with our plans or that may have on ultimate recovery for stakeholders, including creditors and stockholders.

Operating under Bankruptcy Court protection for a long period of time may harm our business.

Our future results are dependent upon the successful confirmation and implementation of a plan of reorganization. A long period of operations under Bankruptcy Court protection could have a material adverse effect on our business, financial condition, results of operations and liquidity. So long as the Chapter 11 proceedings continue, our senior management will be required to spend a significant amount of time and effort dealing with the reorganization instead of focusing on our business operations. A prolonged period of operating under Bankruptcy Court protection also may make it more difficult to retain management and other key personnel necessary to the success and growth of our business.

Additionally, so long as the Chapter 11 proceedings continue, we will be required to incur significant costs for professional fees and other expenses associated with the administration of the Chapter 11 proceedings, including potentially costs of litigation arising thereunder.
While the Debtors have made and will continue to make efforts to minimize the duration of the Chapter 11 Cases, it is impossible to predict with certainty the amount of time that the Debtors may spend in bankruptcy.

The Chapter 11 Cases limit the flexibility of our management team in running our business.

While we operate our business as debtors-in-possession under supervision by the Bankruptcy Court, we are required to obtain the approval of the Bankruptcy Court and, in some cases, certain lenders and the creditors' committee prior to engaging in activities or transactions outside the ordinary course of business. Bankruptcy Court approval of non-ordinary course activities entails preparation and filing of appropriate motions with the Bankruptcy Court, negotiation with a creditors' committee and other parties-in-interest and one or more hearings. The creditors' committee and other parties-in interest may be heard at any Bankruptcy Court hearing and may raise objections with respect to these motions. This process may delay major transactions and limit our ability to respond quickly to opportunities and events in the marketplace. Furthermore, in the event the Bankruptcy Court does not approve a proposed activity or transaction, we would be prevented from engaging in activities and transactions that we believe are beneficial to us.

We may not be able to obtain confirmation of a Chapter 11 plan of reorganization or complete any Bankruptcy Court-approved sales of our Company or assets, or we may not be able to realize adequate consideration for such sales.

To emerge successfully from Bankruptcy Court protection as a viable entity, we must meet certain statutory requirements with respect to adequacy of disclosure with respect to the plan of reorganization, solicit and obtain the requisite acceptances of such a plan and fulfill other statutory conditions for confirmation of such a plan, which have not occurred to date. The confirmation process is subject to numerous potential, unanticipated delays, including that the Debtors may not receive the requisite acceptances of constituencies in the Chapter 11 proceedings to confirm a Chapter 11 plan. Even if the requisite acceptances of a plan are received, the Bankruptcy Court may not confirm such a plan if other statutory requirements are not met. If a Chapter 11 plan of reorganization is not confirmed by the Bankruptcy Court, it is unclear whether we would be able to reorganize our business and what, if anything, holders of claims against us would ultimately receive with respect to their claims.
There can be no assurance as to whether we will successfully reorganize and emerge from the Chapter 11 proceedings or, if we do successfully reorganize, as to when we would emerge from the Chapter 11 proceedings. Even if a Chapter 11 plan is confirmed and implemented, our operating results may be adversely affected by the possible reluctance of prospective lenders and other counterparties to do business with a company that recently emerged from bankruptcy proceedings. If we are unable to successfully reorganize, we may not be able to continue our operations.

In connection with the Chapter 11 Cases, we may attempt to sell all or certain of our assets pursuant to a sale under section 363 of the Bankruptcy Code or otherwise reorganize the Company pursuant to a Chapter 11 plan of reorganization. There can be no assurance that we will be successful in completing any such transactions because there may not be buyers willing to enter into any such transactions, we may not receive sufficient consideration for such assets, or there may be objections from our stakeholders. If we are unable to complete these transactions, it may be necessary to seek additional funding sources or possibly convert to a Chapter 7 liquidation process. If these transactions are completed, they may not generate the anticipated or desired outcomes.

Our long-term liquidity requirements and the adequacy of our capital resources are difficult to predict at this time.

We face uncertainty regarding the adequacy of our liquidity and capital resources. In addition to the cash requirements necessary to fund ongoing operations, and our persistent net losses and negative cash flows from operations, we have incurred significant professional fees and other costs in connection with preparation for the Chapter 11 proceedings and expect that we will continue to incur significant professional fees and costs throughout the Chapter 11 proceedings. We cannot assure investors that cash on hand and cash flow from operations will be sufficient to continue to fund our operations and allow us to satisfy our obligations related to the Chapter 11 proceedings until we are able to emerge from the Chapter 11 proceedings.

Our liquidity, including our ability to meet our ongoing operational obligations, is dependent upon, among other things: (i) our ability to comply with the terms and conditions of the final cash collateral order, (ii) our ability to maintain adequate cash on hand, (iii) our ability to generate cash flow from operations, (iv) our ability to successfully conduct a sale, execute a transaction, or develop, confirm and consummate a Chapter 11 plan, satisfy the conditions precedent to any Chapter 11 plan, or other alternative restructuring transaction, and (v) the cost, duration and outcome of the Chapter 11 proceedings.

As a result of the Chapter 11 proceedings, our financial results may be volatile and may not reflect historical trends.

During the Chapter 11 proceedings, we expect our financial results to continue to be volatile as restructuring activities and expenses, contract terminations and rejections, and claims assessments significantly impact our condensed consolidated financial statements. As a result, our historical financial performance is likely not indicative of our financial performance after the date of the bankruptcy filing.

In particular, the amount and composition of our assets and liabilities could be significantly different as a result of the Chapter 11 Cases, and the description of our operations, assets, liabilities, contingencies, liquidity and capital resources included in our periodic reports or in any filing we make with the Bankruptcy Court may not accurately reflect such matters during the pendency of or following the Chapter 11 Cases or the value of our assets in an organized sale process in light of the uncertainty of the estimates and assumptions used in the applicable reporting principles, and such values may be higher or lower as a result. The periodic financial information reported to the Bankruptcy Court is not presented in accordance with GAAP and may differ materially from information that has been or may in the future be provided as of quarter end in our periodic reports and may reflect estimates based on assumptions that may change significantly during the course of the Chapter 11 Cases or due to other contingencies, and, as applicable, is subject to all of the disclaimers presented therewith.

In addition, if we emerge from Chapter 11, the amounts reported in subsequent condensed consolidated financial statements may materially change relative to historical consolidated financial statements, including as a result of revisions to our operating plans pursuant to a plan of reorganization. We also may be required to adopt fresh start accounting, in which case our assets and liabilities will be recorded at fair value as of the fresh start reporting date, which may differ materially from the recorded values of assets and liabilities on our consolidated balance sheets. Our financial results after the application of fresh start accounting also may be different from historical trends.

We may be subject to claims that will not be discharged in the Chapter 11 proceedings, which could have a material adverse effect on our financial conditions and results of operations.

The Bankruptcy Code provides that the confirmation of a plan of reorganization discharges a debtor from substantially all debts arising prior to confirmation. With few exceptions, all claims that arose prior to the Petition Date, or after such date but before confirmation of the plan of reorganization (i) would be subject to compromise and/or treatment under the plan of reorganization and/or (ii) would be discharged in accordance with the terms of the plan of reorganization. We are not currently aware of any material claims against the Debtors that would not ultimately be discharged by a Chapter 11 plan of reorganization of the Debtors; however any claims not ultimately discharged through a Chapter 11 plan of reorganization could be asserted against the reorganized Debtors and may have an adverse effect on our financial condition and results of operations on a post-reorganization basis.

We have experienced, and may continue to experience, increased levels of employee attrition as a result of the Chapter 11 proceedings.

As previously disclosed, on September 2, 2023, the Company furloughed almost all of its employees and substantially curtailed the Company's business operations until such time that the Company has sufficient operating liquidity to rehire a portion of the furloughed employees and to resume business operations. On September 29, 2023, given the unavailability of additional sources of liquidity and after considering strategic alternatives, all of our remaining employees were terminated, though certain key employees were subsequently re-hired in connection with the Chapter 11 proceedings. On October 13, 2023, certain employees were re-hired by the Company in connection with the Chapter 11 proceedings. As a result of the Chapter 11 proceedings, we may experience increased levels of employee attrition, and our employees likely will face considerable distraction and uncertainty. A loss of key personnel or material erosion of employee morale could adversely affect our business and results of operations. Increased levels of employee attrition may cause us to rely on fewer employees, increase the number of key employees as a share of the total personnel we employ, and in some cases these employees may be less experienced which puts at greater risk our ability to execute our plans and strategies. To conserve our cash, most of the departed employees are not being replaced.

Senior management may leave the Debtors during the pendency of the Chapter 11 proceedings if not adequately compensated.

The Bankruptcy Code limits a debtor's ability to pay bonus compensation to insiders absent court approval. While we have obtained Bankruptcy Court approval of an incentive program for certain members of senior management, certain modifications to this program or incentive programs for other insiders would require court approval. If we are unable to obtain court approval of any executive incentive bonus program, certain members of our senior management team may be undercompensated compared to both our market peers and their compensation prior to the Chapter 11 proceedings. There can be no assurance that members of our management team will continue to work for the Company under such circumstances. Should the Company lose all or part of the senior management team during the pendency of the Chapter 11 proceedings, we may experience substantial disruption and value destruction as a result.

Our post-bankruptcy capital structure is yet to be determined, and any changes to our capital structure may have a material adverse effect on existing debt and security holders, including holders of our common stock.

Our post-bankruptcy capital structure has yet to be determined and may be set pursuant to a plan that requires Bankruptcy Court approval. The reorganization of our capital structure may include exchanges of new debt or equity securities for our existing debt, equity securities, and claims against us. Such new debt may be issued at different interest rates, payment schedules and maturities than our existing debt securities. Existing equity securities are subject to a high risk of being cancelled. The success of a reorganization through any such exchanges or modifications will depend on approval by the Bankruptcy Court and the willingness of existing debt and security holders to agree to the exchange or modification, subject to the provisions of the Bankruptcy Code, and there can be no guarantee of success. If such exchanges or modifications are successful, holders of our debt or of claims against us may find their holdings no longer have any value or are materially reduced in value, or they may be converted to equity and be diluted or may be modified or replaced by debt with a principal amount that is less than the outstanding principal amount, longer maturities and reduced interest rates. Holders of our common stock may also find that their holdings no longer have any value and face highly uncertain or no recoveries under a plan. There can be no assurance that any new debt or equity securities will maintain their value at the time of issuance. If existing debt or equity holders are adversely affected by a reorganization, it may adversely affect our ability to issue new debt or equity in the future. Although we cannot predict how the claims and interests of stakeholders in the Chapter 11 Cases, including holders of common stock, will ultimately be resolved, we expect that common stockholders will not receive a recovery through any plan unless the holders of more senior claims and interests, such as secured indebtedness, are paid in full. Consequently, there is a significant risk that the holders of our common stock would receive no recovery under the Chapter 11 Cases and that our common stock will be worthless.

Any Chapter 11 plan that we may implement will likely be based in large part upon assumptions and analyses developed by us. If these assumptions and analyses prove to be incorrect, or adverse market conditions persist or worsen, our plan may be unsuccessful in its execution.

Any Chapter 11 plan that we may implement will affect both our capital structure and the ownership, structure and operation of our remaining business and will likely reflect assumptions and analyses based on our experience and perception of historical trends, current conditions and expected future developments, as well as other factors that we consider appropriate under the circumstances. Whether actual future results and developments will be consistent with our expectations and assumptions depends on a number of factors, including but not limited to (i) our ability to substantially change our capital structure; and (ii) the overall strength and stability of general economic conditions, both in the U.S. and in global markets. The failure of any of these factors could materially adversely affect the successful reorganization of our business.

In addition, any plan of reorganization will likely rely upon financial projections, including with respect to revenues, operating expenses, capital expenditures, debt service and cash flow. Financial forecasts are necessarily speculative, and it is likely that one or more of the assumptions and estimates that are the basis of these financial forecasts will not be accurate. In our case, the forecasts will be even more speculative than normal, because they may involve fundamental changes in the nature of our capital structure. Accordingly, we expect that our actual financial condition and results of operations will differ, perhaps materially, from what we have anticipated. Consequently, there can be no assurance that the results or developments contemplated by any plan of reorganization we may implement will occur or, even if they do occur, that they will have the anticipated effects on us and our subsidiaries or our business or operations. The failure of any such results or developments to materialize as anticipated could materially adversely affect the successful implementation of any plan of reorganization.

The amount of claims allowed could significantly exceed our estimates.

Although the Bankruptcy Court established bar dates for all creditors to file their proof of claim or interest, there can be no assurance regarding the amount of claims allowed to participate in distributions under a Chapter 11 plan or that such claims will not be significantly greater than may be anticipated which, could in turn result in the value of distributions to stakeholders being delayed, reduced, or eliminated entirely. Inevitably, some assumptions will not materialize, and unanticipated events and circumstances may affect the ultimate results and total amount of claims against us.

In certain instances, a Chapter 11 case may be converted to a case under Chapter 7 of the Bankruptcy Code, in which case our common stock would likely be worthless.

There can be no assurance as to whether we will successfully reorganize and emerge from the Chapter 11 proceedings or, if we do successfully reorganize, as to when we would emerge from the Chapter 11 proceedings. If the Bankruptcy Court finds that it would be in the best interest of creditors and/or the Debtors, the Bankruptcy Court may convert our Chapter 11 Cases to cases under Chapter 7 of the Bankruptcy Code. In such event, a Chapter 7 trustee would be appointed or elected to liquidate the Debtors' assets for distribution in accordance with the priorities established by the Bankruptcy Code. The Debtors believe that liquidation under Chapter 7 would result in significantly smaller distributions being made to the Debtors' creditors than those provided for in a Chapter 11 plan because of, among other things, (i) the likelihood that the assets would have to be sold or otherwise disposed of in a disorderly fashion over a short period of time rather than reorganizing or selling such assets in a controlled manner, (ii) additional administrative expenses and delays resulting from the appointment of a Chapter 7 trustee, and/or (iii) additional expenses and claims, some of which would be entitled to priority, that would be generated during the liquidation and from the rejection of leases and other executory contracts in connection with a cessation of operations.

The condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might result from the outcome of this uncertainty.

The Chapter 11 proceedings have caused our common stock to decrease in value materially or may render our common stock worthless.

We have a substantial amount of indebtedness that is senior to the Company's existing shares of common stock in our capital structure. Recoveries in the Chapter 11 Cases for holders of common stock, if any, will depend upon the performance of our business, the value of our assets and other factors. Although we cannot predict how our common stock will be treated under any Chapter 11 plan at this time, the common stockholders may not receive a material, or any, recovery unless the holders of more senior claims and interests, such as secured indebtedness, are paid in full. Consequently, there is a significant risk that the holders of our common stock will receive little or no recovery under the Chapter 11 Cases and that our common stock will decrease in value materially or become worthless. Trading prices for our securities may bear little or no relationship to the actual recovery, if any, by holders of our securities in bankruptcy proceedings.

Trading in shares of our common stock during the pendency of the Chapter 11 proceedings is highly speculative and an investor could lose all or part of their investment.

The price of our common stock has been volatile following the commencement of the Chapter 11 Cases and has and may continue to decrease in value. Accordingly, any trading in our common stock during the pendency of our Chapter 11 Cases is highly speculative and poses substantial risks to purchasers of our common stock. External factors have caused and may continue to cause the market price and demand for our common stock to fluctuate substantially. Accordingly, we cannot assure investors of the liquidity of an active trading market, the ability to sell shares of our common stock when desired, or the prices that an investor may obtain for the shares of our common stock.

In the past, following periods of extreme volatility in the market price of a company's securities, securities class-action litigation has often been instituted against that company. This and other securities litigation against us could result in substantial costs and a diversion of our management's attention and resources.

Our common stock has been delisted from trading on the New York Stock Exchange, which has negatively impacted the trading price of our common stock and our stockholders and there may be risks involved with trading in an over-the-counter market.

Our common stock has been delisted from the New York Stock Exchange. As a result of the delisting, our common stock began trading exclusively on the over-the-counter markets on August 6, 2023. We can provide no assurance that our common stock will continue to trade on this market, whether broker-dealers will continue to provide public quotes of our common stock on this market, whether the trading volume of our common stock will be sufficient to provide for an efficient trading market or whether quotes for our common stock will continue on this market in the future, which could result in significantly lower trading volumes and reduced liquidity for investors seeking to buy or sell our common stock. Furthermore, because of the limited market and generally low volume of trading in our common stock, the price of our common stock is likely to be volatile and more likely to be affected by broad market fluctuations, general market conditions, changes in the markets' perception of our securities, and announcements made by us or third parties with interests in the Chapter 11 Cases.

We may be adversely affected by potential litigation, including litigation arising out of the Chapter 11 Cases.

In the future, we may become parties to litigation. In general, litigation can be expensive and time consuming to bring or defend against. Such litigation could result in settlements or damages that could significantly affect our financial results. It is also possible that certain parties will commence litigation with respect to the treatment of their claims under a Chapter 11 plan. It is not possible to predict the potential litigation that we may become party to nor the final resolution of such litigation. The impact of any such litigation on our business and financial stability, however, could be material.

There is substantial doubt about our ability to continue as a going concern for a period of twelve months from the date of this Quarterly Report on Form 10-Q.

The Company's ability to continue as a going concern is contingent upon its ability to generate sufficient liquidity to meet its contractual obligations and operating needs. Beginning on the Petition Date, it is also contingent upon its ability to, subject to the Bankruptcy Court's approval, implement a Chapter 11 plan of reorganization and emerge from the Chapter 11 Cases. As a result, the Company faces risks and uncertainties related to, among other things, (i) the Company's ability to obtain requisite support for a Chapter 11 plan from various stakeholders, and (ii) the potentially disruptive effects of the Chapter 11 proceedings on our business making it potentially more difficult to maintain business, financing and operational relationships. The outcome of the Chapter 11 Cases is subject to a high degree of uncertainty and is dependent upon factors that are outside of our control, including rulings by the Bankruptcy Court and the actions of the Company's creditors. There can be no assurance that we will be successful in executing a transaction, or consummating a Chapter 11 plan with respect to the Chapter 11 Cases. As a result of risks and uncertainties related to the aforementioned conditions, the delisting of our common stock, and the effects of potential disruption resulting from the Chapter 11 Cases making it more difficult to maintain business, financing and operational relationships, together with our recurring losses from operations and accumulated deficit, substantial doubt exists regarding our ability to continue as a going concern for the next 12 months. See Note 15 to our interim condensed consolidated financial statements included in this report for additional details regarding the Chapter 11 Cases.

The filing of the Chapter 11 Cases constituted an event of default that accelerated substantially all of our obligations under all of our pre-petition debt instruments.

Risks Related to Our Business and Industry

We have a history of losses and may not be able to achieve or sustain profitability in the future.

We have incurred net losses in all periods since our inception. We experienced net losses of $111.0 million and $242.6 million for fiscal year 2023 and fiscal year 2022, respectively and a net loss of $22.4 million for the nine months ended October 31, 2023. As of October 31, 2023, we had an accumulated deficit of $551.3 million. We cannot predict when or whether we will ever reach or maintain profitability. We will also continue to incur significant operating expenses, which will negatively affect our results of operations if our total revenue does not increase. We cannot assure you that we will achieve increases in our total revenue or improvements in our results of operations. We also expect to incur significant additional legal, accounting, and other expenses as a public operating company. Any failure to increase our revenue as we invest in our business or to manage our costs could prevent us from achieving or maintaining profitability or positive cash flow.

Our limited operating history makes it difficult to evaluate our current business and our future prospects and may increase the risk of your investment.

