

SECURITIES & EXCHANGE COMMISSION EDGAR FILING

GLOBAL DIGITAL SOLUTIONS INC

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

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2020

or

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

For the Transition Period from _____ to _____

Commission file number: 000-26361



Where Digital Solutions Converge

GLOBAL DIGITAL SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

New Jersey

(State or other Jurisdiction of Incorporation or Organization)

22-3392051

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

777 South Flagler Drive,
Suite 800 West Tower,
West Palm Beach, FL

(Address of Principal Executive Offices)

33401

(Zip Code)

(561) 515-6163

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

Title of Each Class	Symbol	Name of each exchange on which registered
<u>None</u>	<u>N/A</u>	<u>N/A</u>

Securities registered pursuant to section 12(g) of the Act:

Shares of common stock with a par value of \$0.001

(Title of class)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging Growth company	<input type="checkbox"/>

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 7(a)(2)(B) of the Securities Act:

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

As of May 19, 2020, there were 642,928,878 shares of the registrant's common stock outstanding.

Forward Looking Statements

This Report includes statements that are, or may be deemed to be, “forward-looking statements,” as defined in the Private Securities Reform Act of 1995. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms “believes,” “estimates,” “anticipates,” “projects,” “expects,” “intends,” “may,” “will,” “seeks” or “should” or, in each case, their negative or other variations or comparable terminology, or in relation to discussions of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements include matters that are not historical facts. They appear in a number of places throughout this Quarterly Report and include statements regarding Issuer’s current intentions, beliefs or expectations concerning, among other things, the Issuer’s future plans for the Project, results of operations, financial condition, prospects, growth, strategies and the markets in which the Issuer intends to operate.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not an assurance of future performance. The Issuer’s actual results of operations and financial condition may differ materially from those suggested by the forward-looking statements contained in this document. In addition, even if the Issuer’s future results of operations and financial condition are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods. The information in this Private Placement Memorandum, including, but not limited to, the information under “Risk Factors,” identifies important factors that could cause such differences (including, but not limited to, a change in overall economic conditions in the United States, a change in the Issuer’s financial condition, changes in tax law or the interpretation thereof, interest rate fluctuations and other market conditions, and the effect of new legislation or government directives).

Forward-looking statements include, but are not limited to, information concerning possible or assumed future results of the Issuer’s operations set forth under the section entitled “Business of the Issuer”. Such statements, estimates and projections reflect various assumptions by the Issuer concerning anticipated results and are subject to significant business, financing, economic and competitive uncertainties and contingencies, many of which are beyond the control of the Issuer and are based upon assumptions with respect to future business decisions that are subject to change. Accordingly, there can be no assurance that such statements, estimates and projections will be realized or that actual results will not vary considerably from those anticipated, expected or projected. The Issuer, its accountants, its legal advisers and its agents or affiliates do not make any representations as to the accuracy or completeness of such statements, estimates and projections, or that any forecasts will be achieved.

The Issuer is not obliged to, and does not intend to, update or revise any forward-looking statements made in this Quarterly Report whether as a result of new information, future events or otherwise. All subsequent written forward-looking statements attributable to the Issuer, or persons acting on behalf of the Issuer, are expressly qualified in their entirety by the cautionary statements contained throughout this Private Placement Memorandum. As a result of these risks, prospective investors of the Convertible Bonds should not place undue reliance on these forward-looking statements. Neither the forward-looking statements nor the underlying assumptions have been verified or audited by any third party.

GLOBAL DIGITAL SOLUTIONS, INC.
FORM 10-Q
FOR THE THREE MONTHS ENDED MARCH 31, 2020

TABLE OF CONTENTS

	Page
PART I. FINANCIAL INFORMATION	
<u>ITEM 1. Financial Statements</u>	<u>4</u>
<u>Condensed Consolidated Balance Sheets as of March 31, 2020 (unaudited) and December 31, 2019</u>	<u>4</u>
<u>Condensed Consolidated Statements of Operations for The Three and three months ended March 31, 2020 and 2019 (Unaudited)</u>	<u>5</u>
<u>Condensed Consolidated Statements of Changes in Stockholders' Deficit For the three months ended March 31, 2020, and 2019 (unaudited)</u>	<u>6</u>
<u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2020 and 2019 (unaudited)</u>	<u>7</u>
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	<u>8</u>
<u>ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>	<u>26</u>
<u>ITEM 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>37</u>
<u>ITEM 4. Controls and Procedures</u>	<u>37</u>
PART II. OTHER INFORMATION	
<u>ITEM 1. Legal Proceedings</u>	<u>39</u>
<u>ITEM 1A. Risk Factors</u>	<u>44</u>
<u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>45</u>
<u>ITEM 3. Defaults Upon Senior Securities</u>	<u>45</u>
<u>ITEM 4. Mine Safety Disclosures</u>	<u>45</u>
<u>ITEM 5. Other Information</u>	<u>45</u>
<u>ITEM 6. Exhibits</u>	<u>45</u>
<u>SIGNATURES</u>	<u>49</u>

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

GLOBAL DIGITAL SOLUTIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	<u>March 31,</u>	<u>December 31,</u>
Assets		
Current assets		
Cash	\$ 2,887	\$ 493,402
Prepaid expenses	6,000	6,000
Total current assets	8,887	499,402
Equipment, net of accumulated depreciation of \$0 at March 31, 2020 and \$0 at December 31, 2019.	26,282	26,282
Software Development Cost	42,108	-
	68,390	26,282
Total assets	\$ 77,277	\$ 525,684
Liabilities and Stockholders' Deficit		
Current liabilities		
Accounts payable	\$ 539,497	\$ 539,614
Accrued expenses	638,619	714,244
Financed insurance policy	11,187	11,187
Notes payable, net of discount of \$0 and \$0 respectively	3,632,000	3,683,000
Convertible notes payable, net of discount of \$213,418 and \$218,484, respectively	657,654	577,138
Derivative liability	2,952,011	1,158,008
Total current liabilities	8,430,968	6,683,191
Stockholders' deficit		
Preferred stock, \$0.001 par value, 35,000,000 shares authorized, 1,000,000 shares issued and outstanding at March 31, 2020 and December 31, 2019, respectively	1,000	1,000
Common stock, \$0.001 par value, 2,000,000,000 shares authorized 645,403,878 and 643,121,923 shares issued and outstanding at March 31, 2020 and December 31, 2019, respectively	645,404	643,122
Additional paid-in capital	32,251,008	32,152,715
Accumulated deficit	(41,251,103)	(38,954,344)
Total stockholders' deficit	(8,353,691)	(6,157,507)
Total liabilities and stockholders' deficit	\$ 77,277	\$ 525,684

The accompanying footnotes are in integral part of these unaudited condensed consolidated financial statements.

GLOBAL DIGITAL SOLUTIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	For the three months ended March 31,	
	2020	2019
Revenues	\$ -	\$ -
Cost of revenues	-	-
Gross profit	<u>-</u>	<u>-</u>
Operating expenses		
Selling, general and administrative expenses	247,208	156,847
Total operating expenses	<u>247,208</u>	<u>156,847</u>
Loss from operations	<u>(247,208)</u>	<u>(156,847)</u>
Other (income) expense		
Change in fair value of derivative liability	1,657,703	(225,051)
Interest expense	225,782	412,791
Amortization of Original issue discount	166,066	-
Total other (income) expense	<u>2,049,551</u>	<u>187,740</u>
Net loss	<u>\$ (2,296,759)</u>	<u>\$ (344,587)</u>
Net loss per common share, basic and diluted	\$ (0.00)	\$ (0.00)
Weighted average common shares outstanding, basic	<u>619,222,584</u>	<u>539,234,148</u>

The accompanying footnotes are in integral part of these unaudited condensed consolidated financial statements.

GLOBAL DIGITAL SOLUTIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS of Changes in STOCKHOLDERS' DEFICIT
(Unaudited)

For the three months ended March 31, 2020

	Common Stock		Preferred Stock		Paid-In Capital	Accumulated Deficit	Total
	Shares	Amount	Shares	Amount			
Balances at December 31, 2019	643,121,923	\$ 643,122	1,000,000	\$ 1,000	\$ 32,152,715	\$ (38,954,344)	\$ (6,157,507)
Shares Issued for conversion of debt	2,000,000	2,000	-	-	6,800	-	8,800
Shares issued for services	281,955	282	-	-	4,793	-	5,075
Reduction in derivative liability	-	-	-	-	86,700	-	86,700
Net loss	-	-	-	-	-	(2,296,759)	(2,296,759)
Balance March 31, 2020	<u>645,403,878</u>	<u>\$ 645,404</u>	<u>1,000,000</u>	<u>\$ 1,000</u>	<u>\$ 32,251,008</u>	<u>\$ (41,251,103)</u>	<u>\$ (8,353,691)</u>

For the three months ended March 31, 2019

Balance December 31, 2018	579,901,814	\$ 579,901	1,000,000	\$ 1,000	\$ 30,785,442	\$ (35,661,822)	\$ (4,295,479)
Shares sold	25,000,000	25,000	-	-	225,000	-	250,000
Reduction in derivative liability	-	-	-	-	53,992	-	53,992
Net loss	-	-	-	-	-	(344,587)	(344,587)
Balance, March 31, 2019	<u>604,901,814</u>	<u>\$ 604,901</u>	<u>1,000,000</u>	<u>\$ 1,000</u>	<u>\$ 31,064,434</u>	<u>\$ (36,006,409)</u>	<u>\$ (4,336,074)</u>

The accompanying footnotes are in integral part of these unaudited condensed consolidated financial statements.

GLOBAL DIGITAL SOLUTIONS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW
(unaudited)

	For the three months ending	
	March 31, 2020	March 31, 2019
Cash flows from operating activities:		
Net loss	(2,296,759)	\$ (344,587)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Amortization of debt discount	166,066	
Change in fair value of derivative liability	1,657,703	(225,001)
Shares issued for services	5,075	
Operating expenses settled through debt proceeds	3,000	
Shares issued for financing costs	-	63,516
Interest expense from derivative liability	62,000	309,653
Changes in operating assets and liabilities:		
Prepaid expenses	-	-
Accounts payable	(117)	(79,822)
Accrued expenses	(14,875)	23,319
Net cash used in operating activities	(417,907)	(252,922)
Cash flows from investing activities:		
Software Development Cost	(42,108)	
Purchase of Equipment	-	(3,382)
Net cash provided by (used in) investing activities	(42,108)	(3,382)
Cash flows from financing activities:		
Proceeds from notes payable		138,000
Repayments of notes payable	-	(13,000)
Proceeds from convertible notes payable	100,000	-
Repayments of convertible notes payable	(130,500)	-
Net cash provided by (used in) financing activities	(30,500)	125,000
Net decrease) in cash	(490,515)	(131,304)
Cash at beginning of year	493,402	8,100
Cash at end of year	\$ 2,887	\$ (123,204)
Supplementary disclosure of non-cash investing and financing activities		
Accrued expenses settled through convertible notes payable	\$ 60,000	
Discount from derivative on convertible notes payable	\$ 161,000	
Convertible debt settled through issuance of common shares	\$ 8,800	
Reduction in derivative liability from payents/conversions on convertible notes	\$ 86,700	

The accompanying footnotes are in integral part of these unaudited condensed consolidated financial statements.

GLOBAL DIGITAL SOLUTIONS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2020
(Unaudited)

GLOBAL DIGITAL SOLUTIONS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – DESCRIPTION OF BUSINESS

We were incorporated in New Jersey as Creative Beauty Supply, Inc. ("Creative") in August 1995. In March 2004, Creative acquired Global Digital Solutions, Inc., a Delaware corporation ("Global"). The merger was treated as a recapitalization of Global, and Creative changed its name to Global Digital Solutions, Inc. ("the Company", "we"), Global provided structured cabling design, installation and maintenance for leading information technology companies, federal, state and local government, major businesses, educational institutions, and telecommunication companies. On May 1, 2012, we made the decision to wind down our operations in the telecommunications area and to refocus our efforts in the area of cyber arms technology and complementary security and technology solutions. From August 2012 through November 2013 we were actively involved in managing Airtronic USA, Inc., and effective as of June 16, 2014 we acquired North American Custom Specialty Vehicles ("NACSV"). In July 2014, we announced the formation of GDSI International (f/k/a Global Digital Solutions, LLC) to spearhead our efforts overseas. The Company had limited operations from the NACSV subsidiary from December 31, 2015 until May 13, 2016. During the interim, the Company was pursuing acquisition opportunities and responding to the litigation with the Securities and Exchange Commission. Subsequent to May 13, 2016, the Company has been seeking acquisitions and additional financing.

In March of 2019, the Company acquired HarmAlarm ("HA"). HA was formed in 2002 as a private Texas company to pursue Infrared commercial applications in the aviation services area. HA is developing an updated version of the system known as Pilot Assisted Landing Systems (PALS). The precision and robustness of PALS has generated a host of new applications mainly through "landing trajectory" optimization which provides additional safety margin against weather related hazardous conditions, like wind shear, wake turbulence, icing, as well as low ceilings and fog.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Going Concern

The accompanying financial statements have been prepared assuming we will continue as a going concern, which contemplates the realization of assets and the liquidation of liabilities in the normal course of business. We have sustained losses and experienced negative cash flows from operations since inception, and for the Three (3) Months ended on March 31, 2020, incurred a net loss of \$2,296,759 and used net cash of \$417,907 to fund operating activities. At March 31, 2020, we had cash of \$2,887, an accumulated deficit of \$41,251,103 a working capital deficit of \$ 8,422,081 and stockholders' deficit of \$8,353,691. We have funded our activities to date almost exclusively from equity and debt financings.

Our cash position is critically deficient, and payments essential to our ability to operate are not being made in the ordinary course. Failure to raise capital in the coming days to fund our operations and failure to generate positive cash flow to fund such operations in the future will have a material adverse effect on our financial condition. These factors raise substantial doubt about our ability to continue as a going concern.

We need to raise additional funds immediately and continue to raise funds until we begin to generate sufficient cash from operations, and we may not be able to obtain the necessary financing on acceptable terms, or at all.

We will continue to require substantial funds to continue development of our core business. Management's plans in order to meet our operating cash flow requirements include financing activities such as private placements of common stock, and issuances of debt and convertible debt instruments, and the establishment of strategic relationships which we expect will lead to the generation of additional revenue or acquisition opportunities.

While we believe that we will be successful in obtaining the necessary financing to fund our operations, there are no assurances that such additional funding will be achieved or that we will succeed in our future operations.

Our ability to achieve and maintain profitability and positive cash flow is dependent upon our ability to successfully execute the plans to pursue acquisitions and raise the funds necessary to complete such acquisitions. The outcome of these matters cannot be predicted at this time. The 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 be necessary should we be unable to continue as a going concern.

Basis of Presentation

The accompanying unaudited financial information as of and for the three months ended March 31, 2020 and 2019 has been prepared in accordance with accounting principles generally accepted in the U.S. for interim financial information and with the instructions to Quarterly Report on Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, such financial information includes all adjustments (consisting only of normal recurring adjustments, unless otherwise indicated) considered necessary for a fair presentation of our financial position at such date and the operating results and cash flows for such periods. Operating results for the three months ended March 31, 2020 are not necessarily indicative of the results that may be expected for the entire year or for any other subsequent interim period.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to the rules of the U.S. Securities and Exchange Commission, or the SEC. These unaudited financial statements and related notes should be read in conjunction with our audited financial statements for the year ended December 31, 2019 included in our Annual Report on Form 10-K filed with the SEC on April 29, 2020.

The condensed consolidated balance sheet at December 31, 2019 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by generally accepted accounting principles in the U.S. for complete financial statements.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and our wholly owned subsidiaries, NACSV, GDSI Florida, LLC, Global Digital Solutions, LLC and HarmAlarm. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, equity-based transactions and disclosure of contingent liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of the financial statements. Significant estimates include the derivative liability valuation, deferred tax asset and valuation allowance, and assumptions used in Black-Scholes-Merton, or BSM, or other valuation methods, such as expected volatility, risk-free interest rate, and expected dividend rate.

Income Taxes

Income taxes are accounted for based upon an asset and liability approach. Accordingly, deferred tax assets and liabilities arise from the difference between the tax basis of an asset or liability and its reported amount in the financial statements. Deferred tax amounts are determined using the tax rates expected to be in effect when the taxes will be paid or refunds received, as provided under currently enacted tax law. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense or benefit is the tax payable or refundable, respectively, for the period plus or minus the change in deferred tax assets and liabilities during the period.

Accounting guidance requires the recognition of a financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement with the relevant tax authority. The Company believes its income tax filing positions and deductions will be sustained upon examination and accordingly, no reserves, or related accruals for interest and penalties have been recorded at March 31, 2020 and December 31, 2019. The Company recognizes interest and penalties on unrecognized tax benefits as well as interest received from favorable tax settlements within income tax expense.

Cash and Cash Equivalents

We consider all highly liquid investments with original maturities of three months or less to be cash equivalents. We maintain our cash in high-quality financial institutions. The balances, at times, may exceed federally insured limits.

Fair Value of Financial Instruments

The carrying value of cash, accounts payable and accrued expenses approximate their fair values based on the short-term maturity of these instruments. The carrying amounts of debt were also estimated to approximate fair value. The Company utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or generally unobservable. ASC 820 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement). This fair value measurement framework applies at both initial and subsequent measurement.

The three levels of the fair value hierarchy defined by ASC 820 are as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities
- Level 2 – Quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable, either directly or indirectly
- Level 3 – Significant unobservable inputs that cannot be corroborated by market data.

