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

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2022
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: 001-41092

WAVEDANCER, INC.

(Exact name of registrant as specified in its charter)

Delaware State or other jurisdiction of incorporation or organization	**54-1167364** (I.R.S. Employer Identification No.)
12015 Lee Jackson Memorial Highway Ste 210 **Fairfax, Virginia** (Address of principal executive offices)	**22033** (Zip Code)

Registrant's telephone number, including area code: **(703) 383-3000**

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.001 per share	**WAVD**	**The Nasdaq Stock Market LLC**

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

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

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

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

The aggregate market value of the 15,255,354 shares of common stock held by non-affiliates of the registrant based on the closing price of the registrant's common stock on June 30, 2022, was approximately $20,442,174. For purposes of this computation, all officers, directors and 10% beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed to be an admission that such officers, directors or 10% beneficial owners are, in fact, affiliates of the registrant.

As of March 31, 2023, there were19,259,840 outstanding shares of the registrant's common stock.

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Cautionary Statement Regarding Forward-Looking Statement

This Form 10-K contains forward-looking statements regarding our business, customer prospects, or other factors that may affect future earnings or financial results that are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "could," "would," "expect," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "intends," "potential" and similar expressions intended to identify forward-looking statements. These statements reflect our current views with respect to future events and represent our estimates and assumptions only as of the date of this report. Except as required by law, we assume no obligation to update any forward-looking statements after the date of this report.

Additionally, these forward-looking statements are based on assumptions and are subject to risks and uncertainties which could cause actual results to vary materially from those expressed in the forward-looking statements. These risks include, among others, those detailed under the heading "Risk Factors Summary" and under the heading "Risk Factors" in Item 1A of this report. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Investors should read and understand the risk factors detailed in this report and in other filings with the Securities and Exchange Commission ("SEC").

RISK FACTORS SUMMARY

Our business, financial condition, and operating results may be affected by a number of factors, whether currently known or unknown. Any one or more of such factors could directly or indirectly cause our actual results of operations and financial condition to vary materially from past or anticipated future results of operations and financial condition. Any of these factors, in whole or in part, could materially and adversely affect our business, financial condition, results of operations, and stock price. We have provided a summary of some of these risks below, with a more detailed explanation of the risks applicable to us in Part I, Item 1A. "Risk Factors" and elsewhere in this report.

- Recent, past and future acquisitions and investments could disrupt our business and harm our financial condition and operating results.
- Our operating history and recent changes to our business model make it difficult to evaluate our current business and prospects and may increase the risk that we will not be successful.
- We have had operating losses in four of each of the last five years and may not achieve or maintain profitability in the future.
- A portion of our revenue is expected to be generated by sales to government entities, which are subject to a number of challenges and risks.
- We face intense competition and could lose market share to our competitors, which could adversely affect our business, financial condition, and results of operations.
- We rely on our management team and other key employees and will need additional personnel to grow our business, and the loss of one or more key employees or our inability to hire, integrate, train and retain qualified personnel, including members for our board of directors, could harm our business.
- We are dependent on a few key customer contracts for a significant portion of our future revenue, and a significant reduction in services to one or more of these contracts would reduce our future revenue and harm our anticipated operating results.
- Our proprietary rights may be difficult to enforce or protect, which could enable others to copy or use aspects of our products or subscriptions without compensating us.
- We are dependent on information technology, and disruptions, failures or security breaches of our information technology infrastructure could have a material adverse effect on our operations.
- We depend on computing infrastructure operated by Amazon Web Services ("AWS"), Microsoft, and other third parties to support some of our solutions and customers, and any errors, disruption, performance problems, or failure in their or our operational infrastructure could adversely affect our business, financial condition, and results of operations.
- Failure to comply with governmental laws and regulations could harm our business.
- We are subject to risks associated with our strategic investments, and impairments in the value of our investments could negatively impact our financial results.
- Our failure to raise additional capital or generate the significant capital necessary to expand our operations and invest in new products and subscriptions could reduce our ability to compete and could harm our business.
- The requirements of being a public company may strain our resources, divert management's attention, and affect our ability to attract and retain qualified board members.
- If we are not able to maintain and enhance our brand and our reputation as a provider of high-quality security solutions and services, our business and results of operations may be adversely affected.

PART I

Item 1. Business

WaveDancer, Inc. ("WaveDancer" or the "Company") was originally founded as Information Analysis Incorporated in 1979 as a pioneering information technology consulting and systems engineering company, focused on helping government and commercial organizations move into the information age. In the early 2000s, the Company began specializing in modernization and business transformation to help organizations increase productivity, gain efficiencies, and improve their results through technological transformations. With our acquisition in 2021 of Tellenger, Inc. ("Tellenger"), an IT consulting and software development firm, we acquired competencies in web-based solutions, software development, and data analytics. In December 2021, we reorganized our professional services practice into Tellenger, and as a result, our professional services capabilities were consolidated under a single entity. Soon after the Company also converted from a Virginia corporation to a Delaware corporation.

Helping organizations achieve their enterprise digital transformation goals, Tellenger applies its technology, services and experience to migrating and modernizing legacy software, developing web-based and mobile device solutions - including dynamic electronic forms development and conversion - as well as data analytics. We have modernized over 100 million lines of COBOL code for over 35 governmental and commercial customers. We maintain a pool of skilled COBOL programmers, providing us with a competitive advantage as the labor pool of such programmers is shrinking as aging software professionals retire.

The Company believes combining web-based solutions and IT enterprise capabilities with system modernization will provide us with the skill sets that are needed to help organizations achieve their enterprise-wide digital transformation goals. We foresee this as a key component of our modernization growth since there are billions of lines of code, in both the governmental and commercial sectors, that eventually must be modernized.

As a trusted partner, Tellenger offers a full suite of IT services including consulting, development, training, migration and modernization implementation, and on-site project support. With our IT consulting and software development processes appraised at CMMI Level 3 for their ability to consistently deliver high-quality work using metrics to proactively manage risk, we offer a project framework that meets the “gold standard” of larger firms. We constantly monitor project metrics to ensure we are meeting objectives and identifying areas for improvement. We have performed software development and conversion projects for over 100 commercial and government entities across health, military, and homeland security organizations including, but not limited to, the Department of Agriculture, Department of Defense, Department of the Navy, Department of Education, Department of Homeland Security, Department of the Treasury, Department of Labor, Department of Logistics Agency, Census Bureau, U.S. Small Business Administration, U.S. Army, U.S. Air Force, U.S. Marine Corps, Department of Veterans Affairs, and General Dynamics Information Technology (formerly Computer Sciences Corporation), publicly traded firms, non-profits, and more.