We were founded in 2014 and we launched our first cybersecurity network detection and response product, IronDefense, in 2016 and our first collective defense product, IronDome, in 2018. Our limited operating history makes it difficult to evaluate our current business, our future prospects, and other trends, including our ability to plan for and model future growth. We have encountered, and we will continue to encounter, risks, uncertainties, and difficulties frequently experienced by rapidly growing companies in evolving industries, including our ability to achieve broad market acceptance of cloud- enabled, and/or SaaS delivered cybersecurity solutions and our platform, attract additional customers, grow partnerships, compete effectively, build and maintain effective compliance programs, and manage increasing expenses as we continue to invest in our business. If we do not address these risks, uncertainties and difficulties successfully, our business, and results of operations will be harmed. Further, we have limited historical financial data and operate in a rapidly evolving market. As a result, any predictions about our future revenue and expenses may not be as accurate as they would be if we had a longer operating history or operated in a more predictable market.

Weakened global economic conditions may harm our industry, business and results of operations.

Our overall performance depends in part on worldwide economic conditions. Global financial developments, downturns and global health crises or pandemics seemingly unrelated to us or the cybersecurity industry, may harm us, including due to disruptions or restrictions on our employees' ability to work and travel. The United States and other key international economies have been affected from time to time by falling demand for a variety of goods and services, restricted credit, poor liquidity, reduced corporate profitability, volatility in credit, equity and foreign exchange markets, disruptions in access to bank deposits or lending commitments due to bank failures, bankruptcies, outbreaks of COVID-19 and the resulting impact on business continuity and travel, supply chain disruptions, inflation and overall uncertainty with respect to the economy, including with respect to tariff and trade issues. For example, inflation rates, particularly in the United States, have increased recently to levels not seen in years, and increased inflation may result in decreased demand for our products and services, increases in our operating costs (including our labor costs), reduced liquidity and limits on our ability to access credit or otherwise raise capital. In addition, the Federal Reserve has raised, and may again raise, interest rates in response to concerns about inflation, which coupled with reduced government spending and volatility in financial markets may have the effect of further increasing economic uncertainty and heightening these risks. Additionally, financial markets around the world experienced volatility following the invasion of Ukraine by Russia in February 2022. In response to the invasion, the US, UK and EU, along with others, imposed significant new sanctions and export controls against Russia, Russian banks and certain Russian individuals and may implement additional sanctions or take further punitive actions in the future. The full economic and social impact of the sanctions imposed on Russia (as well as possible future punitive measures that may be implemented), as well as the counter measures imposed by Russia, in addition to the ongoing military conflict between Ukraine and Russia, which could conceivably expand into the surrounding region, remains uncertain; however, both the conflict and related sanctions have resulted and could continue to result in disruptions to trade, commerce, pricing stability, credit availability, and/or supply chain continuity, in both Europe and globally, and has introduced significant uncertainty into global markets. As the adverse effects of this conflict continue to develop and potentially spread, both in Europe and throughout the rest of the world, our customers may be negatively impacted, which in turn may cause them to delay purchasing decisions, affect subscription renewal rates and otherwise depress our customers' spending levels. As a result, our business and results of operations may be adversely affected by the ongoing conflict between Ukraine and Russia, particularly to the extent it escalates to involve additional countries, further economic sanctions or wider military conflict. We have current and potential new customers throughout Europe. If economic conditions in Europe and other key markets for our platform continue to remain uncertain or deteriorate further, many customers may delay or reduce their cybersecurity spending.

In addition, prior to March 10, 2023, we had a banking relationship with SVB. As of the closure of SVB on March 10, 2023, we held approximately $8.1 million in cash, cash equivalents and investments at or through SVB, which represented approximately 96% of our total cash, cash equivalents and investments as of that date. SVB was closed on March 10, 2023 by the California Department of Financial Protection and Innovation, which appointed the FDIC as receiver. On March 12, 2023, the U.S. Treasury, Federal Reserve, and FDIC announced that SVB depositors would have access to all of their money starting March 13, 2023. On March 13, 2023, we were able to access all $8.1 million in cash, cash equivalents and investments held at or through SVB. While we have not experienced any losses in such accounts, the recent failure of SVB exposed us to significant credit risk prior to the completion by the FDIC of the resolution of SVB in a manner that fully protected all depositors. Our access to funding sources and other credit arrangements in amounts adequate to finance or capitalize our current and projected future business operations could be significantly impaired by factors that affect us, the financial institutions with which we have arrangements directly, or the financial services industry or economy in general. These factors could include, among others, events such as liquidity constraints or failures, the ability to perform obligations under various types of financial, credit or liquidity agreements or arrangements, disruptions or instability in the financial services industry or financial markets, or concerns or negative expectations about the prospects for companies in the financial services industry. These factors could involve financial institutions or financial services industry companies with which we have financial or business relationships, but could also include factors involving financial markets or the financial services industry generally.

The factors discussed above have and may continue to influence our customers' behavior, spending patterns and general demand for our platform and services and prompt our customers to take additional precautionary measures to limit or delay expenditures and preserve capital and liquidity as they monitor global economic conditions and the risk of a global recession. The growth of our revenues and potential profitability of our business depends on demand for our platform and services generally, and business spend management specifically. In addition, our revenues are dependent on the number of users of our services. Historically, during economic downturns there have been reductions in spending on cybersecurity as well as pressure for extended billing terms or pricing discounts, which would limit our ability to grow our business and negatively affect our operating results. These conditions affect the rate of cybersecurity spending and could adversely affect our customers' ability or willingness to subscribe to our services, delay prospective customers' purchasing decisions, reduce the value or duration of their subscriptions or affect renewal rates, all of which could harm our operating results.

If organizations do not adopt cloud-enabled, and/or SaaS-delivered cybersecurity solutions that may be based on new and untested security concepts, our ability to grow our business and results of operations may be adversely affected.

Our future success depends on the growth in the market for cloud-enabled and/or SaaS-delivered cybersecurity solutions. The use of SaaS solutions to manage and automate security and IT operations is rapidly evolving. As such, it is difficult to predict our potential growth, customer adoption and retention rates, customer demand for our solutions, or the success of existing or future competitive products. Any expansion in our market depends on a number of factors, including the cost, performance and perceived value associated with our solutions and those of our competitors. If our solutions do not achieve widespread adoption or there is a reduction in demand for our solutions due to a lack of customer acceptance, technological challenges, competing products, privacy or other liability concerns, decreases in corporate spending, weakening economic conditions, or otherwise, it could adversely affect our business, results of operations and financial results, resulting from such things as early terminations, reduced customer retention rates, or decreased sales. Negative or worsening conditions in the general economy both in the United States and abroad, including conditions resulting from financial and credit market fluctuations and inflation, could cause a decrease in corporate spending on enterprise software in general, and in the cybersecurity industry specifically, and negatively affect the rate of growth of our business. We do not know whether the trend in adoption of cloud-enabled and/or SaaS-delivered cybersecurity solutions that we have experienced in the past will continue in the future. Furthermore, if we or other SaaS security providers experience security incidents, loss, or disclosure of customer data, disruptions in delivery, or other problems, the market for SaaS solutions as a whole, including our security solutions, could be negatively affected.

In addition to reliance on a cloud-enabled and/or SaaS-delivered model, our cybersecurity offerings utilize a novel and relatively new approach to collective defense that relies on customers sharing sensitive customer information with us. Some of that raw customer information may contain personal or confidential information, or data perceived to be personal or confidential information. From that customer information, we generate analytics that allow us to deliver threat knowledge and network intelligence at machine speed across a wide variety of industries. Because this new approach requires the sharing of sensitive customer information, concerns may exist that sharing of the customer information may violate, or be perceived as potentially violating, privacy laws or providing a competitive advantage to another entity. As a result, some current or prospective customers may decide not to procure our products or share any customer information. Such lack of acceptance could have negative effects on us, including reduced or lost revenues or inadequate information being available for our analysis, thus making our products less effective. In addition, uncertainties about the regulatory environment concerning personal information and the potential liability raised by sharing such information could further inhibit the broad-scale adoption of our solutions.

Historically, information sharing related to cybersecurity has been a very well accepted concept from a theoretical perspective but very difficult to implement in practice. Companies are generally reluctant to share their sensitive cyber information with other entities, despite knowing the advantages of doing so. Although raw customer information will not be shared with other parties, it does undergo filtering, concatenation, and other transformations within our solutions with the goal of removing any sensitive or personal information. Misperceptions may exist, however, about what information gets shared, with whom that information is shared, and the jurisdictions (including foreign countries) of the companies with which the information gets shared. Further, concerns of existing or potential customers may exist related to the ability to completely remove any indicia of the source company, general market rejection of information sharing, or specific market skepticism of our approach to collective defense, which may further add to a lack of customer acceptance.

In addition to the potential concerns related to sharing sensitive information in a system consisting of commercial or potentially competitive entities, additional concerns can arise when governments become involved as participants in the collective defense ecosystem. From a commercial perspective, companies frequently view information sharing with governments as risky, based on perceptions that the governments might use such shared information to take action against the companies or to otherwise utilize it in a way that will expose such companies to liability. Such perceptions could lead commercial entities to stop sharing, not procure our services in the first place, or terminate their relationship with us altogether. Similarly, governments (as customers) may be unable to properly process such data or utilize it in a meaningful way, or share useful information back into our solutions. Any of these concerns could lead to reduced sales or contribute to a lack of customer acceptance. In addition, the mere involvement of one or more government entities may harm our reputation with certain companies.

If we are unable to attract new customers, our future results of operations could be harmed.

To expand our customer base, we will need to convince potential customers to allocate a portion of their discretionary budgets to purchase our platform and solutions. Our sales efforts have often involved educating our prospective customers about the uses and benefits of our platform and solutions. Enterprises and governments that use legacy security products, such as signature-based or malware-focused products, firewalls, intrusion prevention systems and endpoint technologies, may be hesitant to purchase our platform and solutions if they believe that legacy security products are more cost effective, provide substantially the same functionality as our platform and solutions or provide a level of cybersecurity that is sufficient to meet their needs.

We may have difficulty convincing prospective customers of the value of adopting our solutions. Even if we are successful in convincing prospective customers that a cloud-enabled platform like ours is critical to protect against cyberattacks, they may not decide to purchase our platform and solutions for a variety of reasons, some of which are out of our control. For example, any future deterioration in general economic conditions may cause our current and prospective customers to cut their overall security and IT operations spending, and such cuts may fall disproportionately on cloud-based security solutions. Economic weakness, customer financial difficulties, and constrained spending on security and IT operations may result in decreased revenue and adversely affect our results of operations and financial condition. Additionally, if the incidence of cyberattacks were to decline, or enterprises or governments perceive that the general level or relative risk of cyberattacks has declined, our ability to attract new customers and expand sales of our solutions to existing customers could be adversely affected. If organizations do not continue to adopt our platform and solutions, our sales will not grow as quickly as anticipated, or at all, and our business, results of operations, and financial condition would be harmed.

If our customers do not renew their subscriptions for our products, our future results of operations could be harmed.

In order for us to maintain or improve our results of operations, it is important that our customers renew their subscriptions for our platform and solutions when existing contract terms expire, and that we expand our commercial relationships with our existing customers by selling additional subscriptions. Our customers have no obligation to renew their subscriptions after the expiration of their contractual subscription period, which is generally one year, and in the normal course of business, some customers have elected not to renew. In addition, our customers may renew for shorter contract subscription lengths or cease using certain solutions. Our customer retention and expansion may decline or fluctuate as a result of a number of factors, including our customers' satisfaction with our services, concerns related to our current financial position and disclosed bankruptcy risk, our pricing, customer security and networking issues and requirements, our customers' spending levels, mergers and acquisitions involving our customers, industry developments, competition and general economic conditions. Our public sector customers are also subject to budgetary cycles and funding authorizations, and funding reductions or delays can result in delays in such customers renewing their contracts with us. We have experienced several of these delays in the current fiscal year, which has delayed our ability to grow our annual recurring revenue and therefore reduced revenues below our previous expectations, in addition to delaying expected cash flows. If our efforts to maintain and expand our relationships with our existing customers are not successful, our business, results of operations, and financial condition may materially suffer.

As a first mover in collective defense for the commercial sector, we may face significant liability if we are unable to effectively anonymize and safeguard our clients' data.

We are the first major commercial vendor to offer an end-to-end means to take full advantage of the collective defense concept that relies on customers sharing sensitive customer information with us. While raw customer information is not shared with other parties and shared data undergoes filtering and other transformations within our solution, with the goal of removing any sensitive or personal information, it is possible that customer information could be accessed by third parties (including competitors of our clients), through a failure of our procedures to effectively anonymize the shared data or as a result of hackers gaining access to the raw data collected by us. To the extent we are not able to effectively anonymize and protect our customers' data, we may be subject to liability, which could adversely affect our business, results of operations and financial condition. In addition, given the novelty of our approach, it is possible that other risks related to our clients' data could surface of which we are currently unaware.

Competition from existing or new companies could cause us to experience downward pressure on prices, fewer customer orders, reduced margins, the inability to take advantage of new business opportunities and loss of market share.

The market for cybersecurity solutions is intensely competitive, fragmented, and characterized by rapid changes in technology, customer requirements, industry standards, increasingly sophisticated attackers, and by frequent introductions of new or improved products to combat security threats. We expect to continue to face intense competition from our current competitors, as well as from new entrants into the market. If we are unable to anticipate or react to these challenges, our competitive position could weaken, and we could experience a decline in revenue or reduced revenue growth, and loss of market share that would adversely affect our business, financial condition and results of operations. The ability to compete effectively will depend upon numerous factors, many of which are beyond our control, including, but not limited to:

- product capabilities, including performance and reliability, of our platform, including our services and features particularly in the areas of analytics and collective defense, compared to those of our competitors;
- our ability, and the ability of our competitors, to improve existing products, services and features, or to develop new ones to address evolving customer needs;
- our ability to attract, retain and motivate talented employees;
- our ability to establish, capitalize on, maintain, and grow relationships with distribution and technology partners;
- the strength of our sales and marketing efforts; and
- acquisitions or consolidation within our industry, which may result in more formidable competitors.
- Our competitors include the following companies by general category:
- first-generation NDR vendors such as DarkTrace or Vectra Networks, who offer point products based on Bayesian analysis, outlier analysis, and heuristic detection-based detection;
- network security vendors, such as Cisco and Palo Alto Networks, Inc., who are supplementing their core network security additional behavioral-based detection with behavioral-based detection, threat intelligence and security operations solutions;
- legacy network infrastructure and performance monitoring companies such as ExtraHop and Arista Networks, who are adding security use cases to their infrastructure products; and
- legacy infrastructure detection and protection products (IDPS) and Sandbox from companies such as Cisco and FireEye.

Many of these competitors have greater financial, technical, marketing, sales, and other resources, greater name recognition, longer operating histories, and a significantly larger base of customers than we do. They may be able to devote greater resources to the development, promotion, and sale of services than we can, and they may offer lower pricing than we do. Further, they may have greater resources for research and development of new technologies, the provision of customer support, and the pursuit of acquisitions, or they may have other financial, technical or other resource advantages. Our larger competitors have substantially broader and more diverse product and services offerings as well as routes to market, which may allow them to leverage their relationships based on other products, or incorporate functionality into existing products to gain business in a manner that discourages users from purchasing our products.

Conditions in our market could change rapidly and significantly as a result of technological advancements, partnering or acquisitions by competitors or continuing market consolidation. Some of our current or potential competitors have made or could make acquisitions of businesses or establish cooperative relationships that may allow them to offer more directly competitive and comprehensive solutions than were previously offered and adapt more quickly to new technologies and customer needs. These competitive pressures in the market or our failure to compete effectively may result in price reductions, fewer orders, reduced revenue and gross margins, increased net losses and loss of market share. Further, many competitors that specialize in providing protection from particular types of security threats may be able to deliver these more targeted security products to the market quicker than we can or may be able to convince organizations that these more limited products meet their needs.

Even if there is significant demand for cloud-based security solutions like ours or if our competitors include functionality that is, or is perceived to be, equivalent to or better than ours in legacy products that are already generally accepted as necessary components of an organization's cybersecurity architecture, we may have difficulty increasing the market penetration of our platform. Furthermore, even if the functionality offered by other security and IT operations providers is different and more limited than the functionality of our platform, organizations may elect to accept such limited functionality in lieu of adding products from additional vendors like us. If we are unable to compete successfully, our business, financial condition, and results of operations would be adversely affected.

Competitive pricing pressure may reduce gross profits and adversely affect our financial results.

If we are unable to maintain our pricing due to competitive pressures or other factors, our margins may be reduced and our gross profits, business, results of operations and financial condition may be adversely affected. The subscription prices for our platform, solutions, and professional services may decline for a variety of reasons, including competitive pricing pressures, discounts, anticipation of the introduction of new solutions by competitors, or promotional programs offered by us or our competitors. Competition continues to increase in the market segments in which we operate, and we expect competition to further increase in the future. Larger competitors with more diverse product and service offerings may reduce the price of products or subscriptions that compete with ours or may bundle them with other products and subscriptions in an effort to leverage their existing market share to make it harder for newer companies, like us, to effectively compete.

If our solutions fail or are perceived to fail to detect or prevent incidents or have or are perceived to have defects, errors, or vulnerabilities, our brand and reputation would be harmed, which would adversely affect our business and results of operations.

Real or perceived defects, errors, or vulnerabilities in our platform and solutions, the failure of our platform to detect or prevent incidents, including advanced and newly developed attacks, misconfiguration of our solutions, actions or inactions by employees or contractors that create vulnerabilities in our platform or solutions, or the failure of customers to take action on attacks identified by our platform could harm our reputation and adversely affect our business, financial position, and results of operations. Because our cloud-enabled security platform is complex, it may contain defects or errors that are not detected until after deployment. We cannot assure you that our products will detect all cyberattacks, especially in light of the rapidly changing security threat landscape that our solution seeks to address. Due to a variety of both internal and external factors, including, without limitation, defects or misconfigurations of our solutions, our solutions could become vulnerable to security incidents (both from intentional attacks and accidental causes) that cause them to fail to secure networks and detect and block attacks. In addition, because the techniques used by computer hackers to access or sabotage networks change frequently and generally are not recognized until launched against a target, there is a risk that an advanced attack could emerge that our cloud-enabled security platform is unable to detect or prevent until after some of our customers are affected. For example, certain computer hackers may be supported or directly employed by so-called nation-states, which are generally defined as sovereign territories with individuals who share a common history and set of ideals. In the context of cybersecurity, certain aggressive nation-states with a history of disregarding generally acceptable computer network norms may employ particularly sophisticated and experienced actors who focus on being persistent, unpredictable, and innovative, with the ability to tap into significant nation-state budgets. This allows such nation-state attackers to develop expansive attack playbooks and access to cutting-edge technology to facilitate their attacks, including new, or so-called zero-day, attacks. Such nation-state attackers could successfully attack us or our customers, which could significantly harm our reputation. Additionally, our platform may falsely indicate a cyberattack or threat that does not actually exist, which may lessen customers' trust in our solutions.

Moreover, as our cloud-enabled security platform is adopted by an increasing number of enterprises and governments, it is possible that the individuals and organizations behind advanced cyberattacks will begin to focus on finding ways to defeat our security platform. If this happens, our systems and subscription customers could be specifically targeted by attackers and could result in vulnerabilities in our platform or undermine the market acceptance of our platform and could adversely affect our reputation as a provider of security solutions. Because we host customer data on our cloud and other platforms, which in some cases may contain personally identifiable information ("PII") or potentially confidential information, a security compromise, or an accidental or intentional misconfiguration or malfunction of our platform could result in PII and other customer data being accessible to attackers or to other customers. Further, if a high-profile security breach occurs with respect to another next-generation or cloud-enabled security system, our customers and potential customers may lose trust in such solutions generally, and cloud-enabled security solutions in particular.