Derivative Financial Instruments

We account for conversion options embedded in convertible notes payable in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") 815, "*Derivatives and Hedging*". Subtopic ASC 815-15, *Embedded Derivatives* generally requires companies to bifurcate conversion options embedded in the convertible notes from their host instruments and to account for them as free standing derivative financial instruments. Derivative liabilities are recognized in the consolidated balance sheet at fair value as *Derivative Liabilities* and based on the criteria specified in FASB ASC 815-40, *Derivatives and Hedging – Contracts in Entity's own Equity*. The estimated fair value of the derivative liabilities is calculated using various assumptions and such estimates are revalued at each balance sheet date, with changes recorded to other income or expense as *Change in fair value of derivative liability* in the condensed consolidated statement of operations. The classification of derivative instruments, including whether such instruments should be recorded as liabilities or equity, is evaluated at the instrument origination date and reviewed at the end of each event date (i.e. conversions, payments, etc.) and the measurement period end date for financial reporting, as applicable.

Earnings (Loss) Per Share ("EPS")

Basic EPS is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding. Diluted EPS includes the effect from potential issuance of common stock, such as stock issuable pursuant to the exercise of stock options and warrants and the assumed conversion of convertible notes.

The following table summarizes the securities that were excluded from the diluted per share calculation because the effect of including these potential shares was antidilutive:

	Three Months Ended	
	March 31, 2020	March 31, 2019
Convertible notes and accrued interest	195,832,289	163,700,000
Preferred Stock	238,799,435	214,560,000
Stock options	13,650,002	13,650,002
Warrants	5,000,000	10,500,000
Potentially dilutive securities	<u>453,281,726</u>	<u>402,410,002</u>

Stock Based Compensation

In accordance with ASC 718, "Compensation – Stock Compensation" the Company measures the cost of employee services received in exchange for share-based compensation measured at the grant date fair value of the award.

The Company's accounting policy for equity instruments issued to advisors, consultants and vendors in exchange for goods and services follows the provisions of FASB ASC 505-50. The measurement date for the fair value of the equity instruments issued is determined at the earlier of (i) the date at which a commitment for performance by the advisor, consultant or vendor is reached or (ii) the date at which the advisor, consultant or vendor's performance is complete. In the case of equity instruments issued to advisors and consultants, the fair value of the equity instrument is recognized over the term of the advisor or consulting agreement. Stock-based compensation related to non-employees is accounted for based on the fair value of the related stock or options or the fair value of the services, whichever is more readily determinable.

Convertible Instruments

The Company evaluates and accounts for conversion options embedded in its convertible instruments in accordance with accounting standards for "Accounting for Derivative Instruments and Hedging Activities."

Accounting standards generally provides three criteria that, if met, require companies to bifurcate conversion options from their host instruments and account for them as free standing derivative financial instruments. These three criteria include circumstances in which (a) the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract, (b) the hybrid instrument that embodies both the embedded derivative instrument and the host contract is not re-measured at fair value under otherwise applicable generally accepted accounting principles with changes in fair value reported in earnings as they occur, and (c) a separate instrument with the same terms as the embedded derivative instrument would be considered a derivative instrument. accounting standards also provide an exception to this rule when the host instrument is deemed to be conventional as defined under professional standards as "The Meaning of Conventional Convertible Debt Instrument."

The Company accounts for convertible instruments (when it has determined that the embedded conversion options should not be bifurcated from their host instruments) in accordance with professional standards when "Accounting for Convertible Securities with Beneficial Conversion Features," as those professional standards pertain to "Certain Convertible Instruments." Accordingly, the Company records, when necessary, discounts to convertible notes for the intrinsic value of conversion options embedded in debt instruments based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note. Original issue discounts ("OID") under these arrangements are amortized over the term of the related debt to their earliest date of redemption. The Company also records when necessary deemed dividends for the intrinsic value of conversion options embedded in preferred shares based upon the differences between the fair value of the underlying common stock at the commitment date of the note transaction and the effective conversion price embedded in the note.

ASC 815-40 provides that, among other things, generally, if an event is not within the entity's control could or require net cash settlement, then the contract shall be classified as an asset or a liability.

Convertible Securities

Based upon ASC 815-15, we have adopted a sequencing approach regarding the application of ASC 815-40 to convertible securities. We will evaluate our contracts based upon the earliest issuance date. In the event partial reclassification of contracts subject to ASC 815-40-25 is necessary, due to our inability to demonstrate we have sufficient shares authorized and unissued, shares will be allocated on the basis of issuance date, with the earliest issuance date receiving first allocation of shares. If a reclassification of an instrument were required, it would result in the instrument issued latest being reclassified first.

Recent Accounting Pronouncements

Management is evaluating the new accounting pronouncements but doesn't expect them to have material impact on our financial position or results of operations.

NOTE 3 – ACCRUED EXPENSES

As of March 31, 2020 and December 31, 2019 accrued expenses consist of the following amounts:

	March 31, 2020	December 31, 2019
Accrued compensation to executive officers and employee	\$ 91,207	\$ 262,984
Accrued professional fees and settlements	196,664	196,665
Accrued interest	350,748	254,595
	<u>\$ 638,619</u>	<u>\$ 714,244</u>

NOTE 4 – FAIR VALUE MEASUREMENTS

We had no Level 1 or Level 2 assets and liabilities at March 31, 2020 and December 31, 2019. The Derivative liabilities are Level 3 fair value measurements.

Embedded Derivative Liabilities of Convertible Notes

At March 31, 2020, the fair value of the bifurcated embedded derivative liabilities of convertible notes was estimated using the following weighted-average inputs: risk free interest rate 0.15%; term - 6 months; volatility –190%; dividend rate – 0%. At March 31, 2019, the fair value of the bifurcated embedded derivative liabilities of convertible notes was estimated using the following weighted-average inputs: risk free interest rate- 2.4%; term - 6 months volatility – 172.2%; dividend rate – 0%.

NOTE 5 – NOTE PAYABLE

On December 22, 2017, the Company entered into a financing agreement with Parabellum, an accredited investor, for \$1.2 million, amended in 2019 and increased to \$1,850,000. Under the terms of the agreement, the Company is to receive milestone payments based on the progress of the Company's lawsuit (Note 6) for damages against Grupo Rontan Metalurgica, S.A (the "Lawsuit"). Such milestone payments consist of (i) an initial purchase price payment of \$300,000, which the Company received on December 22, 2017, (ii) \$150,000 within 30 days of the Lawsuit surviving a motion to dismiss on the primary claims, (iii) \$100,000 within 30 days of the close of all discovery in the Lawsuit and (iv) \$650,000 within 30 days of the Lawsuit surviving a motion for summary judgment and challenges on the primary claims. As part of the agreement, the Company shall pay the investor an investment return of 100% of the litigation proceeds to recoup all money invested, plus 27.5% of the total litigation proceeds received by the Company. \$300,000 was received by the Company in December 2017. As of December 31, 2019, and March 31, 2020 and through the date of this report, the \$1,850,000 note remains outstanding.

During August 2017, Dragon Acquisitions, a related entity owned by William Delgado, and an individual lender entered into a Promissory Note agreement for \$20,000 as well as \$2,000 in interest to accrue through maturity on August 31, 2018 for a total of \$22,000 due on August 31, 2018. Dragon Acquisition assumed payment of a payable of the Company and the Company took on the note. The Company defaulted on the note at maturity in August 2018. The \$20,000 note remained outstanding at March 31, 2020 and through the date of this report.

On December 23, 2017 (the "effective date"), the Company entered into a \$485,000, 7% interest rate, demand promissory note with Vox Business Trust, LLC (Vox). The note was in settlement of the amounts accrued under a consulting agreement (Note 6), consisting of \$200,000 owed for retainer payments through December 2017, as well as \$285,000 owed to Vox when the Resolution Progress Funding was met on December 22, 2017. As part of the agreement, Vox may not demand payment prior to the date of the Resolution Funding Date.

The Company shall make mandatory prepayment in the following amounts and at the following times –

- \$1,000 on the effective date.
- \$50,000 on the date on which the judge presiding over the lawsuit issues a ruling or decision in which the lawsuit survives a motion to dismiss.
- \$50,000 on the date on which discovery closes with respect to the lawsuit.
- \$100,000 on the date on which the judge presiding over the lawsuit issues a ruling or decision in which the lawsuit survives a motion for summary judgement on the claims.

Under the terms of the Vox note consulting agreement (Note 6), any unpaid consulting fees subsequent to December 2017 causes a default on the note with unpaid consulting fees to be added to the principal of the note. During the three -month period ended March 31, 2020, consulting fees totaling \$30,000 were added to the note principal and are included in the note balance of \$716,500 as of March 31, 2020 and \$686,500 as of December 31, 2019. Through the date of this report, monthly consulting fees have not been repaid and continue to be added to the principal balance of the note. The note remains in default however Vox has voluntarily refrained from making demand prior to the Resolution Funding Date.

On December 26, 2017 (the "effective date"), the Company entered into a \$485,000, 7% interest rate, demand promissory note with RLT Consulting, Inc. (RLT), a related party. The note was in settlement of the amounts accrued under a consulting agreement (Note 6), consisting of \$200,000 owed for retainer payments through December 2017, as well as \$285,000 owed to RLT when the Resolution Progress Funding was met on December 22, 2017. As part of the agreement, RLT may not demand payment prior to the date of the Resolution Funding Date. The Company also agreed to grant 5,000,000 shares within 90 days of the Resolution Progress Funding Date and 10,000,000 shares within 90 days of the Resolution Funding Date. The 5,000,000 shares were issued on March 13, 2018. The Company shall make mandatory prepayment in the following amounts and at the following times –

- \$1,000 on the effective date.
- \$50,000 on the date on which the judge presiding over the lawsuit issues a ruling or decision in which the lawsuit survives a motion to dismiss.
- \$50,000 on the date on which discovery closes with respect to the lawsuit.
- \$100,000 on the date on which the judge presiding over the lawsuit issues a ruling or decision in which the lawsuit survives a motion for summary judgement on the claims.

Under the terms of the RLT note consulting agreement (Note 6), any unpaid consulting fees subsequent to December 2017, causes a default on the note with unpaid consulting fees to be added to the principal of the note. During the quarter ended March 31, 2020, consulting fees totaling \$30,000 were added to the note principal and are included in the note balance of \$709,500 as of March 31, 2020 and \$679,500 as of December 31, 2019.

Through the date of this report, monthly consulting fees have not been repaid and continue to be added to the principal balance of the note. The note remains in default however RLT has voluntarily refrained from making demand prior to the Resolution Funding Date. RLT was granted a first priority security interest in the Litigation Proceeds and is *pari passu* to Parabellum and Vox. To that end, they share in the litigation in a priority position to proceed to repay the note.

During April 2018, the Company entered into a two-month \$36,000 note payable with \$31,000 in proceeds paid directly to a third-party vendor for expenses. The note did not bear interest and included a \$5,000 original issue discount. During June 2018, the Company defaulted on the note. As of December 31, 2019, and March 31, 2020 and through the date of this report, the \$36,000 note remained outstanding.

During May 2018, the Company entered into an Investment Return Purchase Agreement with an accredited investor (the "Purchaser") for proceeds of \$200,000 (the "Investment Agreement"). Under the terms of the Investment Agreement, the Company agreed to pay the Purchaser the \$200,000 proceeds plus a 10% return, or \$20,000 (the "Investment Return") within three (3) months from the date of the Investment Agreement. Such Investment Return shall be paid earlier if the Company secures funding totaling \$500,000 within 90 days from the date of the Investment Agreement. In addition, the Company agreed to issue to the Purchaser 2,000,000 warrants to purchase common stock of the Company at an exercise price of \$0.01 per share, exercisable for a period of three (3) years. As of December 31, 2019, and March 31, 2020 and through the date of this report, the \$200,000 principal and \$20,000 Investment Return remained outstanding.

During June 2018, the Company entered in to a one-year \$300,000 non-convertible note with an accredited investor with \$150,000 original issue discount ("OID") for net proceeds of \$150,000. As part of the note agreement, the Company also agreed to issue the investor 5,000,000 warrants at an exercise price of \$0.01, exercisable for a period of three (3) years. The Company defaulted on the note at maturity in June 2019 and the note remained outstanding through the date of this report. The note contains a default interest rate of 10% plus a 5% penalty of the outstanding balance of the note. The note holder has voluntarily refrained from making demand for repayment under the default provisions of the note, which would require the Company to pay the holder 130% of the outstanding principal and interest accrued at the default rate. As of December 31, 2019, and March 31, 2020, and through the date of this report, \$100,000 principal remained outstanding.

The June 2018 note bears a personal guarantee by William Delgado, the Chief Executive Officer of the Company. As further security for the note, Mr. Delgado has also pledged the 1,000,000 Convertible Preferred Shares of the Company that he owns, as well as 5,000,000 common shares of SHMP, another public company in which Mr. Delgado is a director and Chief Financial Officer.

For other obligations, please see the Form 10K for the year ending December 31, 2019 filed with the Securities and Exchange Commission on April 29, 2020.

Convertible Note Payable

During January 2015, the Company entered into a one-year \$78,750 convertible note payable with LG Capital Funding (LG). The note bears interest at 8% per annum and is convertible at any time at the option of LG into shares of our common stock at a conversion price equal to a 40% discount of the lowest closing bid price for 20 prior trading days including the notice of conversion date. The embedded derivative liability associated with the conversion option of the note was bifurcated from the note and recorded at its fair value on the date of issuance and at each reporting date. The note requires the Company to reserve four times the potential number of shares of common stock issuable upon conversion, or 54,926,552 shares and 157,874,360 shares at March 31, 2020, and December 31, 2019, respectively. The Company defaulted on the note in January 2016. Additionally, as a result of declines in the fair value of the Company's common stock, from time to time the Company did not have sufficient authorized shares to maintain this required four times share reserve. Accordingly, the note holder had the right to accelerate the repayment of the note and unpaid interest. In addition, LG has the right to require that additional shares and/or monies be paid in connection with the defaults. During December 2017, in settlement of default, the Company and LG entered into a Convertible Note Redemption Agreement under which the Company was to repay \$68,110, \$39,921 in unpaid principal outstanding at December 31, 2017 and \$28,189 in accrued interest, in five payments through April 2018. Through April 2018, the Company repaid \$6,500 of principal under the Convertible Note Redemption Agreement. The Company defaulted on the Convertible Note Redemption Agreement in April 2018 and the \$28,189 in accrued interest was converted to principal. As of March 31, 2020, and December 31, 2019, and through the date of this report, the principal balance totaling \$48,610 is outstanding and remains in default.

During January 2015, the Company entered into a two-year convertible note payable for up to \$250,000 with JMJ Financial (JMJ), of which \$110,000 was funded between January and April 2015. The note was issued with an original issue discount of 10% of amounts funded, had a one-time 12% interest charge as it was not repaid within 90 days of the funding date, and is convertible at any time at the option of JMJ into shares of our common stock at the lesser of \$0.075 per share or 60% of the average of the trading price in the 25 trading days prior to conversion. The embedded derivative liability associated with the conversion option of the note was bifurcated from the note and recorded at its fair value on the date of issuance and at each reporting date. The note requires the Company to reserve 26,650,000 shares of common stock. JMJ had the option to finance additional amounts up to the balance of the \$250,000 during the term of the note. The Company defaulted on the note during January 2017. During December 2017, in settlement of default, the Company and JMJ entered into a Repayment Agreement under which the Company was to repay \$84,514, \$69,070 in unpaid principal outstanding at December 31, 2017 and \$15,444 in accrued interest, in four payments through May 2018. Through May 2018, the Company repaid \$25,000 of principal under the Repayment Agreement. The Company defaulted on the Repayment Agreement in May 2018 and the \$15,444 in accrued interest was converted to principal. As of March 31, 2020, and December 31, 2019, and through the date of this report, the principal balance totaling \$59,514 is outstanding and remains in default.

On August 19, 2019, the Company entered into a convertible promissory note arrangement with Actus Fund, LLC in the principal amount of \$142,750. The principal amount of the note with interest at 12% is due on May 19, 2020. The note is convertible into shares of The Company's common stock. The conversion price shall equal the lesser of (i) Current Market price or (ii) Variable Market price as defined as Market Price less a 50% discount price. As of March 31, 2020, and December 31, 2019, and through the date of this report, the principal balance totaling \$142,750 is outstanding and in default.

On January 21, 2019, the Company entered into a Convertible Promissory Note with Crown Bridge Partners, LLC., in the principal amount of \$75,000. The note carries original issue discount of \$7,500. The Principal amount with interest at 12% will be due in twelve months from the advance. The Principal amount will be advanced in Tranches of \$25,000 each. The note is convertible into shares of The Company's common stock. The conversion price shall equal the lesser of (i) Current Market price or (ii) Variable Market price as defined as Market Price less a 45% discount price. In addition, the Company agreed to issue to Crown Bridge Partners 3,750,000 warrants to purchase common stock of the Company at an exercise price of \$0.01 per share, exercisable for a period of five (5) years. As of March 31, 2020, and the issuance date of these financial statements, \$16,950 has been received and remains outstanding and is in default.

On October 16, 2019, the Company entered into a 10% Convertible Promissory Note with Tangiers Global LLC. in the principal amount of \$137,500 due on October 16, 2020. The note is convertible into shares of the Company's common stock. The conversion price shall equal 60% of the lowest trading price of the Company's common stock during the 20 consecutive trading days prior to the date on which the holder elects to convert part all or part of the note.