Through WaveDancer’s acquisition of Gray Matters, Inc. (“GMI” or “Gray Matters”) in December 2021, we gained access to blockchain and encryption algorithm technology. Gray Matters’ focus is on the supply chain management software market and in United States intelligence, national security and diplomatic organizations. Based on GMI's initial technology we developed a commercial blockchain-enabled platform, called Maverix, to provide end-to-end visibility, transparency, and security over complex supply chains.

On March 17, 2023, we entered into and closed a Stock Purchase Agreement with Gray Matters Data Corp. (“GMDC”), a company newly formed by StealthPoint LLC, a San Francisco based venture fund, under which the Company sold all of the shares of GMI. In exchange for this sale, the Company received shares of GMDC representing on a primary share basis, assuming the conversion of the Series A preferred referenced below, approximately a 19.9% interest in the GMDC once GMDC completes its initial anticipated fund raising, cash consideration of approximately $935,000 and contingent annual payments equal to five percent (5%) of GMI’s GAAP based revenue through December 31, 2029 attributable to GMI’s blockchain-enabled digital supply chain management platform and associated technologies. The equity interest StealthPoint and other GMDC investors are receiving is in the form of Series A non-participating convertible preferred stock having a one-time liquidation preference and no cumulative dividends. In addition, the Company and GMDC entered into a transition services agreement whereby the Company will continue to provide certain administrative services for GMI. The value of these services is estimated to be $65,000 which was paid by GMDC at closing and is not subject to adjustment. The total cash paid at closing was $1,000,000. The Company also has the right to appoint a director to GMDC’s board of directors and the right to co-invest in the anticipated Series B preferred stock financing round which we understand Gray Matters Data Corp. intends to consummate in the future.

Our Strategy

Our strategy is to grow our business organically as well as through acquisitions.

Through the acquisition of Tellenger in 2021, we began to reposition our legacy professional services business by allocating resources away from third-party product reselling and toward professional services, which provides more consistent revenue at significantly higher margins. We have been seeking to purchase other technology companies whose businesses complement the Company's existing business and whose personnel would better enable us to compete for engagements in our focus areas.

To grow organically, we have hired and plan to continue to hire, business development personnel and intend to become more proactive in bidding as a prime contractor on government proposals and in expanding our outreach to larger prime contractors for subcontract and teaming opportunities. In the current era of digital transformation, companies of all sizes and types recognize the need to leverage enhanced technology to improve their business capabilities, operational efficiencies, and customer experiences. If they approach digital transformation in a structured, timely way they can gain benefits that give them an improved competitive advantage, reduce their time to market, improve the quality of their offerings, and revolutionize their culture in a positive way.

Challenges in providing services to citizens throughout the pandemic heightened awareness and accelerated the progress of modernizations efforts with the U.S. Government. Many government agencies became focused on developing their own government digital strategies in order to improve productivity, streamline data sharing, reduce errors and reduce expenses. Automation also gives governments the information they need to make data-driven decisions.

WaveDancer's offering has the ability to offer a comprehensive set of technology services, that are built on a foundation of innovative technologies, to provide greater flexibility, agility, and security for IT transformations. We will be able to help organizations modernize, transform and manage their technologies. We plan to capitalize on these opportunities in outreach and bids to market our relevant products and services.

Products and Services

While we offer a range of services, historically, two areas of focus for us have been modernization, including cloud services and migrations, and cybersecurity. With our acquisition of Gray Matters, we began expanding our business by adding blockchain-enabled supply chain management capabilities. Each of these areas are more fully described below. As noted above, on March 17, 2023, we sold an approximate 80.1% equity stake in the Gray Matters business.

Modernization

Tellenger's modernization focus spans legacy system modernizations as well as cloud assessment and migration efforts. Through our services, we aim to address client requirements, determine the best plan of action, and execute on that plan. We have provided modernization solutions to more than 40 government and private sector clients, with a particular focus on modernizing older, proprietary mainframe COBOL applications.

Tellenger helps organizations understand their current level of cloud maturity and plan for their next phase of cloud adoption, be it a full cloud or hybrid solution or a private or public cloud and aims to address security concerns in the process. We offer consulting and engineering services that range from cloud adoption to application migrations to cloud optimization. Our customer engagements utilize Amazon Web Services, Microsoft Azure, Google Cloud, and Red Hat.

Cybersecurity

Tellenger specializes in cybersecurity by leveraging its resources within software development and cloud services, and took part in designing, developing, and deploying a large cybersecurity initiative for the U.S. Department of Homeland Security's Continuous Diagnostics and Mitigation ("CDM") program, which enabled the agency to continuously manage its cybersecurity posture through a dynamic approach to fortifying their networks and systems. Most recently, we have also helped design, develop, and implement a multi-tenant cybersecurity-managed service for government agencies known as Dashboard-as-a-Service (DBaaS).

Blockchain-Enabled Supply Chain Platform

With our purchase of Gray Matters we acquired a U.S. government contract to provide a cloud based software platform for tracking, auditing, and monitoring a complex global supply chain. During 2022, we developed a commercial focused platform, that could also be sold to governmental entities, Maverix, that offers a standard user interface (UI) and user experience (UX) to customers and could also be customized for the defense and intelligence sectors. The thesis of the Maverix platform is that it will bring together all transactions, documentation, authorizations – every aspect of a process – in one zero-trust, web-based interface, giving customers an unprecedented level of accountability, auditability, and predictability.

In light of delays in generating revenue from the Blockchain SCM business and the need to invest significant additional capital into the business over at least the next two years to cover continuing operating cash losses, along with the uncertainty inherent in any early-stage technology business, the Company concluded that its best course of action was to sell a majority stake in the business. As explained in Item 1. above, we sold effectively approximately 80.1% of our equity stake in the GMI business to GMDC on March 17, 2023.