Organizations are increasingly subject to a wide variety of attacks on their networks, systems, and endpoints. No security solution, including our platform, can address all possible security threats or block all methods of penetrating a network or otherwise perpetrating a security incident. There could be situations where our solutions detect attacks against a customer but the customer does not address the vulnerability, which could cause customers and the public to erroneously believe that our solutions were not effective. Real or perceived security breaches of our customers' networks could cause disruption or damage to their networks or other negative consequences and could result in negative publicity to us, damage to our reputation, and other customer relations issues, and may adversely affect our revenue and results of operations.

As a cybersecurity provider, we may be a target of cyberattacks. If our internal networks, systems or data are or are perceived to have been compromised, our reputation may be damaged and our financial results may be negatively affected.

As a provider of security solutions, our platform may be specifically targeted by bad actors for attacks intended to circumvent our security capabilities or to exploit our platform as an entry point into customers' endpoints, networks, or systems. In particular, because we have been involved in the identification of organized cybercriminals and nation-state actors, we may be the subject of intense efforts by sophisticated cyber adversaries who seek to compromise our systems or leverage our access. We are also susceptible to inadvertent compromises of our systems and data, including those arising from process, coding, or human errors. A successful attack or other incident that compromises us or our customers' data or results in an interruption of service could have a significant negative effect on our operations, reputation, financial resources, and the value of our intellectual property. We cannot assure you that any of our efforts to manage this risk will be effective in protecting us from such attacks.

It is virtually impossible to entirely eliminate the risk of such compromises, interruptions in service, or other security incidents affecting our internal systems or data. Organizations are subject to a wide variety of attacks on their networks, systems and endpoints, and techniques used to sabotage or to obtain unauthorized access to networks in which data is stored or through which data is transmitted change frequently. Furthermore, employee error or malicious activity could compromise its systems. As a result, we may be unable to anticipate these techniques or implement adequate measures to prevent an intrusion into our networks, which could result in unauthorized access to customer data, intellectual property including access to our source code, and information about vulnerabilities in our product, which in turn could reduce the effectiveness of our solutions, or lead to cyberattacks or other intrusions of our customers' networks. If any of these events were to occur, they could damage our relationships with our customers and could have a negative effect on our ability to attract and retain new customers. We have expended, and we anticipate we will continue to expend significant amounts and resources in an effort to prevent security breaches and other security incidents impacting our systems and data. Since our business is focused on providing reliable security services to our customers, an actual or perceived security incident affecting our internal systems or data or data of its customers would be especially detrimental to our reputation and customer confidence in our solutions.

In addition, while we maintain, and we will continue to maintain, insurance policies that may cover certain liabilities in connection with a cybersecurity incident, we cannot be certain that the insurance coverage will be adequate for liabilities actually incurred, that insurance will continue to be available to us on commercially reasonable terms, or at all, or that any insurer will not deny coverage as to any future claim. The successful assertion of one or more large claims that exceed available insurance coverage, or the occurrence of changes in insurance policies, including premium increases or the imposition of large deductible or coinsurance requirements, could have a material adverse effect on our business, including our financial condition, results of operations and reputation.

We rely on third-party data centers and our own colocation data centers to host and operate our platform, and any disruption of or interference with our use of these facilities may negatively affect our ability to maintain the performance and reliability of our platform, which could cause our business to suffer.

Our customers depend on the continuous availability of our platform. We currently host our platform and serves our customers using a mix of third-party data centers, primarily AWS, and, primarily for our own use, in our own data centers, hosted in colocation facilities. Consequently, we may be subject to service disruptions as well as failures to provide adequate support for reasons that are outside of our direct control. We may experience interruptions, delays and outages in service and availability from time to time due to a variety of factors, including infrastructure changes, human or software errors, website hosting disruptions and capacity constraints. Also, customers may be subject to the same risk factors as some of them host our solutions in their own data centers.
The following factors, many of which are beyond our control, can affect the delivery, availability, and the performance of our platform:

- the development and maintenance of the infrastructure of the internet;
- the performance and availability of third-party providers of cloud infrastructure services with the necessary speed, data capacity, and security for providing reliable internet access and services;
- decisions by the owners and operators of the data centers where our cloud infrastructure is deployed to terminate our contracts, discontinue services, shut down operations or facilities, increase prices, change service levels, limit bandwidth, declare bankruptcy or prioritize the traffic of other parties;
- physical or electronic break-ins, acts of war or terrorism, human error or interference (including by disgruntled employees, former employees or contractors) and other catastrophic events;
- cyberattacks, including denial of service attacks, targeted at us, our data centers, or the infrastructure of the internet;

- failure by us to maintain and update our cloud infrastructure to meet our data capacity requirements;
- errors, defects, or performance problems in our software, including third-party or open-source software incorporated in our software;
- improper deployment or configuration of our solutions;
- the failure of our redundancy systems, in the event of a service disruption at one of our data centers, to provide failover to other data centers in our data center network;
- the failure of our disaster recovery and business continuity arrangements; and
- effects of third-party software updates with hidden malware, similar to the supply chain attack that occurred via SolarWinds.

The adverse effects of any service interruptions on our reputation, results of operations, and financial condition may be disproportionately heightened due to the nature of our business and the fact that our customers have a low tolerance for interruptions of any duration. Interruptions or failures in our service delivery could result in a cyberattack or other security threat to one of our customers during such periods of interruption or failure. Additionally, interruptions or failures in our service could cause customers to terminate their subscriptions, adversely affect renewal rates, and harm our ability to attract new customers. Our business would also be harmed if our customers believe that a cloud-enabled and/or SaaS- delivered cybersecurity solution is unreliable. We may experience service interruptions and other performance problems due to a variety of factors. The occurrence of any of these factors, or if it is unable to rapidly and cost-effectively fix such errors or other problems that may be identified, could damage our reputation, negatively affect our relationship with our customers or otherwise harm our business, results of operations and financial condition.

If we do not effectively train our direct sales force, we may be unable to add new customers or increase sales to existing customers, and our business will be adversely affected.

We depend on our direct sales force to obtain new customers and increase sales with existing customers. Our ability to achieve significant revenue growth will depend, in large part, on our success in training and retaining sufficient numbers of sales personnel, particularly in international markets. There is significant competition for sales personnel with the skills and technical knowledge that we require. New hires require significant training and may take significant time before they achieve full productivity, and this delay is accentuated by our long sales cycles. Our hires may not become productive as quickly as we expect, and we may be unable to hire or retain sufficient numbers of qualified individuals in the markets where we do business or plans to do business. In addition, a large percentage of our salesforce is new to our business and selling our solutions, and therefore this team may be less effective than our more seasoned sales personnel. Furthermore, hiring sales personnel in new countries, or expanding our existing presence, requires upfront and ongoing expenditures that we may not recover if the sales personnel fail to achieve full productivity. If we are unable to train a sufficient number of effective sales personnel, or the sales personnel we hire are not successful in obtaining new customers or increasing sales to our existing customer base, our business and results of operations will be adversely affected.

Because we recognize revenue from subscriptions to our platform and other forms of providing customers with access to our software over the term of the subscription or contract, downturns or upturns in new business will not be immediately reflected in our results of operations.

We generally recognize revenue from customers ratably over the terms of their subscription or contract term, which average over three years in length, though may be as short as one year or less. As a result, a substantial portion of the revenue that we report in each period is attributable to the recognition of deferred revenue relating to agreements that we entered into during previous periods. Consequently, any increase or decline in new sales or renewals in any one period will not be immediately reflected in our revenue for that period. Any such change, however, would affect our revenue in future periods. Accordingly, the effect of downturns or upturns in new sales and potential changes in our rate of renewals may not be fully reflected in our results of operations until future periods.

A limited number of customers represent a substantial portion of our revenue. If we fail to retain these customers, our revenue could decline significantly.

We derive a substantial portion of our revenue from a limited number of customers. For fiscal year 2023, eight customers accounted for 61% of our revenue, with two of those customers accounting for 22% of our revenue. During the first nine months of fiscal 2024, four customers accounted for 51% of revenue.

As a result of our customer concentration, which can vary from period to period, our revenue could fluctuate materially and could be materially and disproportionately impacted by purchasing decisions of these customers or any other significant future customer. Any of our significant customers may decide to purchase less than they have in the past, may alter their purchasing patterns at any time with limited notice, or may decide not to continue to license our products at all, any of which could cause our revenue to decline and adversely affect our financial condition and results of operations. If we do not further diversify our customer base, we will continue to be susceptible to risks associated with customer concentration.

Our results of operations may fluctuate significantly, which could make our future results difficult to predict and could cause our results of operations to fall below expectations.

Our results of operations have varied significantly from period to period, and we expect that our results of operations will continue to vary as a result of a number of factors, many of which are outside of our control and may be difficult to predict, including:

- our ability to attract new and retain existing customers;
- the budgeting cycles, seasonal buying patterns, and purchasing practices of customers;
- the timing and length of our sales cycles;
- changes in customer or distribution partner requirements or market needs;
- changes in the growth rate of our market;
- the timing and success of new product and service introductions by us or our competitors or any other competitive developments, including consolidation among our customers or competitors;
- the level of awareness of cybersecurity threats, particularly advanced cyberattacks, and the market adoption of our platform;
- decisions by organizations to purchase security solutions from larger, more established security vendors or from their primary IT equipment vendors;
- changes in our pricing policies or those of our competitors;
- any disruption in our relationship with distribution partners;
- insolvency or credit difficulties confronting our customers, affecting their ability to purchase or pay for our solutions;
- significant security breaches of, technical difficulties with or interruptions to, the use of our platform;
- extraordinary expenses such as litigation or other dispute-related settlement payments or outcomes;
- rising inflation and our ability to control costs, including our operating expenses;
- general economic conditions, both in domestic and foreign markets;
- future accounting pronouncements or changes in our accounting policies or practices;
- negative media coverage or publicity;
- political events, including the ongoing conflict between Russia and Ukraine;
- the amount and timing of operating costs and capital expenditures related to the expansion of our business; and
- increases or decreases in expenses caused by fluctuations in foreign currency exchange rates.

In addition, we experience seasonal fluctuations in our financial results as we can receive a higher percentage of our annual orders from new customers, as well as renewal orders from existing customers, in the fourth fiscal quarter as compared to other quarters due to the annual budget approval process of many of our customers. Any of the above factors, individually or in the aggregate, may result in significant fluctuations in our financial and other results from period to period.

As a result of this variability, our historical results of operations should not be relied upon as an indication of future performance. Moreover, this variability and unpredictability could result in our failure to meet our operating plan or the expectations of investors or analysts for any period. If we fail to meet such expectations for these or other reasons, our stock price could fall substantially, and we could face costly lawsuits, including securities class action suits.

Our sales cycles can be long and unpredictable, and our sales efforts require considerable time and expense.

Our revenue recognition is difficult to predict because of the length and unpredictability of the sales cycle for our platform, particularly with respect to large organizations and government entities. Customers often view the subscription to our platform as a significant strategic decision and, as a result, frequently require considerable time to evaluate, test, and qualify our platform and solutions prior to entering into or expanding a relationship with us. Large enterprises and government entities in particular often undertake a significant evaluation process that further lengthens our sales cycle.

Our direct sales team develops relationships with our customers, and works with our distribution partners on account penetration, account coordination, sales and overall market development. We spend substantial time and resources on our sales efforts without any assurance that our efforts will produce a sale. Security solution purchases are frequently subject to budget constraints, multiple approvals, and unanticipated administrative, processing, and other delays. As a result, it is difficult to predict whether and when a sale will be completed. The failure of our efforts to secure sales after investing resources in a lengthy sales process could adversely affect our business and results of operations.

If we are unable to attract and retain qualified personnel, our business could be harmed.

There is significant competition for personnel with the skills and technical knowledge that we will require across our technology, cyber, sales, professional services and administrative support functions. Competition for these personnel in the Washington, D.C. metro area, where our corporate headquarters is located, and in other locations where we maintain offices or otherwise operate, is competitive, especially for experienced sales professionals, engineers and data scientists experienced in designing and developing cybersecurity software. Although our current remote work environment facilitates our ability to attract talent across a wider geographic base, we have from time to time experienced, and we expect to continue to experience, difficulty in hiring and retaining employees with appropriate qualifications. Many of the companies with which we compete for experienced personnel have greater resources than us. Our competitors also may be successful in recruiting and hiring members of our management team or other key employees, and it may be difficult for us to find suitable replacements on a timely basis, on competitive terms, or at all. We may also be subject to allegations that employees we hire have been improperly solicited, or that they have divulged proprietary or other confidential information or that their former employers own such employees' inventions or other work product, or that they have been hired in violation of non-compete provisions or non-solicitation provisions.

In addition, job candidates and existing employees often consider the value of the equity awards they receive in connection with their employment. Volatility or lack of performance in our stock price may also affect our ability to attract and retain key employees. Some of our employees will become vested in a substantial amount of equity awards, which may give them a material amount of personal wealth. This may make it more difficult for us to retain and motivate these employees, and this wealth could affect their decision about whether or not they continue to work for us. Any failure to successfully attract, integrate or retain qualified personnel to fulfill our current or future needs could adversely affect our business, results of operations and financial condition.

If we are not able to maintain and enhance our brand and our reputation as a provider of high-efficacy cybersecurity solutions, our business and results of operations may be adversely affected.

We believe that maintaining and enhancing our brand and our reputation as a provider of high-efficacy cybersecurity solutions is critical to our relationship with our existing customers and distribution partners and our ability to attract new customers and partners. The successful promotion of our brand will depend on a number of factors, including our investment in marketing efforts, our ability to continue to develop additional features for our platform, our ability to successfully differentiate our platform from competitive cloud-enabled or legacy security solutions and, ultimately, our ability to detect and remediate cyberattacks. Although we believe it is important for our growth, these brand promotion activities may not be successful or yield increased revenue.

In addition, independent industry or financial analysts and research firms often test our solutions and provide reviews of our platform, along with the products of our competitors, and perception of our platform in the marketplace may be significantly influenced by these reviews. If these reviews are negative, or less positive as compared to those of our competitors' products, our brand may be adversely affected. Our solutions may fail to detect or prevent threats in any particular test for a number of reasons that may or may not be related to the efficacy of our solutions in real world environments. To the extent potential customers, industry analysts, or testing firms believe that the occurrence of a failure to detect or prevent any particular threat is a flaw or indicates that our solutions or services do not provide significant value, we may lose customers, and our reputation, financial condition, and business would be harmed. Additionally, the performance of our distribution partners may affect our brand and reputation if customers do not have a positive experience with these partners. In addition, we have in the past worked, and we will continue to work, with high profile customers and to assist in analyzing and remediating high profile cyberattacks. This work with such customers and cyberattacks may expose us to negative publicity and media coverage. Negative publicity, including about the efficacy and reliability of our platform, our products offerings, our professional services and the customers we work with, even if inaccurate, could adversely affect our reputation and brand.

If we are unable to maintain successful relationships with our distribution partners, or if our distribution partners fail to perform, our ability to market, sell and distribute our platform and solutions efficiently will be limited, and our business, financial position and results of operations will be harmed.

In addition to our direct sales force, we rely on certain key distribution partners to sell and support our platform. An increasing amount of our sales flow through our distribution partners, and we expect our reliance on such partners to continue to grow for the foreseeable future. Additionally, we have entered into, and we intend to continue to enter into, partnerships with third parties to support our future growth plans. The loss of a substantial number of distribution partners, or the failure to recruit additional partners, could adversely affect our results of operations. Our ability to achieve revenue growth in the future will depend in part on our success in maintaining successful relationships with our distribution partners and in training them to independently sell and deploy our platform. If we fail to effectively manage our existing sales channels, or if our distribution partners are unsuccessful in fulfilling the orders for our solutions, or if we are unable to recruit and retain a sufficient number of high quality distribution partners who are motivated to sell our products, our ability to sell our products and results of operations will be harmed.

Our business depends, in part, on sales to government organizations, and significant changes in the contracting or fiscal policies of such government organizations could have an adverse effect on our business and results of operations.

Our future growth depends, in part, on increasing sales to government organizations. Demand from government organizations is often unpredictable, subject to budgetary uncertainty and typically involves long sales cycles. We have made significant investments to address the government sector, but we cannot assure you that these investments will be successful, or that we will be able to maintain or grow our revenue from the government sector. In fiscal year 2022 and 2023, and during the quarter ended October 31, 2023, several contracts that we previously expected would be signed with government organizations have not yet materialized due to funding delays. Sales to U.S. federal, state and local governmental agencies have not accounted for, and may never account for, a significant portion of our revenue. U.S. federal, state and local government sales are subject to a number of challenges and risks that may adversely impact our business. Sales to such government entities include the following risks:

- selling to governmental agencies can be highly competitive, expensive and time-consuming, often requiring significant upfront time and expense without any assurance that such efforts will generate a sale;
- government certification requirements applicable to our products may change and, in doing so, restrict our ability to sell into the U.S. federal government sector until it has attained the required certifications.
- government demand and payment for our platform may be impacted by public sector budgetary cycles and funding authorizations, with funding reductions or delays adversely affecting public sector demand for our platform;
- governments routinely investigate and audit government contractors' administrative processes, and any unfavorable audit could result in the government refusing to continue buying our platform, which would adversely impact our revenue and results of operations, or institute fines or civil or criminal liability if the audit were to uncover improper or illegal activities;
- interactions with the U.S. federal government may be limited by post-employment ethics restrictions on members of our management;
- foreign governments may have concerns with purchasing security products from a company that employs former NSA employees and officials, which may negatively impact sales; and
- governments may require certain products to be manufactured, hosted, or accessed solely in their country or in other relatively high-cost manufacturing locations, and we may not manufacture all products in locations that meet these requirements, affecting our ability to sell these products to governmental agencies.

We have been prioritized by the United States Federal Risk and Authorization Management Program ("FedRAMP") to pursue a P-ATO from the JAB with the goal to achieve FedRAMP High status. Even if we were to achieve FedRAMP High status, such certification is costly to maintain, and if we were to lose such a certification in the future it would restrict our ability to sell to government customers. It is also possible that additional guidelines and/or certifications, such as the Cybersecurity Maturity Model Certification, will be required to expand participation in the government sectors.

The occurrence of any of the foregoing could cause governments and governmental agencies to delay or refrain from purchasing our solutions in the future or otherwise have an adverse effect on our business and results of operations.

We may not scale and adapt our existing technology in a timely and cost-effective manner to meet our customers' performance and other requirements.

Our future growth will be dependent upon our ability to continue to meet the needs of new customers and the expanding needs of our existing customers as their use of our solutions grows. As our customers gain more experience with our solutions, the number of events, the amount of data transferred, processed, and stored by our solutions and the number of locations where our platform and services are being accessed, have in the past, and may in the future, expand rapidly. In order to meet the performance and other requirements of our customers, we intend to continue to make significant investments to increase capacity and to develop and implement new technologies in our service and cloud infrastructure operations. These technologies, which include databases, applications, and server optimizations, network and hosting strategies, and automation, are often advanced, complex, new, and untested. We may not be successful in developing or implementing these technologies. In addition, it takes a significant amount of time to plan, develop, and test improvements to our technologies and infrastructure, and we may not be able to accurately forecast demand or predict the results we will realize from such improvements. To the extent that we do not effectively scale our operations to meet the needs of our growing customer base and to maintain performance as our customers expand their use of our solutions, we may not be able to grow as quickly as anticipated, customers may reduce or cancel use of our solutions and we may be unable to compete as effectively and our business and results of operations may be harmed.

Additionally, we have made, and we will continue to make, substantial investments to support growth at our data centers partners and improve the profitability of our cloud platform. If our cloud-based server costs were to increase or pricing pressure causes price movements out of proportion with changes in unit operating costs, our business, results of operations and financial condition may be adversely affected. Although we expect that we could receive similar services from other third parties, if any of our arrangements with third-party providers are terminated, we could experience interruptions on our platform and in our ability to make our solutions available to customers, as well as delays and additional expenses in arranging alternative cloud infrastructure services. Ongoing improvements to cloud infrastructure may be more expensive than anticipated and may not yield the expected savings in operating costs or the expected performance benefits. In addition, we may be required to re-invest any cost savings achieved from our prior cloud infrastructure improvements in future infrastructure projects to maintain the levels of service required by our customers. We may not be able to maintain or achieve cost savings from our investments, which could harm our financial results.