On February 7, 2020, the Company and Power Up Lending Group entered into a security purchase agreement for a 10% Convertible Note in the aggregate principal of \$103,000 due on February 7, 2021. The note is convertible into shares of common stock of the Company. The conversion price is equal to the Variable Conversion price which is defined as 61% of the Market Price for the lowest two trading dates during a fifteen-day trading period ending on the latest complete trading date prior to the Conversion date. As of March 31, 2020, the issuance date of these financial statements, the note remains outstanding.

On September 24, 2019, the Company and Power Up Lending Group entered into a security purchase agreement for a 10% Convertible Note in the aggregate principal of \$58,000 due on September 24, 2020. The note is convertible into shares of common stock of the Company. The conversion price is equal to the Variable Conversion price which is defined as 61% of the Market Price for the lowest two trading dates during a fifteen-day trading period ending on the latest complete trading date prior to the Conversion date. As of March 31, 2020, and December 31, 2019, and through the date of this report, the principal balance totaling \$58,000 is outstanding.

On May 10, 2019, the Company and GHS Investments LLC entered into a security agreement for a 10% Convertible Note in the aggregate principal of \$335,000 due on February 10, 2020. The note carries original issue discount of \$35,000. The note is convertible into shares of common stock of the Company. The "Conversion Price" shall mean 60% multiplied by the Market Price (as defined herein), representing a discount rate of 40%. "Market Price" means the lowest Traded Price for the Common Stock during the twenty (20) Trading Day period ending on the latest complete Trading Day prior to the Conversion Date. The Company is required to maintain a common share reserve of not less than three times the number of shares that is actually issuable upon full conversion of the note. The purchaser will also receive warrants to purchase 5,000,000 shares of GDSI common stock at \$.01/share. Warrants will have a three-year term to exercise. The Convertible Note is personally guaranteed by William Delgado, CEO. As of March 31, 2020, and December 31, 2019, and through the date of this report, the principal balance totaling \$304,478 is outstanding.

NOTE 6 – COMMITMENTS AND CONTINGENCIES

Legal Proceedings

We may be involved in legal proceedings in the ordinary course of our business, and our management cannot predict the ultimate outcome of these legal proceedings with certainty. The Company is plaintiff or defendant in the following actions:

John Ramsey and Carl D. Dekle, as Personal Representative of the Estate of Brian Dekle, Deceased v. Global Digital Solutions, Inc.; North American Custom Specialty Vehicles, Inc.; and Richard J. Sullivan, United States District Court, Middle District of Florida, Case No.: 6:15-cv-01633-ACC-GJK

On January 14, 2015, Brian A. Dekle and John Ramsay filed suit against the Company and its wholly owned subsidiary, North American Custom Specialty Vehicles, Inc. ("NACSV"), in the Circuit Court of Baldwin Alabama, case no. 05-CV-2015-9000050.00, relating to our acquisition of NACSV (the "Dekle Action"). Prior to instituting the Dekle Action in June 2014, the Company had entered into an equity purchase agreement with Dekle and Ramsay to purchase their membership interest in North American Custom Specialty Vehicles, LLC. The Dekle Action originally sought payment for \$300,000 in post-closing consideration Dekle and Ramsay allege they are owed pursuant to the equity purchase agreement.

On February 9, 2015, the Company and NACSV removed the Dekle Action to federal court in the United States District Court in and for the Southern District of Alabama, case no. 1:15-CV-00069. The Company and NACSV subsequently moved to dismiss the complaint for (1) failing to state a cause of action, and (2) lack of personal jurisdiction. Alternatively, the Company and NACSV sought a transfer of the case to the United States District Court in and for Middle District of Florida.

In response to the Company's and NACSV's motion to dismiss, Dekle and Ramsay filed an amended complaint on March 2, 2015 seeking specific performance and alleging breach of contract, violations of Security and Exchange Commission ("SEC") Rule 10b-5, and violations of the Alabama Securities Act. The amended complaint also names the Company's Chairman, President, and CEO, Richard J. Sullivan ("Sullivan"), as a defendant. On March 17, 2015, the Company, NACSV and Sullivan filed a motion to dismiss the amended complaint seeking dismissal for failure to state valid causes of action, for lack of personal jurisdiction, or alternatively to transfer the case to the United States District Court in and for the Middle District of Florida. Dekle and Ramsay responded on March 31, 2015, and the Company filed its response thereto on April 7, 2015.

On June 2, 2015, Dekle passed away. On June 5, 2015, the Court denied the Company's motion to transfer the case to Florida. On June 10, 2015, the Company filed a motion to reconsider the Court's denial of its motion to transfer the case to Florida.

On June 15, 2015, Ramsay filed a second amended complaint. On June 25, 2015, the Company filed a motion to dismiss the second amended complaint. The Company's Motion to Dismiss was denied.

On September 30, 2015, the Court granted the Company's Renewed Motion to Transfer Venue. The case was transferred to the Middle District of Florida.

On September 2, 2016, a Notice of Settlement was filed by Global Digital Solutions, Inc., North American Custom Specialty Vehicles, Inc., and Richard J. Sullivan.

On September 8, 2016, an Order was entered dismissing the case without prejudice and subject to the right of the parties to submit a stipulated form of final order or judgment or to move to reopen the action, upon good cause shown,

On July 27, 2017, the Company and Dekle and Ramsay entered into a Settlement Agreement. The Company and the plaintiff came to the following agreements:

- i. Judgment is due to be entered against the Company in the amount of \$300,000 if the sum of \$20,000 as noted in iv is not paid.
- ii. The Company grants the plaintiffs vehicles and trailers in connection to this proceeding.
- iii. The Company will assist the plaintiffs in obtaining possession of the said vehicles.
- iv. The Company will pay the plaintiffs the sum of \$20,000. The \$20,000 settlement was paid in August 2017.

PowerUp Lending Group, LTD., v. North American Custom Specialty Vehicles, Inc. a Delaware Corporation d/b/a NACS Vehicles, Inc. a Subsidiary of Global Digital and Global Digital Solutions, Inc. and Jerome J. Gomolski, United States District Court for the Eastern District of New York, Case No.: 2:16-cv-01025-ADS-AYS

On September 13, 2017, Power Up received a default judgment against the Company in the amount of \$109,302.00. The Company negotiated a settlement agreement on December 21, 2017 with Power Up to pay \$90,000 in three installments of \$30,000. As of May 15, 2018, the company has paid the entire amount (Note 5).

On June 14, 2018, a Satisfaction of Judgment regarding the Default Judgment was entered in favor of Power Up Lending Group, Ltd. against Global Digital Solutions, Inc., Jerome J. Gomolski, and North American Custom Specialty Vehicles, Inc.

Global Digital Solutions, Inc. et. al. v. Communications Laboratories, Inc., et. al., Eighteenth Judicial Circuit in and for Brevard County, Case No.: 05-2015-CA-012250

On January 19, 2015, the Company and NACSV filed suit against Communications Laboratories, Inc., ComLabs Global, LLC, Roland Lussier, Brian Dekle, John Ramsay and Wallace Bailey for conversion and breach of contract in a dispute over the payment of a \$300,000 account receivable that ComLabs owed to NACSV but sent payment directly to Brian Dekle. The case was filed in the Eighteenth Judicial Circuit in and for Brevard County Florida, case no. 05-2015-CA-012250. On February 18, 2015 (i) defendants Communications Laboratories, Inc., ComLabs Global, LLC and Roland Lussier and (ii) defendant Wallace Bailey filed their respective motions to dismiss seeking, among other things, dismissal for failure to state valid causes of action, lumping and failure to post a non-resident bond. On February 26, 2015, defendants Dekle and Ramsay filed their motion to dismiss, or stay action, based on already existing litigation between the parties. NACSV filed its required bond on March 2, 2015.

On August 24, 2016, Jeff Hull, Individually and on Behalf of All Others Similarly Situated ("Hull") filed suit in the *United States District Court for the District of New Jersey* against Global Digital Solutions, Inc. ("GDSI"), Richard J. Sullivan ("Sullivan"), David A. Loppert ("Loppert"), William J. Delgado ("Delgado"), Arthur F. Noterman ("Noterman") and Stephanie C. Sullivan ("Stephanie Sullivan") seeking to recover compensable damages caused by Defendants' alleged violations of federal securities laws and to pursue remedies under the Securities Exchange Act of 1934. On January 18, 2018, pursuant to the Court's December 19, 2017 Order granting Plaintiff Hull leave to file an amended Complaint, Plaintiff Hull filed a Second Amended Complaint against Defendants. On February 8, 2018, Defendants GDSI and Delgado filed a Second Motion to Dismiss the Complaint. On February 8, 2018, Defendant Loppert filed a Motion for Extension of Time to File an Answer. On February 13, 2018, Defendant Loppert filed a Motion to Dismiss the Second Amended Complaint for Lack of (personal) Jurisdiction and for Failure to State a Claim. On February 20, 2018, Plaintiff Michael Perry ("Perry") filed a Brief in Opposition to Defendants GDSI and Delgado's Second Motion to Dismiss the Complaint and to Defendant Loppert's Motion to Dismiss the Second Amended Complaint for Lack of (personal) Jurisdiction and for Failure to State a Claim. On February 26, 2018, Defendants GDSI and Delgado filed a Reply Brief to Plaintiff Michael Perry's Brief in Opposition to their Motion to Dismiss the Second Amended Complaint. On February 26, 2018, Defendant Loppert filed a Response in Support of Defendants GDSI and Delgado's Second Motion to Dismiss the Complaint. On March 12, 2018, Defendant Loppert filed a Reply Brief to Plaintiff Perry's Brief in Opposition to Defendant Loppert's Motion to Dismiss the Second Amended Complaint for Lack of (personal) Jurisdiction and for Failure to State a Claim. On September 14, 2018, an Order was entered denying the Defendants GDSI and Loppert's Motions to Dismiss. On September 28, 2018, both Defendants filed Answers to the Amended Complaint. On February 13, 2019, an Order was entered referring the case to mediation. The parties were to submit a status report by April 15, 2019. On June 12, 2019, Plaintiff Perry filed a Motion for Entry of an Order Preliminarily Approving Class Action Settlement and Establishing Notice Procedures. On July 15, 2019, an Order was entered granting Plaintiff Perry's Motion for Entry of Preliminary Approval of a Class Action Settlement. On October 9, 2019, Plaintiff Perry filed a Motion for Entry of an Order Granting Final Approval of a Class Action Settlement and a Motion for Attorney Fees, Reimbursement of Expenses, and Awards to Lead Plaintiff and Lopez. On November 6, 2019, an Order was entered granting Plaintiff Perry's Motion for Attorney Fees. On November 6, 2019, an Order and Final Judgment was entered granting Plaintiff Perry's Motion for Settlement. This settlement amount was paid for by the Director's and Officer's insurance. Attorney's fees were included in the settlement amount. No amount is accrued or paid from the Company.

Securities and Exchange Commission v. Global Digital Solutions, Inc., Richard J. Sullivan and David A. Loppert, United States District Court for the Southern District of Florida, Case No. 9:16-cv-81413-RLR

On August 11, 2016, the Securities and Exchange Commission ("SEC") filed suit in the *United States District Court for the Southern District of Florida* against Global Digital Solutions, Inc. ("GDSI"), Richard J. Sullivan ("Sullivan") and David A. Loppert ("Loppert") to enjoin GDSI; Sullivan, GDSI's former Chairman and CEO; and Loppert, GDSI's former CFO for alleged further violations of the anti-fraud and reporting provisions of the federal securities laws, and against Sullivan and Loppert for alleged further violations of the certification provisions of the federal securities laws.

On October 12, 2016, Defendant GDSI filed its First Answer to the Complaint. On November 9, 2016, Defendant Sullivan filed a Letter with the Court denying all allegations regarding the case. On December 15, 2016, the SEC filed a Motion for Judgment and Notice of Filing of Consent of Defendant Loppert to entry of Final Judgment by the SEC. On December 19, 2016, the Court entered an order granting the SEC's Motion for Judgment as to Defendant Loppert. On December 21, 2016, the SEC filed a Notice of Settlement as entered into by it and Defendants GDSI and Sullivan. On December 23, 2016, the Court entered an Order staying the case and directing the Clerk of the Court to close the case for statistical purposes per the December 21, 2016 Notice of Settlement. On March 7, 2017, the SEC moved for a Judgment of Permanent Injunction and Other Relief and Notice of Filing Consent of Defendant GDSI to Entry of Judgment by the SEC. On March 13, 2017, the Judge signed the Judgment as to Defendant GDSI and it was entered on the Court's docket. On April 6, 2017, the SEC moved for a final Judgment of Permanent Injunction and Other Relief and Notice of Filing Consent of Defendant Sullivan. On April 10, 2017, the Judge signed the final Judgment as to Defendant Sullivan and it was entered on the Court's docket. On December 21, 2017, the SEC moved for a final Judgment and Notice of Filing Consent of Defendant GDSI to Entry of Final Judgment. On January 2, 2018, the Judge signed the Final Judgment as to Defendant GDSI and it was entered on the Court's docket. The amount of the judgement is One Hundred Thousand Dollars (\$100,000.00) plus interest, which is included in accrued expenses in the accompanying consolidated balance sheet.

On September 19, 2016, Adrian Lopez, derivatively, and on behalf of Global Digital Solutions, Inc., filed an action in New Jersey Superior Court sitting in Mercer County, General Equity Division. That action was administratively dismissed for failure to prosecute. Plaintiff Lopez, through his counsel, filed a motion to reinstate the matter on the general equity calendar on or about February 10, 2017. The Court granted the motion unopposed on or about April 16, 2017. On May 15, 2017, Defendant William Delgado ("Delgado") filed a Notice of Removal of Case No. C-70-16 from the *Mercer County Superior Court of New Jersey* to the *United States District Court for the District of New Jersey*. On May 19, 2017, Defendant Delgado filed a First Motion to Dismiss for Lack of Jurisdiction. On May 20, 2017, Defendant David A. Loppert ("Loppert") filed a Motion to Dismiss for Lack of (Personal) Jurisdiction. On June 14, 2017, Plaintiff Adrian Lopez ("Lopez") filed a First Motion to Remand the Action back to State Court. On June 29, 2017, Defendant Delgado filed a Memorandum of Law in Response and Reply to the Memorandum of Law in Support of Plaintiff's Motion to Remand and in Response to Defendants Delgado's and Loppert's Motions to Dismiss. On January 16, 2018, a Memorandum and Order granting Plaintiff's Motion to Remand the case back to the *Mercer County Superior Court of New Jersey* was signed by the Judge and entered on the Docket. Defendants Delgado and Loppert's Motions to Dismiss were denied as moot. On February 2, 2018, Defendants filed a Motion to Dismiss the Complaint. On February 20, 2018, Plaintiff filed a Motion to Consolidate Cases. On March 21, 2018, Plaintiff filed an Opposition to Defendants' Motion to Dismiss the Complaint. On March 23, 2018, Defendants filed a Brief in Reply to Plaintiff's Opposition to Defendants' Motion to Dismiss the Complaint. The Court held a hearing on the motions to dismiss and consolidate. Jurisdictional discovery was ordered. On October 12, 2018, the Court granted Defendants' Motion to Dismiss for Lack of Personal Jurisdiction. On October 15, 2018, an Order was entered denying without prejudice Plaintiff's Motion to Consolidate.

Adrian Lopez v. Global Digital Solutions, Inc. and William J. Delgado, Superior Court of New Jersey, Chancery Division, Mercer County, Equity Part, Docket No. MER-L-002126-17

On September 28, 2017, Plaintiff Adrian Lopez ("Lopez") brought an action against Global Digital Solutions, Inc. ("GDSI") and William J. Delgado ("Delgado") to compel a meeting of the stockholders of Global Digital Solutions, Inc. pursuant to Section 2.02 of GDSI's Bylaws and New Jersey Revised Statute § 14A:5-2. On October 27, 2017, Defendants GDSI and Delgado filed a Motion to Stay the Proceeding. On November 24, 2017, Plaintiff filed an Objection to Defendants' Motion to Stay the Proceeding. On January 19, 2018, Defendants' Motion to Stay the Proceeding was denied. On February 2, 2018, Defendants filed a Motion to Dismiss the Complaint. On February 20, 2018, Plaintiff filed a Motion to Consolidate Cases. On March 21, 2018, Plaintiff filed an Opposition to Defendants' Motion to Dismiss the Complaint. On March 23, 2018, Defendants filed a Brief in Reply to Plaintiff's Opposition to Defendants' Motion to Dismiss the Complaint. As of this date, the Court has not issued a decision and Order regarding Defendants' Motion to Dismiss the Complaint. The Company believes the likelihood of an unfavorable outcome of the dispute is remote.

PMB Helin Donovan, LLP vs. Global Digital Solutions, Inc. in the Circuit Court for the 15TH Judicial Circuit in and for Palm Beach County, Florida, Docket No.: 50-2017-CA-011937-XXXX-MB

On October 31, 2017, PMB Helin Donovan, LLP filed an action for account stated in Palm Beach County. Global Digital Solutions, Inc. ("GDSI") settled the matter for Forty Thousand Dollars (\$40,000.00), of which the first payment of Ten Thousand Dollars (\$10,000.00) was paid on May 16, 2018. The \$40,000 is included in accounts payable as of December 31, 2019.