Professional Services

The majority of our revenue is derived from services that we provide our U.S. government customers through our subsidiary, Tellenger. Tellenger offers a suite of IT services including consulting, development, training, migration and modernization implementation, and on-site project support. Tellenger's current contracts extend into 2023 and 2024.

Overview of Market

Cloud Solutions Marketplace

The cybersecurity and cloud solutions markets continue to be among the fastest growing segments of the information technology professional services business, as small and large companies and state and federal government agencies are expanding their presence and reach through cloud implementations. Complex web applications generally require knowledge of customers' back-end systems based on mainframe or mid-level computers. We believe that we are one of few small companies that have the expertise to develop these more sophisticated web applications, both internally and through strategic business relationships with software firms.

Information Collection and Dissemination

Given executive level directives to improve outreach to stakeholders, federal and state government agencies are now empowered to find means of facilitating dissemination of information quickly and efficiently. Government requirements are unique in that most government processes are based on forms. Many government agencies rely on thousands of internal and external forms to conduct their business. Forms usage within the federal government is also subject to Section 508 of the Rehabilitation Act and its related accessibility requirements for information and communications technology. Of particular concern are PDF documents, which need special remediation due to generally being inaccessible from mobile devices. PDFs are the predominant format for forms in the federal government, and we support several agencies in Section 508 PDF remediation through our solutions partnership with Adobe Systems.

The U.S. federal government has been employing more form data entry and citizen communication using mobile devices such as iPhones, iPads, and mobile devices employing the Android and other operating systems. Working with Adobe's latest versions of Adobe Experience Manager ("AEM"), we have been able to build applications for several federal clients employing mobile devices, as well as converting paper-based forms into "dynamic" or "adaptive" forms.

Legacy Migration and Modernization

The migration and modernization market is complex and diverse. Many large legacy systems remain in use because of the enormous cost to re-engineer these systems. Typically, these legacy systems have been patched and modified without adequate documentation for decades and utilize multiple reporting applications and methods used to recall the information contained within the systems. Currently, the options available to modernize these systems are many and include introduction of new hardware systems, employing advanced software languages, and utilization of the Internet or Intranets to achieve desired efficiencies. All of these options are often very expensive and time consuming because they require starting all over in defining requirements, designing structures, programming, and testing.

Opportunities for our modernization expertise continue to exist as government agencies and private companies are being driven to modernize for various reasons. One major reason is the increasing difficulty of finding and retaining staff with technical skills in outdated but in-use programming languages. Many senior programmers who possess these skills are nearing retirement. Another driving factor is the increased funding by federal and state legislatures to address the upgrading of their legacy systems. Hardware platforms such as Unisys are reaching the horizon of their usefulness, and consequently, older programming and database languages are generally poorly supported by their providers. Maintenance costs are materially increasing as vendors squeeze the most out of clients before the lifecycles of hardware and software expire. The inherent stability of these legacy systems and the costs of modernizing them through traditional methods have been barriers to decision-makers executing on the modernizations, but the increases in resources needed and the decrease in resources available to support these legacy systems will continue to force the issue. In addition, the Internet has added a new level of pressure to compete in the electronic marketplace with sector rivals. Over the next decade, we expect organizations to be under increasing pressure to revamp their older legacy systems.

A segment of mainframe users is interested in simply updating their legacy systems without drastic rewritings to these systems in newer languages or adapting expensive enterprise products (such as SAP or Oracle) to their needs. These potential customers are looking for automated tools that can quickly and cost-effectively move applications onto cheaper computer platforms without the risk of failure. The Company, in conjunction with strategic partners, such as Micro Focus and Software Mining, offers its own conversion tool set and those of our partners in addressing this need and positioning us to uniquely deliver successful results. It is difficult to determine the exact size of this segment, but even a minor share of this market would represent significant prospective customers with meaningful opportunities.

The Company was a major partner in the successful modernization effort of the Small Business Administration (“SBA”) 504 loan program through 2017 and 2018, and we are currently working with those same partners on another modernization effort at the SBA.

Competition

There are hundreds of firms performing traditional information technology services, business intelligence and cybersecurity, and general consulting for the federal government. A great number of them are much larger than we are, and are more established in the marketplace, and have more resources to pursue individual prospects.

The competition in the conversion and modernization market is very strong. Many software professional services companies have had some involvement in this area and profess proficiency in performing these projects. We also face competition from other companies that purport to substantially automate the process through software tools including Blue Phoenix Solutions, Fujitsu, and IBM. Software for enterprise resource planning, such as SAP and Oracle, provides an additional source of competition, although to date, the cost and lengthy installation time for enterprise resource planning software has slowed its implementation in the marketplace. No matter what type of solution is offered, many of our competitors have greater name recognition than our company, a larger, more established customer base, and significantly greater financial and market resources. In addition, our ability to compete in an increasingly crowded marketplace may be hindered by missing credentials and past performance due to the fact that our services to the federal government are principally provided through subcontracts to other firms.

In the realm of enterprise-based web content management systems, there are a number of small and large companies offering such software products and related consulting services. We believe that the Adobe Experience Manager, or AEM, product suite will continue to excel against such competition, including offerings such as Microsoft’s SharePoint solution. AEM has performed well in the federal marketplace due to its full offering of powerful capabilities such as cloud integration and intuitive customization. AEM is a solution that optimizes the authoring, management and delivery of digital media and content across owned channels, including web, mobile, email, print and social communities. From 2019 to 2020, Gartner named Adobe as a leader in multiple categories of its Magic Quadrant reporting including, but not limited to, digital experience platforms, personalization engines, CRM lead management, ad tech, digital commerce, and multichannel marketing hubs.

Government Regulation

We are bound by various rules and regulations promulgated by the federal government and agencies thereunder. We have not experienced undue expense beyond those expenses normally incurred in our ordinary course of business in adhering to such rules and regulations. Since historically most of our business is derived from contracts either directly with the U.S. federal government or as a subcontractor on behalf of U.S. federal government customers, most of our contracts are subject to termination at the election of the government.

Intellectual Property

We depend upon a combination of trade secret and copyright laws, nondisclosure and other contractual provisions and technical measures to protect our proprietary rights in our methodologies, databases and software. We have not filed any patent applications covering our methodologies and software. In addition, we attempt to protect the secrecy of our proprietary databases and other trade secrets and proprietary information through agreements with employees and consultants.