The success of our business will depend in part on our ability to protect and enforce our intellectual property rights.

We believe that our intellectual property is an essential asset of our business, and our success and ability to compete will depend in part upon protection of intellectual property rights. We have relied, and we will continue to rely, on a combination of patent, copyright, trademark, and trade secret laws, as well as confidentiality procedures and contractual provisions, to establish and protect our intellectual property rights in the United States and abroad, all of which provide only limited protection. The efforts we have taken to protect our intellectual property may not be sufficient or effective, and our trademarks, copyrights and patents may be held invalid or unenforceable. Moreover, we cannot assure you that any patents will be issued with respect to our currently pending patent applications, including in a manner that will give us adequate defensive protection or competitive advantages, or that any patents issued to us will not be challenged, invalidated or circumvented. We have filed for patents in the United States and in certain non-U.S. jurisdictions, but such protections may not be available in all countries in which we will operate or in which we will seek to enforce intellectual property rights, or the intellectual property rights may be difficult to enforce in practice. For example, many foreign countries have compulsory licensing laws under which a patent owner must grant licenses to third parties under certain circumstances. In addition, many countries limit the enforceability of patents against certain third parties, including government agencies or government contractors. In these countries, patents may provide limited or no benefit. Moreover, we may need to expend additional resources to defend our intellectual property rights in these countries, and our inability to do so could impair our business or adversely affect our plans for international expansion. Our currently issued patents and any patents that may be issued in the future with respect to pending or future patent applications may not provide sufficiently broad protection or they may not prove to be enforceable in actions against alleged infringers.

We may not be effective in policing unauthorized use of our intellectual property, and even if we do detect violations, litigation may be necessary to enforce our intellectual property rights. Protecting against the unauthorized use of intellectual property rights, technology and other proprietary rights is expensive and difficult, particularly outside of the United States. Any enforcement efforts undertaken, including litigation, could be time- consuming and expensive and could divert management's attention, which could harm our business and results of operations. Further, attempts to enforce rights against third parties could also provoke these third parties to assert their own intellectual property or other rights against us, or challenge our intellectual property rights which could result in a holding that invalidates or narrows the scope of our intellectual property rights, in whole or in part. The inability to adequately protect and enforce our intellectual property and other proprietary rights could seriously harm our business, results of operations and financial condition. Even if we are able to secure our intellectual property rights, we cannot assure you that such rights will provide us with competitive advantages or distinguish our services from those of our competitors or that our competitors will not independently develop similar technology, duplicate any of our technology, or design around our patents.

Claims by others that we infringe their proprietary technology or other intellectual property rights could result in significant costs and substantially harm our business, financial condition, results of operations and prospects.

Claims by others that we infringe or misappropriate their proprietary technology or other intellectual property rights could harm our business. Companies in the cybersecurity industry could hold patents and also protect their copyright, trade secret and other intellectual property rights, entering into litigation based on allegations of patent infringement or other violations of intellectual property rights. We will face increasing competition as we grow and the possibility of intellectual property rights claims against us could also grow. In addition, to the extent we hire personnel from competitors, we may be subject to allegations that such personnel have divulged

proprietary or other confidential information of competitors to us. From time to time, third parties may assert claims of infringement or misappropriation of intellectual property rights against us. Although there have been no such claims made against us to date, there can be no assurance that such claims may not be made in the future.
Third parties may in the future also assert claims against our customers or distribution partners, whom our standard license and other agreements may obligate us to indemnify against claims that our solutions infringe the intellectual property rights of third parties. As the number of products and competitors in the cybersecurity market increases and overlaps occur, claims of infringement, misappropriation, and other violations of intellectual property rights may increase. While we intend to increase the size of our patent portfolio, many of our competitors and others may now and in the future have significantly larger and more mature patent portfolios than we have. In addition, future litigation may involve non-practicing entities, companies, or other patent owners who have no relevant product offerings or revenue and against whom our own patents may therefore provide little or no deterrence or protection. Any claim of intellectual property infringement by a third party, even a claim without merit, could cause us to incur substantial costs defending against such claim, could distract our management from our business and could require us to cease use of such intellectual property.

Additionally, our insurance may not cover intellectual property rights infringement claims that may be made. In the event that we fail to successfully defend ourselves against an infringement claim, a successful claimant could secure a judgment or otherwise require payment of legal fees, settlement payments, ongoing royalties, or other costs or damages; or we may agree to a settlement that prevents us from offering certain services or features; or we may be required to obtain a license, which may not be available on reasonable terms, or at all, to use the relevant technology. If we are prevented from using certain technology or intellectual property, we may be required to develop alternative, non-infringing technology, which could require significant time, during which we could be unable to continue to offer our affected services or features, effort and expense, and may ultimately not be successful.

Although third parties may offer a license to their technology or other intellectual property, the terms of any offered license may not be acceptable, and the failure to obtain a license or the costs associated with any license could cause our business, financial condition and results of operations to be adversely affected. In addition, some licenses may be nonexclusive, and therefore our competitors may have access to the same technology licensed to us. If a third party does not offer us a license to its technology or other intellectual property on reasonable terms, or at all, we could be enjoined from continued use of such intellectual property. As a result, we may be required to develop alternative, non-infringing technology, which could require significant time, during which we could be unable to continue to offer our affected products, subscriptions or services, effort, and expense and may ultimately not be successful. Any of these events could harm our business, financial condition and results of operations.

We license technology from third parties, and our inability to maintain those licenses could harm our business.

We currently incorporate, and will in the future incorporate, technology that we license from third parties, including software, into our solutions. We cannot be certain that our licensors do not or will not infringe on the intellectual property rights of third parties or that our licensors have or will have sufficient rights to the licensed intellectual property in all jurisdictions in which we may sell our platform. Some of our agreements with our licensors may be terminated by them for convenience, or otherwise provide for a limited term. If we are unable to continue to license technology because of intellectual property infringement claims brought by third parties against our licensors or against us, or if we are unable to continue the license agreements or enter into new licenses on commercially reasonable terms, our ability to develop and sell solutions and services containing that technology would be limited, and our business could be harmed. Additionally, if we are unable to license technology from third parties, we may be forced to acquire or develop alternative technology, which we may be unable to do in a commercially feasible manner or at all, and may require us to use alternative technology of lower quality or performance standards. This could limit or delay our ability to offer new or competitive solutions and increase our costs. As a result, our margins, market share, and results of operations could be significantly harmed.

If we are not able to satisfy data protection, security, privacy, and other government- and industry-specific requirements or regulations, our business, results of operations, and financial condition could be harmed.

Personal privacy, data protection, information security, telecommunications regulations, and other laws, regulations, and industry standards (including proposed new proposed versions) applicable to specific categories of information are significant issues in the United States, Europe, and in other key jurisdictions where we offer our solutions, including in South and East Asia and the Middle East. The data that we collect, analyze and store is subject to a variety of laws and regulations, including regulation by various government agencies. The U.S. federal government, and various state and foreign governments, have adopted or proposed limitations on the collection, distribution, use, and storage of certain categories of information, such as PII of individuals, health information, and other sector-specific types of data, including but not limited to regulations promulgated by Federal Trade Commission and under the provisions of the Electronic Communication Privacy Act, Computer Fraud and Abuse Act, the Health Insurance Portability and Accountability Act, and the Gramm-Leach-Bliley Act. Laws and regulations outside the United States, and particularly in Europe, often are more restrictive than those in the United States. Such laws and regulations may require companies to implement privacy and security policies, permit customers to access, correct, and delete personal information stored or maintained by such companies, inform individuals of security breaches that affect their personal information, and, in some cases, obtain individuals' consent to use PII for certain purposes. In addition, some foreign governments require that any information of certain categories, such as financial or PII collected in a country not be transferred outside of that country without consent. We also may find it necessary or desirable to join industry or other self-regulatory bodies or other information security or data protection-related organizations that require compliance with their rules pertaining to information security and data protection. We also may be bound by additional, more stringent contractual obligations relating to our collection, use and disclosure of personal, financial and other data. We cannot yet determine the impact of future laws, regulations, standards, or perception of their requirements may have on our business. For example, the European Commission adopted the European General Data Protection Regulation ("GDPR"), that applies to the processing of certain personal data of data subjects in the European Economic Area ("EEA"). As compared to previously data protection law in the European Union, the GDPR imposes additional obligations and risk upon our business and increases substantially the penalties to which we could be subject in the event of any non-compliance. Administrative fines for certain violations under the GDPR can amount up to 20 million Euros or four percent of worldwide annual revenue for the prior fiscal year, whichever is higher. We have incurred substantial expense in complying with the obligations imposed by the GDPR, and we may be required to do so in the future, potentially making significant changes in our business operations, which may adversely affect our revenue and our business overall. Additionally, we are unable to predict how obligations under the GDPR will be applied to us or our customers. Despite our efforts to attempt to comply with the GDPR, a regulator may determine that a customer has not done so and subject it to fines and public censure, which could harm our business.

Among other requirements, the GDPR regulates transfers of personal data subject to the GDPR to third countries that have not been found to provide adequate protection to such personal data, including the United States. We have undertaken certain efforts to conform transfers of personal data from the EEA to the United States and other jurisdictions based on our understanding of current regulatory obligations and the guidance of data protection authorities. Despite this, we may be unsuccessful in establishing or maintaining conforming means of transferring such data from the EEA, in particular as a result of continued legal and legislative activity within the European Union. For example, in July 2020 the European Court of Justice ("ECJ") invalidated the EU-U.S. Privacy Shield in a decision known as *Schrems II*. The ECJ decision also raised questions about the continued validity of one of the primary alternatives to the EU-U.S. Privacy Shield, namely the European Commission's Standard Contractual Clauses, and EU regulators have issued additional guidance regarding considerations and requirements that we and other companies must consider and undertake when using the Standard Contractual Clauses. Although the EU has presented a new set of contractual clauses, at present, there are few, if any, viable alternatives to the EU-U.S. Privacy Shield and the Standard Contractual Clauses. The ECJ's decision and other regulatory guidance or developments otherwise may impose additional obligations with respect to the transfer of personal data from the EU and Switzerland to the United States, each of which could restrict our activities in those jurisdictions, limit our ability to provide products and services in those jurisdictions, or increase our costs and obligations and impose limitations upon our ability to efficiently transfer personal data from the EU and Switzerland to the United States.

Further, the exit of the United Kingdom (UK) from the EU, often referred to as Brexit, has created uncertainty with regard to data protection regulation in the UK. Specifically, the UK exited the EU on January 1, 2020, subject to a transition period that ended December 31, 2020. While the Data Protection Act of 2018, that "implements" and complements the GDPR achieved Royal Assent on May 23, 2018 and is now effective in the United Kingdom, it is still unclear whether transfer of data from the EEA to the United Kingdom will remain lawful in the long term under GDPR. With the expiration of the transition period, companies will have to comply with the GDPR and the GDPR as incorporated into United Kingdom national law, which has the ability to separately fine up to the greater of £17.5 million or 4% of global turnover.

On June 28, 2021, the European Commission announced a decision of "adequacy" concluding that the UK ensures an equivalent level of data protection to the GDPR, which provides some relief regarding the legality of continued personal data flows from the EEA to the UK. Some uncertainty remains, however, as this adequacy determination must be renewed after four years and may be modified or revoked in the interim. We cannot fully predict how the Data Protection Act, the UK GDPR, and other UK data protection laws or regulations may develop in the medium to longer term nor the effects of divergent laws and guidance regarding how data transfers to and from the UK will be regulated.

The implementation of the GDPR has led other jurisdictions to either amend, or propose legislation to amend their existing data privacy and cybersecurity laws to resemble all or a portion of the requirements of the GDPR. For example, on June 28, 2018, California adopted the California Consumer Privacy Act of 2018, or CCPA, which went into effect on January 1, 2020. The CCPA has been characterized as the first "GDPR-like" privacy statute to be enacted in the United States because it contains a number of provisions similar to certain provisions of the GDPR. In addition, the California Privacy Rights Act of 2020, or the CPRA was passed by California voters in November 2020. The CPRA amends the CCPA by creating additional privacy rights for California consumers and additional obligations on businesses, which could subject us to additional compliance costs as well as potential fines, individual claims and commercial liabilities. The majority of the CPRA provisions took effect on January 1, 2023. The CCPA and CPRA could mark the beginning of a trend toward more stringent privacy legislation in the United States, as other states or the federal government may follow California's lead and increase protections for U.S. residents. For example, on March 2, 2021, the Virginia Consumer Data Protection Act, which took effect on January 1, 2023, was signed into law and on June 8, 2021, Colorado enacted the Colorado Privacy Act (the "CPA"), which also takes effect on July 1, 2023.
Evolving and changing definitions of personal data and personal information within the European Union, the United States, and elsewhere, especially relating to classification of IP addresses, machine identification, location data and other information, may limit or inhibit our ability to operate or expand our business, including limiting partnerships that may involve the sharing of data. Further, we may be affected by evolving notions of data sovereignty, or the concept that data collected in a particular jurisdiction must be either physically maintained in that jurisdiction or maintained in compliance with all local law, including under all conditions or controls mandated by the jurisdiction in which it was collected. In light of current regulatory trends, such data sovereignty requirements may increase causing us to expend additional resources and increase our applicable budgets to remain compliant or cease doing business in such jurisdiction.

Even the perception of privacy or security concerns, whether or not valid, may harm our reputation, inhibit adoption of our products by current and future customers, or adversely impact our ability to attract and retain workforce talent. In addition, changes in laws or regulations that adversely affect the use of the internet, including laws impacting net neutrality, could impact our business. We expect that existing laws, regulations and standards may be interpreted in new manners in the future. Future laws, regulations, standards, and other obligations, and changes in the interpretation of existing laws, regulations, standards and other obligations could require us to modify our solutions, restrict our business operations, increase our costs and impair our ability to maintain and grow our customer base and increase our revenue.
Beyond broader data processing regulations affecting our business, the cybersecurity industry may face direct regulation. In 2018, Singapore introduced what is believed to be the world's first cybersecurity licensing requirement, mandating that providers of specific types of incident response services receive a government license before providing such services. License requirements such as these may impose upon us significant organizational costs and high barriers of entry into new markets.
Although we have worked and will continue to work to comply with applicable laws and regulations, certain applicable industry standards and our contractual obligations and other legal obligations, along with laws, regulations, standards and obligations are evolving and may be modified, interpreted and applied in an inconsistent manner from one jurisdiction to another, and may conflict with one another. In addition, they may conflict with other requirements or legal obligations that apply to our business or the security features and services that our customers expect from our solutions. As such, we cannot assure ongoing compliance with all such laws, regulations, standards and obligations. Any failure or perceived failure by us or our employees, representatives, contractors, distribution partners, agents, intermediaries, or other third parties to comply with applicable laws and regulations, or applicable industry standards that we represent compliance with or that may be asserted to apply to us, or to comply with employee, customer, partner, and other data privacy and data security requirements pursuant to contract and our stated notices or policies, could result in enforcement actions, including fines, imprisonment of company officials and public censure, claims for damages by customers and other affected individuals, damage to our reputation and loss of goodwill (both in relation to existing customers and prospective customers), any of which could have a material adverse effect on our operations, financial performance and business. Any inability of us or our employees, representatives, contractors, distribution partners, agents, intermediaries, or other third parties to adequately address privacy and security concerns, even if unfounded, or comply with applicable laws, regulations, standards and obligations, could result in additional cost and liability to us, damage our reputation, inhibit sales, and adversely affect our business and results of operations.

Failure to comply with laws and regulations applicable to our business could subject us to fines and penalties and could also cause us to lose customers in the public sector or negatively impact our ability to contract with the public sector.

Our business is subject to regulation by various federal, state, local and foreign governmental agencies, including agencies responsible for monitoring and enforcing privacy and data protection laws and regulations, employment and labor laws, workplace safety, product safety, environmental laws, consumer protection laws, anti-bribery laws, import and export controls, federal securities laws and tax laws and regulations. In certain jurisdictions, these regulatory requirements may be more stringent than in the United States. Noncompliance by us, our employees, representatives, contractors, distribution partners, agents, intermediaries, or other third parties with applicable regulations or requirements could subject us to:

- investigations, enforcement actions and sanctions;
- mandatory changes to our platform;
- disgorgement of profits, fines and damages;
- civil and criminal penalties or injunctions;
- claims for damages by our customers or distribution partners;
- termination of contracts;
- loss of intellectual property rights; and
- temporary or permanent debarment from sales to government organizations.

If any governmental sanctions are imposed, or if we do not prevail in any possible civil or criminal litigation, our business, results of operations and financial condition could be adversely affected. In addition, responding to any action will likely result in a significant diversion of management's attention and resources and an increase in professional fees. Enforcement actions and sanctions could harm our business, results of operations and financial condition.

We endeavor to properly classify employees as exempt versus non-exempt under applicable law. Although there are no pending or threatened material claims or investigations against us asserting that some employees are improperly classified as exempt, the possibility exists that some of our current or former employees could have been incorrectly classified as exempt employees.

These laws and regulations will impose added costs on our business, and failure by us, our employees, representatives, contractors, distribution partners, agents, intermediaries, or other third parties to comply with these or other applicable regulations and requirements could lead to claims for damages, penalties, termination of contracts, loss of exclusive rights in our intellectual property and temporary suspension or permanent debarment from government contracting. Any such damages, penalties, disruptions or limitations in our ability to do business with the public sector could result in reduced sales of our products, substantial product inventory write- offs, reputational damage, penalties, and other sanctions, any of which could harm our business, reputation, and results of operations.

We are subject to laws and regulations, including governmental export and import controls, sanctions, and anti-corruption laws, that could impair our ability to compete in our markets and subject us to liability if we are not in full compliance with applicable laws.

We are subject to laws and regulations, including governmental export controls, that could subject us to liability or impair our ability to compete in our markets. Our products are subject to U.S. export controls, including the U.S. Department of Commerce's Export Administration Regulations, and we and our employees, representatives, contractors, agents, intermediaries, and other third parties are also subject to various economic and trade sanctions regulations administered by the U.S. Treasury Department's Office of Foreign Assets Control and other governmental authorities. We incorporate standard encryption algorithms into our products, which, along with the underlying technology, may be exported outside of the U.S. only with the required export authorizations, including by license, license exception or other appropriate government authorizations, which may require the filing of further encryption registration and classification requests. Furthermore, U.S. export control laws and economic sanctions prohibit the shipment of certain cloud-based solutions to countries, governments, and persons targeted by U.S. sanctions. Governmental regulation of the import or export of our products, or our failure to obtain any required import or export authorization for our products under the laws of the United States or other countries, could harm our ability to engage in international trade and adversely affect our revenue. Moreover, any new export or import restrictions, new legislation or shifting approaches in the enforcement or scope of existing regulations, or in the countries, persons or technologies targeted by such regulations, could result in decreased use of our products by, or in our decreased ability to export our products to existing or potential customers or to conduct business with foreign parties. An actual or alleged violation of these laws or regulations would negatively affect our business, financial condition and results of operations.

Various countries regulate the import of certain encryption technology, including through import permit and license requirements, and have enacted laws that could limit our ability to distribute our products or could limit our customers' ability to implement our products in those countries. Changes in our products or changes in export and import regulations may create delays in the introduction of our products into international markets, prevent our customers with international operations from deploying our products globally or, in some cases, prevent the export or import of our products to certain countries, governments or persons altogether. Any change in export or import regulations, economic sanctions or related legislation, shift in the enforcement or scope of existing regulations, or change in the countries, governments, persons or technologies targeted by such regulations, could result in decreased use of our products by, or in our decreased ability to export or sell our products to, existing or potential customers with international operations. Under these global trade and sanctions laws and regulations, as well as other laws governing our operations, various government agencies may seek to impose modifications to business practices, including cessation of business activities in sanctioned countries or with sanctioned persons or entities and modifications to compliance programs, which may increase compliance costs, and may subject us to fines, penalties and other sanctions. Any decreased use of our products or limitation on our ability to export or sell our products would likely adversely affect our business, results of operations and financial condition.