Jennifer Carroll, vs. Global Digital Solutions, Inc., North American Custom Specialty Vehicles, Inc. in the Circuit Court for the 15th Judicial Circuit in and for Palm Beach County, Florida, Case NO.: 50-2015-CC-012942-XXXX-MB

On October 27, 2017, Plaintiff Jennifer Carroll moved the court for a default judgment against Defendant Global Digital Solutions, Inc. ("GDSI") and its subsidiary North American Custom Specialty Vehicles Inc. The amount of the judgement is Fifteen Thousand Dollars (\$15,000.00) plus fees of Thirteen Thousand Three Hundred Fifty-Three Dollars Forty-Four Cents (\$13,353.44) and costs of Six Hundred Twenty-Four Dollars Thirty Cents (\$624.30).

Consulting agreements

The Company entered into two consulting agreements (See Note 5) in May 2016, for services to be provided in connection towards the resolution of the Rontan lawsuit (below). The consulting agreements includes a monthly retainer payment of \$10,000 to each consultant. The agreement also includes consideration of 5,000,000 shares of restricted common stock of the Company, plus a 5% cash consideration of the Resolution Progress Funding, (defined as upon the retention of legal counsel and receipt of funding for the litigation), as of the Resolution Progress Funding date and 10,000,000 shares of restricted common stock of the Company and a 5% cash consideration of the Resolution Funding amount (defined as a settlement or judgement in favor of the Company by Rotan), at the Resolution Funding date. The Resolution Progress funding was met on December 22, 2017.

Effective October 13, 2015, the Company (as "Purchaser") entered into the SPSA dated October 8, 2015 with Joao Alberto Bolzan and Jose Carlos Bolzan, both Brazilian residents (collectively, the "Sellers") and Grupo Rontan Electro Metalurgica, S.A., a limited liability company duly organized and existing under the laws of Federative Republic of Brazil ("Rontan") (collectively, the "Parties"), pursuant to which the Sellers agreed to sell 100% of the issued and outstanding shares of Rontan to the Purchaser on the closing date.

The purchase price shall consist of a cash amount, a stock amount and an earn-out amount as follows: (i) Brazilian Real ("R") \$100 million (approximately US\$26 million) to be paid by the Purchaser in equal monthly installments over a period of forty eight (48) months following the closing date; (ii) an aggregate of R\$100 million (approximately US\$26 million) in shares of the Purchaser's common stock, valued at US\$1.00 per share; and (iii) an earn-out payable within ten business days following receipt by the Purchaser of Rontan's audited financial statements for the 12-months ended December 31, 2017, 2018 and 2019. The earn-out shall be equal to the product of (i) Rontan's earnings before interest, taxes, depreciation and amortization ("EBITDA") for the last 12 months, and (ii) twenty percent and is contingent upon Rontan's EBITDA results for any earn-out period being at least 125% of Rontan's EBITDA for the 12-months ended December 31, 2015. It is the intention of the parties that the stock amount will be used by Rontan to repay institutional debt outstanding as of the closing date.

Under the terms of a Finders Fees Agreement dated April 14, 2014, we have agreed to pay RLT Consulting Inc., a related party, a fee of 2% (two percent) of the Transaction Value, as defined in the agreement, of Rontan upon closing. The fee is payable one-half in cash and one-half in shares of our common stock.

Specific conditions to closing consist of:

- a) Purchaser's receipt of written limited assurance of an unqualified opinion with respect to Rontan's audited financial statements for the years ended December 31, 2013 and 2014 (the "Opinion");
- b) The commitment of sufficient investment by General American Capital Partners LLC (the "Institutional Investor"), in the Purchaser following receipt of the Opinion;
- c) The accuracy of each Parties' representations and warranties contained in the SPSA;
- d) The continued operation of Rontan's business in the ordinary course;
- e) The maintenance of all of Rontan's bank credit lines in the maximum amount of R\$200 million (approximately US\$52 million) under the same terms and conditions originally agreed with any such financial institutions, and the maintenance of all other types of funding arrangements. As of the date of the SPSA, Rontan's financial institution debt consists of not more than R\$200 million (approximately US\$52 million), trade debt of not more than R\$50 million (approximately US\$13 million) and other fiscal contingencies of not more than R\$95 million (approximately US\$24.7 million);
- f) Rontan shall enter into employment or consulting service agreements with key employees and advisors identified by the Purchaser, including Rontan's Chief Executive Officer; and
- g) The Sellers continued guarantee of Rontan's bank debt for a period of 90 days following issuance of the Opinion, among other items.

The Institutional Investor has committed to invest sufficient capital to facilitate the transaction, subject to receipt of the Opinion, as well as the ability to acquire 100% of the outstanding stock of Rontan at a price of \$200 million BR, and the Company can acquire 100% of all real estate held by Rontan.

Subject to satisfaction or waiver of the conditions precedent provided for in the SPSA, the closing date of the transaction shall take place within 10 business days from the date of issuance of the Opinion.

Rontan is engaged in the manufacture and distribution of specialty vehicles and acoustic/visual signaling equipment for the industrial and automotive markets.

Subsequent to December 31, 2015, on April 1, 2016, we believed that we had satisfied or otherwise waived the conditions to closing (as disclosed under the SPSA, the closing was subject to specific conditions to closing, which were waivable by us,) and advised the Sellers of our intention to close the SPSA and demanded delivery of the Rontan Securities. The Sellers, however, notified us that they intend to terminate the SPSA. We believe that the Sellers had no right to terminate the SPSA and that notice of termination by the Sellers was not permitted under the terms of the SPSA.

On January 31, 2018, we announced that we initiated a lawsuit for damages against Grupo Rontan Metalurgica, S. A, ("Rontan") and that company's controlling shareholders, Joao Alberto Bolzan and Jose Carlos Bolzan. The action has been filed in the United States District Court for the Southern District of Florida. The complaint alleges that Rontan is wholly-owned by Joao Bolzan and Jose Bolzan. In the complaint, we further allege that Rontan and its shareholders improperly terminated a Share Purchase and Sale Agreement (the "SPA") by which we were to acquire whole ownership of Rontan.

On February 5, 2018, United States District Court Southern District of Florida filed a Pretrial Scheduling Order and Order Referring Case to Mediation dated February 5, 2018 for the Company's lawsuit against Grupo Rontan Electro Metalurgica, S.A., et al. The Case No. is 18-80106-Civ-Middlebrooks/Brannon. The court has issued a schedule outlining various documents and responses that are to be delivered by the parties as part of the discovery plan.

On April 25, 2018, the Note of Filing Proposed Summons was completed by the Company. On April 26, 2018, a summons was issued to Grupo Rontan Electro Metalurgica, S.A. Also, on May 15, 2018, the Company filed a motion for Issuance of Letters Rogatory.

On or about January 31, 2019, Defendants filed a Motion to Dismiss for Failure to State a Claim for failure to fulfill conditions precedent in the consummation of the contract in question. Defendants filed a Motion to Dismiss challenging jurisdiction, venue, and *forum nonconvenes*. On or about May 21, 2019, the Court denied their motions to dismiss for lack of personal jurisdiction, improper venue and *forum nonconvenes*. The court granted their Motion to Dismiss for Failure to State a Claim for failure to fulfill conditions precedent in the consummation of the contract in question but, granted leave to amend. On or about June 7, 2019, counsel filed an amended complaint. On or about June 21, 2019, defendants answered the amended complaint. The litigation moved from the pleading stage to discovery. The Company and Rontan/Bolzans entered into court order mediation on November 7, 2019. Although there was some movement by each side, the sides still remain apart. Trial is scheduled for December 9, 2019.

NOTE 8 – STOCKHOLDERS' EQUITY

Preferred Stock

We are authorized to issue 35,000,000 shares of noncumulative, non-voting, nonconvertible preferred stock, \$0.001 par value per share. At March 31, 2020 and December 31, 2019, 1,000,000 shares of preferred stock were outstanding.

On August 15, 2016, William J. Delgado, our current Chief Executive Officer, agreed to convert \$231,565 of indebtedness owed to him by the Company into 1,000,000 shares of convertible preferred stock (the "Preferred Stock"). The Preferred Stock has voting rights as to one (1) preferred share to four hundred (400) shares of the common stock of the Company. The Preferred Stock is convertible into common stock at any time after issuance into 37% of the outstanding common stock of the Company at the time of the conversion. The conversion to common can only take place when there are an adequate number of shares that are available and is subject to normal stock adjustments (i.e. stock splits etc.) that are executed by the Company in its normal course of business.

Common Stock

We are authorized to issue 2,000,000,000 shares of common stock, \$0.001 par value per share. At March 31, 2020 and December 31, 2019, 645,403,878 and 643,121,923 shares were issued, outstanding, or vested but unissued under stock compensation plans, respectively.

Stock Incentive Plans

2014 Global Digital Solutions Equity Incentive Plan

On May 9, 2014 our shareholders approved the 2014 Global Digital Solutions Equity Incentive Plan ("Plan") and reserved 20,000,000 shares of our common stock for issuance pursuant to awards thereunder, including options, stock appreciation right, restricted stock, restricted stock units, performance awards, dividend equivalents, or other stock-based awards. The Plan is intended as an incentive, to retain in the employ of the Company, our directors, officers, employees, consultants and advisors, and to attract new officers, employees, directors, consultants and advisors whose services are considered valuable, to encourage the sense of proprietorship and to stimulate the active interest of such persons in the development and financial success of the Company and its subsidiaries.

In accordance with the ACS 718, *Compensation – Stock Compensation*, awards granted are valued at fair value at the grant date. The Company recognizes compensation expense on a pro rata straight-line basis over the requisite service period for stock-based compensation awards with both graded and cliff vesting terms. The Company recognizes the cumulative effect of a change in the number of awards expected to vest in compensation expense in the period of change. The Company has not capitalized any portion of its stock-based compensation.

Awards Issued Under Stock Incentive Plans

Stock Option Activity

At March 31, 2020 and December 31, 2019, we have outstanding 13,650,002 stock options - all of which are fully vested stock options that were granted to directors, officers and consultants. The outstanding stock options are exercisable at prices ranging from \$0.006 to \$0.64 and expire between February 2024 and December 2025, for an average exercise price per share of \$0.60 and an average remaining term of 7.5 years as of March 31, 2020.

During the three-month period ended March 31, 2020 and the year ended December 31, 2019 we did not recognize any stock-based compensation cost related to the outstanding stock options. The intrinsic value of options outstanding at March 31, 2020 and December 31, 2019 was \$0. Aggregate intrinsic value represents the value of the Company's closing stock price on the last trading day of the fiscal period in excess of the exercise price of the option multiplied by the number of options outstanding.

Restricted Stock Units

On October 10, 2014 we granted an employee 1 million RSU's convertible into 1 million shares of the Company's common stock, with a grant date fair market value of \$100,000. The grant was made under our 2014 Equity Incentive Plan. 333,333 RSU's will vest in respect of each calendar year (commencing January 1 and ending December 31) of the Company from 2015 through 2017 if the Company has achieved at least 90% of the total revenue and EBITDA midpoint targets set forth in the agreement. If less than 90% of the target is achieved in respect of any such fiscal year, then the number of RSU's vesting for that fiscal year shall be 333,333 times the applicable percentage set forth in the agreement; *provided that*, if the company shall exceed 100% of the revenue and EBITDA midpoint +-target for the 2018 or 2017 calendar year, and shall have failed to reach 90% of the target for a prior calendar year, the excess over 100% shall be applied to reduce the deficiency in the prior year(s), and an additional number of RSU's shall vest to reflect the increased revenue for such prior calendar year. Any such excess shall be applied first to reduce any deficiency for the 2015 calendar year and then for the 2016 calendar year. The vesting of the RSU's shall be effective upon the issuance of the audited financial statements of the Company for the applicable calendar year and shall be based upon the total revenue and EBITDA of the acquired companies as reflected in such financial statements.

The aggregate intrinsic value of the restricted stock grant was \$0 at March 31, 2020, and December 31, 2019.

NOTE 9 – INCOME TAXES

As of March 31, 2020, the Company had \$13,509,011 of federal net operating loss carry forwards. The Net Operating loss carry forward, if not used, will begin to expire in 2028. Current or future ownership changes, including issuances of common stock under the terms of the Company's convertible notes payable that were entered into during 2015 and the closing of the Rontan Transaction may severely limit the future realization of these net operating losses.

The Company provides for a valuation allowance when it is more likely than not that they will not realize a portion of the deferred tax assets. The Company has established a valuation allowance against their net deferred tax asset due to the uncertainty that enough taxable income will be generated in those taxing jurisdictions to utilize the assets. Therefore, they have not reflected any benefit of such deferred tax assets in the accompanying financial statements. The Company's net deferred tax asset and valuation allowance increased by approximately \$142,588 for the quarter ended March 31, 2020, related to the current period activity.

The Company has reviewed all income tax positions taken or that are expected to be taken for all open years and determined that their income tax positions are appropriately stated and supported for all open years. The Company is subject to U.S. federal income tax examinations by tax authorities for years after 2011 due to unexpired net operating loss carryforwards originating in and subsequent to that year. The Company may be subject to income tax examinations for the various taxing authorities which vary by jurisdiction.

The Company's policy is to record interest and penalties associated with unrecognized tax benefits as additional income taxes in the consolidated statements of operations. As of March 31, 2020, there were no unrecognized tax benefits, or any tax related interest or penalties.

The Company files income tax returns in the U.S. federal jurisdiction and the various states in which they operate. The former members of NACSV are required to file separate federal and state tax returns for NACSV for the periods prior to our acquisition of NACSV. The Company files consolidated tax returns for subsequent periods. The Company has not filed their U.S. federal and certain state tax returns since 2014 and currently do not have any examinations ongoing. Tax returns for the years 2012 onwards are subject to federal, state or local examinations.

NOTE 10 – RELATED PARTY TRANSACTIONS

Due to officers

Accrued Compensation

At March 31, 2020 and December 31, 2019, we had \$15,873 and \$192,646 payable to William J. Delgado and \$75,338 and \$70,338 payable to Jerome Gomolski, respectively.

	<u>Total</u>	<u>William Delgado</u>	<u>Jerome Gomolski</u>
Balance 12/31/2019	\$ 262,984	\$ 192,646	\$ 70,338
2020 Salary	75,000	60,000	15,000
Payments	<u>(246,773)</u>	<u>(236,773)</u>	<u>(10,000)</u>
Balance 3/31/2020	<u>\$ 91,211</u>	<u>\$ 15,873</u>	<u>\$ 75,338</u>

RLT Consulting

At March 31, 2020 and December 31, 2019, the company had a note payable to RLT consulting and a consulting agreement see (Note 5). RLT Consulting is owned by Ross Trevino, a Vice President of GDSI Inc.

Accounts Payable

	<u>March 31, 2020</u>	<u>December 31 2019</u>
RLT Consulting	\$ 21,591	\$ 21,591
Jerry Gomolski	25,000	25,000
Charter 804CS	20,099	20,099
Gary Gray	<u>12,000</u>	<u>12,000</u>
	<u>\$ 78,690</u>	<u>\$ 78,690</u>

During August 2017, Dragon Acquisitions, a related entity owned by William Delgado, a related party, and an individual lender entered into a Promissory Note agreement for \$20,000 as well as \$2,000 in interest to accrue through maturity on August 31, 2018 for a total of \$22,000 due on August 31, 2018. Dragon Acquisition assumed payment of a payable of the Company and the Company took on the note. The Company defaulted on the note at maturity in August 2018. The \$20,000 note remained outstanding at March 31, 2020, and through the date of this report.

The June 2018 note bears a personal guarantee by William Delgado, the Chief Executive Officer of the Company. As further security for the note, Mr. Delgado has also pledged the 1,000,000 Convertible Preferred Shares of the Company that he owns, as well as 5,000,000 common shares of SHMP, another public company in which Mr. Delgado is a director and Chief Financial Officer.

NOTE 11 – SUBSEQUENT EVENTS

On April 15, 2020, the Company and Platinum Point Capital LLC entered into a security purchase agreement for a 10% Convertible Note in the aggregate principal of \$82,500 due on April 15, 2021. The note is convertible into shares of common stock of the Company. The conversion price is equal to the Variable Conversion price which is defined as 60% of the Market Price for the lowest twenty trading dates period ending on the latest complete trading date prior to the Conversion date. As of the issuance date of these financial statements, the note remains outstanding.

On April 17, 2020, the Company issued 796,053 common shares to Tangiers Global for the Forbearance Agreement dated April 16, 2020 to the \$137,500 Convertible Promissory Note dated October 16, 2019. This agreement extended the conversion feature of the note from April 16, 2020 until May 16, 2020.

Pursuant to the ongoing discussions with GHS Investments, LLC in May 2020, Management has agreed to issue a warrant to purchase 1,000,000 shares of common stock under similar terms and conditions as the previous warrants.

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

Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q includes a number of forward-looking statements that reflect management's current views with respect to future events and financial performance. Forward-looking statements are projections in respect of future events or our future financial performance. In some cases, you can identify forward-looking statements by terminology such as "may," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these terms or other comparable terminology. These statements include statements regarding the intent, belief or current expectations of us and members of our management team, as well as the assumptions on which such statements are based. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risk and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements. These statements are only predictions and involve known and unknown risks, uncertainties and other factors, including the risks set forth in the section entitled "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019 as filed with the U.S. Securities and Exchange Commission (the "SEC") on April 29, 2020 any of which may cause our company's or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied in our forward-looking statements. These risks and factors include, by way of example and without limitation:

- our ability to successfully commercialize and our products and services on a large enough scale to generate profitable operations;
- our ability to maintain and develop relationships with customers and suppliers;
- our ability to successfully integrate acquired businesses or new brands;
- the impact of competitive products and pricing;
- supply constraints or difficulties;
- the retention and availability of key personnel;
- general economic and business conditions;
- substantial doubt about our ability to continue as a going concern;
- our need to raise additional funds in the future;
- our ability to successfully recruit and retain qualified personnel in order to continue our operations;

- our ability to successfully implement our business plan;
- our ability to successfully acquire, develop or commercialize new products and equipment;
- intellectual property claims brought by third parties; and
- the impact of any industry regulation.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, or performance. Except as required by applicable law, including the securities laws of the United States, we do not intend to update any of the forward-looking statements to conform these statements to actual results.