We also seek to protect the source code of our proprietary ICONS legacy code conversion tools suite as trade secrets. The copyright protection accorded to databases, however, is fairly limited. While the arrangement and selection of data can be protected, the actual data is not, and others are free to create software performing the same function. We believe, however, that the creation of competing databases would be very time-consuming and costly.

Employees

As of December 31, 2022, we had 53 full-time and 8 part-time employees. All of our billable professionals have at least four years of related experience. For computer-related services, we believe that the diverse professional opportunities and interaction among our employees contribute to maintaining a stable professional staff with limited turnover.

Upon closing the sale of GMI to GMDC, discussed in Item 1. above, 13 full-time employees resigned from WaveDancer and accepted employment with GMI.

We have no collective bargaining agreements or other such labor contracts with our employees and believe that our employee relationships are satisfactory. In the long term, management will likely hire additional staff to meet its anticipated growth requirements. We do not anticipate encountering material problems in our ability to hire individuals with the requisite employee skill sets, despite a competitive market for our requisite technical skill sets and government clearances, when required. We utilize fee-based recruiting firms when it is necessary to speed up the process of locating and hiring employees with specialized skill sets and clearances.

Available Information

We make available free of charge on or through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, and all amendments to those reports promptly after such material is electronically filed with or furnished to the Securities and Exchange Commission, or SEC. Our website address is www.wavedancer.com.

Item 1A. Risk Factors

We operate in a rapidly changing environment that involves a number of risks, some of which are beyond our control. Our business, financial condition and results of operations could be materially adversely affected by a number of factors. In addition to the factors discussed elsewhere in this report, the following risks and uncertainties could materially harm our business, financial condition, or results of operations, including causing our actual results to differ materially from those projected in any forward-looking statements. Additional risks and uncertainties not presently known to us, or that we currently deem immaterial, may materially adversely affect us in future periods. If any of the following risks or uncertainties actually occurs, our business, financial condition and operating results would likely be adversely affected.

Risks Related to Potential Acquisitions

We may acquire other businesses, products or technologies; if we do, we may be unable to integrate them with our business effectively or at all, which may adversely affect our business, financial condition and operating results.

If we find appropriate opportunities and have adequate funding, we may acquire other businesses, product lines or technologies. However, if we acquire a business, product line or technology, the process of integration may produce unforeseen operating difficulties and expenditures and may absorb significant attention of our management that would otherwise be available for the ongoing development of our business. Further, the acquisition of a business may result in the assumption of unknown liabilities or create risks with respect to our existing relationships with suppliers and customers. If we make acquisitions, we may issue shares of stock that dilute other stockholders, expend cash, incur debt, assume contingent liabilities or create additional expenses related to amortizing intangible assets, any of which may adversely affect our business, financial condition or operating results.

If we are unable to raise additional capital when needed, we may not be able to consummate the acquisition of other businesses.

We may require additional capital to fund operations, capital expenditures and the acquisition of other businesses. We may finance future cash needs through public or private equity offerings, debt financings, or corporate collaborations. Additional funds may not be available when we need them on terms that are acceptable to us, or at all. If adequate funds are not available, we may be required to delay, reduce the scope of or eliminate one or more of our acquisition opportunities. To the extent that we raise additional funds by issuing equity securities, our stockholders may experience dilution, and debt financing, if available, may involve restrictive covenants. We may seek to access the public or private capital markets whenever conditions are favorable, even if we do not have an immediate need for additional capital at that time.

Recent, past and future acquisitions and investments could disrupt our business and harm our financial condition and operating results.

Our success will depend, in part, on our ability to expand our platform and grow our business in response to changing technologies, customer demands and competitive pressures. In some circumstances, we may decide to do so through the acquisition of complementary businesses and technologies rather than through internal development, including, for example, our acquisitions of Tellenger and Gray Matters.

The identification of suitable acquisition candidates can be difficult, time-consuming, and costly, and we may not be able to successfully complete acquisitions that we target in the future. The risks we face in connection with acquisitions, including the above-mentioned acquisitions, include:

- diversion of management time and focus from operating our business to addressing acquisition integration challenges;
- our ability to successfully achieve billings and revenue targets of acquired businesses;
- coordination of research and development and sales and marketing functions;
- integration of solution and service offerings;
- retention of key employees from the acquired company;
- changes in relationships with strategic partners as a result of product acquisitions or strategic positioning resulting from the acquisition;

- cultural challenges associated with integrating employees from the acquired company into our organization;
- integration of the acquired company's accounting, management information, human resources and other administrative systems, as well as the acquired operations, technology and rights to our offerings, and any unanticipated expenses related to such integration;
- the need to implement or improve controls, procedures, and policies at a business that prior to the acquisition may have lacked sufficiently effective controls, procedures and policies;
- financial reporting, revenue recognition or other financial or control deficiencies of the acquired company that we do not adequately address and that cause our reported results to be incorrect;
- liability for activities of the acquired company before the acquisition, including intellectual property infringement claims, violations of laws, commercial disputes, tax liabilities and other known and unknown liabilities;
- completing the transaction and achieving or utilizing the anticipated benefits of the acquisition within the expected timeframe, or at all;
- unanticipated write-offs or charges; and
- litigation or other claims in connection with the acquired company, including claims from terminated employees, customers, former stockholders or other third parties which may differ from or be more significant than the risks our business faces.

Our failure to address these risks or other problems encountered in connection with our past or future acquisitions and investments could cause us to fail to realize the anticipated benefits of these acquisitions or investments, cause us to incur unanticipated liabilities, and harm our business generally. Future acquisitions could also result in dilutive issuances of equity securities, as happened with our Gray Matters acquisition.

There is also a risk that future acquisitions will result in the incurrence of debt, contingent liabilities, amortization expenses, incremental operating expenses or the write-off of goodwill, any of which could harm our financial condition or operating results.

Risks Related to the Conflict in Ukraine

The Russian invasion of Ukraine may expand into a broader international conflict that could adversely affect multiple channels of commerce and markets.

The Russian invasion of Ukraine and resulting market volatility, could adversely affect our business, financial condition, or results of operations. In response to the conflict between Russia and Ukraine, the U.S. and other countries have imposed sanctions or other restrictive actions against Russia. Any of the above factors, including sanctions, export controls, tariffs, trade wars and other governmental actions, could have a material adverse effect on our business, financial condition, cash flows and results of operations and could cause the market value of our common shares to decline.