We are also subject to the U.S. Foreign Corrupt Practices Act of 1977 ("FCPA"), the UK Bribery Act 2010 (the "Bribery Act"), and other anti-corruption, sanctions, anti-bribery, anti-money laundering and similar laws in the United States and other countries in which it conducts activities. Anti-corruption and anti-bribery laws, which have been enforced aggressively and are interpreted broadly, prohibit companies and their employees, agents, intermediaries, and other third parties from promising, authorizing, making or offering improper payments or other benefits to government officials and others in the private sector. We leverage third parties, including intermediaries, agents, and distribution partners, to conduct our business in the United States and abroad, to sell subscriptions to our platform and to collect information about cyber threats. We and these third-parties may have direct or indirect interactions with officials and employees of government agencies or state-owned or affiliated entities and may be held liable for the corrupt or other illegal activities of these third- party business partners and intermediaries, our employees, representatives, contractors, distribution partners, agents, intermediaries, and other third parties, even if we do not explicitly authorize such activities.

While we have, and we will continue to have, policies and procedures to address compliance with FCPA, Bribery Act and other applicable anti-corruption, sanctions, anti-bribery, anti-money laundering and similar laws, we cannot assure you that they will be effective, or that all of our employees, representatives, contractors, distribution partners, agents, intermediaries, or other third parties have taken, or will not take actions, in violation of our policies and applicable law, for which we may be ultimately held responsible. As we increase our international sales and business, our risks under these laws may increase. Noncompliance with these laws could subject us to investigations, severe criminal or civil sanctions, settlements, prosecution, loss of export privileges, suspension or debarment from U.S. government contracts, other enforcement actions, disgorgement of profits, significant fines, damages, other civil and criminal penalties or injunctions, whistleblower complaints, adverse media coverage and other consequences. Any investigations, actions, or sanctions could harm our reputation, business, results of operations, and financial condition.

We also collect information about cyber threats from open sources, intermediaries, and third parties that we make available to our customers. While we have implemented certain procedures to facilitate compliance with applicable laws and regulations in connection with the collection of this information, we cannot assure you that these procedures have been effective or that we, or third parties, many of whom we do not control, have complied with all laws or regulations in this regard. Failure by us or our employees, representatives, contractors, distribution partners, agents, intermediaries, or other third parties to comply with applicable laws and regulations in the collection of this information also could have negative consequences, including reputational harm, government investigations and penalties.

Although we have taken precautions to prevent our information collection practices and services from being provided in violation of such laws, our information collection practices and services may have been in the past, and could in the future be, provided in violation of such laws. If we or our employees, representatives, contractors, distribution partners, agents, intermediaries, or other third parties fail to comply with these laws and regulations, we could be subject to civil or criminal penalties, including the possible loss of export privileges and fines. We may also be adversely affected through reputational harm, loss of access to certain markets, or otherwise. Obtaining the necessary authorizations, including any required license, for a particular transaction may be time- consuming, is not guaranteed and may result in the delay or loss of sales opportunities.

Some of our technology incorporates "open source" software, which could negatively affect our ability to sell our platform and subject us to possible litigation.

Our products and subscriptions contain third-party open source software components, and failure to comply with the terms of the underlying open source software licenses could restrict our ability to sell our products and subscriptions. The use and distribution of open source software may entail greater risks than the use of third- party commercial software, as open source licensors generally do not provide warranties or other contractual protections regarding infringement claims or the quality of the code. Many of the risks associated with use of open source software cannot be eliminated and could negatively affect our business. In addition, the wide availability of source code used in our solutions could expose us to security vulnerabilities.

Some open source licenses contain requirements that we make available source code for modifications or derivative works we create based upon the type of open source software we use. If we combine our proprietary software with open source software in a certain manner, we could, under certain open source licenses, be required to release the source code of our proprietary software to the public, including authorizing further modification and redistribution, or otherwise be limited in the licensing of our services, each of which could provide an advantage to our competitors or other entrants to the market, create security vulnerabilities in our solutions, require us to re-engineer all or a portion of our platform, and could reduce or eliminate the value of our services. This would allow our competitors to create similar products with lower development effort and time and ultimately could result in a loss of sales.

The terms of many open source licenses have not been interpreted by U.S. courts, and there is a risk that these licenses could be construed in ways that could impose unanticipated conditions or restrictions on our ability to commercialize products and subscriptions incorporating such software. Moreover, we cannot assure you that our processes for controlling our use of open source software in our products and subscriptions has been or will be effective. From time to time, we may face claims from third parties asserting ownership of, or demanding release of, the open source software or derivative works that we developed using such software (which could include our proprietary source code), or otherwise seeking to enforce the terms of the applicable open source license. These claims could result in litigation. Litigation could be costly to defend, have a negative effect on our results of operations and financial condition or require us to devote additional research and development resources to change our solutions. Responding to any infringement or noncompliance claim by an open source vendor, regardless of its validity, discovering certain open source software code in our platform, or a finding that we have breached the terms of an open source software license, could harm our business, results of operations and financial condition, by, among other things:

- resulting in time-consuming and costly litigation;
- diverting management's time and attention from developing our business;
- requiring us to pay monetary damages or enter into royalty and licensing agreements that we would not normally find acceptable;

- causing delays in the deployment of our platform or service offerings to our customers;
- requiring us to stop offering certain services or features of our platform;
- requiring us to redesign certain components of our platform using alternative non-infringing or non-open source technology, which could require significant effort and expense;
- requiring us to disclose our software source code and the detailed program commands for our software;
- prohibiting us from charging license fees for the proprietary software that uses certain open source; and
- requiring us to satisfy indemnification obligations to our customers.

We provide service level commitments under some of our customer contracts. If we fail to meet these contractual commitments, we could be obligated to provide credits for future service and our business could suffer.

Certain of our customer agreements contain service level commitments, which contain specifications regarding the availability and performance of our platform. Any failure of or disruption to our infrastructure could impact the performance of our platform and the availability of services to customers. If we are unable to meet our stated service level commitments or if we suffer extended periods of poor performance or unavailability of our platform, we may be contractually obligated to provide affected customers with service credits for future subscriptions, and, in certain cases, refunds. To date, there has not been a material failure to meet our service level commitments, and we do not currently have any material liabilities accrued on our balance sheet for such commitments. However, our revenue, other results of operations and financial condition could be harmed if we suffer performance issues or downtime that exceeds the service level commitments under our agreements with our customers.

We may become involved in litigation that may adversely affect us.

We may be subject to claims, suits and government investigations and other proceedings including patent, product liability, class action, whistleblower, personal injury, property damage, labor and employment, commercial disputes, compliance with laws and regulatory requirements and other matters, and we may become subject to additional types of claims, suits, investigations and proceedings as our business develops. While we believe that we have acted in compliance in all material respects with applicable antitrust laws, such investigation, as well as any other claims, suits, and government investigations and proceedings that may be asserted against us in the future, are inherently uncertain and their results cannot be predicted with certainty. Regardless of outcome, any of these types of legal proceedings could have an adverse impact on us because of legal costs and diversion of management attention and resources, and could cause us to incur significant expenses or liability, adversely affect our brand recognition, and/or require us to change our business practices. The expense of litigation and the timing of this expense from period to period are difficult to estimate, subject to change and could adversely affect our results of operations. It is possible that a resolution of one or more such proceedings could result in substantial damages, settlement costs, fines and penalties that could adversely affect our business, consolidated financial position, results of operations, or cash flows in a particular period. These proceedings could also result in reputational harm, sanctions, consent decrees, or orders requiring a change in our business practices. Because of the potential risks, expenses and uncertainties of litigation, we may, from time to time, settle disputes, even where we have meritorious claims or defenses, by agreeing to settlement agreements. Because litigation is inherently unpredictable, we cannot assure you that the results of any of these actions will not have a material adverse effect on our business, financial condition, results of operations, and prospects.

Our ability to maintain customer satisfaction will depend in part on the quality of our customer support.

Once our platform is deployed within our customers' networks, our customers depend on our customer support services to resolve any issues relating to implementation and maintenance of the platform. If we do not provide effective ongoing support, our ability to sell additional subscriptions to existing customers would be adversely affected and our reputation with potential customers could be damaged. Many larger organizations have more complex networks and require higher levels of support than smaller customers. Failure to maintain high-quality customer support could also have a material adverse effect on our business, results of operations and financial condition.

We may need to raise additional capital to maintain and expand our operations and invest in new solutions, which capital may not be available on terms acceptable to us, or at all, and which could reduce our ability to compete and could harm our business.

Retaining or expanding our current levels of personnel and products offerings may require additional funds to respond to business challenges, including the need to develop new products and enhancements to our platform, improve our operating infrastructure, or acquire complementary businesses and technologies. The failure to raise additional capital or generate the significant capital necessary to expand our operations and invest in new products could reduce our ability to compete and could harm our business. Accordingly, we may need to engage in additional equity or debt financings to secure additional funds. If we raise additional equity financing, stockholders may experience significant dilution of their ownership interests and the market price of the common stock could decline. If we engage in debt financing, the holders of debt would have priority over the holders of common stock, and we may be required to accept terms that restrict our operations or our ability to incur additional indebtedness or to take other actions that would otherwise be in the interests of the debt holders. Any of the above could harm our business, results of operations and financial condition.

Our business is subject to the risks of warranty claims, product returns, product liability, and product defects from real or perceived defects in our solutions or their misuse by customers or third parties, and indemnity provisions in various agreements potentially expose we to substantial liability for intellectual property infringement and other losses.

We may be subject to liability claims for damages related to errors or defects in our solutions. A material liability claim or other occurrence that harms our reputation or decreases market acceptance of our products may harm our business and results of operations. Although we generally have limitations of liability provisions in our terms and conditions of sale, these provisions may not fully or effectively protect us from claims as a result of federal, state, or local laws or ordinances, or unfavorable judicial decisions in the United States or other countries. These provisions may also be negotiated to varying levels with different customers. The sale and support of products also entails the risk of product liability claims.

Additionally, our agreements with customers and other third parties typically include indemnification or other provisions under which we agree to indemnify or otherwise be liable to them for losses suffered or incurred as a result of claims regarding intellectual property infringement, breach of agreement, including confidentiality, privacy and security obligations, violation of applicable laws, damages caused by failures of our solutions or to property or persons, or other liabilities relating to or arising from our products and services, or other acts or omissions. These contractual provisions often survive termination or expiration of the applicable agreement. As we continue to grow, the possibility of these claims against us will increase. Large indemnity obligations, whether for intellectual property or other claims, could harm our business, results of operations and financial condition.

Additionally, our platform and solutions may be used by our customers and other third parties who obtain access to our solutions for purposes other than for which the platform was intended. For example, the platform might be misused by a customer to monitor our employee's activities in a manner that violates the employee's privacy rights under applicable law.

During the course of performing certain solution-related services and professional services, our teams may have significant access to our customers' networks. We cannot be sure that a disgruntled employee may not take advantage of such access, which may make our customers vulnerable to malicious activity by such employee. Any such misuse of our platform could result in negative press coverage and negatively affect our reputation, which could result in harm to our business, reputation and results of operations.

We maintain insurance to protect against certain claims associated with the use of our products, but our insurance coverage may not adequately cover any claim asserted against us. In addition, even claims that ultimately are unsuccessful could result in the expenditure of funds in litigation, divert management's time and other resources, and harm our business and reputation.

Future acquisitions, strategic investments, partnerships, or alliances could be difficult to identify and integrate, divert the attention of key management personnel, disrupt our business, dilute stockholder value and adversely affect our results of operations and financial condition.

As part of our business strategy, we have in the past completed investments in and/or acquisitions of complementary companies, services, or technologies. However, our ability to acquire and integrate other companies, services or technologies in a successful manner in the future is not guaranteed. We may not be able to find suitable investment and/or acquisition candidates, and we may not be able to complete such investments and/or acquisitions on favorable terms, if at all. If we do complete investments and/or acquisitions, we may not ultimately strengthen our competitive position or ability to achieve our business objectives, and any investments and/or acquisitions we complete could be viewed negatively by our customers or investors. In addition, if we are unsuccessful at integrating any acquisitions, or the technologies associated with such acquisitions, our revenue and results of operations could be adversely affected. Any integration process may require significant time and resources, and we may not be able to manage the process successfully. We may not successfully evaluate or utilize the acquired technology or personnel, or accurately forecast the financial impact of an investment or acquisition transaction, including accounting charges. We may have to pay cash, incur debt or issue equity securities to pay for any such acquisition, each of which could adversely affect our financial condition and the market price of our common stock. The sale of equity or issuance of debt to finance any such investment or acquisitions could result in dilution to stockholders. The incurrence of indebtedness would result in increased fixed obligations and could also include covenants or other restrictions that would impede our ability to manage our operations.
Additional risks we may face in connection with investments and/or acquisitions include:

- diversion of management time and focus from operating our business to addressing acquisition integration challenges;
- coordination of engineering, analytics, research and development, operations, and sales and marketing functions;
- integration of product and service offerings;
- retention of key employees from the acquired company;
- changes in relationships with strategic partners as a result of product acquisitions or strategic positioning resulting from the acquisition;
- cultural challenges associated with integrating employees from the acquired company into the organization;
- integration of the acquired company's accounting, management information, human resources and other administrative systems;
- the need to implement or improve controls, procedures, and policies at a business that prior to the acquisition may have lacked sufficiently effective controls, procedures and policies;
- financial reporting, revenue recognition or other financial or control deficiencies of the acquired company that are not adequately addressed and that cause our reported results to be incorrect;
- liability for activities of the acquired company before the acquisition, including intellectual property infringement claims, violations of laws, commercial disputes, tax liabilities and other known and unknown liabilities;
- unanticipated write-offs or charges; and
- litigation or other claims in connection with the acquired company, including claims from terminated employees, customers, former stockholders or other third parties.

The failure to address these risks or other problems encountered in connection with acquisitions and investments could cause us to fail to realize the anticipated benefits of these investments and/or acquisitions, cause us to incur unanticipated liabilities, and harm our business generally.

Our international operations expose us to significant risks, and failure to manage those risks could adversely impact our business.

We derived 21% and 14% of our total revenue from our international customers for the periods ended October 31, 2023 and 2022, respectively. Our growth strategy includes expansion into target geographies, but there is no guarantee that such efforts will be successful. These international operations will require significant management attention and financial resources and are subject to substantial risks, including:

- greater difficulty in negotiating contracts with standard terms, enforcing contracts, and managing collections, including longer collection periods;
- higher costs of doing business internationally, including costs incurred in establishing and maintaining office space and equipment for international operations and creating international operating entities, where applicable;
- management communication and integration problems resulting from cultural and geographic dispersion;
- risks associated with trade restrictions and foreign legal requirements, including any importation, certification, and localization of our platform that may be required in foreign countries;
- greater risk of unexpected changes in applicable foreign laws, regulatory practices, tariffs, and tax laws and treaties;
- compliance with anti-bribery laws, including the FCPA, the U.S. Travel Act and the Bribery Act, violations of which could lead to significant fines, penalties, and collateral consequences;
- heightened risk of unfair or corrupt business practices in certain geographies and of improper or fraudulent sales arrangements that may impact financial results and result in restatements of, or irregularities in, financial statements;
- the uncertainty of protection for intellectual property rights in some countries;
- general economic and political conditions in these foreign markets;
- foreign exchange controls or tax regulations that might prevent us from repatriating cash earned outside the United States;
- political and economic instability in some countries;
- the potential for foreign government demands for access to information or corporate property;
- double taxation of international earnings and potentially adverse tax consequences due to changes in the tax laws of the United States or the foreign jurisdictions in which we operate;
- unexpected costs for the localization of services, including translation into foreign languages and adaptation for local practices and regulatory requirements;
- requirements to comply with foreign privacy, data protection, and information security laws and regulations and the risks and costs of noncompliance;
- greater difficulty in identifying, attracting and retaining local qualified personnel, and the costs and expenses associated with such activities;
- greater difficulty identifying qualified distribution partners and maintaining successful relationships with such partners;
- differing employment practices and labor relations issues; and
- difficulties in managing and staffing international offices and increased travel, infrastructure, and legal compliance costs associated with multiple international locations.

Adverse changes in global, regional or local economic conditions, including recession or slowing growth, the COVID-19 pandemic or other global or local health issues, changes or uncertainty in fiscal, monetary, or trade policy, higher interest rates, tighter credit, inflation, lower capital expenditures by businesses including on IT infrastructure, increases in unemployment, and lower consumer confidence and spending, periodically occur. Increased costs for supply chain expenses, driven in part by inflation, have negatively impacted our results of operations and may continue to impact our results of operations. Inflation may also continue to cause increased supply, employee, facilities and infrastructure costs, decreased demand for our services and volatility in the financial markets. To the extent such inflation continues, increases or both, it may reduce our margins and have a material adverse effect on our results of operations.

Additionally, all of our sales contracts are currently denominated in U.S. dollars. However, a strengthening of the U.S. dollar could increase the cost of our solutions to our international customers, which could adversely affect our business and results of operations. In addition, an increasing portion of operating expenses is expected to be incurred outside the United States and denominated in foreign currencies, and will be subject to fluctuations due to changes in foreign currency exchange rates. If we become more exposed to currency fluctuations and are not able to successfully hedge against the risks associated with currency fluctuations, our results of operations could be adversely affected.

In addition, international nation states continue to increase their threats of action against other countries and high profile companies in them, as has most recently been evidenced by statements made by certain leaders relating to the recent military activity in Ukraine. The fact that we provide products and services to high profile customers in many of the countries that have been and remain under such threats and the high profile of leaders associated with us make those customers and us potential targets for attacks by those nation states and their proxies creating additional risks to our ability to continue to expand and operate effectively.

Our success will depend in large part on our ability to anticipate and effectively manage these risks. The expansion of our international operations and entry into additional international markets will require significant management attention and financial resources. Our failure to successfully manage international operations and the associated risks could limit the future growth of our business.

Our ability to use our net operating loss carryforwards and certain other tax attributes may be limited.

As of January 31, 2023 and January 31, 2022, we had aggregate U.S. federal and state net operating loss carryforwards of $111.0 million and $324.8 million, respectively, which may be available to offset future taxable income for income tax purposes.

U.S. federal net operating loss carryforwards generated in taxable years beginning before January 1, 2018 may be carried forward for 20 years to offset future taxable income. Under tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"), as modified by the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), U.S. federal net operating losses generated in taxable years beginning after December 31, 2017, can be carried forward indefinitely, but the deductibility of such net operating loss carryforwards in taxable years beginning after December 31, 2020 is limited to 80% of taxable income. It is uncertain if and to what extent various states will conform their tax laws and regulations to the Tax Act or the CARES Act.

If not utilized, $25.3 million of our U.S. federal net operating loss carryforwards expire on various dates through 2037 and $299.5 million are able to be carried forward indefinitely under current law. Realization of these net operating loss carryforwards depends on future taxable income, and there is a risk that, even if we achieve profitability, our existing carryforwards could expire unused or be subject to limitations and be unavailable to offset future income tax liabilities, which could adversely affect our results of operations.