Readers are urged to carefully review and consider the various disclosures made by us in this report and in our other reports filed with the SEC. We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes in the future operating results over time except as required by law. We believe that our assumptions are based upon reasonable data derived from and known about our business and operations. No assurances are made that actual results of operations or the results of our future activities will not differ materially from our assumptions.

As used in this Quarterly Report on Form 10-Q and unless otherwise indicated, the terms "GDSI," "Company," "we," "us," and "our" refer to Global Digital Solutions, Inc. and our wholly-owned subsidiaries GDSI Florida, LLC and North American Custom Specialty Vehicles, Inc. Unless otherwise specified, all dollar amounts are expressed in United States dollars.

Corporate History and Overview

We were incorporated in New Jersey as Creative Beauty Supply, Inc. ("Creative") in August 1995. In March 2004, Creative acquired Global Digital Solutions, Inc., a Delaware corporation. The merger was treated as a recapitalization of Global Digital Solutions, Inc., and Creative changed its name to Global Digital Solutions, Inc. ("GDSI"). We are focused in the area of cyber arms technology and complementary security and technology solutions. On October 22, 2012, we entered into an Agreement of Merger and Plan of Reorganization to acquire 70% of Airtronic USA, Inc. ("Airtronic"), a then debtor in possession under chapter 11 of the Bankruptcy Code once Airtronic successfully reorganized and emerged from bankruptcy (the "Merger"). During the period from October 2012 through November 2013, we were actively involved in the day to day management of Airtronic pending the completion of the Merger. The Merger did not occur and we ceased involvement with Airtronic. In December 2012 we incorporated GDSI Florida LLC ("GDSI FL"), a Florida limited liability company. Except for the payment of administrative expenses on behalf of the Company, GDSI FL has no business operations. In January 2013, we incorporated Global Digital Solutions, LLC, a Florida limited liability company. In November 2013, we incorporated GDSI Acquisition Corporation, a Delaware corporation. On June 16, 2014, we acquired North American Custom Specialty Vehicles, LLC, into GDSI Acquisition Corporation, and changed the latter's name to North American Custom Specialty Vehicles, Inc. ("NACSV"). In July 2014, we announced the formation of GDSI International (f/k/a Global Digital Solutions, LLC) to spearhead our efforts overseas.

In March of 2019, the Company acquired HarmAlarm ("HA"). HA was formed in 2002 as a private Texas company to pursue Infrared commercial applications in the aviation services area. HA has developed a system known as Pilot Assisted Landing Systems (PALS). The precision and robustness of PALS has generated a host of new applications mainly through "landing trajectory" optimization which provides additional safety margin against weather related hazardous conditions, like wind shear, wake turbulence, icing, as well as low ceilings and fog.

Global Digital Solutions, Inc., is positioning itself as a leader in providing comprehensive security and technology solutions. Since May 1, 2012, we have been focusing on acquisitions of defense and defense-related entities both in the United States and abroad. On June 16, 2014, GDSI completed its acquisition of North American Custom Specialty Vehicles (“NACSV”). NACSV’s mobile emergency operations centers (MEOC) can be tailored to the needs of Police, Fire, EMS, Military, Homeland Security, National Guard, FBI, Air National Guard, Coast Guard, Chemical/Petrochemical, Humanitarian Aid, NonGovernmental Organizations, Drug Enforcement, Immigration & Customs, Bureau of Alcohol, Tobacco, Firearms and Explosives, Water Management, Wildlife Management, D.O.T. Engineering & Maintenance, Air & Water Quality Management (EPA), Meteorological Seismic/Oil & Gas Exploration, IS/Mapping Power Generation (Nuclear & Conventional), Power Transmission, and Strategic Infrastructure Security. The company has already built customized vehicles for customers involved in one or more of the above categories, and we see many opportunities to improve NACSV and its products and services through the integration of additional software, hardware, and firmware technologies.

We are a holding company focused on the acquisition of companies in the security and specialty vehicles and services marketplace segments. We intend to pursue these identified segments in order to expand the Company through strategic acquisitions and the controlled internal growth of such acquisitions. Since the filing of our Form 10-K for the year ending 2016, as filed with the Securities & Exchange Commission (“SEC”) on June 18, 2018, we have been delinquent in filing of our financial reports with the SEC pursuant to The Securities Exchange Act of 1934 (the “Exchange Act”). Since that time, the focus of our business has evolved, and the below discussion is intended to show the chronology since that time to the date of the filing of this report.

History of Business – December 31, 2016 to Present

On May 13, 2016, as more fully discussed below, we appointed William Delgado as our Chief Executive Officer (“CEO”) and Chairman of our Board of Directors. Mr. Delgado was serving at that time as a director and our Executive Vice President in charge of business development. He served as our President, Chief Executive Officer, and Chief Financial Officer from August 2004 to August 2013. Mr. Delgado began his career with Pacific Telephone in the Outside Plant Construction. He moved to the network engineering group and concluded his career at Pacific Bell as the Chief Budget Analyst for the Northern California region. Mr. Delgado founded All Star Telecom in late 1991, specializing in OSP construction and engineering and systems cabling. All Star Telecom was sold to International Fiber Com in April of 1999. After leaving International Fiber Com in 2002, Mr. Delgado became President/CEO of Pacific Comtel in San Diego, California. After we acquired Pacific Comtel in 2004, he became part of our management and held the positions of Director, CEO, President, and CFO.

The following events have occurred since December 31, 2016:

Share Purchase and Sale Agreement for Acquisition of Grupo Rontan Electro Metalurgica, S.A.

Effective October 13, 2015, the Company (as “Purchaser”) entered into the SPSA dated October 8, 2015 with Joao Alberto Bolzan and Jose Carlos Bolzan, both Brazilian residents (collectively, the “Sellers”), and Grupo Rontan Electro Metalurgica, S.A., a limited liability company duly organized and existing under the laws of Federative Republic of Brazil (“Rontan”) (collectively, the “Parties”), pursuant to which the Sellers agreed to sell 100% of the issued and outstanding shares of Rontan to the Purchaser on the closing date (the “Rontan Transaction”).

The purchase price consisted of a cash amount, a stock amount and an earn-out amount as follows: (i) Brazilian Real (“R”) \$100 million (approximately US\$26 million) to be paid by the Purchaser in equal monthly installments over a period of forty eight (48) months following the closing date; (ii) an aggregate of R\$100 million (approximately US\$26 million) in shares of the Purchaser’s common stock, valued at US\$1.00 per share; and (iii) an earn-out payable within ten business days following receipt by the Purchaser of Rontan’s audited financial statements for the 12-months ended December 31, 2017, 2018 and 2019. The earn-out shall be equal to the product of (i) Rontan’s earnings before interest, taxes, depreciation and amortization (“EBITDA”) for the last 12 months, and (ii) twenty percent and is contingent upon Rontan’s EBITDA results for any earn-out period being at least 125% of Rontan’s EBITDA for the 12-months ended December 31, 2015. It is the intention of the parties that the stock amount will be used by Rontan to repay institutional debt outstanding as of the closing date.

Under the terms of a finder's fee Agreement dated April 14, 2014, we have agreed to pay RLT Consulting, Inc., a related party, a fee of 2% (two percent) of the transaction value, as defined in the agreement, of Rontan upon closing. The fee is payable one half in cash and one half in shares of our common stock. Specific conditions to closing include, but are not limited to:

- a) Purchaser's receipt of written limited assurance of an unqualified opinion with respect to Rontan's audited financial statements for the years ended December 31, 2013 and 2014 (the "Opinion");
- b) The commitment of sufficient investment by General American Capital Partners LLC (the "Institutional Investor"), in the Purchaser following receipt of the Opinion;
- c) The accuracy of each party's representations and warranties contained in the SPSA;
- d) The continued operation of Rontan's business in the ordinary course;
- e) The maintenance of all of Rontan's bank credit lines in the maximum amount of R\$200 million (approximately US\$52 million) under the same terms and conditions originally agreed with any such financial institutions, and the maintenance of all other types of funding arrangements. As of the date of the SPSA, Rontan's financial institution debt consists of not more than R\$200 million (approximately US\$52 million), trade debt of not more than R\$50 million (approximately US\$13 million), and other fiscal contingencies of not more than R\$95 million (approximately US\$24.7 million);
- f) Rontan shall enter into employment or consulting service agreements with key employees and advisors identified by the Purchaser, including Rontan's Chief Executive Officer; and
- g) The Sellers continued guarantee of Rontan's bank debt for a period of 90 days following issuance of the opinion.

The Institutional Investor has committed to invest sufficient capital to facilitate the transaction, subject to receipt of the Opinion, among other conditions. Subject to satisfaction or waiver of the conditions precedent provided for in the SPSA, the closing date of the transaction shall take place within 10 business days from the date of issuance of the Opinion. Rontan is engaged in the manufacture and distribution of specialty vehicles and acoustic/visual signaling equipment for the industrial and automotive markets.

On April 1, 2016, we believed that we had satisfied or otherwise waived the conditions to closing (as disclosed under the SPSA, the closing was subject to specific conditions, which were waivable by us), and on April 1, 2016, we advised the Sellers of our intention to close the SPSA and demanded delivery of the Rontan Securities. The Sellers, however, notified us that they intend to terminate the SPSA. We believe that the Sellers had no right to terminate the SPSA and that notice of termination by the Sellers was not permitted under the terms of the SPSA.

Acquisition of HarmAlarm

In March of 2019, the Company acquired HarmAlarm. HA was formed in 2002 as a private Texas company to pursue Infrared commercial applications in the aviation services area. HA has developed a system known as Pilot Assisted Landing Systems (PALS). The precision and robustness of PALS has generated a host of new applications mainly through "landing trajectory" optimization which provides additional safety margin against weather related hazardous conditions, like wind shear, wake turbulence, icing, as well as low ceilings and fog.

Results of Operations

Comparison of the Three Months Ended March 31, 2020 and March 31, 2019

Revenue

There were no revenues for the three months ending March 31, 2020 or March 31, 2019

Expenses

Our Operating Expenses for the three months ended March 31, 2020 are summarized as follows, in comparison to our expenses for the three months ended March 31, 2019:

	Three months ended March 31,	
	2020	2019
Salaries and related expenses	\$ 75,000	\$ 72,501
Rent	2,896	2,366
Professional fees	38,562	55,833
Consulting Services	99,856	14,250
Other G & A	<u>30,894</u>	<u>11,897</u>
Total	<u>\$ 247,208</u>	<u>\$ 156,847</u>

Operating expenses for the three months ended March 31, 2020 were \$247,208 representing an approximately 58% increase compared to operating expenses of \$156,847 for the same period in 2019. The primary reason for the change is the increase in consulting services incurred in the three months ending March 31, 2020.

Liquidity, Financial Condition and Capital Resources

As of March 31, 2020, we had cash on hand of \$2,887 and a working capital deficit of \$8,422,081 as compared to cash on hand of \$493,402 and a working capital deficit of \$6,183,789 as of December 31, 2019. The increase in working capital deficit of \$2,238,292 is due primarily to the increase in Derivative liability of \$1,794,003 and decrease in cash of \$490,515 cash.

Going Concern

The accompanying financial statements have been prepared assuming we will continue as a going concern, which contemplates the realization of assets and the liquidation of liabilities in the normal course of business. We have sustained losses and experienced negative cash flows from operations since inception, and for the Three (3) Months ended on March 31, 2020, incurred a net loss of \$2,296,759 and used net cash of \$417,907 to fund operating activities. At March 31, 2020, we had cash of \$2,887 an accumulated deficit of \$41,251,103, a working capital deficit of \$ 8,422,081 and stockholders' deficit of \$8,353,691. We have funded our activities to date almost exclusively from equity and debt financings.

Our cash position is critically deficient, and payments essential to our ability to operate are not being made in the ordinary course. Failure to raise capital in the coming days to fund our operations and failure to generate positive cash flow to fund such operations in the future will have a material adverse effect on our financial condition. These factors raise substantial doubt about our ability to continue as a going concern.

We need to raise additional funds immediately and continue to raise funds until we begin to generate sufficient cash from operations, and we may not be able to obtain the necessary financing on acceptable terms, or at all.

We will continue to require substantial funds to continue development of our core business. Management's plans in order to meet our operating cash flow requirements include financing activities such as private placements of common stock, and issuances of debt and convertible debt instruments, and the establishment of strategic relationships which we expect will lead to the generation of additional revenue or acquisition opportunities.

While we believe that we will be successful in obtaining the necessary financing to fund our operations, there are no assurances that such additional funding will be achieved or that we will succeed in our future operations.

Our ability to achieve and maintain profitability and positive cash flow is dependent upon our ability to successfully execute the plans to pursue acquisitions and raise the funds necessary to complete such acquisitions. The outcome of these matters cannot be predicted at this time. The 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 be necessary should we be unable to continue as a going concern.

Working Capital Deficiency

	Periods Ended	
	March 31,	December 31,
	2020	2019
Current Assets	\$ 8,887	\$ 499,402
Current Liabilities	8,430,968	\$ 6,683,191
Working Capital	\$ (8,422,081)	\$ (6,183,789)

The decrease in current assets from December 31, 2019 to March 31, 2020 is due to an decrease in cash used in operating activities.

Cash Flows

	Periods Ended	
	March 31	March 31
	2020	2019
Net cash used in operating activities	(417,907)	(252,922)
Net cash used in investing activities	(42,108)	(3,382)
Net cash provided by (used in) financing activities	(30,500)	125,000
Decrease in cash	\$ (490,515)	\$ (131,304)

Operating Activities

Net cash used by operating activities was \$417,907 for the three months ended March 31, 2020, reflecting the net loss of \$2,296,759. Net cash used by operating activities was \$252,922 for the three months ended March 31, 2019, reflecting the net loss of \$344,587.

Investing Activities

Net cash used for Investing activities for the three months ended March 31, 2020 and March 31, 2019 was \$42,108 and \$ 3,382 respectively.

Financing Activities

During the three months ended March 31, 2020, cash used in financing activities of \$30,500 consisted of proceeds from convertible notes payable of \$100,000, offset by payment on convertible notes payable of \$100,000.

On December 19, 2018, The Company and Adar Alef, LLC entered into a security purchase agreement for four 8% Convertible Notes in the aggregate principal of \$105,000 with all four notes being in the amount of \$26,500 each. The notes shall contain a 5% OID such that the purchase price shall be \$25,000. The notes are convertible into shares of common stock of The Company. Note 1 was issued on December 19, 2018 and paid off on June 24, 2019. Notes 1 and 2 in the amount of \$25,250 were issued on August 1 and August 19 respectively. As of the date of the Financial Statement \$52,500 remains outstanding.

On March 7, 2019, the Company and Power Up Lending Group entered into a security purchase agreement for a 10% Convertible Note in the aggregate principal of \$58,000 due on March 7, 2020. The note is convertible into shares of common stock of the Company. The conversion price is equal to the Variable Conversion price which is defined as 61% of the Market Price for the lowest two trading dates during a fifteen-day trading period ending on the latest complete trading date prior to the Conversion date. The note was paid off on September 10, 2019.

On August 15, 2019, the Company and Power Up Lending Group entered into a security purchase agreement for a 10% Convertible Note in the aggregate principal of \$53,000 due on August 15, 2020. The note is convertible into shares of common stock of the Company. The conversion price is equal to the Variable Conversion price which is defined as 61% of the Market Price for the lowest two trading dates during a fifteen-day trading period ending on the latest complete trading date prior to the Conversion date. As of the issuance date of these financial statements, the note remains outstanding.

On September 24, 2019, the Company and Power Up Lending Group entered into a security purchase agreement for a 10% Convertible Note in the aggregate principal of \$53,000 due on September 24, 2020. The note is convertible into shares of common stock of the Company. The conversion price is equal to the Variable Conversion price which is defined as 61% of the Market Price for the lowest two trading dates during a fifteen-day trading period ending on the latest complete trading date prior to the Conversion date. As of the issuance date of these financial statements, the note remains outstanding.

On May 10, 2019, the Company and GHS Investments LLC entered into a security agreement for a 10% Convertible Note in the aggregate principal of \$335,000 due on February 10, 2020. The note carries original issue discount of \$35,000. The note is convertible into shares of common stock of the Company. The "Conversion Price" shall mean 60% multiplied by the Market Price (as defined herein), representing a discount rate of 40%. "Market Price" means the lowest Traded Price for the Common Stock during the twenty (20) Trading Day period ending on the latest complete Trading Day prior to the Conversion Date. The Company is required to maintain a common share reserve of not less than three times the number of shares that is actually issuable upon full conversion of the note. The purchaser will also receive warrants to purchase 5,000,000 shares of GDSI common stock at \$.01/share. Warrants will have a three-year term to exercise. The Convertible Note is personally guaranteed by William Delgado, CEO. As of the issuance date of these financial statements, the note remains outstanding.

Convertible Promissory Note

On August 9, 2019, The Company entered into a convertible promissory note arrangement with Actus Fund, LLC in the principal amount of \$142,750. The principal amount of the note with interest at 12% is due on May 19, 2020. The note is convertible into shares of The Company's common stock. The conversion price shall equal the lesser of (i) Current Market price or (ii) Variable Market price as defined as Market Price less a 50% discount price. As of the issuance date of the financial statements the note remains outstanding.