Risks Related to our Business

The following risk factors relate to our consulting and software development services, which we provide through our wholly-owned subsidiary, Tellenger.

We have had operating losses in three of each of the last four years and may not achieve or maintain profitability in the future.

We have incurred operating losses in each of four of the last five years, including net losses of $17,753,838, $1,131,449, $717,246 and $51,034 during the years ended December 31, 2022, 2021, 2019 and 2018, respectively. Any failure to increase our revenue and manage our cost structure as we grow our business could prevent us from achieving or, if achieved, maintaining profitability. Even if we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis. If we are unable to become and remain profitable, the value of our company could decrease and our ability to raise capital, maintain our research and development efforts, and expand our business could be negatively impacted.

We are subject to the seasonality of U.S. government spending.

We derive a substantial portion of our revenues from U.S. government contracting, and as a result, we are subject to the annual seasonality of the U.S. government purchasing. Because the U.S. government fiscal year ends on September 30, it is not uncommon for U.S. government agencies to award extra tasks in the weeks immediately prior to the end of its fiscal year in order to avoid the loss of unexpended fiscal year funds. As a result of this seasonality, we have historically experienced higher revenues in the third and fourth fiscal quarters, ending September 30 and December 31, respectively, with the pace of orders typically substantially reduced during the first and second fiscal quarters ending March 31 and June 30, respectively.

Our pricing structures for our solutions and services may change from time to time.

We expect that we may change our pricing model from time to time, including as a result of competition, global economic conditions, and general reductions in our customers' spending levels, pricing studies, or changes in how our solutions are broadly consumed. Similarly, as we introduce new products and services, or as a result of the evolution of our existing solutions and services, we may have difficulty determining the appropriate price structure for our products and services. In addition, as new and existing competitors introduce new products or services that compete with ours, or revise their pricing structures, we may be unable to attract new customers at the same price or based on the same pricing model as we have used historically. Moreover, as we continue to target selling our solutions and services to larger organizations, these larger organizations may demand substantial price concessions. In addition, we may need to change pricing policies to accommodate government pricing guidelines for our contracts with federal, state, local, and foreign governments and government agencies. If we are unable to modify or develop pricing models and strategies that are attractive to existing and prospective customers, while enabling us to significantly grow our sales and revenue relative to our associated costs and expenses in a reasonable period of time, our business, financial condition, and results of operations may be adversely impacted.

We depend on computing infrastructure operated by Amazon Web Services ("AWS"), Microsoft, and other third parties to support some of our solutions and customers, and any errors, disruption, performance problems, or failure in their or our operational infrastructure could adversely affect our business, financial condition, and results of operations.

We rely on the technology, infrastructure, and software applications of certain third parties, such as AWS and Microsoft Azure, in order to host or operate some of certain key platform features or functions of our business. Additionally, we rely on computer hardware and cloud capabilities purchased in order to deliver our solutions and services. We do not have control over the operations of the facilities of the third parties that we use. If any of these third-party services experience errors, disruptions, security issues, or other performance deficiencies, if they are updated such that our solutions become incompatible, if these services, software, or hardware fail or become unavailable due to extended outages, interruptions, defects, or otherwise, or if they are no longer available on commercially reasonable terms or prices (or at all), these issues could result in errors or defects in our solutions, cause our solutions to fail, our revenue and margins could decline, or our reputation and brand to be damaged, we could be exposed to legal or contractual liability, our expenses could increase, our ability to manage our operations could be interrupted, and our processes for managing our sales and servicing our customers could be impaired until equivalent services or technology, if available, are identified, procured, and implemented, all of which may take significant time and resources, increase our costs, and could adversely affect our business. Many of these third-party providers attempt to impose limitations on their liability for such errors, disruptions, defects, performance deficiencies, or failures, and if enforceable, we may have additional liability to our customers or third-party providers.

We have experienced, and may in the future experience, disruptions, failures, data loss, outages, and other performance problems with our infrastructure and cloud-based offerings due to a variety of factors, including infrastructure changes, introductions of new functionality, human or software errors, employee misconduct, capacity constraints, denial of service attacks, phishing attacks, computer viruses, malicious or destructive code, or other security-related incidents, and our disaster recovery planning may not be sufficient for all situations. If we experience disruptions, failures, data loss, outages, or other performance problems, our business, financial condition, and results of operations could be adversely affected.

Our systems and the third-party systems upon which we and our customers rely are also vulnerable to damage or interruption from catastrophic occurrences such as earthquakes, floods, fires, power loss, telecommunication failures, cybersecurity threats, terrorist attacks, natural disasters, public health crises such as the COVID-19 pandemic, geopolitical events such as the conflict in Ukraine, and similar events, or acts of misconduct. Despite any precautions we may take, the occurrence of a catastrophic disaster or other unanticipated problems at our or our third-party vendors' hosting facilities, or within our systems or the systems of third parties upon which we rely, could result in interruptions, performance problems, or failure of our infrastructure, technology, or solutions, which may adversely impact our business. In addition, our ability to conduct normal business operations could be severely affected. In the event of significant physical damage to one of these facilities, it may take a significant period of time to achieve full resumption of our services, and our disaster recovery planning may not account for all eventualities. In addition, any negative publicity arising from these disruptions could harm our reputation and brand and adversely affect our business.

Furthermore, our solutions are in many cases important or essential to our customers' operations, including in some cases, their cybersecurity or oversight and compliance programs, and subject to service level agreements ("SLAs"). Any interruption in our service, whether as a result of an internal or third-party issue, could damage our brand and reputation, cause our customers to terminate or not renew their contracts with us or decrease use of our solutions and services, require us to indemnify our customers against certain losses, result in our issuing credit or paying penalties or fines, subject us to other losses or liabilities, cause our solutions to be perceived as unreliable or unsecure, and prevent us from gaining new or additional business from current or future customers, any of which could harm our business, financial condition, and results of operations.