In addition, under Sections 382 and 383 of the Internal Revenue Code of 1986, as amended (the "Code"), if a corporation undergoes an "ownership change," generally defined as a greater than 50% change (by value) in ownership by "5 percent shareholders" over a rolling three-year period, the corporation's ability to use our pre-change net operating loss carryovers and other pre-change tax attributes to offset our post-change income or taxes may be limited. We may experience ownership changes in the future as a result of shifts in our stock ownership (which may be outside of our control). In addition, at the state level, there may be periods during which the use of net operating loss carryforwards is suspended or otherwise limited, which could accelerate or permanently increase state taxes owed. As a result, if we earn net taxable income, our ability to use pre-change net operating loss carryforwards to offset U.S. federal taxable income may be subject to limitations, which could potentially result in increased future tax liability to us.

Taxing authorities may successfully assert that we should have collected or in the future should collect sales and use, value added or similar taxes, and we could be subject to liability with respect to past or future sales, which could adversely affect our results of operations.

We do not collect sales and use, value added or similar taxes in all jurisdictions in which we have sales because we have been advised that such taxes are not applicable to our services in certain jurisdictions. Sales and use, value added, and similar tax laws and rates vary greatly by jurisdiction. Certain jurisdictions in which we do not collect such taxes may assert that such taxes are applicable, which could result in tax assessments, penalties and interest, to us or our customers for the past amounts, and we may be required to collect such taxes in the future. If we are unsuccessful in collecting such taxes from our customers, we could be held liable for such costs, which may adversely affect our results of operations.

Our operations and intercompany arrangements will be subject to the tax laws of various jurisdictions, and we could be obligated to pay additional taxes, which would harm our results of operations.

We plan to expand our international operations and staff to support our business in international markets. We expect that we will generally conduct international operations through wholly owned subsidiaries and may be required to report our taxable income in various jurisdictions worldwide based upon our business operations in those jurisdictions. Our intercompany relationships will be subject to complex transfer pricing regulations administered by taxing authorities in various jurisdictions. The amount of taxes paid in different jurisdictions may depend on the application of the tax laws of the various jurisdictions, including the United States, to our international business activities, changes in tax rates, new or revised tax laws or interpretations of existing tax laws and policies, and our ability to operate our business in a manner consistent with our corporate structure and intercompany arrangements. The relevant taxing authorities may disagree with our determinations as to the income and expenses attributable to specific jurisdictions. If such a disagreement were to occur, and our position was not sustained, we could be required to pay additional taxes, interest and penalties, which could result in one-time tax charges, higher effective tax rates, reduced cash flows and lower overall profitability of our operations.

We will be subject to U.S. federal, state, and local income, sales, and other taxes in the United States and income, withholding, transaction, and other taxes in numerous foreign jurisdictions. Significant judgment will be required in evaluating our tax positions and our worldwide provision for taxes. During the ordinary course of our business, there are many activities and transactions for which the ultimate tax determination may be uncertain. In addition, our tax obligations and effective tax rates could be adversely affected by changes in the relevant tax, accounting and other laws, regulations, principles and interpretations, including those relating to income tax nexus, by recognizing tax losses or lower than anticipated earnings in jurisdictions where we have lower statutory rates and higher than anticipated earnings in jurisdictions where we have higher statutory rates, by changes in foreign currency exchange rates, or by changes in the valuation of our deferred tax assets and liabilities. We may be audited in various jurisdictions, and such jurisdictions may assess additional taxes, sales taxes and value added taxes against it. Even if we believe our tax estimates are reasonable, the final determination of any tax audits or litigation could be materially different from our historical tax provisions and accruals, which could have an adverse effect on our results of operations or cash flows in the period or periods for which a determination is made.

If our estimates or judgments relating to our critical accounting policies prove to be incorrect or financial reporting standards or interpretations change, our results of operations could be adversely affected.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. We have historically based our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, as discussed in the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations." The results of these estimates form the basis for making judgments about the carrying values of assets, liabilities and equity, and the amount of revenue and expenses that are not readily apparent from other sources. Significant assumptions and estimates used in preparing our consolidated financial statements will include, and may include in the future, those related to revenue recognition; allowance for doubtful accounts; costs to obtain or fulfill a contract; valuation of common stock; valuation of stock-based compensation; carrying value and useful lives of long-lived assets; obsolescence reserves for inventory; loss contingencies; and the provision for income and related deferred taxes. Our results of operations may be adversely affected if our assumptions change or if actual circumstances differ from those in our assumptions, which could cause our results of operations to fall below the expectations of industry or financial analysts and investors, resulting in a decline in the market price of the common stock.

Additionally, we will regularly monitor our compliance with applicable financial reporting standards and review new pronouncements and drafts thereof that are relevant to us. As a result of new standards, changes to existing standards and changes in their interpretation, we might be required to change our accounting policies, alter our operational policies and implement new or enhance existing systems so that they reflect new or amended financial reporting standards, or we may be required to restate our published financial statements. Such changes to existing standards or changes in their interpretation may have an adverse effect on our reputation, business, financial position and profit, or cause an adverse deviation from our revenue and operating profit targets, which may negatively impact our financial results.

Our business will be subject to the risks of natural catastrophic events and to interruption by man-made problems such as power disruptions, computer viruses, data security breaches or terrorism.

A significant natural disaster, such as an earthquake, a fire, a flood, or significant power outage could have a material adverse impact on our business, results of operations and financial condition. Natural disasters could affect our personnel, data centers, supply chain, manufacturing vendors, or logistics providers' ability to provide materials and perform services such as manufacturing products or assisting with shipments on a timely basis. In addition, climate change could result in an increase in the frequency or severity of natural disasters. In the event that we or our service providers' information technology systems or manufacturing or logistics abilities are hindered by any of the events discussed above, we could result in missed financial targets, such as revenue, for a particular quarter. In addition, computer malware, viruses and computer hacking, fraudulent use attempts and phishing attacks have become more prevalent in the cybersecurity industry, and our internal systems may be victimized by such attacks. Likewise, we could be subject to other man-made problems, including but not limited to power disruptions, terrorist acts and the ongoing conflict between Russia and Ukraine.

Although we maintain incident management and disaster response plans, in the event of a major disruption caused by a natural disaster or man-made problem, we may be unable to continue our operations and may endure system interruptions, reputational harm, delays in our development activities, lengthy interruptions in service, breaches of data security and loss of critical data, and our insurance may not cover such events or may be insufficient to compensate it for the potentially significant losses we may incur. Acts of terrorism and other geo-political unrest could also cause disruptions in our business or the business of our supply chain, manufacturers, logistics providers, partners, or customers or the economy as a whole. Any disruption to our supply chain, manufacturers, logistics providers, partners or customers that impacts sales at the end of a fiscal quarter could have a significant adverse impact on our financial results. All of the aforementioned risks may be further increased if disaster recovery plans prove to be inadequate. To the extent that any of the above should result in delays or cancellations of customer orders, or the delay in the manufacture, deployment, or shipment of our products, our business, financial condition, and results of operations would be adversely affected.

Our management previously identified material weaknesses in our internal control over financial reporting, which resulted in a restatement of our unaudited condensed consolidated financial statements in a prior fiscal year. In the future, we may identify additional material weaknesses or otherwise fail to maintain effective internal control over financial reporting, which may result in material misstatements of our financial statements or cause us to fail to meet our periodic reporting obligations.

In connection with the preparation and audit of our consolidated financial statements for the fiscal year ended January 31, 2022, we and our independent registered public accounting firm identified material weaknesses in our internal control over financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. We did not have a sufficient number of personnel with an appropriate degree of accounting and internal controls knowledge, experience, and training to appropriately analyze, record and disclose accounting matters commensurate with our accounting and reporting requirements, which resulted in an inability to consistently establish appropriate authorities and responsibilities in pursuit of our financial reporting objectives. This material weakness contributed to the following additional separation of duties material weaknesses in that certain personnel had the ability to both (i) create and post journal entries within our general ledger system, and (ii) prepare and review account reconciliations. We did not design and maintain effective controls over information technology ("IT") general controls for information systems that are relevant to the preparation of our financial statements. Specifically, we did not design and maintain: (i) program change management controls for the financial systems to ensure that information technology program and data changes affecting financial IT applications and underlying accounting records are identified, tested, authorized and implemented appropriately; (ii) appropriate user access controls to ensure appropriate segregation of duties and that adequately restrict user and privileged access to financial applications, programs and data to appropriate personnel; (iii) computer operations controls to ensure data backups are authorized and restorations monitored; and (iv) testing and approval controls for program development to ensure that new software development is aligned with business and IT requirements. We did not design and maintain effective controls over the accounting for stock-based compensation modifications.

As discussed in the Form 8-K as filed with the SEC on April 25, 2022, on April 22, 2022, the Audit Committee of the Board of Directors (the "Audit Committee") of the Company determined, based on the analysis and recommendation of management, that our unaudited consolidated financial statements and related disclosures included in the Quarterly Report on Form 10-Q for the quarterly period ended October 31, 2021, as filed with the Securities and Exchange Commission (the "SEC") on December 15, 2021, should no longer be relied upon due to an error. The error was the result of the Company not appropriately applying modification accounting to stock-based compensation awards that were issued and outstanding as of August 26, 2021, the closing date of the merger between the Company and Legacy IronNet. This overstatement relates to stock-based compensation expense for certain of the Company's outstanding restricted stock units ("RSUs") granted pursuant to Legacy IronNet's 2014 Stock Incentive Plan. We filed an amendment to the Form 10-Q with the SEC on May 2, 2022.

With the oversight of senior management, we have instituted and continue to execute on plans to remediate these material weaknesses and will continue to take remediation steps, including hiring additional key supporting accounting personnel with public company reporting and accounting operations experience, implementing the required segregation of roles and duties both in manual and systems related processes including for journal entries and account reconciliations, and formalizing the documentation and performance of information technology general controls for information systems utilized for financial reporting.

While we implement and execute on our plan to remediate the material weaknesses described above, we cannot predict the success of such plans or the outcome of our assessment of these plans at this time. If the steps are insufficient to remediate the material weaknesses successfully and otherwise establish and maintain effective internal control over financial reporting, the reliability of our financial reporting, investor confidence, and the value of our common stock could be materially and adversely affected. We can give no assurance that the implementation of this plan will remediate these deficiencies in our internal control over financial reporting or that additional material weaknesses or significant deficiencies in our internal control over financial reporting will not be identified in the future. The failure to implement and maintain effective internal control over financial reporting could result in errors in our financial statements that could result in a restatement of our financial statements, causing us to fail to meet our reporting obligations.

We may expend substantial funds in connection with the tax liabilities that arose upon the settlement of restricted stock units.

We may expend substantial funds to satisfy minimum statutory tax withholding and remittance obligations that arose upon settlement of a portion of our restricted stock units. Our RSUs typically vest over a period of four years. On the settlement dates for our RSUs, we have undertaken sell-to-cover transactions where a portion of the stock subject to the RSUs is sold in public sales upon settlement of the RSUs, the proceeds of which are paid to the Company and subsequently remitted to the relevant tax authorities to cover certain tax liabilities on behalf of the holders of our RSUs at the applicable minimum statutory rates based on the then current value of the underlying shares of our common stock, which we refer to as a net settlement. In connection with these net settlements, we withhold and remit the tax liabilities on behalf of the RSU holders to the relevant tax authorities in cash.

It has come to our attention that certain tax liabilities pertaining to RSUs that were net settled in calendar year 2022 were not included in our previously filed quarterly employment tax returns and were not timely remitted to the relevant tax authorities, including the Internal Revenue Service. We are in the process of correcting these errors; however, we may be subject to interest and penalties, which if levied could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Ownership of Our Securities

The market price of our securities has been and is likely to be highly volatile, and you may not be able to resell your securities at or above the purchase price. The trading price of our securities has been and is likely to be volatile, and you could lose all or part of your investment.

The following factors, in addition to other factors described in this “Risk Factors” section and included elsewhere in this Quarterly Report on Form 10-Q, may have a significant impact on the market price of our securities:

- the delisting of our securities from the New York Stock Exchange and the subsequent trading of our securities over the counter;
- the results of the Chapter 11 Cases;
- threatened or actual litigation or government investigations;
- the occurrence of severe weather conditions and other catastrophes;
- publication of research reports or news stories about us, our competitors or our industry, or positive or negative recommendations or withdrawal of research coverage by securities analysts;
- the public’s reaction to our press releases, our other public announcements and our filings with the SEC;
- announcements by us or our competitors of acquisitions, business plans or commercial relationships;
- any major change in our Board or senior management;
- additional sales of our securities by us, our directors, executive officers or principal stockholders;
- adverse market reaction to any indebtedness we may incur or securities we may issue in the future;
- short sales, hedging and other derivative transactions in our securities;
- exposure to capital market risks related to changes in interest rates, realized investment losses, credit spreads, equity prices, foreign exchange rates and performance of insurance linked investments;
- our creditworthiness, financial condition, performance, and prospects;
- our dividend policy and whether dividends on our common stock have been, and are likely to be, declared and paid from time to time;
- perceptions of the investment opportunity associated with our securities relative to other investment alternatives;
- regulatory or legal developments;
- changes in general market, economic, and political conditions;
- conditions or trends in our industry, geographies or customers; and
- changes in accounting standards, policies, guidance, interpretations or principles.

In addition, broad market and industry factors may negatively affect the market price of our securities, regardless of our actual operating performance, and factors beyond our control may cause our stock price to decline rapidly and unexpectedly. In addition, in the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. As described in the "Legal Proceedings" section of this report, in April 2022 a purported class action complaint was filed alleging violations of the federal securities laws against a group of defendants including us and certain of our current and former executive officers. We intend to defend the matter vigorously, but litigation of this type is expensive and could result in substantial costs and diversion of management’s attention and resources, which could have an adverse effect on our business, financial condition, results of operations or prospects. Any adverse determination in litigation could also subject us to significant liabilities.

A small number of stockholders will continue to have substantial control over us, which may limit other stockholders’ ability to influence corporate matters and delay or prevent a third party from acquiring control over us.

Our directors, executive officers, and beneficial owners of 5% or more of our voting securities and their respective affiliates, beneficially owned, in the aggregate, approximately 30% of our outstanding common stock as of January 31, 2023 and October 31, 2023. This significant concentration of ownership may have a negative impact on the trading price for our common stock because investors often perceive disadvantages in owning stock in companies with controlling stockholders. In addition, these stockholders will be able to exercise influence over all matters requiring stockholder approval, including the election of directors and approval of corporate transactions, such as a merger or other sale of our company or our assets. This concentration of ownership could limit stockholders’ ability to influence corporate matters and may have the effect of delaying or preventing a change in control, including a merger, consolidation or other business combination, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control, even if that change in control would benefit the other stockholders.

If our operating and financial performance in any given period does not meet the guidance provided to the public or the expectations of investment analysts, the market price of our common stock may decline.

We may, but are not obligated to, provide public guidance on our expected operating and financial results for future periods. Any such guidance will consist of forward-looking statements, subject to the risks and uncertainties described in this Quarterly Report on Form 10-Q and in our other public filings and public statements. Our actual results may not always be in line with or exceed any guidance it has provided, especially in times of economic uncertainty. If, in the future, our operating or financial results for a particular period do not meet any guidance provided or the expectations of investment analysts, or if we reduce our guidance for future periods, the market price of our common stock may decline as well. Even if we do issue public guidance, there can be no assurance that we will continue to do so in the future.

We qualify as an “emerging growth company” as well as a “smaller reporting company.” The reduced public company reporting requirements applicable to emerging growth companies and smaller reporting companies may make our common stock less attractive to investors.

We qualify as an “emerging growth company” under SEC rules. As an emerging growth company, we are permitted and plan to rely on exemptions from certain disclosure requirements that are applicable to other public companies that are not emerging growth companies. These provisions include, but are not limited to: (1) an exemption from compliance with the auditor attestation requirement in the assessment of internal control over financial reporting pursuant to Section 404 of Sarbanes-Oxley, (2) not being required to comply with any requirement that may be adopted by the PCAOB regarding mandatory audit firm rotation or a supplement to the auditor’s report providing additional information about the audit and the financial statements, (3) reduced disclosure obligations regarding executive compensation arrangements in periodic reports, registration statements, and proxy statements, and (4) exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. Further, Section 102(b)(1) of the JOBS Act exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies (that is, those that have not had a Securities Act registration statement declared effective or do not have a class of securities registered under the Exchange Act) are required to comply with the new or revised financial accounting standards. The JOBS Act provides that a company can elect to opt out of the extended transition period and comply with the requirements that apply to non-emerging growth companies but any such election to opt out is irrevocable. As a result, the information we provide will be different than the information that is available with respect to other public companies that are not emerging growth companies.

We are also a “smaller reporting company” as defined by Rule 12b-2 of the Exchange Act. We may continue to be a smaller reporting company even after we are no longer an emerging growth company. We may take advantage of certain of the scaled disclosures available to smaller reporting companies and will be able to take advantage of these scaled disclosures for so long as the market value of our common stock held by non-affiliates is less than $250.0 million measured on the last business day of our second fiscal quarter, or our annual revenue is less than $100.0 million during the most recently completed fiscal year and the market value of our common stock held by non-affiliates is less than $700.0 million measured on the last business day of our second fiscal quarter.

We cannot predict whether investors will find our securities less attractive because we will rely on these exemptions. If some investors find our securities less attractive as a result of our reliance on these exemptions, the trading prices of our securities may be lower than they otherwise would be, there may be less active trading market for our securities and the trading prices of our securities may be more volatile.

We have no current plans to pay cash dividends on our common stock. As a result, stockholders may not receive any return on investment unless they sell their common stock for a price greater than the purchase price.

We have no current plans to pay dividends on our common stock. Any future determination to pay dividends will be made at the discretion of the Board, subject to applicable laws. It will depend on a number of factors, including our financial condition, results of operations, capital requirements, contractual, legal, tax and regulatory restrictions, general business conditions, and other factors that the Board may deem relevant. In addition, the ability to pay cash dividends may be restricted by the terms of debt financing arrangements, as any future debt financing arrangement likely will contain terms restricting or limiting the amount of dividends that may be declared or paid on the common stock. As a result, stockholders may not receive any return on an investment in our common stock unless they sell their shares for a price greater than that which they paid for them.

We may issue additional shares of common stock or other equity securities without your approval, which would dilute your ownership interests and may depress the market price of our common stock.

We may issue additional shares of common stock or other securities in the future without your approval. For example, under our equity incentive plans, we may issue a significant number of shares of common stock, both upon the exercise of currently outstanding stock options and settlement of currently outstanding restricted stock units, as well as the exercise of stock options or settlement of restricted stock units that we may grant from time to time under these plans. In addition, the number of shares available for issuance under our equity incentive plans automatically increases each year under the terms of those plans.

We may also issue additional shares of common stock or other equity securities of equal or senior rank in the future in connection with, among other things, future acquisitions or repayment of outstanding indebtedness, without stockholder approval, in a number of circumstances.

The issuance of additional shares or other equity securities of equal or senior rank would have the following effects:

- existing stockholders’ proportionate ownership interest in our company will decrease;
- the amount of cash available per share, including for payment of dividends in the future, may decrease;
- the relative voting strength of each share of previously outstanding common stock may be diminished; and
- the market price of our common stock may decline.

Provisions in our organizational documents and provisions of the DGCL may delay or prevent an acquisition by a third party that could otherwise be in the interests of stockholders.

Our amended and restated certificate of incorporation (the “Charter”) and our amended and restated bylaws contain several provisions that may make it more difficult or expensive for a third party to acquire control of our company without the approval of the Board. These provisions, which may delay, prevent or deter a merger, acquisition, tender offer, proxy contest, or other transaction that stockholders may consider favorable, include the following:

- the division of the Board into three classes and the election of each class for three-year terms;
- advance notice requirements for stockholder proposals and director nominations;
- provisions limiting stockholders’ ability to call special meetings of stockholders, to require special meetings of stockholders to be called, and to take action by written consent;
- restrictions on business combinations with interested stockholders;
- in certain cases, the approval of holders representing at least 66 2/3% of the total voting power of the shares entitled to vote generally in the election of directors will be required for stockholders to adopt, amend or repeal the bylaws, or amend or repeal certain provisions of the Charter;
- no cumulative voting; and
- the ability of the Board to designate the terms of and issue new series of preferred stock without stockholder approval, which could be used, among other things, to institute a rights plan that would have the effect of significantly diluting the stock ownership of a potential hostile acquirer, likely preventing acquisitions by such acquirer.

