

QUARTERLY VARIANCE ANALYSIS REPORT

Q4 2023

DeepShield Systems, Inc.

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1. EXECUTIVE SUMMARY

This Quarterly Variance Analysis Report (the "Report") has been prepared by the Office of the Chief Financial Officer of DeepShield Systems, Inc. (the "Company") for the quarter ending December 31, 2023. This Report analyzes material variances in financial performance metrics against both quarterly projections and year-over-year comparisons.

2. METHODOLOGY AND SCOPE

1. The variances analyzed herein are calculated using Generally Accepted Accounting Principles (GAAP) and internal reporting methodologies established by the Company's Finance Committee on March 15, 2023.
2. Materiality threshold is set at +/- 5% for revenue items and +/- 3% for expense items, per Company policy DS-FIN-2023-014.

3. REVENUE VARIANCE ANALYSIS

1. **Core Product Revenue**

- Projected Q4 2023: \$8,750,000
- Actual Q4 2023: \$9,125,000
- Variance: +4.29% (favorable)
- Primary drivers: Accelerated adoption of maritime security module

2. **Professional Services Revenue**

- Projected Q4 2023: \$2,100,000
- Actual Q4 2023: \$1,875,000
- Variance: -10.71% (unfavorable)
- Primary drivers: Implementation delays on two major contracts

3. ****Recurring Revenue****

- Projected Q4 2023: \$3,250,000
- Actual Q4 2023: \$3,425,000
- Variance: +5.38% (favorable)
- Primary drivers: Higher than expected renewal rates

4. **EXPENSE VARIANCE ANALYSIS**

1. ****Research & Development****

- Projected Q4 2023: \$2,850,000
- Actual Q4 2023: \$3,125,000
- Variance: +9.65% (unfavorable)
- Primary drivers: Accelerated AI/ML development initiatives

2. ****Sales & Marketing****

- Projected Q4 2023: \$1,950,000
- Actual Q4 2023: \$1,875,000
- Variance: -3.85% (favorable)
- Primary drivers: Delayed trade show participation

3. ****General & Administrative****

- Projected Q4 2023: \$1,425,000
- Actual Q4 2023: \$1,395,000
- Variance: -2.11% (favorable)
- Primary drivers: Operating efficiency improvements

5. **OPERATIONAL METRICS**

1. ****Customer Acquisition Cost (CAC)****

- Projected Q4 2023: \$125,000
- Actual Q4 2023: \$118,500
- Variance: -5.20% (favorable)

2. ****Average Contract Value (ACV)****

- Projected Q4 2023: \$275,000
- Actual Q4 2023: \$292,500
- Variance: +6.36% (favorable)

6. RISK FACTORS AND MITIGATION

1. The following material variances require management attention:

- Professional services revenue shortfall
- R&D expense overrun
- Implementation timeline delays

2. Management has implemented the following mitigation strategies:

- Restructuring of professional services delivery team
- Implementation of enhanced project management controls
- Review of R&D resource allocation

7. FORWARD-LOOKING ADJUSTMENTS

1. Based on Q4 2023 variances, the following adjustments are recommended for Q1 2024 projections:

- Professional services revenue targets reduced by 8%
- R&D budget increased by 7%
- Implementation timeline buffers increased by 15%

8. CERTIFICATION

The undersigned hereby certifies that this Variance Analysis Report accurately reflects the financial position of DeepShield Systems, Inc. for Q4 2023, and has been prepared in accordance with Company policies and applicable accounting standards.

Dated: January 15, 2024

—

Robert Kessler

Chief Financial Officer

DeepShield Systems, Inc.

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Dr. Marcus Chen

Chief Executive Officer

DeepShield Systems, Inc.

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9. DISCLAIMER

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