Moreover, to the extent that we do not effectively address capacity constraints, upgrade our systems as needed, and continually develop our technology and network architecture to accommodate actual and anticipated changes in technology, our business, financial condition, and results of operations could be adversely affected. The provisioning of additional cloud hosting capacity requires lead time. AWS, Microsoft Azure, and other third parties have no obligation to renew their agreements with us on commercially reasonable terms, or at all. If AWS, Microsoft Azure, or other third parties increase pricing terms, terminate or seek to terminate our contractual relationship, establish more favorable relationships with our competitors, or change or interpret their terms of service or policies in a manner that is unfavorable with respect to us, we may be required to transfer to other cloud providers or invest in a private cloud. If we are required to transfer to other cloud providers or invest in a private cloud, we could incur significant costs and experience possible service interruption in connection with doing so, or risk loss of customer contracts if they are unwilling to accept such a change.

A failure to maintain our relationships with our third-party providers (or obtain adequate replacements), and to receive services from such providers that do not contain any material errors or defects, could adversely affect our ability to deliver effective products and solutions to our customers and adversely affect our business and results of operations.

We are dependent on a few key customer contracts for a significant portion of our future revenue, and a significant reduction in services to one or more of these contracts would reduce our future revenue and harm our anticipated operating results.

The services we provide to the Small Business Administration in connection with its 7A and 504 loan programs are expected to comprise a significant portion of our future revenue. Our business will likely be harmed if the services we provide do not generate as much revenue as we forecast, and the termination or delay of the related contracts could have a material adverse effect on our revenue and profitability. Adverse events affecting the programs subject to these contracts could also negatively affect our ability to process transactions under those contracts, which could adversely affect our revenue and results of operations.

Changes in the funding priorities of the U.S. federal government, and changes in the way the U.S. federal government contracts with businesses, may materially and adversely affect our revenue and earnings.

Since the U.S. federal government is our largest customer, both directly and with us as a subcontractor, changes in the funding priorities of the U.S. federal government may materially and adversely affect us if funding is cut or shifted away from the information technology services that we are equipped to provide. Additionally, changes in the way the government awards contracts may create a disadvantage for us to compete in certain markets.

Temporary or extended budget-related shutdowns of parts of the U.S. federal government may materially and adversely affect our revenue and earnings.

Since the U.S. federal government is our largest customer, both directly and with us as a subcontractor, budget impasses that lead to temporary or extended shutdowns of agencies of the U.S. federal government with which we contract or for which we provide services may adversely affect cash flow and earnings as we carry key personnel during periods in which they are unable to perform work which can be invoiced to the customers.

U.S. federal government contracts are generally subject to terms more favorable to the customer than commercial contracts.

U.S. federal government contracts generally contain provisions and are subject to laws and regulations that give the federal government rights and remedies not typically found in commercial contracts, including provisions permitting the federal government to:

- terminate our existing contracts;
- reduce potential future income from our existing contracts;
- modify some of the terms and conditions in our existing contracts;
- suspend or permanently prohibit us from doing business with the federal government or with any specific government agency;
- impose fines and penalties;
- subject the award of some contracts to protest or challenge by competitors, which may require the contracting federal agency or department to suspend our performance pending the outcome of the protest or challenge and which may also require the government to solicit new proposals for the contract or result in the termination, reduction or modification of the awarded contract;
- suspend work under existing multiple year contracts and related task orders if the necessary funds are not appropriated by Congress;
- decline to exercise an option to extend an existing multiple year contract; and
- claim rights in technologies and systems invented, developed, or produced by us.

The U.S. federal government may terminate a contract either “for convenience” (for instance, due to a change in its perceived needs or its desire to consolidate work under another contract) or if a default occurs by failing to perform under the contract. If the federal government terminates a contract for convenience, we generally would be entitled to recover only our incurred or committed costs, settlement expenses and profit on the work completed prior to termination. If the federal government terminates a contract based upon a default, we generally would be denied any recovery for undelivered work, and instead may be liable for excess costs incurred by the federal government in procuring undelivered items from an alternative source and other damages as authorized by law.

The failure to generate a sufficient level of professional fees will cause us to sustain losses.

Although software sales have constituted a significant part of our overall revenue, the gross profit we derive from such sales is very modest, generally less than three percent. Consequently, we are reliant on professional fee revenue to maintain and operate our business. The number of our professional services engagements is limited and we have relied upon several key engagements to provide us with the level of revenue we require to breakeven or gain a modest degree of profitability. Any loss of a key contract will have a detrimental effect on the Company.

The opportunities among our existing customers for forms modernization is nearing maturity.

Over the last several years, we have modernized nearly all of the forms for which modernization was needed to meet compliance standards within agencies that have been our key electronic forms customers. While we continue to assist these customers with incremental changes on their internal and external forms, we must position ourselves to find forms business within some new agencies. While we do not anticipate a material effect on our overall results of operations, we may experience a material decline in revenue.

We are subject to intense competition from other companies engaged in software development, cloud services, and other computer-related services.

The market for our products and services is competitive, rapidly evolving, and can be affected by new product introductions and other market activities of industry participants. Some of these companies have longer operating histories, greater financial, marketing and other resources, greater name recognition in other markets and a larger base of customers than the Company. In addition, some companies have well-established relationships with our current and prospective customers. As a result, these competitors may be able to devote greater resources to the development, promotion and sale of their products and services than we can. Should we not be able to maintain our competitive advantages in light of these factors, it could have a material negative impact on the results of our operations.

Additionally, federal government customers are increasingly utilizing systems to accept software bids that make it easier for a larger number of sellers to participate in the bid process, which puts downward pressure on prices. At the same time, we obtain software licenses and related software maintenance contracts for resale from third-party suppliers. Increases in costs from these suppliers may affect our ability to bid winning prices to potential customers, which could have a material effect on software sales revenue. Also, any delay in our suppliers' fulfillment of our orders could impair our ability to deliver products and maintenance to customers and, accordingly, could have a material adverse effect on business, results of operations, financial condition, and reputation.

If we are unable to accurately estimate the cost of services and the timeline for completion of contracts, the profitability of our contracts may be materially and adversely affected.

Our commercial and federal government contracts are typically awarded on a competitive basis. Our bids are based upon, among other items, the cost of providing the services. To generate an acceptable return on our investment in these contracts we must be able to accurately estimate our costs to provide the services required by the contract and be able to complete the contracts in a timely manner. If we fail to accurately estimate our costs or the time required to complete a contract the profitability of our contracts may be materially and adversely affected.

Contracts on which we utilize subcontractors or suppliers may be adversely affected if our subcontractors or suppliers fail to perform required obligations under the contract.