On January 21, 2019, the Company entered into a Convertible Promissory Note with Crown Bridge Partners, LLC., in the principal amount of \$75,000. The note carries original issue discount of \$7,500. The Principal amount with interest at 12% will be due in twelve months from the advance. The Principal amount will be advanced in Tranches of \$25,000 each. The note is convertible into shares of The Company's common stock. The conversion price shall equal the lesser of (i) Current Market price or (ii) Variable Market price as defined as Market Price less a 45% discount price. In addition, the Company agreed to issue to Crown Bridge Partners 3,750,000 warrants to purchase common stock of the Company at an exercise price of \$0.01 per share, exercisable for a period of five (5) years. As of March 31, 2020, and the issuance date of these financial statements, \$16,950 remains outstanding.

On October 16, 2019, the Company entered into a 10% Convertible Promissory Note with Tangiers Global LLC. in the principal amount of \$137,500 due on October 16, 2020. The note is convertible into shares of the Company's common stock. The conversion price shall equal 60% of the lowest trading price of the Company's common stock during the 20 consecutive trading days prior to the date on which the holder elects to convert part of all of the note. As of, and March 31, 2020, and the issuance of these financial statements \$137,500 remains outstanding.

Factoring Agreements

During the year ended December 31, 2015, the Company entered into two revenue-based factoring agreements for which the Company did not make the required payments, and the factor agreements went into default. On December 21, 2017, the Company entered into a Settlement agreement with Power Up under which Power Up has agreed to accept the sum of \$90,000 in full satisfaction of outstanding obligation. The settlement is to be paid in three installments of \$30,000. The settlement has been paid in full as of May 15, 2018, with a gain on settlement of \$17,266 recognized when the debt was extinguished.

Promissory Note Agreement

On August 31, 2017, Dragon Acquisitions, a related entity owned by William Delgado, and an individual lender entered into a promissory note agreement for \$20,000 as well as \$2,000 in interest to accrue through maturity on August 31, 2018 for a total of \$22,000 due on August 31, 2018. Dragon Acquisition assumed payment of a payable of the Company and the Company took on the debt. As of March 31, 2020, the Company has accrued \$2,000 of the interest.

Financing Agreement

On December 22, 2017, the Company entered into a financing agreement with Parabellum, an accredited investor, for \$1.2 million, amended in 2019 and increased to \$1,850,000. Under the terms of the agreement, the Company is to receive milestone payments based on the progress of the Company's lawsuit (Note 6) for damages against Grupo Rontan Metalurgica, S.A (the "Lawsuit"). Such milestone payments consist of (i) an initial purchase price payment of \$300,000, which the Company received on December 22, 2017, (ii) \$150,000 within 30 days of the Lawsuit surviving a motion to dismiss on the primary claims, (iii) \$100,000 within 30 days of the close of all discovery in the Lawsuit and (iv) \$650,000 within 30 days of the Lawsuit surviving a motion for summary judgment and challenges on the primary claims. As part of the agreement, the Company shall pay the investor an investment return of 100% of the litigation proceeds to recoup all money invested, plus 27.5% of the total litigation proceeds received by the Company. \$300,000 was received by the Company in December 2017. The \$300,000 note remains outstanding and in good standing as of December 31, 2019 and 2018, and through the date of this report.

Demand Promissory Note Agreements

On December 23, 2017 (the "effective date"), the Company entered into a \$485,000, 7% interest rate, Demand Promissory Note with Vox Business Trust, LLC (the "Purchaser".) The note was in settlement of the amounts accrued under a consulting agreement, consisting of \$200,000 owed for retainer payments through December 2017, as well as \$285,000 owed to the Purchaser when the Resolution Progress Funding was met on December 22, 2017. As part of the agreement, the Purchaser may not demand payment prior to the date of the Resolution Funding Date. The Company also agreed to grant 5,000,000 shares within 90 days of the Resolution Progress Funding Date and 10,000,000 shares within 90 days of the Resolution Funding Date. The 5,000,000 shares were issued on March 13, 2018. The Company shall make mandatory prepayment in the following amounts and at the following times:

- \$1,000 on the effective date.
- \$50,000 on the date on which the judge presiding over the lawsuit issues a ruling or decision in which the lawsuit survives a motion to dismiss.
- \$50,000 on the date on which discovery closes with respect to the lawsuit.
- \$100,000 on the date on which the judge presiding over the lawsuit issues a ruling or decision in which the lawsuit survives a motion for summary judgement on the claims.

On December 26, 2017, the Company entered into a \$485,000, 7% interest rate, Demand Promissory Note with RLT Consulting, Inc. (the "Purchaser".) The note was in settlement of the amounts accrued under a consulting agreement (Note 6), consisting of \$200,000 owed for retainer payments through December 2017, as well as \$285,000 owed to the Purchaser when the Resolution Progress Funding was met on December 22, 2017. As part of the agreement, the Purchaser may not demand payment prior to the date of the Resolution Funding Date. The Company also agreed to grant 5,000,000 shares within 90 days of the Resolution Progress Funding Date and 10,000,000 shares within 90 days of the Resolution Funding Date. The 5,000,000 shares were issued on March 13, 2018 (as well as an additional 4,000,000 for further services). The Company shall make mandatory prepayment in the following amounts and at the following times:

- \$1,000 on the effective date.
- \$50,000 on the date on which the judge presiding over the lawsuit issues a ruling or decision in which the lawsuit survives a motion to dismiss.
- \$50,000 on the date on which discovery closes with respect to the lawsuit.
- \$100,000 on the date on which the judge presiding over the lawsuit issues a ruling or decision in which the lawsuit survives a motion for summary judgement on the claims.

During April 2018, the Company entered into a two-month \$36,000 note payable with \$31,000 in proceeds paid directly to a third-party vendor for expenses. The note did not bear interest and included a \$5,000 original issue discount. During June 2018, the Company defaulted on the note. As of December 31, 2019, and through the date of this report, the \$36,000 note remained outstanding.

Investment Return Purchase Agreements

On April 3, 2018, the Company entered into an Investment Return Purchase Agreement with an accredited investor (the "Purchaser") for proceeds of \$50,000 (the "Investment Agreement"). Under the terms of the Investment Agreement, the Company agreed to pay the Purchaser the \$50,000 proceeds plus a 25% return, or \$25,000 (the "Investment Return") within seven (7) months from the date of the Investment Agreement. The Investment Return is being recognized as interest expense over the seven months. In addition, the Company agreed to issue to the Purchaser 1,000,000 warrants to purchase common stock of the Company at an exercise price of \$0.01 per share, exercisable for a period of five (5) years.

On May 15, 2018, the Company entered into an Investment Return Purchase Agreement with an accredited investor (the "Purchaser") for proceeds of \$200,000 (the "Investment Agreement"). Under the terms of the Investment Agreement, the Company agreed to pay the Purchaser a 10% return, or \$20,000 (the "Investment Return") within three (3) months from the date of the Investment Agreement. Such Investment Return shall be paid earlier if the Company secures funding totaling \$500,000 within 90 days from the date of the Investment Agreement. In addition, the Company agreed to issue to the Purchaser 2,000,000 warrants to purchase common stock of the Company at an exercise price of \$0.01 per share, exercisable for a period of three (3) years.

Notes Payable

On May 1, 2018, the Company entered into a \$36,000 promissory note with an individual with \$5,000 original issue discount for net proceeds of \$31,000.

On June 4, 2018, the Company agreed to a \$300,000 principal amount (and a \$150,000 original issue discount amount) convertible note issued to GS Capital Partners. As part of the note agreement, the Company also agreed to issue the investor 5,000,000 warrants at an exercise price of \$0.01, exercisable for a period of three (3) years.

Future Financing

We will require additional funds to implement our growth strategy for our business. In addition, while we have received capital from various private placements of equity and convertible debt that have enabled us to fund our operations, additional funds will be needed for further business development.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to stockholders.

Effects of Inflation

We do not believe that inflation has had a material impact on our business, revenues or operating results during the periods presented.

Critical Accounting Policies and Estimates

Our significant accounting policies are more fully described in the notes to our financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017. We believe that the accounting policies below are critical for one to fully understand and evaluate our financial condition and results of operations.

Recent Accounting Pronouncements

During the year ended December 31, 2019 and the three -month period ending March 31, 2020 there were several new accounting pronouncements issued by the Financial Accounting Standards Board ("FASB"). Each of these pronouncements, as applicable, has been or will be adopted by the Company. Management does not believe the adoption of any of these accounting pronouncements has had or will have a material impact on the Company's consolidated financial statements.

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers: Topic 606*, or ASU 2014-09. ASU 2014-09 establishes the principles for recognizing revenue and develops a common revenue standard for U.S. GAAP. The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. In applying the new revenue recognition model to contracts with customers, an entity: (1) identifies the contract(s) with a customer; (2) identifies the performance obligations in the contract(s); (3) determines the transaction price; (4) allocates the transaction price to the performance obligations in the contract(s); and (5) recognizes revenue when (or as) the entity satisfies a performance obligation. The accounting standards update applies to all contracts with customers except those that are within the scope of other topics in the FASB Accounting Standards Codification. The accounting standards update also requires significantly expanded quantitative and qualitative disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Company adopted Topic 606 as of January 1, 2018, using the modified retrospective transition method. Under the modified retrospective method, the Company would recognize the cumulative effect of initially applying the standard as an adjustment to opening retained earnings at the date of initial application; however, we did not have any material adjustment as of the date of the adoption and adoption had no impact on the Company's consolidated balance sheet, results of operations, equity or cash flows as of the adoption date.

In February 2016, the FASB issued ASU No. 2016-02, *Leases: Topic 842*. This standard requires all leases that have a term of over 12 months to be recognized on the balance sheet with the liability for lease payments and the corresponding right-of-use asset initially measured at the present value of amounts expected to be paid over the term. Recognition of the costs of these leases on the income statement will be dependent upon their classification as either an operating or a financing lease. Costs of an operating lease will continue to be recognized as a single operating expense on a straight-line basis over the lease term. Costs for a financing lease will be disaggregated and recognized as both an operating expense (for the amortization of the right-of-use asset) and interest expense (for interest on the lease liability). This standard was effective for our interim and annual periods beginning January 1, 2019 and was applied on a modified retrospective basis to leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company has evaluated the timing of adoption and the potential impact of this standard on our financial position, and determined it did not have a material impact on our financial position or results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable. As a smaller reporting company, we are not required to provide the information required by this Item.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our sole executive officer, William Delgado, who is our Chief Executive Officer (Principal Executive Officer), of the effectiveness of the design of our disclosure controls and procedures (as defined by Exchange Act Rules 13a-15(e) or 15d-15(e)) as of March 31, 2020, pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, our Principal Executive and Financial Officer concluded that our disclosure controls and procedures were not effective as of March 31, 2020, in ensuring that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms. This conclusion is based on findings that constituted material weaknesses. A material weakness is a deficiency, or a combination of control deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Company's interim financial statements will not be prevented or detected on a timely basis.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Under the supervision and with the participation of our management, which currently consists of William Delgado serving as our Chief Executive Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on criteria established in the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO" - 2013) and SEC guidance on conducting such assessments. Our management concluded, as of March 31, 2020, that our internal control over financial reporting was not effective. Management realized there were deficiencies in the design or operation of the Company's internal control that adversely affected the Company's internal controls which management considers to be material weaknesses.

In performing the above-referenced assessment, management had concluded that as of December 31, March 31, 2020 there were deficiencies in the design or operation of our internal control that adversely affected our internal controls, which management considers to be material weaknesses, including those described below:

(i) *Lack of Formal Policies and Procedures.* We use a third-party independent contractor for the preparation of our financial statements. Although the financial statements and footnotes are reviewed by our management, we do not have a formal policy to review significant accounting transactions and the accounting treatment of such transactions. The third-party independent contractor is not involved in the day to day operations of the Company and may not be provided information from management on a timely basis to allow for adequate reporting/consideration of certain transactions.

(ii) *Audit Committee and Financial Expert.* We do not have a formal audit committee with a financial expert, and thus we lack the board oversight role within the financial reporting process.

(iii) *Insufficient Resources.* We have insufficient quantity of dedicated resources and experienced personnel involved in reviewing and designing internal controls. As a result, a material misstatement of the interim and annual financial statements could occur and not be prevented or detected on a timely basis.

(iv) *Entity-Level Risk Assessment.* We did not perform an entity level risk assessment to evaluate the implication of relevant risks on financial reporting, including the impact of potential fraud related risks and the risks related to non-routine transactions, if any, on internal control over financial reporting. Lack of an entity-level risk assessment constituted an internal control design deficiency which resulted in more than a remote likelihood that a material error would not have been prevented or detected and constituted a material weakness.

Our management feels the weaknesses identified above have not had any material effect on our financial results. However, we are currently reviewing our disclosure controls and procedures related to these material weaknesses and expect to implement changes in the near term as resources permit, including identifying specific areas within our governance, accounting and financial reporting processes to add adequate resources to potentially mitigate these material weaknesses.

Our management will continue to monitor and evaluate the effectiveness of our internal controls and procedures and our internal controls over financial reporting on an ongoing basis and is committed to taking further action and implementing additional enhancements or improvements, as necessary and as funds allow.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended ending March 31, 2020, that have materially affected or are reasonably likely to materially affect our internal control over financial reporting. We believe that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within any company have been detected.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We may be involved in legal proceedings in the ordinary course of our business, and our management cannot predict the ultimate outcome of these legal proceedings with certainty. The Company is plaintiff or defendant in the following actions:

John Ramsey and Carl D. Dekle, as Personal Representative of the Estate of Brian Dekle, Deceased v. Global Digital Solutions, Inc.; North American Custom Specialty Vehicles, Inc.; and Richard J. Sullivan, United States District Court, Middle District of Florida, Case No.: 6:15-cv-01633-ACC-GJK

On January 14, 2015, Brian A. Dekle and John Ramsay filed suit against the Company and its wholly owned subsidiary, North American Custom Specialty Vehicles, Inc. ("NACSV"), in the Circuit Court of Baldwin Alabama, case no. 05-CV-2015-9000050.00, relating to our acquisition of NACSV (the "Dekle Action"). Prior to instituting the Dekle Action in June 2014, the Company had entered into an equity purchase agreement with Dekle and Ramsay to purchase their membership interest in North American Custom Specialty Vehicles, LLC. The Dekle Action originally sought payment for \$300,000 in post-closing consideration Dekle and Ramsay allege they are owed pursuant to the equity purchase agreement.

On February 9, 2015, the Company and NACSV removed the Dekle Action to federal court in the United States District Court in and for the Southern District of Alabama, case no. 1:15-CV-00069. The Company and NACSV subsequently moved to dismiss the complaint for (1) failing to state a cause of action, and (2) lack of personal jurisdiction. Alternatively, the Company and NACSV sought a transfer of the case to the United States District Court in and for Middle District of Florida.

In response to the Company's and NACSV's motion to dismiss, Dekle and Ramsay filed an amended complaint on March 2, 2015 seeking specific performance and alleging breach of contract, violations of Security and Exchange Commission ("SEC") Rule 10b-5, and violations of the Alabama Securities Act. The amended complaint also names the Company's Chairman, President, and CEO, Richard J. Sullivan ("Sullivan"), as a defendant. On March 17, 2015, the Company, NACSV and Sullivan filed a motion to dismiss the amended complaint seeking dismissal for failure to state valid causes of action, for lack of personal jurisdiction, or alternatively to transfer the case to the United States District Court in and for the Middle District of Florida. Dekle and Ramsay responded on March 31, 2015, and the Company filed its response thereto on April 7, 2015.

On June 2, 2015, Dekle passed away. On June 5, 2015, the Court denied the Company's motion to transfer the case to Florida. On June 10, 2015, the Company filed a motion to reconsider the Court's denial of its motion to transfer the case to Florida.

On June 15, 2015, Ramsay filed a second amended complaint. On June 25, 2015, the Company filed a motion to dismiss the second amended complaint. The Company's Motion to Dismiss was denied.

On September 30, 2015, the Court granted the Company's Renewed Motion to Transfer Venue. The case was transferred to the Middle District of Florida.

On September 2, 2016, a Notice of Settlement was filed by Global Digital Solutions, Inc., North American Custom Specialty Vehicles, Inc., and Richard J. Sullivan.

On September 8, 2016, an Order was entered dismissing the case without prejudice and subject to the right of the parties to submit a stipulated form of final order or judgment or to move to reopen the action, upon good cause shown,

On July 27, 2017, the Company and Dekle and Ramsay entered into to a Settlement Agreement. The Company and the plaintiff came to the following agreements:

- i. Judgment is due to be entered against the Company in the amount of \$300,000 if the sum of \$20,000 as noted in iv is not paid.
- ii. The Company grants the plaintiffs vehicles and trailers in connection to this proceeding.
- iii. The Company will assist the plaintiffs in obtaining possession of the said vehicles.
- iv. The Company will pay the plaintiffs the sum of \$20,000. The \$20,000 settlement was paid in August 2017.

PowerUp Lending Group, LTD., v. North American Custom Specialty Vehicles, Inc. a Delaware Corporation d/b/a NACS Vehicles, Inc. a Subsidiary of Global Digital and Global Digital Solutions, Inc. and Jerome J. Gomolski, United States District Court for the Eastern District of New York, Case No.: 2:16-cv-01025-ADS-AYS

On September 13, 2017, Power Up received a default judgment against the Company in the amount of \$109,302.00. The Company negotiated a settlement agreement on December 21, 2017 with Power Up to pay \$90,000 in three installments of \$30,000. As of May 15, 2018, the company has paid the entire amount (Note 5).