These provisions of the Charter and amended and restated bylaws could discourage potential takeover attempts and reduce the price that investors might be willing to pay for the shares of our common stock in the future, which could reduce the market price of the common stock.

The provision of our Charter requiring exclusive venue in the Court of Chancery in the State of Delaware and the federal district courts of the United States for certain types of lawsuits may have the effect of discouraging lawsuits against directors and officers.

Our Charter provides that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware shall be the sole and exclusive forum for: (1) any derivative action, suit or proceeding brought on behalf of our company, (2) any action, suit or proceeding asserting a claim of breach of fiduciary duty owed by any director, officer or stockholder to the company or our stockholders, (3) any action, suit or proceeding arising pursuant to any provision of the DGCL, the Charter or our amended and restated bylaws, (4) any action asserting a claim against us governed by the internal affairs doctrine. The Charter further provides that, unless we consent in writing to the selection of an alternative forum, the federal district courts of the United States of America shall, to the fullest extent permitted by law, be the exclusive forum for the resolutions of any complaint asserting a cause of action arising under the Securities Act. The exclusive forum clauses described above shall not apply to suits brought to enforce a duty or liability created by the Exchange Act, or any other claim for which the federal courts have exclusive jurisdiction. Although these provisions are expected to benefit us by providing increased consistency in the application of applicable law in the types of lawsuits to which they apply, the provisions may have the effect of discouraging lawsuits against directors and officers. The enforceability of similar choice of forum provisions in other companies’ certificates of incorporation has been challenged in legal proceedings and there is uncertainty as to whether a court would enforce such provisions. In addition, investors cannot waive compliance with the federal securities laws and the rules and regulations thereunder. It is possible that, in connection with any applicable action brought against us, a court could find the choice of forum provisions contained in the Charter to be inapplicable or unenforceable in such action. If so, we may incur additional costs associated with resolving such action in other jurisdictions, which could harm our business, financial condition or results of operations.

General Risk Factors

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

As a public company, we have incurred and will continue to incur significant legal, accounting and other expenses. As a public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”), the Dodd-Frank Wall Street Reform and Consumer Protection Act, as well as rules adopted, and to be adopted, by the SEC. Our management and other personnel need to continue to devote a substantial amount of time to comply with these requirements. Moreover, these rules and regulations have increased, and will continue to increase, our legal and financial compliance costs and make some activities more time-consuming and costly. The increased costs may increase our net loss. For example, these rules and regulations make it more difficult and more expensive for us to obtain director and officer liability insurance and we may be forced to accept reduced policy limits or incur substantially higher costs to maintain the same or similar coverage as we did prior to becoming a public company. These rules and regulations are often subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in future uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. The impact of these requirements could also make it more difficult for us to attract and retain qualified persons to serve on our Board, our board committees or as our executive officers. As a public company, we are obligated to develop and maintain proper and effective internal controls over financial reporting and any failure to maintain the adequacy of these internal controls may adversely affect investor confidence in our company and, as a result, the value of shares of our common stock.

Pursuant to Section 404 of the Sarbanes Oxley Act (“Section 404”), we are required to furnish a report by our management on our internal control over financial reporting, including an attestation report on internal control over financial reporting issued by our independent registered public accounting firm. To maintain compliance with Section 404, we engage in a process to document and evaluate our internal control over financial reporting, which is both costly and challenging. In this regard, we will need to continue to dedicate internal resources, engage outside consultants and refine and revise a detailed work plan to assess and document the adequacy of internal control over financial reporting, continue steps to improve control processes as appropriate, validate through testing that controls are functioning as documented and implement a continuous reporting and improvement process for internal control over financial reporting. Despite our efforts, there is a risk that neither we nor our independent registered public accounting firm will be able to conclude that our internal control over financial reporting is effective as required by Section 404.

If we are unable to conclude that our internal controls over financial reporting are effective, or if our independent registered public accounting firm determines we have a material weakness or significant deficiency in our internal controls over financial reporting we could lose investor confidence in the accuracy and completeness of our financial reports, the market price of shares of our common stock could decline, and we could be subject to sanctions or investigations by the SEC or other regulatory authorities. Failure to remedy any material weakness in our internal control over financial reporting, or to implement or maintain other effective control systems required of public companies, could also negatively impact our ability to access to the capital markets.

In addition, effective disclosure controls and procedures enable us to make timely and accurate disclosure of financial and non-financial information that we are required to disclose. As a public company, if our disclosure controls and procedures are ineffective, we may be unable to report our financial results or make other disclosures accurately on a timely basis, which could cause our reported financial results or other disclosures to be materially misstated and result in the loss of investor confidence and cause the market price of shares of our common stock to decline.

If securities or industry analysts do not publish research or reports about our business or publish negative reports, the market price of our common stock could decline.

The trading market for our common stock will be influenced by the research and reports that industry or securities analysts publish about us or our business. If regular publication of research reports ceases, we could lose visibility in the financial markets, which in turn could cause the market price or trading volume of our common stock to decline. Moreover, if one or more of the analysts who cover us downgrade our common stock or if reporting results do not meet their expectations, the market price of the common stock could decline.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date
2.1	Agreement and Plan of Reorganization and Merger, dated March 15, 2021.	S-4/A	333-256129	2.1	August 6, 2021
2.2	Amendment No. 1 to Agreement and Plan of Reorganization and Merger, dated August 6, 2021.	S-4/A	333-256129	2.2	August 6, 2021
3.1	Amended and Restated Certificate of Incorporation of the Registrant.	8-K	001-39125	3.1	September 1, 2021
3.2	Amended and Restated Bylaws of the Registrant.	8-K	001-39125	3.2	September 1, 2021
10.1*	Secured Promissory Note dated August 29, 2023 issued to VADM Jan E. Tighe				
10.2*	Secured Promissory Note dated August 29, 2023 issued to Donald R. Dixon				
10.3	Reinstatement Agreement dated October 13, 2023 between the Company and Amazon Web Services, Inc.				
10.4	Term Sheet for Debtor-in-Possession Financing dated October 10, 2023				
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 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*	Certifications of Principal Executive Officer and Principal Financial 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 – instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL 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 (formatted as inline XBRL with applicable taxonomy extension information contained in Exhibits 101.SCH, 101.CAL, 101.DEF, 101.LAB and 101.PRE).				

*This exhibit shall not be deemed “filed” for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in such filings.

SIGNATURES

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

IRONNET, INC.

Date:	January 31, 2024	By:	/s/ Cameron D. Pforr
			Cameron D. Pforr
			Chief Financial Officer
			(On behalf of the Registrant and as Principal Financial Officer)

Exhibit 10.1

SECURED PROMISSORY NOTE

$300,000 29 August, 2023

For value received, **IRONNET, INC.**, a Delaware corporation (the "***Company***"), hereby unconditionally promises to pay to the order of **JAN E. TIGHE** or her assigns ("***Holder***"), in lawful money of the United States of America and in immediately available funds, the principal sum of $300,000 (the "Holder Funds") together with accrued and unpaid interest thereon, each due and payable on the date and in the manner set forth below.

1.Access to and Use of Funds.

The Holder Funds shall be deposited into the SVB Holding Account [ ] (the "Bank Account") for administrative convenience, and held by the Company in trust for the benefit of the Holder, subject to the Company's ability to use such funds solely for the purposes set forth in this Section 1. Until the Company uses the Holders Funds for purposes described in this Section 1, the Holder Funds (i) are not and shall not be deemed, or represented in any way as, property or assets of the Company and (ii) shall at all times be identifiable in the Bank Account and the Company shall trace the use of all Holder Funds. If the Company uses the Holder Funds, the funds so used shall be subject to the terms of this Note (as defined below).

Any Holder Funds not used by the Company for the purposes set forth herein by September 1, shall be wired, in equal amounts[ ].

The Holder Funds may be used by the Company solely for the following purposes:

1. First, to satisfy accrued and unpaid employee payroll related obligations of the Company.

2. Second, to pay an amount not to exceed $100,000.00 on account of employee, contractor or vendor expenses to prepare and file a bankruptcy proceeding under Chapter 7 of the United States Bankruptcy Code.

3. Third, to pay the premium for the director and officer tail insurance policy.

2. Principal Repayment.

(a)The outstanding principal amount of this Secured Promissory Note (this "***Note***"), and all accrued and unpaid interest thereon, shall be due and payable on 28 August, 2024 (the "***Maturity Date***").

(b)The Company may prepay this Note in whole or in part at any time or from time to time without penalty or premium by paying the principal amount to be prepaid together with accrued interest thereon to the date of prepayment.

3. Interest. The Company further promises to pay interest on the outstanding principal amount hereof from the date hereof, until payment in full, which interest shall be payable at a rate equal to 13.8% per annum, which interest shall be payable on the earlier of prepayment and the Maturity Date.
Interest shall be calculated on the basis of a 360-day year for the actual number of days elapsed. If at any time the interest rate payable on this Note shall exceed the maximum rate of interest permitted under applicable law, such interest rate shall be reduced automatically to the maximum rate permitted.

4. Place of Payment. All amounts payable hereunder shall be payable at the office of Holder, unless another place of payment shall be specified in writing by Holder.

5. Application of Payments. The Company shall repay the full principal balance of this Note, together with any accrued and unpaid interest thereon, on the Maturity Date. This Note may be prepaid in whole or in part at any time without penalty or premium. Any accrued and unpaid interest on the amounts so prepaid to the date of such prepayment shall be paid at the time of any such prepayment.

6. Secured Note. This note is secured by the Collateral (as defined in the Security Agreement) pursuant to that certain Security Agreement (the "***Security Agreement***"), dated as of the date hereof, by and among the Company, as grantor, the Holder, as a secured party, and other Secured Parties (as defined therein) party thereto.

7. Event of Default. Each of the following events shall be an "***Event of Default***" hereunder:

(a)the Company fails to pay timely (i) any of the principal amount due under this Note on the date the same becomes due and payable or (ii) any accrued interest or other amounts due under this Note within three (3) business days[1] of the date the same becomes due and payable;

(b)the Company shall materially default in its performance of any other covenant under this Note or the Security Agreement, which default is not cured within 30 days after written notice thereof from Holder;

(c)the Company files any petition or action for relief under any bankruptcy, reorganization, insolvency or moratorium law or any other law for the relief of, or relating to, debtors, now or hereafter in effect, or makes any assignment for the benefit of creditors or takes any corporate action in furtherance of any of the foregoing; or

(d)an involuntary petition is filed against the Company (unless such petition is dismissed or discharged within 60 days under any bankruptcy statute now or hereafter in effect, or a custodian, receiver, trustee, assignee for the benefit of creditors (or other similar official) is appointed to take possession, custody or control of any property of the Company.

Upon the occurrence of an Event of Default hereunder, all unpaid principal, accrued interest and other amounts owing hereunder shall, at the option of the Holder, upon the written consent of the Majority Lenders (as defined in the Security Agreement) and upon written notice to the Company, and, in the case of an Event of Default pursuant to (c) or (d) above, automatically, be immediately due, payable and collectible by Holder pursuant to applicable law.

8. Waivers. The Company (i) waives presentment, demand, protest or notice of any kind in connection with this Note and (ii) agrees, in the event of an Event of Default and acceleration pursuant to the preceding Section 6, to pay to the Holder of this Note, on demand, all costs and expenses (including reasonable legal fees and expenses as and when incurred), incurred in connection with the enforcement and/or collection of this Note. The right to plead any and all statutes of limitations as a defense to any demands hereunder is hereby waived to the full extent permitted by law.

9. Notices. All notices and other communications required to be given under this Note to either Holder or the Company, as applicable, shall be in writing.

10. **Governing Law.** In all respects, including all matters of construction, validity and performance, this Note shall be governed by, and construed and enforced in accordance with, the laws of the State of New York applicable to contracts made and performed in such state, without regard to the principles thereof regarding conflict of laws.

11. **Amendments**. No amendment, modification or waiver of any provision of this Note nor consent to departure by the Company therefrom shall be effective, irrespective of any course of dealing, unless the same shall be in writing and signed by the Company and the Holder, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

12. **Successors and Assigns**. This Note may be transferred only in compliance with the provisions herein and upon its surrender to the Company for registration of transfer, duly endorsed, or accompanied by a duly executed written instrument of transfer in form satisfactory to the Company. Thereupon, this Note shall be reissued to, and registered in the name of, the transferee, or a new Note for like principal amount and interest shall be issued to, and registered in the name of, the transferee. Interest and principal shall be paid solely to the registered holder of this Note. Such payment shall constitute full discharge of the Company's obligation to pay such interest and principal.

[*Signature page follows.*]

The Company has caused this **SECURED PROMISSORY NOTE** to be executed by its duly authorized officer as of the date first set forth above.

IRONNET, INC.

By: /S/ Cameron Pforr
Its: Chief Financial Officer

HOLDER

By: Jan Tighe

Exhibit 10.2

SECURED PROMISSORY NOTE

$500,000 29 August, 2023

For value received, **IRONNET, INC.**, a Delaware corporation (the "***Company***"), hereby unconditionally promises to pay to the order of **DONALD R. DIXON** or his assigns ("***Holder***"), in lawful money of the United States of America and in immediately available funds, the principal sum of $500,000 (the "Holder Funds") together with accrued and unpaid interest thereon, each due and payable on the date and in the manner set forth below.

1.Access to and Use of Funds.

The Holder Funds shall be deposited into the SVB Holding Account, No. [ ] (the "Bank Account") for administrative convenience, and held by the Company in trust for the benefit of the Holder, subject to the Company's ability to use such funds solely for the purposes set forth in this Section 1. Until the Company uses the Holders Funds for purposes described in this Section 1, the Holder Funds (i) are not and shall not be deemed, or represented in any way as, property or assets of the Company and (ii) shall at all times be identifiable in the Bank Account and the Company shall trace the use of all Holder Funds. If the Company uses the Holder Funds, the funds so used shall be subject to the terms of this Note (as defined below).

Any funds not used by the Company for the purposes set forth herein by September 1, shall be wired to [ ] and shall not be used for any other purpose.

The Holder Funds may be used by the Company solely for the following purposes:

1. First, to satisfy accrued and unpaid employee payroll related obligations of the Company.
2. Second, to pay an amount not to exceed $100,000.00 on account of employee, contractor or vendor expenses to prepare and file a bankruptcy proceeding under Chapter 7 of the United States Bankruptcy Code.
3. Third, to pay the premium for the director and officer tail insurance policy.

2.Principal Repayment.

(a) The outstanding principal amount of this Secured Promissory Note (this "***Note***"), and all accrued and unpaid interest thereon, shall be due and payable on 28 August, 2024 (the "***Maturity Date***").

(b) The Company may prepay this Note in whole or in part at any time or from time to time without penalty or premium by paying the principal amount to be prepaid together with accrued interest thereon to the date of prepayment.

3.Interest. The Company further promises to pay interest on the outstanding principal amount hereof from the date hereof, until payment in full, which interest shall be payable at a rate equal to 13.8% per annum, which interest shall be payable on the earlier of prepayment and the Maturity Date. Interest shall be calculated on the basis of a 360-day year for the actual number of days elapsed. If at any time the interest rate payable on this Note shall exceed the maximum rate of interest permitted under applicable law, such interest rate shall be reduced automatically to the maximum rate permitted.

4.Place of Payment. All amounts payable hereunder shall be payable at the office of Holder, unless another place of payment shall be specified in writing by Holder.

5.Application of Payments. The Company shall repay the full principal balance of this Note, together with any accrued and unpaid interest thereon, on the Maturity Date. This Note may be prepaid in whole or in part at any time without penalty or premium. Any accrued and unpaid interest on the amounts so prepaid to the date of such prepayment shall be paid at the time of any such prepayment.

6.Secured Note. This note is secured by the Collateral (as defined in the Security Agreement) pursuant to that certain Security Agreement (the "***Security Agreement***"), dated as of the date hereof, by and among the Company, as grantor, the Holder, as a secured party, and other Secured Parties (as defined therein) party thereto.

7.Event of Default. Each of the following events shall be an "***Event of Default***" hereunder:

(a) the Company fails to pay timely (i) any of the principal amount due under this Note on the date the same becomes due and payable or (ii) any accrued interest or other amounts due under this Note within three (3) business days[1] of the date the same becomes due and payable;

(b) the Company shall materially default in its performance of any other covenant under this Note or the Security Agreement, which default is not cured within 30 days after written notice thereof from Holder;

(c) the Company files any petition or action for relief under any bankruptcy, reorganization, insolvency or moratorium law or any other law for the relief of, or relating to, debtors, now or hereafter in effect, or makes any assignment for the benefit of creditors or takes any corporate action in furtherance of any of the foregoing; or

(d) an involuntary petition is filed against the Company (unless such petition is dismissed or discharged within 60 days under any bankruptcy statute now or hereafter in effect, or a custodian, receiver, trustee, assignee for the benefit of creditors (or other similar official) is appointed to take possession, custody or control of any property of the Company.

Upon the occurrence of an Event of Default hereunder, all unpaid principal, accrued interest and other amounts owing hereunder shall, at the option of the Holder, upon the written consent of the Majority Lenders (as defined in the Security Agreement) and upon written notice to the Company, and, in the case of an Event of Default pursuant to (c) or (d) above, automatically, be immediately due, payable and collectible by Holder pursuant to applicable law.

8.Waivers. The Company (i) waives presentment, demand, protest or notice of any kind in connection with this Note and (ii) agrees, in the event of an Event of Default and acceleration pursuant to the preceding Section 6, to pay to the Holder of this Note, on demand, all costs and expenses (including reasonable legal fees and expenses as and when incurred), incurred in connection with the enforcement and/or collection of this Note. The right to plead any and all statutes of limitations as a defense to any demands hereunder is hereby waived to the full extent permitted by law.

9.Notices. All notices and other communications required to be given under this Note to either Holder or the Company, as applicable, shall be in writing.

10.Governing Law. In all respects, including all matters of construction, validity and performance, this Note shall be governed by, and construed and enforced in accordance with, the laws of the State of New York applicable to contracts made and performed in such state, without regard to the principles thereof regarding conflict of laws.

11.Amendments. No amendment, modification or waiver of any provision of this Note nor consent to departure by the Company therefrom shall be effective, irrespective of any course of dealing, unless the same shall be in writing and signed by the Company and the Holder, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

12.Successors and Assigns. This Note may be transferred only in compliance with the provisions herein and upon its surrender to the Company for registration of transfer, duly endorsed, or accompanied by a duly executed written instrument of transfer in form satisfactory to the Company. Thereupon, this Note shall be reissued to, and registered in the name of, the transferee, or a new Note for like principal amount and interest shall be issued to, and registered in the name of, the transferee. Interest and principal shall be paid solely to the registered holder of this Note. Such payment shall constitute full discharge of the Company's obligation to pay such interest and principal.

[*Signature page follows.*]

The Company has caused this **SECURED PROMISSORY NOTE** to be executed by its duly authorized officer as of the date first set forth above.

IRONNET, INC.