We frequently utilize subcontract labor on contracts where we lack specific functional expertise or where the subcontractor has brought the opportunity to us. If our subcontractors or suppliers fail to perform as specified, it may adversely affect our contracts and subject us to loss of the contracts, unintended expenses, and/or the inability to secure future contracts due to our nonperformance.

Our federal government contracts typically have terms of one or more base years and one or more option years. Federal governmental agencies generally have the right not to exercise options to extend a contract. A decision to terminate or not to exercise options to extend our existing contracts could have a material adverse effect on our business, prospects, financial condition and results of operations.

Risks Related to Intellectual Property and Technology Licensing

Our proprietary rights may be difficult to enforce or protect, which could enable others to copy or use aspects of our products or subscriptions without compensating us.

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or subscriptions or obtain and use information that we regard as proprietary. We generally enter into confidentiality or license agreements with our employees, consultants, vendors, and end-customers, and generally limit access to and distribution of our proprietary information. However, we cannot be certain that we have entered into such agreements with all parties who may have or have had access to our confidential information or that the agreements we have entered into will not be breached. We cannot guarantee that any of the measures we have taken will prevent misappropriation of our technology. Because we may be an attractive target for computer hackers, we may have a greater risk of unauthorized access to, and misappropriation of, our proprietary information. In addition, the laws of some foreign countries do not protect our proprietary rights to as great an extent as the laws of the United States, and many foreign countries do not enforce these laws as diligently as government agencies and private parties in the United States. From time to time, we may need to take legal action to protect our intellectual property rights, to protect our trade secrets, if any, to determine the validity and scope of the proprietary rights of others or to defend against claims of infringement or invalidity. Such litigation could result in substantial costs and diversion of resources and could negatively affect our business, operating results, and financial condition. Attempts to enforce our rights against third parties could also provoke these third parties to assert their own intellectual property or other rights against us or result in a holding that invalidates or narrows the scope of our rights, in whole or in part. If we are unable to protect our proprietary rights, we may find ourselves at a competitive disadvantage to others who need not incur the additional expense, time, and effort required to create the innovative products that have enabled us to be successful to date. Any of these events would have a material adverse effect on our business, financial condition, and operating results.

Our use of open-source software in our products and subscriptions could negatively affect our ability to sell our products and subscriptions and subject us to possible litigation.

Our products and subscriptions contain software modules licensed to us by third-party authors under open-source licenses. Some open-source licenses contain requirements that we make available applicable source code for modifications or derivative works we create based upon the type of open-source software we use. If we combine our proprietary software with open-source software in a certain manner, we could, under certain open-source licenses, be required to release the source code of our proprietary software to the public. This would allow our competitors to create similar products or subscriptions with lower development effort and time and ultimately could result in a loss of product sales for us.

Although we monitor our use of open-source software to avoid subjecting our products and subscriptions to conditions we do not intend, the terms of many open-source licenses have not been interpreted by United States courts, and there is a risk that these licenses could be construed in a way that could impose unanticipated conditions or restrictions on our ability to commercialize our products and subscriptions. From time to time, there have been claims against companies that distribute or use open-source software in their products and subscriptions, asserting that open-source software infringes the claimants' intellectual property rights. We could be subject to suits by parties claiming infringement of intellectual property rights in what we believe to be licensed open-source software. If we are held to have breached the terms of an open source software license, we could be required to seek licenses from third parties to continue offering our products and subscriptions on terms that are not economically feasible, to reengineer our products and subscriptions, to discontinue the sale of our products and subscriptions if reengineering could not be accomplished on a timely basis, or to make generally available, in source code form, our proprietary code, any of which could adversely affect our business, operating results, and financial condition.

In addition to risks related to license requirements, usage of open-source software can lead to greater risks than use of third-party commercial software, as open-source licensors generally do not provide warranties or assurance of title or controls on origin of the software. In addition, many of the risks associated with usage of open-source software, such as the lack of warranties or assurances of title, cannot be eliminated, and could, if not properly addressed, negatively affect our business. We have established processes to help alleviate these risks, including a review process for screening requests from our development organizations for the use of open-source software, but we cannot be sure that our processes for controlling our use of open-source software in our products and subscriptions will be effective.

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

We may incorporate technology that we intend to license from third parties, including software, into our products and subscriptions. We cannot be certain that our licensors are not infringing the intellectual property rights of third parties or that our licensors have sufficient rights to the licensed intellectual property in all jurisdictions in which we may sell our products and subscriptions. In addition, some licenses may be non-exclusive, and therefore our competitors may have access to the same technology licensed to us. Some of our agreements with our licensors may be terminated for convenience by them. We may also be subject to additional fees or be required to obtain new licenses if any of our licensors allege that we have not properly paid for such licenses or that we have improperly used the technologies under such licenses, and such licenses may not be available on terms acceptable to us or at all. If we are unable to continue to license any of this technology because of intellectual property infringement claims brought by third parties against our licensors or against us, or claims against us by our licensors, or if we are unable to continue our license agreements or enter into new licenses on commercially reasonable terms, our ability to develop and sell products and subscriptions containing such technology would be severely limited, and our business could be harmed. Additionally, if we are unable to license necessary technology from third parties, we may be forced to acquire or develop alternative technology, which we may be unable to do in a commercially feasible manner or at all, and we may be required to use alternative technology of lower quality or performance standards. This would limit and delay our ability to offer new or competitive products and subscriptions and increase our costs of production. As a result, our margins, market share, and operating results could be significantly harmed.

Risks Related to Cybersecurity Incidents, Privacy and Data Protection

We are dependent on information technology, and disruptions, failures or security breaches of our information technology infrastructure could have a material adverse effect on our operations. In addition, increased information technology security threats and more sophisticated computer crime pose a risk to our systems, networks, products, and services.