On June 14, 2018, a Satisfaction of Judgment regarding the Default Judgment was entered in favor of Power Up Lending Group, Ltd. against Global Digital Solutions, Inc., Jerome J. Gomolski, and North American Custom Specialty Vehicles, Inc.

Global Digital Solutions, Inc. et. al. v. Communications Laboratories, Inc., et. al., Eighteenth Judicial Circuit in and for Brevard County, Case No.: 05-2015-CA-012250

On January 19, 2015, the Company and NACSV filed suit against Communications Laboratories, Inc., ComLabs Global, LLC, Roland Lussier, Brian Dekle, John Ramsay and Wallace Bailey for conversion and breach of contract in a dispute over the payment of a \$300,000 account receivable that ComLabs owed to NACSV but sent payment directly to Brian Dekle. The case was filed in the Eighteenth Judicial Circuit in and for Brevard County Florida, case no. 05-2015-CA-012250. On February 18, 2015 (i) defendants Communications Laboratories, Inc., ComLabs Global, LLC and Roland Lussier and (ii) defendant Wallace Bailey filed their respective motions to dismiss seeking, among other things, dismissal for failure to state valid causes of action, lumping and failure to post a non-resident bond. On February 26, 2015, defendants Dekle and Ramsay filed their motion to dismiss, or stay action, based on already existing litigation between the parties. NACSV filed its required bond on March 2, 2015.

On August 24, 2016, Jeff Hull, Individually and on Behalf of All Others Similarly Situated ("Hull") filed suit in the *United States District Court for the District of New Jersey* against Global Digital Solutions, Inc. ("GDSI"), Richard J. Sullivan ("Sullivan"), David A. Loppert ("Loppert"), William J. Delgado ("Delgado"), Arthur F. Noterman ("Noterman") and Stephanie C. Sullivan ("Stephanie Sullivan") seeking to recover compensable damages caused by Defendants' alleged violations of federal securities laws and to pursue remedies under the Securities Exchange Act of 1934. On January 18, 2018, pursuant to the Court's December 19, 2017 Order granting Plaintiff Hull leave to file an amended Complaint, Plaintiff Hull filed a Second Amended Complaint against Defendants. On February 8, 2018, Defendants GDSI and Delgado filed a Second Motion to Dismiss the Complaint. On February 8, 2018, Defendant Loppert filed a Motion for Extension of Time to File an Answer. On February 13, 2018, Defendant Loppert filed a Motion to Dismiss the Second Amended Complaint for Lack of (personal) Jurisdiction and for Failure to State a Claim. On February 20, 2018, Plaintiff Michael Perry ("Perry") filed a Brief in Opposition to Defendants GDSI and Delgado's Second Motion to Dismiss the Complaint and to Defendant Loppert's Motion to Dismiss the Second Amended Complaint for Lack of (personal) Jurisdiction and for Failure to State a Claim. On February 26, 2018, Defendants GDSI and Delgado filed a Reply Brief to Plaintiff Michael Perry's Brief in Opposition to their Motion to Dismiss the Second Amended Complaint. On February 26, 2018, Defendant Loppert filed a Response in Support of Defendants GDSI and Delgado's Second Motion to Dismiss the Complaint. On March 12, 2018, Defendant Loppert filed a Reply Brief to Plaintiff Perry's Brief in Opposition to Defendant Loppert's Motion to Dismiss the Second Amended Complaint for Lack of (personal) Jurisdiction and for Failure to State a Claim. On September 14, 2018, an Order was entered denying the Defendants GDSI and Loppert's Motions to Dismiss. On September 28, 2018, both Defendants filed Answers to the Amended Complaint. On February 13, 2019, an Order was entered referring the case to mediation. The parties were to submit a status report by April 15, 2019. On June 12, 2019, Plaintiff Perry filed a Motion for Entry of an Order Preliminarily Approving Class Action Settlement and Establishing Notice Procedures. On July 15, 2019, an Order was entered granting Plaintiff Perry's Motion for Entry of Preliminary Approval of a Class Action Settlement. On October 9, 2019, Plaintiff Perry filed a Motion for Entry of an Order Granting Final Approval of a Class Action Settlement and a Motion for Attorney Fees, Reimbursement of Expenses, and Awards to Lead Plaintiff and Lopez. On November 6, 2019, an Order was entered granting Plaintiff Perry's Motion for Attorney Fees. On November 6, 2019, an Order and Final Judgment was entered granting Plaintiff Perry's Motion for Settlement. This settlement amount was paid for by the Director's and Officer's insurance. Attorney's fees were included in the settlement amount. No amount is accrued or paid from the Company.

Securities and Exchange Commission v. Global Digital Solutions, Inc., Richard J. Sullivan and David A. Loppert, United States District Court for the Southern District of Florida, Case No. 9:16-cv-81413-RLR

On August 11, 2016, the Securities and Exchange Commission ("SEC") filed suit in the *United States District Court for the Southern District of Florida* against Global Digital Solutions, Inc. ("GDSI"), Richard J. Sullivan ("Sullivan") and David A. Loppert ("Loppert") to enjoin GDSI; Sullivan, GDSI's former Chairman and CEO; and Loppert, GDSI's former CFO for alleged further violations of the anti-fraud and reporting provisions of the federal securities laws, and against Sullivan and Loppert for alleged further violations of the certification provisions of the federal securities laws.

On October 12, 2016, Defendant GDSI filed its First Answer to the Complaint. On November 9, 2016, Defendant Sullivan filed a Letter with the Court denying all allegations regarding the case. On December 15, 2016, the SEC filed a Motion for Judgment and Notice of Filing of Consent of Defendant Loppert to entry of Final Judgment by the SEC. On December 19, 2016, the Court entered an order granting the SEC's Motion for Judgment as to Defendant Loppert. On December 21, 2016, the SEC filed a Notice of Settlement as entered into by it and Defendants GDSI and Sullivan. On December 23, 2016, the Court entered an Order staying the case and directing the Clerk of the Court to close the case for statistical purposes per the December 21, 2016 Notice of Settlement. On March 7, 2017, the SEC moved for a Judgment of Permanent Injunction and Other Relief and Notice of Filing Consent of Defendant GDSI to Entry of Judgment by the SEC. On March 13, 2017, the Judge signed the Judgment as to Defendant GDSI and it was entered on the Court's docket. On April 6, 2017, the SEC moved for a final Judgment of Permanent Injunction and Other Relief and Notice of Filing Consent of Defendant Sullivan. On April 10, 2017, the Judge signed the final Judgment as to Defendant Sullivan and it was entered on the Court's docket. On December 21, 2017, the SEC moved for a final Judgment and Notice of Filing Consent of Defendant GDSI to Entry of Final Judgment. On January 2, 2018, the Judge signed the Final Judgment as to Defendant GDSI and it was entered on the Court's docket. The amount of the judgement is One Hundred Thousand Dollars (\$100,000.00) plus interest, which is included in accrued expenses in the accompanying consolidated balance sheet.

On September 19, 2016, Adrian Lopez, derivatively, and on behalf of Global Digital Solutions, Inc., filed an action in New Jersey Superior Court sitting in Mercer County, General Equity Division. That action was administratively dismissed for failure to prosecute. Plaintiff Lopez, through his counsel, filed a motion to reinstate the matter on the general equity calendar on or about February 10, 2017. The Court granted the motion unopposed on or about April 16, 2017. On May 15, 2017, Defendant William Delgado ("Delgado") filed a Notice of Removal of Case No. C-70-16 from the *Mercer County Superior Court of New Jersey* to the *United States District Court for the District of New Jersey*. On May 19, 2017, Defendant Delgado filed a First Motion to Dismiss for Lack of Jurisdiction. On May 20, 2017, Defendant David A. Loppert ("Loppert") filed a Motion to Dismiss for Lack of (Personal) Jurisdiction. On June 14, 2017, Plaintiff Adrian Lopez ("Lopez") filed a First Motion to Remand the Action back to State Court. On June 29, 2017, Defendant Delgado filed a Memorandum of Law in Response and Reply to the Memorandum of Law in Support of Plaintiff's Motion to Remand and in Response to Defendants Delgado's and Loppert's Motions to Dismiss. On January 16, 2018, a Memorandum and Order granting Plaintiff's Motion to Remand the case back to the *Mercer County Superior Court of New Jersey* was signed by the Judge and entered on the Docket. Defendants Delgado and Loppert's Motions to Dismiss were denied as moot. On February 2, 2018, Defendants filed a Motion to Dismiss the Complaint. On February 20, 2018, Plaintiff filed a Motion to Consolidate Cases. On March 21, 2018, Plaintiff filed an Opposition to Defendants' Motion to Dismiss the Complaint. On March 23, 2018, Defendants filed a Brief in Reply to Plaintiff's Opposition to Defendants' Motion to Dismiss the Complaint. The Court held a hearing on the motions to dismiss and consolidate. Jurisdictional discovery was ordered. On October 12, 2018, the Court granted Defendants' Motion to Dismiss for Lack of Personal Jurisdiction. On October 15, 2018, an Order was entered denying without prejudice Plaintiff's Motion to Consolidate.

Adrian Lopez v. Global Digital Solutions, Inc. and William J. Delgado, Superior Court of New Jersey, Chancery Division, Mercer County, Equity Part, Docket No. MER-L-002126-17

On September 28, 2017, Plaintiff Adrian Lopez ("Lopez") brought an action against Global Digital Solutions, Inc. ("GDSI") and William J. Delgado ("Delgado") to compel a meeting of the stockholders of Global Digital Solutions, Inc. pursuant to Section 2.02 of GDSI's Bylaws and New Jersey Revised Statute § 14A:5-2. On October 27, 2017, Defendants GDSI and Delgado filed a Motion to Stay the Proceeding. On November 24, 2017, Plaintiff filed an Objection to Defendants' Motion to Stay the Proceeding. On January 19, 2018, Defendants' Motion to Stay the Proceeding was denied. On February 2, 2018, Defendants filed a Motion to Dismiss the Complaint. On February 20, 2018, Plaintiff filed a Motion to Consolidate Cases. On March 21, 2018, Plaintiff filed an Opposition to Defendants' Motion to Dismiss the Complaint. On March 23, 2018, Defendants filed a Brief in Reply to Plaintiff's Opposition to Defendants' Motion to Dismiss the Complaint. As of this date, the Court has not issued a decision and Order regarding Defendants' Motion to Dismiss the Complaint. The Company believes the likelihood of an unfavorable outcome of the dispute is remote.

PMB Helin Donovan, LLP vs. Global Digital Solutions, Inc. in the Circuit Court for the 15TH Judicial Circuit in and for Palm Beach County, Florida, Docket No.: 50-2017-CA-011937-XXXX-MB

On October 31, 2017, PMB Helin Donovan, LLP filed an action for account stated in Palm Beach County. Global Digital Solutions, Inc. ("GDSI") settled the matter for Forty Thousand Dollars (\$40,000.00), of which the first payment of Ten Thousand Dollars (\$10,000.00) was paid on May 16, 2018. The \$40,000 is included in accounts payable as of December 31, 2019.

Jennifer Carroll, vs. Global Digital Solutions, Inc., North American Custom Specialty Vehicles, Inc. in the Circuit Court for the 15th Judicial Circuit in and for Palm Beach County, Florida, Case NO.: 50-2015-CC-012942-XXXX-MB

On October 27, 2017, Plaintiff Jennifer Carroll moved the court for a default judgment against Defendant Global Digital Solutions, Inc. ("GDSI") and its subsidiary North American Custom Specialty Vehicles Inc. The amount of the judgement is Fifteen Thousand Dollars (\$15,000.00) plus fees of Thirteen Thousand Three Hundred Fifty-Three Dollars Forty-Four Cents (\$13,353.44) and costs of Six Hundred Twenty-Four Dollars Thirty Cents (\$624.30).

Consulting agreements

The Company entered into two consulting agreements (See Note 5) in May 2016, for services to be provided in connection towards the resolution of the Rontan lawsuit (below). The consulting agreements includes a monthly retainer payment of \$10,000 to each consultant. The agreement also includes consideration of 5,000,000 shares of restricted common stock of the Company, plus a 5% cash consideration of the Resolution Progress Funding, (defined as upon the retention of legal counsel and receipt of funding for the litigation), as of the Resolution Progress Funding date and 10,000,000 shares of restricted common stock of the Company and a 5% cash consideration of the Resolution Funding amount (defined as a settlement or judgement in favor of the Company by Rotan), at the Resolution Funding date. The Resolution Progress funding was met on December 22, 2017.

Effective October 13, 2015, the Company (as "Purchaser") entered into the SPSA dated October 8, 2015 with Joao Alberto Bolzan and Jose Carlos Bolzan, both Brazilian residents (collectively, the "Sellers") and Grupo Rontan Electro Metalurgica, S.A., a limited liability company duly organized and existing under the laws of Federative Republic of Brazil ("Rontan") (collectively, the "Parties"), pursuant to which the Sellers agreed to sell 100% of the issued and outstanding shares of Rontan to the Purchaser on the closing date.

The purchase price shall consist of a cash amount, a stock amount and an earn-out amount as follows: (i) Brazilian Real ("R") \$100 million (approximately US\$26 million) to be paid by the Purchaser in equal monthly installments over a period of forty eight (48) months following the closing date; (ii) an aggregate of R\$100 million (approximately US\$26 million) in shares of the Purchaser's common stock, valued at US\$1.00 per share; and (iii) an earn-out payable within ten business days following receipt by the Purchaser of Rontan's audited financial statements for the 12-months ended December 31, 2017, 2018 and 2019. The earn-out shall be equal to the product of (i) Rontan's earnings before interest, taxes, depreciation and amortization ("EBITDA") for the last 12 months, and (ii) twenty percent and is contingent upon Rontan's EBITDA results for any earn-out period being at least 125% of Rontan's EBITDA for the 12-months ended December 31, 2015. It is the intention of the parties that the stock amount will be used by Rontan to repay institutional debt outstanding as of the closing date.

Under the terms of a Finders Fees Agreement dated April 14, 2014, we have agreed to pay RLT Consulting Inc., a related party, a fee of 2% (two percent) of the Transaction Value, as defined in the agreement, of Rontan upon closing. The fee is payable one-half in cash and one-half in shares of our common stock.

Specific conditions to closing consist of:

- a) Purchaser's receipt of written limited assurance of an unqualified opinion with respect to Rontan's audited financial statements for the years ended December 31, 2013 and 2014 (the "Opinion");
- b) The commitment of sufficient investment by General American Capital Partners LLC (the "Institutional Investor"), in the Purchaser following receipt of the Opinion;
- c) The accuracy of each Parties' representations and warranties contained in the SPSA;
- d) The continued operation of Rontan's business in the ordinary course;
- e) The maintenance of all of Rontan's bank credit lines in the maximum amount of R\$200 million (approximately US\$52 million) under the same terms and conditions originally agreed with any such financial institutions, and the maintenance of all other types of funding arrangements. As of the date of the SPSA, Rontan's financial institution debt consists of not more than R\$200 million (approximately US\$52 million), trade debt of not more than R\$50 million (approximately US\$13 million) and other fiscal contingencies of not more than R\$95 million (approximately US\$24.7 million);
- f) Rontan shall enter into employment or consulting service agreements with key employees and advisors identified by the Purchaser, including Rontan's Chief Executive Officer; and
- g) The Sellers continued guarantee of Rontan's bank debt for a period of 90 days following issuance of the Opinion, among other items.

The Institutional Investor has committed to invest sufficient capital to facilitate the transaction, subject to receipt of the Opinion, as well as the ability to acquire 100% of the outstanding stock of Rontan at a price of \$200 million BR, and the Company can acquire 100% of all real estate held by Rontan.

Subject to satisfaction or waiver of the conditions precedent provided for in the SPSA, the closing date of the transaction shall take place within 10 business days from the date of issuance of the Opinion.

Rontan is engaged in the manufacture and distribution of specialty vehicles and acoustic/visual signaling equipment for the industrial and automotive markets.

Subsequent to December 31, 2015, on April 1, 2016, we believed that we had satisfied or otherwise waived the conditions to closing (as disclosed under the SPSA, the closing was subject to specific conditions to closing, which were waivable by us,) and advised the Sellers of our intention to close the SPSA and demanded delivery of the Rontan Securities. The Sellers, however, notified us that they intend to terminate the SPSA. We believe that the Sellers had no right to terminate the SPSA and that notice of termination by the Sellers was not permitted under the terms of the SPSA.

On January 31, 2018, we announced that we initiated a lawsuit for damages against Grupo Rontan Metalurgica, S. A. ("Rontan") and that company's controlling shareholders, Joao Alberto Bolzan and Jose Carlos Bolzan. The action has been filed in the United States District Court for the Southern District of Florida. The complaint alleges that Rontan is wholly-owned by Joao Bolzan and Jose Bolzan. In the complaint, we further allege that Rontan and its shareholders improperly terminated a Share Purchase and Sale Agreement (the "SPA") by which we were to acquire whole ownership of Rontan.

On February 5, 2018, United States District Court Southern District of Florida filed a Pretrial Scheduling Order and Order Referring Case to Mediation dated February 5, 2018 for the Company's lawsuit against Grupo Rontan Electro Metalurgica, S.A., et al. The Case No. is 18-80106-Civ-Middlebrooks/Brannon. The court has issued a schedule outlining various documents and responses that are to be delivered by the parties as part of the discovery plan.