By: /S/ Cameron Pforr
Its: Chief Financial Officer

HOLDER

By: /S/ Donald Dixon

Exhibit 10.3

Exhibit 10.4

IRONNET, INC.
TERMS FOR DIP FINANCING

This binding term sheet (the "**Term Sheet**") sets forth the principal terms of a potential superpriority, senior secured debtor-in-possession credit facility (the "**DIP Facility**", the credit agreement evidencing the DIP Facility, the "**DIP Credit Agreement**" and, together with the other definitive documents governing the DIP Facility and the DIP Order (as defined herein), collectively, the "**DIP Documents**,") each of which shall be in form and substance acceptable to the DIP Facility Agent (as defined herein), the DIP Facility Lenders(as defined herein) and the Loan Parties, to be entered into with the Loan Parties (as defined herein) in the Loan Parties' cases (the "**Chapter 11 Cases**") to be commenced under chapter 11 of title 11 of the United States Code (the "**Bankruptcy Code**") in the United States Bankruptcy Court for the District of Delaware (the "**Bankruptcy Court**"). The DIP Facility, and the adequate protection provided therein to the beneficiaries of pre-petition liens and security interests, will be subject to the approval of the Bankruptcy Court in accordance with (i) the interim and final orders of the Bankruptcy Court authorizing the Loan Parties to enter into the DIP Facility (the "**DIP Order**") and (ii) the DIP Documents.

This Term Sheet is provided on a confidential basis, and it is intended to be entitled to the protections of Federal Rule of Evidence 408 and any other applicable statutes or doctrines protecting the disclosure of confidential information and exchange of information; provided however, this Term Sheet may be filed with the Bankruptcy Court and as an exhibit to an 8-K filed by IronNet with the Securities and Exchange Commission.

DIP Facility Borrowers	IronNet, Inc., a Delaware corporation ("**IronNet**"), in its capacity as a debtor and debtor-in-possession, and each of IronNet's subsidiaries and affiliates that becomes a debtor and debtor-in-possession (collectively with IronNet, the "**DIP Facility Borrowers**"), in their capacities as such, in the Chapter 11 Cases. The date of commencement of the Chapter 11 Cases is referred to herein as the "**Petition Date**".
Guarantors	Any Debtors that are not otherwise DIP Facility Borrowers (the "**Guarantors**" and, collectively with the DIP Facility Borrowers, the "**Loan Parties**").
Debtors	IronNet and each of its subsidiaries and affiliates that become debtors and debtors-in-possession in the Chapter 11 Cases (collectively, the "**Debtors**"), which cases shall be jointly administered.
DIP Facility Agent	The administrative agent and the collateral agent for the DIP Facility Lenders with respect to the DIP Facility (in such capacities, the "**DIP Facility Agent**") shall be a party selected by, and qualified to perform the duties customarily associated with such roles, as determined by the DIP Facility Lenders and reasonably acceptable to the Debtors.
DIP Facility Lenders	ITC Global Advisers LLC ("**ITC GA**"), and/or their respective designated affiliates and/or related funds or accounts, and such other lender parties that have agreed or may agree from time to time to provide commitments to fund the DIP Facility (each a "**DIP Facility Lender**", and collectively, the "**DIPFacility Lenders**").
Bridge Amount	On the date of this Term Sheet, the DIP Facility Lenders shall advance $1,500,000 to the DIP Facility Borrowers (the "**Bridge Amount**"). The Bridge Amount shall be secured by all the assets of the Loan Parties provided however, to the extent the DIP Facility Lenders fail to fund any of the DIP Loans after entry of the Interim Order, such security interest shall be limited to only the assets of IronNet, Inc. and shall not include a security interest in any intellectual property or the assets of IronNet Cybersecurity, Inc., with such revocation of security interest effective as of the date the Bridge Amount is funded.
DIP Facility	A senior (priming) secured and superpriority debtor-in-possession delayed-draw term loan credit facility in an aggregate principal amount not to exceed $10,000,000 (the "**Maximum Facility Amount**"), consisting of up to $8,500,000 of term loans (the "**DIP Term Loans**") and $1,500,000 of the Bridge Amount (collectively, the "**DIP Loans**"). Until the entry of the Final Order (defined below), a maximum amount of up to $4,500,000 of the DIP Facility (inclusive of the Bridge Amount) will be available on an interim basis (the "**Interim Maximum Amount**"). Subject to the consent of the DIP Facility Lenders and approval from the Bankruptcy Court, and consistent with the Debtors' fiduciary duties , (i) the Maximum Facility Amount may be increased or (ii) the Debtors may obtain additional post-petition financing, including a "first-out" or "senior" financing facility, on terms acceptable to the DIP Facility Lenders (the "Incremental DIP"); provided however, any Incremental DIP shall not mature any earlier than the Maturity Date hereunder. The actual amounts available will be subject to the Budget (as defined below). Upon entry of the Interim Order, the Bridge Amounts shall be deemed "rolled up" and converted to DIP Loans on a cashless, dollar-for-dollar basis (the "**Bridge Roll-Up DIP Loan**"). The "**Bridge Amounts**" shall be the amounts advanced on or after October 10, 2023 through the Petition Date, but not to exceed $1,500,000.
Permitted Use of Proceeds	All proceeds under the DIP Facility shall be used only in accordance with the Budget, subject to Permitted Variances, in each case, as provided below. Unless otherwise agreed, no borrowing shall be made more frequently than weekly and all proceeds under the DIP Facility shall only be used for the following purposes: (a) to fund, to the extent that usage of cash collateral and available cash are not sufficient to cover such expenses, post-petition operating expenses and working capital needs of the Debtors, including, but not limited to, those activities required to remain in, or return to, compliance with laws in accordance with 28 U.S.C. § 1930; (b) to fund fees and expenses incurred in connection with the Sale (as defined below) or a plan of reorganization; (c) to pay permitted pre-petition claim payments and adequate protection payments, if any; (d) to pay professional fees in connection with these Chapter 11 Cases; and (e) to pay other costs and expenses of administration of the Chapter 11 Cases.

	Notwithstanding the foregoing, prior to seeking approval for the payment of any critical vendors prepetition claims, the Debtors shall obtain the consent of the DIP Facility Lenders which shall not be unreasonably withheld.
Termination Date	The DIP Facility Lenders' commitment to provide the DIP Facility shall terminate, and the aggregate principal amount owing under the DIP Facility, all accrued and unpaid interest thereon, and all fees and expenses incurred by the DIP Facility Agent and DIP Facility Lenders as provided herein in connection with the DIP Facility (collectively, the "**DIP Obligations**") shall be repaid in full, on the earliest to occur of (the "**Maturity Date**"): (a) the date which is 180 days after the Petition Date, unless extended by agreement of the DIP Facility Agent in its sole discretion; (b) the effective date of any chapter 11 plan confirmed in any of the Chapter 11 Cases; (c) the entry of an order for the dismissal or conversion to chapter 7 of any of the Chapter 11 Cases; (d) the closing of a sale of all or substantially all assets or equity of the Loan Parties; or (e) the date of any Event of Default under the DIP Credit Agreement or any of the DIP Documents and the election of the DIP Facility Agent to terminate the DIP Facility commitments following such Event of Default and the expiration of all applicable notice and cure periods.
Interest Rate and Payments	The DIP Facility shall accrue PIK interest at a rate of 16% per annum (the "**PIK Interest**").
Default Rate	An additional 2% per annum, effective upon the occurrence of any Event of Default.
Agency Fees	$300,000
DIP Order	The DIP Order, which shall be in form and substance reasonably acceptable to the DIP Facility Agent, shall, among other things, authorize and approve (i) the borrowing under the DIP Facility and the making of the loans thereunder, including the Bridge Roll-Up Loan; (ii) the granting of the super-priority claims and senior priming liens against the Loan Parties and their assets in accordance with this Term Sheet and the definitive documentation with respect to the Collateral (as defined herein); (iii) the payment of reasonable and documented fees and expenses (including the reasonable and documented fees and expenses of outside counsel and a financial advisor) of the DIP Facility Agent; (iv) the use of cash collateral, subject to adequate protection; and (v) the covenants, milestones, and other terms described herein.
Collateral	All indebtedness and obligations of the Debtors under the DIP Facility will be secured by security interests and liens granted pursuant to Sections 364(c)(2), (c)(3), and (d)(1) of the Bankruptcy Code (the "**DIP Facility Liens**"), with priority over all existing and future security interests, liens, claims and encumbrances, in and on all present and after acquired real and personal property of the Debtors, tangible or intangible, wherever located, including all bank accounts, deposits and cash, tax refunds, rebates, royalties, and all other receivables (anticipated or not) (whether now existing or hereafter acquired by the Debtors and the Debtors' bankruptcy estates), and all proceeds, products, rents, revenues and profits of each of the foregoing (all such property, the "**Collateral**"), subject only to the Carve Out (as defined below), and certain permitted liens under the DIP Documents. For the avoidance of doubt, the DIP Facility Liens shall not prime and shall be immediately junior to the liens identified on the UCC-1 for IronNet Cybersecurity, Inc. attached as an Exhibit to an interim DIP Order; provided that, all parties reserve the right (but the Debtors shall not be required) to seek to prime such liens in connection with the Final DIP Order. All of the DIP Facility Liens described above shall be effective and perfected pursuant to, and upon entry of an interim DIP Order.
Superpriority Claims	To the extent of the outstanding obligations of the Debtors under the DIP Facility, the DIP Facility Agent for the benefit of the DIP Facility Lenders shall be granted, pursuant to Section 364(c)(1), superpriority claims over all other claims against and administrative expenses of the Debtors, subject only to the Carve Out.
Adequate Protection for Pre-Petition Lenders	DIP Orders to include customary adequate protection package of replacement liens and superpriority claims for any diminution in value of the Senior Secured Noteholders' interests in the Collateral (each subject to the liens and claims of the DIP Facility Lenders).
Waivers, Stipulations, Releases, Protections[1]	The DIP Facility shall provide that, effective upon entry of the Final Order (i) no costs or expenses of administration shall be imposed against the DIP Facility Lenders or the Collateral under Section 506(c) of the Bankruptcy Code or otherwise, and (ii) the DIP Facility Lenders and the Collateral shall not be subject to the doctrine of marshalling or Section 552 of the Bankruptcy Code "equities of the case" arguments. The Debtors shall waive and forever release and discharge any and all claims and causes of action against each of the DIP Facility Agent, the DIP Facility Lenders and ITC GA (and their respective representatives and affiliates) as of the date of the Final DIP Order. No proceeds of the DIP Facility or any cash or other amounts may be used to (a) investigate, challenge, object to or contest the extent, validity, enforceability, security, perfection or priority of any of the DIP Facility Liens or DIP Obligations, (b) investigate or initiate any claim or cause of action against any of the DIP Facility Agent or DIP Facility Lenders, (c) object to or seek to prevent, hinder or delay or take any action to adversely affect the rights or remedies of the DIP Facility Agent or DIP Facility Lenders, (d) seek to approve superpriority claims or grant liens or security interests (other than those expressly permitted under this Term Sheet, the DIP Documents and the DIP Orders) that are senior to or *pari passu* with the DIP Facility Liens, DIP Superpriority Claims, the adequate protection liens or claims granted hereunder, or the Prepetition Senior Secured Notes Liens; *provided, however*, no more than $10,000 of the Carve-Out in the aggregate may be used by an Official Committee, if any, to investigate (but not object

	to or commence an action or proceeding with respect to) the Prepetition Senior Secured Notes Obligations and the Prepetition Senior Secured Notes Liens. The DIP Facility Agent, on behalf of the DIP Facility Lenders, shall have the unqualified right to credit bid all DIP Obligations in any sale of Collateral. The DIP Facility Agent and DIP Facility Lenders shall be entitled to good faith protection under Section 364(e) of the Bankruptcy Code.
Carve Out	The DIP Orders shall include a mutually agreed carve out for professional fees through the date of a trigger event, as well as post-trigger event and US Trustee Fees and costs of a Chapter 7 Trustee to the extent required by local practice and rules (the "**Carve Out**").
Events of Default	The DIP Documents shall include events of default that are customary and appropriate for similar debtor-in-possession financings, including, without limitation: (a) if any of the Chapter 11 Cases shall be converted to a case under Chapter 7 of the Bankruptcy Code or be dismissed; (b) the appointment of a trustee under Section 1104 of the Bankruptcy Code; (c) the appointment of an examiner with expanded or enlarged powers (powers beyond those set forth in Section 1106(a)(3) and (4) of the Bankruptcy Code) under Section 1106(b) of the Bankruptcy Code; (d) the Debtors fail to make all payments under the DIP Facility when due (e) variance from Budget that is not a permitted variance; and (f) failure to comply with any of the Milestones herein and such failure has not been cured within five (5) business days after notice of such failure has been provided by the DIP Facility Agent to the Debtors.
Budget	As a condition precedent to the DIP Facility, there shall be established a 13-week cash flow budget updated on a monthly basis (the "**Budget**") for the Debtors' cash receipts and expenses (including professional fees and expenses). Any updates or revisions to the Budget, other than with respect to professional fees and expenses, shall require the prior written consent of the DIP Facility Agent. The Budget shall be due the first Monday of each month.
Milestones	The Debtors shall conduct a process (the "**Sale Process**") for the sale of substantially all of the assets of the Debtors under Section 363 of the Bankruptcy Code or the equity of the reorganized Debtor (the "**Sale**") and concurrently seek the confirmation of the Acceptable Plan in accordance with the below Milestones (the "**Milestones**"). The Debtors' failure to satisfy any of the following Milestones shall constitute an Event of Default under the DIP Documents: (a) No later than October 11, 2023, the Petition Date shall have occurred; (b) No later than the date that is three (3) calendar days following the Petition Date (or if such third day is not a business day, the first succeeding business day thereafter), the Bankruptcy Court shall have entered an interim order approving the DIP Facility (the "**Interim DIP Order")**; (c) No later than the date that is fifteen (15) business days following the Petition Date (or if such third day is not a business day, the first succeeding business day thereafter), the Debtors shall have (i) filed a motion, in form and substance acceptable to the DIP Facility Agent, requesting entry of an order approving procedures for the post-petition marketing of the Debtors' assets or reorganized equity to determine if a higher and better offer can be obtained to "top" the proposed treatment under an Acceptable Plan, including whether the Debtors can obtain exit financing on better terms will be proposed by DIP Facility Lenders (the "**Sale Procedure Order**"); (c) No later than the date that is thirty-five (35) calendar days following the Petition Date, the Bankruptcy Court shall have entered the Sale Procedure Order and a final order approving the DIP Facility (the "**Final DIP Order")**; and (d) No later than the date that is sixty-five days (65) days following the entry of the Interim Order, the Debtors shall have conducted an auction for the Sale (if necessary) and selected the successful bidder and/or identified an alternate plan sponsor providing higher and better treatment and consistent with the Debtors fiduciary duties; (e) No later than the date that is ninety (90) days following the entry of the Interim Order, the Bankruptcy Court shall have entered an order approving the Sale or order confirming the Plan of Reorganization; and (f) On or before the date that is one hundred five (105) days after the Petition Date, provided that the Bankruptcy Court has waived the stay imposed by Bankruptcy Rule 6004(h), or such later date to which the DIP Facility Agent consents in writing in its sole discretion, the Sale shall be closed. The DIP Facility Agent and the DIP Facility Lenders shall have the right to "credit bid" any secured obligations owed to them in any sale of the Debtors' assets. Notwithstanding anything to the contrary herein, the Bankruptcy Court may set dates with respect to the Milestones beyond the outer dates specified above to accommodate its own schedule, and to the extent the Bankruptcy Court makes such an extension, the Milestones hereunder shall be automatically extended by the same period as the Bankruptcy Court's extension.
Fiduciary Out	The Independent Director shall have a "fiduciary out" to the extent he/she determines it is the best interest of the Company to accept another financing or plan sponsor proposal; provided however, any alternate financing proposal must repay all DIP Loans, including any Payroll Bridge Amounts, fees and expenses, and any accrued and unpaid PIK Interest in full, in cash.
Fees and Expenses	Loan Parties obligated under the DIP Facility shall pay all reasonable, documented out-of-pocket fees, costs and expenses incurred or accrued by the DIP Facility Agent in connection with any and all aspects of the DIP Facility and the Chapter 11 Cases, including, without limitation, the reasonable and documented fees and expenses of legal counsel and financial advisors, hired by or on behalf of the DIP Facility Agent.
Conditions to Commitment/Closing/Funding	Conditions to commitment, closing and funding to include usual and customary for DIP facilities of this type including, without limitation, entry of the Interim DIP Order and Final DIP Order and execution and delivery of the DIP Documents.

Governing Law	The laws of the State of New York (excluding the laws applicable to conflicts or choice of law), except as governed by the Bankruptcy Code.
Miscellaneous	This Term Sheet does not purport to summarize all of the conditions, covenants, representations, warranties, events of default and other terms and provisions which would be contained in definitive credit documentation, if any, relating to matters covered hereby, all of which shall be reasonably acceptable in form and substance to the DIP Facility Agent.
Acceptable Plan	DIP Facility Lenders and DIP Facility Agent agree to support a plan (an "**Acceptable Plan**") that contains the following treatment:

- Provides for the equitization of the DIP Loans (subject to dilution for MIP Equity);
- Any Incremental DIP shall either (i) be repaid in full, (ii) roll into an exit facility or (iii) convert into equity of the reorganized debtor.
- Unimpairs trade and other liabilities (except for note creditors at IronNet, as discussed below) at IronNet and its subsidiaries;
- Provides for a recovery to creditors at IronNet in the following manner:
  - All debt claims shall receive a new note ("**Compromise Note**") in the principal amount of funds initially advanced, less any payments made to such lender on account of such note. For the avoidance of doubt, the new notes shall not include any accrued interest or fees, regardless of whether such interest or fees accrued pre- or post-petition;
  - All Compromise Notes shall contain a maturity of at least thirty-six (36) months from the effective date of the Plan (the "Effective Date"); provided that no interest will accrue or be paid for the first 12 months after the Effective Date;
  - Note Creditors may have the option of receiving equity on account of their note claims, so long as such treatment does or would not (i) render its claim unimpaired; (ii) provide for a recovery greater than the amount of its claims; or (iii) violate the provisions of the Bankruptcy Code, or otherwise render the plan unconfirmable.

The reorganized company shall have two classes of shares: common and preferred (in each case consistent with 1123(a)(6) of the Bankruptcy Code) and employee stock options exercisable for the purchase of common shares not to exceed 15% on a fully diluted basis ("**MIP Equity**") at the discretion of the new board of the reorganized company. The DIP Loans and any debt held by C5 that C5 agrees to convert into equity of the reorganized company shall be in the form of preferred stock, which preferred stock shall have a senior liquidation preference and such other rights, preferences and privileges as may be agreed to by the DIP Facility Lenders and C5; provided that any such preferred stock issuance would not (i) render its claim unimpaired; (ii) provide for a recovery greater than the amount of its claims; or (iii) violate the provisions of the Bankruptcy Code, or otherwise render the plan unconfirmable.

Exhibit 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

I, Linda Zecher Higgins, certify that:

1.I have reviewed this quarterly report on Form 10-Q of IronNet, 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: January 31, 2024	By:	/s/ Linda Zecher Higgins
		Linda Zecher Higgins
		Chief Executive Officer
		(*Principal Executive Officer*)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL 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

I, Cameron D. Pforr, certify that:

1.I have reviewed this quarterly report on Form 10-Q of IronNet, 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: January 31, 2024

By: /s/ Cameron D. Pforr
Cameron D. Pforr
Chief Financial Officer and President
(*Principal Financial Officer*)

Exhibit 32.1

CERTIFICATIONS OF
PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER
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 IronNet, Inc. (the “Company”) on Form 10-Q for the quarter ended October 31, 2023 as filed with the Securities and Exchange Commission on the date hereof, to which this Certification is attached as Exhibit 32.1 (the “Report”), I hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

(2)The information contained in the Report fairly presents, in all material respects, the financial condition of the Company at the end of the period covered by the Report and the results of operations of the Company for the periods covered in the financial statements in the Report.

Dated: January 31, 2024

By	/s/ Linda Zecher Higgins	By:	/s/ Cameron D. Pforr
	Linda Zecher Higgins		Cameron D. Pforr
	Chief Executive Officer		Chief Financial Officer and President
	(*Principal Executive Officer*)		(*Principal Financial Officer*)