On April 25, 2018, the Note of Filing Proposed Summons was completed by the Company. On April 26, 2018, a summons was issued to Grupo Rontan Electro Metalurgica, S.A. Also, on May 15, 2018, the Company filed a motion for Issuance of Letters Rogatory.

On or about January 31, 2019, Defendants filed a Motion to Dismiss for Failure to State a Claim for failure to fulfill conditions precedent in the consummation of the contract in question. Defendants filed a Motion to Dismiss challenging jurisdiction, venue, and *forum nonconvenes*. On or about May 21, 2019, the Court denied their motions to dismiss for lack of personal jurisdiction, improper venue and *forum nonconvenes*. The court granted their Motion to Dismiss for Failure to State a Claim for failure to fulfill conditions precedent in the consummation of the contract in question but, granted leave to amend. On or about June 7, 2019, counsel filed an amended complaint. On or about June 21, 2019, defendants answered the amended complaint. The litigation moved from the pleading stage to discovery. The Company and Rontan/Bolzans entered into court order mediation on November 7, 2019. Although there was some movement by each side, the sides still remain apart. Trial is scheduled for December 9, 2019.

ITEM 1A. RISK FACTORS

As a smaller reporting company, we are not required to provide the information required by this Item. We note, however, that an investment in our common stock involves a number of very significant risks. Investors should carefully consider the risk factors included in the "Risk Factors" section of our Annual Report on Form 10-K for our fiscal year ended December 31, 2019, as filed with SEC on April 29, 2020, in addition to other information contained in such Annual Report and in this Quarterly Report on Form 10-Q, in evaluating the Company and our business before purchasing shares of our common stock. The Company's business, operating results and financial condition could be adversely affected due to any of those risks.

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

On January 24, 2020, the Company issued 281,955 common shares to a consultant pursuant to the consulting agreement of December 23,2019.

On January 31, 2020, the Company issued 2,000,000 common shares to Crown Bridge in accordance with the note payable conversion feature. Crown Bridge converted \$8,050 of principal 750.00 of fees. The remaining principal balance of the First Tranche after the conversion is \$16,950.00

On February 7, 2020, the Company and Power Up Lending Group entered into a security purchase agreement for a 10% Convertible Note in the aggregate principal of \$103,000 due on February 7,2021. The note is convertible into shares of common stock of the Company. The conversion price is equal to the Variable Conversion price which is defined as 61% of the Market Price for the lowest two trading dates during a fifteen-day trading period ending on the latest complete trading date prior to the Conversion date. As of the issuance date of these financial statements, the note remains outstanding.

On April 15, 2020, the Company and Platinum Point Capital LLC entered into a security purchase agreement for a 10% Convertible Note in the aggregate principal of \$82,500 due on April 15,2021. The note is convertible into shares of common stock of the Company. The conversion price is equal to the Variable Conversion price which is defined as 60% of the Market Price for the lowest twenty trading dates period ending on the latest complete trading date prior to the Conversion date. As of the issuance date of these financial statements, the note remains outstanding.

On April 17, 2020, the Company issued 796,053 common shares to Tangiers Global for the Forbearance Agreement dated April 16,2020 to the \$137,500 Convertible Promissory Note dated October 16, 2019. This agreement extended the conversion feature of the note from April 16, 2020 until May 16, 2020.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit NumberDescription

(2)	Plan of acquisition, reorganization, arrangement, liquidation or succession
2.1	Purchase Agreement with Bronco Communications, LLC dated January 1, 2012 (incorporated by reference to our Form 10 filed on August 8, 2013)
2.2	Amendment to Purchase Agreement with Bronco Communications, LLC dated October 15, 2012 (incorporated by reference to our Form 10 filed on August 8, 2013)
2.3	Agreement of Merger and Plan of Reorganization with Airtronic USA, Inc. dated October 2012 (incorporated by reference to our Form 10 filed on August 8, 2013)
2.4	First Amendment to Agreement of Merger and Plan of Reorganization with Airtronic, USA, Inc. dated August 5, 2013 (incorporated by reference to our Form 10 filed on August 8, 2013)
2.5	Equity Purchase Agreement with Brian A. Dekle, John Ramsey, GDSI Acquisition Corporation, Global Digital Solutions, Inc., and North American Custom Specialty Vehicle, LLC dated June 16, 2014 (incorporated by reference to our Current Report on Form 8-K filed on June 19, 2014)

2.6	Share Purchase and Sale Agreement with Global Digital Solutions, Inc., Grupo Rontan Electro Metalurgica, S.A., Joao Alberto Bolzan and Jose Carlos Bolzan dated October 8, 2015 (incorporated by reference to our Current Report on Form 8-K filed on October 19, 2015)
(3)	(i) Articles of Incorporation; and (ii) Bylaws
3.1	Certificate of Incorporation dated August 28, 1995 (incorporated by reference to our Form 10 filed on August 8, 2013)
3.2	Articles of Merger dated March 18, 2004 (incorporated by reference to our Form 10 filed on August 8, 2013)
3.3	Certificate of Amendment to the Certificate of Incorporation dated August 06, 2013 (incorporated by reference to our Form 10 filed on August 8, 2013)
3.4	Bylaws dated August 28, 1995 (incorporated by reference to our Form 10 filed on August 8, 2013)
3.5	Certificate of Amendment to Certificate of Incorporation dated July 7, 2014 (incorporated by reference to our Current Report on Form 8-K filed on July 30, 2014)
3.6	Certificate of Amendment to Certificate of Incorporation dated May 18, 2015 (incorporated by reference to our Current Report on Form 8-K filed on May 20, 2015)
(10)	Material Agreements
10.1	Debtor in Possession Note Purchase Agreement with Airtronic USA, Inc. dated October 22, 2012 (incorporated by reference to our Form 10 filed on August 8, 2013)
10.2	Secured Promissory Note with Airtronic USA, Inc. dated October 22, 2012 (incorporated by reference to our Form 10 filed on August 8, 2013)
10.3	Security Agreement with Airtronic USA, Inc. dated October 22, 2012 (incorporated by reference to our Form 10 filed on August 8, 2013)
10.4	Bridge Loan Modification and Ratification Agreement with Airtronic USA, Inc. dated March, 2013 (incorporated by reference to our Form 10 filed on August 8, 2013)
10.5	Second Bridge Loan Modification and Ratification Agreement with Airtronic USA, Inc. dated August 5, 2013 (incorporated by reference to our Form 10 filed on August 8, 2013)
10.6	Secured Promissory Note with Airtronic USA, Inc. dated August 5, 2013 (incorporated by reference to our Form 10 filed on August 8, 2013)
10.7	Intellectual Property Security Agreement with an individual dated August 5, 2013 (incorporated by reference to our Form 10 filed on August 8, 2013)
10.8	Promissory Note Purchase Agreement with Bay Acquisition, LLC dated December 2012 (incorporated by reference to our Form 10 filed on August 8, 2013)
10.9	Secured Promissory Note with an individual dated December 2012 (incorporated by reference to our Form 10 filed on August 8, 2013)
10.10	Security Agreement with Bay Acquisition, LLC dated December, 2012 (incorporated by reference to our Form 10 filed on August 8, 2013)
10.11	Warrant to Purchase Common Stock with an individual dated December 2012 (incorporated by reference to our Form 10 filed on August 8, 2013)
10.12	Amendment to Promissory Note Agreement with an individual dated May 6, 2013 (incorporated by reference to our Form 10 filed on August 8, 2013)
10.13	Subscription Agreement and Securities Purchase Agreement (incorporated by reference to our Form 10 filed on August 8, 2013)
10.14	Form of Indemnification Agreement (incorporated by reference to our Form 10 filed on August 8, 2013)
10.15	Secured Promissory Note with Airtronic USA, Inc. dated October 10, 2013 (incorporated by reference to our Annual Report on Form 10-K filed on March 28, 2014)
10.16	Third Bridge Loan Modification and Ratification Agreement with Airtronic USA, Inc. dated October 10, 2013 (incorporated by reference to our Annual Report on Form 10-K filed on March 28, 2014)
10.17	Investment Banking Agreement with Midtown Partners & Co, LLC dated October 16, 2013 (incorporated by reference to our Annual Report on Form 10-K filed on March 28, 2014)
10.18	Addendum to Investment Bank Agreement with Midtown Partners & Co, LLC dated October 16, 2013 (incorporated by reference to our registration statement on Form S-1 filed on August 5, 2014)
10.19	2014 Equity Incentive Plan dated May 19, 2014 (incorporated by reference to our registration statement on Form S-1 filed on August 5, 2014)
10.20	Online Virtual Office Agreement dated August 19, 2013 (incorporated by reference to our registration statement on Form S-1 filed on August 5, 2014)

10.21	Restricted Stock Unit Agreement with Stephen L. Norris dated August 25, 2014 (incorporated by reference to our Current Report on Form 8-K/A filed on August 25, 2014)
10.22	Securities Purchase Agreement with Charter 804CS Solutions, Inc dated December 8, 2014 (incorporated by reference to our Current Report on Form 8-K filed on December 12, 2014)
10.23	Convertible Redeemable Note with Charter 804CS Solutions, Inc dated December 8, 2014 (incorporated by reference to our Current Report on Form 8-K filed on December 12, 2014)
10.24	First Amendment to Convertible Redeemable Note with Charter 804CS Solutions, Inc dated February 4, 2015 (incorporated by reference to our Current Report on Form 8-K filed on February 9, 2015)
10.25	Securities Purchase Agreement with an individual dated December 8, 2014 (incorporated by reference to our Current Report on Form 8-K filed on December 12, 2014)
10.26	Convertible Redeemable Note with an individual dated December 8, 2014 (incorporated by reference to our Current Report on Form 8-K filed on December 12, 2014)
10.27	First Amendment to Convertible Redeemable Note dated February 4, 2015 (incorporated by reference to our Current Report on Form 8-K filed on February 4, 2014)
10.28	Securities Purchase Agreement with LG Capital Funding, LLC dated January 16, 2015 (incorporated by reference to our Current Report on Form 8-K filed on January 20, 2015)
10.29	Convertible Redeemable Note with LG Capital Funding, LLC dated January 16, 2015 (incorporated by reference to our Current Report on Form 8-K filed on January 20, 2015)
10.30	Convertible Note with JSJ Investments Inc. dated January 26, 2015 (incorporated by reference to our Current Report on Form 8-K filed on January 30, 2015)
10.31	Securities Purchase Agreement with Adar Bays, LLC dated January 26, 2015 (incorporated by reference to our Current Report on Form 8-K filed on January 30, 2015)
10.32	Convertible Redeemable Note with Adar Bays dated January 26, 2015 (incorporated by reference to our Current Report on Form 8-K filed on January 30, 2015)
10.33	Convertible Note with JMJ Financial dated January 26, 2015 (incorporated by reference to our Current Report on Form 8-K filed on January 30, 2015)
10.34	Convertible Note with Vista Capital Investments, LLC dated February 4, 2015 (incorporated by reference to our Current Report on Form 8-K filed on February 9, 2015)
10.35	Securities Purchase Agreement with KBM Worldwide, Inc dated February 17, 2015 (incorporated by reference to our Current Report on Form 8-K filed on February 24, 2015)
10.36	Convertible Promissory Note with KBM Worldwide, Inc dated February 17, 2015 (incorporated by reference to our Current Report on Form 8-K filed on February 24, 2015)
10.37	Securities Purchase Agreement with EMA Financial, LLC dated February 19, 2015 (incorporated by reference to our Current Report on Form 8-K filed on February 24, 2015)
10.38	Convertible Note with EMA Financial, LLC dated February 19, 2015 (incorporated by reference to our Current Report on Form 8-K filed on February 24, 2015)
10.39	Note Purchase Agreement with Tangiers Investment Group, LLC dated March 8, 2015 (incorporated by reference to our Current Report on Form 8-K filed on March 13, 2015)
10.40	Convertible Promissory Note with Tangiers Investment Group, LLC dated March 8, 2015 (incorporated by reference to our Current Report on Form 8-K filed on March 13, 2015)
10.41	Non-Exclusive Agreement with Carter, Terry & Company dated December 18, 2014 (incorporated by reference to our Annual Report on Form 10-K filed on March 30, 2015)
10.42	Securities Purchase Agreement with VIS Vires Group, Inc. dated April 3, 2015 (incorporated by reference to our Quarterly Report on Form 10-Q filed on May 14, 2015)
10.43	Convertible Promissory Note with VIS Vires Group, Inc. dated April 3, 2015 (incorporated by reference to our Quarterly Report on Form 10-Q filed on May 14, 2015)
10.44	Revenue Based Factoring Agreement with Power Up dated October 1, 2015 (incorporated by reference to our Current Report on Form 8-K filed on October 5, 2015)
10.45	Security Agreement and Guarantee with Power Up dated October 1, 2015 (incorporated by reference to our Current Report on Form 8-K filed on October 5, 2015)
10.46	Revenue Based Factoring Agreement with Power Up dated October 23, 2015 (incorporated by reference to our Current Report on Form 8-K filed on November 5, 2015)
10.47	Security Agreement and Guarantee with Power Up dated October 23, 2015 (incorporated by reference to our Current Report on Form 8-K filed on November 5, 2015)

10.48	Settlement Agreement with an individual dated July 27, 2017 (incorporated by reference to our December 31, 2015 Annual Report on Form 10-K filed on May 31, 2018)
10.49	Settlement Agreement with Power Up Lending Group, Ltd. dated December 21, 2017 (incorporated by reference to our December 31, 2015 Annual Report on Form 10-K filed on May 31, 2018)
10.50	Repayment Agreement with JMJ Financial dated December 13, 2017 (incorporated by reference to our December 31, 2015 Annual Report on Form 10-K filed on May 31, 2018)
10.51	Convertible Note Redemption Agreement dated December 12, 2017 (incorporated by reference to our December 31, 2015 Annual Report on Form 10-K filed on May 31, 2018)
10.52	Exchange/Conversion Agreement with an individual dated August 15, 2016 (incorporated by reference to our December 31, 2015 Annual Report on Form 10-K filed on May 31, 2018)
10.53	Promissory Note with Dragon Acquisitions dated August 31, 2017 (incorporated by reference to our December 31, 2015 Annual Report on Form 10-K filed on May 31, 2018)
10.54	Stock Purchase Agreement with Empire Relations Group, Inc. dated August 16, 2017 (incorporated by reference to our December 31, 2015 Annual Report on Form 10-K filed on May 31, 2018)
10.55	Prepaid Forward Purchase Agreement with Boies Schiller Flexner LLP dated December 22, 2017 (incorporated by reference to our December 31, 2015 Annual Report on Form 10-K filed on May 31, 2018)
10.56	Demand Promissory Note with Vox Business Trust, LLC dated December 19, 2017 (incorporated by reference to our December 31, 2015 Annual Report on Form 10-K filed on May 31, 2018)
10.57	Demand Promissory Note with RLT Consulting, Inc. dated December 26, 2017 (incorporated by reference to our Quarterly Report on Form 10-Q filed on June 13, 2018)
10.58	Promissory Note with an individual dated May 1, 2018 (incorporated by reference to our Quarterly Report on Form 10-Q filed on June 13, 2018)
10.59	Investment Return Purchase Agreement with an individual dated May 15, 2018 (incorporated by reference to our Quarterly Report on Form 10-Q filed on June 13, 2018)
10.60	Investment Return Purchase Agreement with an individual dated March 28, 2018 (incorporated by reference to our Quarterly Report on Form 10-Q filed on August 14, 2018)
10.61	Personal Guaranty of Securities Purchase Agreement dated June 4, 2018 (incorporated by reference to our Quarterly Report on Form 10-Q filed on August 14, 2018)
10.62	Secured Original Issue Discount Promissory Note with GS Capital Partners, LLC dated June 4, 2018 (incorporated by reference to our Quarterly Report on Form 10-Q filed on August 14, 2018)
10.63	Promissory Note with Riptide Capital, LLC dated April 24, 2018 (incorporated by reference to our Quarterly Report on Form 10-Q filed on August 14, 2018)
10.64	Stock Pledge Agreement with GS Capital Partners, LLC dated June 3, 2018 (incorporated by reference to our Quarterly Report on Form 10-Q filed on August 14, 2018)
10.65*	Equity Purchase Agreement dated October 19, 2018 with Peak One Opportunity Fund, LP
10.66*	Convertible Promissory Note dated November 7, 2018 with Auctus Fund LLC
10.67*	Securities Purchase Agreement dated November 7, 2018 with Auctus Fund LLC
(31)	Rule 13a-14(a)/15d-14(a) Certifications
31.1*	Section 302 Certification under the Sarbanes-Oxley Act of 2002 of the Principal Executive Officer
31.2*	Section 302 Certification under the Sarbanes-Oxley Act of 2002 of the Principal Financial Officer and Principal Accounting Officer
(32)	Section 1350 Certifications
32.1*	Section 906 Certification under the Sarbanes-Oxley Act of 2002 of the Chief Executive Officer
32.2*	Section 906 Certification under the Sarbanes-Oxley Act of 2002 of the Principal Accounting Officer
(101)*	Interactive Data Files
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

‡ Employment Agreement.

SIGNATURES

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

GLOBAL DIGITAL SOLUTIONS, INC.

By: /s/ William Delgado

William Delgado

Chief Executive Officer

(Principal Executive Officer)

Date: May 19, 2020

By: /s/ Jerome J. Gomolski

Jerome J. Gomolski

Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

Date: May 19, 2020