We rely on information technology networks and systems, including the Internet, blockchain and cloud services, many of which are managed by third parties, to securely process, transmit and store electronic information of financial, marketing, legal and regulatory nature to manage our business processes and activities. Although we have implemented enhanced controls around our information technology systems, these systems may be susceptible to damage, disruptions, or shutdowns due to failures during the process of upgrading or replacing software, databases, power outages, hardware failures, telecommunication failures, user errors, natural disasters, terrorist attacks or other catastrophic events. If any of our significant information technology systems suffer severe damage, disruption or shutdown, and our disaster recovery and business continuity plans do not effectively resolve the issues in a timely manner, our product and services sales, financial condition and results of operations may be materially and adversely affected, and we could experience delays in reporting our financial results, or our operations may be disrupted, exposing us to performance failures with customers. In addition, cybersecurity threats, such as computer viruses, attacks by computer hackers or other cybersecurity threats pose a risk to the security of our systems and networks and the confidentiality, availability, and integrity of our data.

There can be no assurance that our security controls and safeguard measures taken to improve our cybersecurity protection will be sufficient to mitigate all potential risks to our systems, networks and data. Potential consequences of a cybersecurity attack include disruption to systems, corruption of data, unauthorized release of confidential or otherwise protected information, reputational damage, and litigation with third parties, any of which could have a material adverse effect on our business, financial condition, and results of operations. The amount of insurance coverage we maintain may be inadequate to cover claims or liabilities related to a cybersecurity attack.

Internal system or service failures, or failures in the systems or services of third parties on which we rely, could disrupt our business, and impair our ability to effectively provide our services and products to our customers, which could damage our reputation and adversely affect our revenues and profitability.

Any system or service disruptions, including those caused by ongoing projects to improve our information technology systems and the delivery of services, whether through our shared services organization or outsourced services, if not anticipated and appropriately mitigated, could materially and adversely affect our business including, among other things, an adverse effect on our ability to perform on contracts, bill our customers for work performed on our contracts, collect the amounts that have been billed and produce accurate financial statements in a timely manner. We, and the service providers, suppliers and subcontractors on which we rely, are also subject to systems failures, including network, software or hardware failures, whether caused by us, third-party service providers, cybersecurity threats, malicious insiders, natural disasters, power shortages, terrorist attacks, pandemics or other events, which could cause loss of data and interruptions or delays in our business, cause us to incur remediation costs, subject us to claims and damage our reputation. In addition, the failure or disruption of our communications, or those of our service providers, suppliers, or subcontractors, could cause us to interrupt or suspend our operations or otherwise adversely affect our business. Our property and business interruption insurance may be inadequate to compensate us for all losses that may occur as a result of any system or operational failure or disruption.

Risks Related to Tax, Accounting, Compliance and Regulation

If our estimates or judgments relating to our critical accounting policies are based on assumptions that change or prove to be incorrect, our operating results could fall below our publicly announced guidance or the expectations of securities analysts and investors, resulting in a decline in the market price of our common stock.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in our consolidated financial statements and accompanying notes. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets, liabilities, equity, revenue, and expenses that are not readily apparent from other sources. For more information, refer to the section entitled "Critical Accounting Estimates" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Part II, Item 7 of this Annual Report on Form 10-K. In general, if our estimates, judgments, or assumptions relating to our critical accounting policies change or if actual circumstances differ from our estimates, judgments or assumptions, including uncertainty in the current economic environment due to COVID-19, our operating results may be adversely affected and could fall below our publicly announced guidance or the expectations of securities analysts and investors, resulting in a decline in the market price of our common stock.

We must maintain effective internal controls over financial reporting, and if we are unable to do so, the accuracy and timeliness of our financial reporting may be adversely affected, which could have a material adverse effect on our business and stock price.

We must maintain effective internal control over financial reporting in order to accurately and timely report our results of operations and financial condition. In addition, as a public company, the Sarbanes-Oxley Act requires, among other things, that we assess the effectiveness of our disclosure controls and procedures quarterly and the effectiveness of our internal control over financial reporting at the end of each fiscal year.

The rules governing the standards that must be met for our management to assess our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act are complex and require significant documentation, testing and possible remediation. These stringent standards require that our audit committee be advised and regularly updated on management's review of internal control over financial reporting.

Our management may not be able to effectively and timely implement controls and procedures which respond to the increased regulatory compliance and reporting requirements that are applicable to us as a public company. If we fail to staff our accounting, finance and information technology functions adequately or maintain internal control over financial reporting adequate to meet the demands that are placed upon us as a public company, including the requirements of the Sarbanes-Oxley Act, or to otherwise prevent material weaknesses in internal control over financial reporting, or identify any additional material weaknesses, our business and reputation may be harmed, and our stock price may decline. Furthermore, investor perceptions of us may be adversely affected, which could cause a decline in the market price of our common stock.

Changes in accounting principles or their application to us could result in unfavorable accounting charges or effects, which could adversely affect our results of operations and growth prospects.

We prepare consolidated financial statements in accordance with GAAP. In particular, we make certain estimates and assumptions related to the adoption and interpretation of these principles including the recognition of our revenue and the accounting of our stock-based compensation expense with respect to our consolidated financial statements. If these assumptions turn out to be incorrect, our revenue or our stock-based compensation expense could materially differ from our expectations, which could have a material adverse effect on our financial results. A change in any of these principles or guidance, or in their interpretations or application to us, may have a significant effect on our reported results, as well as our processes and related controls, and may retroactively affect previously reported results or our forecasts, which may negatively impact our financial statements. For example, recent new standards issued by the Financial Accounting Standards Board ("FASB") could materially impact our consolidated financial statements. The adoption of these new standards may potentially require enhancements or changes in our processes or systems and may require significant time and cost on behalf of our financial management. This may in turn adversely affect our results of operations and growth prospects.

Failure to comply with governmental laws and regulations could harm our business.

Our business is subject to regulation by various federal, state, local, and foreign governmental agencies, including agencies responsible for monitoring and enforcing employment and labor laws, workplace safety, product safety, environmental laws, consumer protection laws, privacy and data-protection laws, anti-bribery laws (including the U.S. Foreign Corrupt Practices Act and the U.K. Anti-Bribery Act), import/export controls, federal securities laws, and tax laws and regulations. Noncompliance with applicable regulations or requirements could subject us to investigations, sanctions, mandatory product recalls, enforcement actions, disgorgement of profits, fines, damages, civil and criminal penalties, or injunctions. If any governmental sanctions are imposed, or if we do not prevail in any possible civil or criminal litigation resulting from any alleged noncompliance, our business, operating results, and financial condition could be materially adversely affected. In addition, responding to any action will likely result in a significant diversion of management's attention and resources and an increase in professional fees. Enforcement actions, litigation, and sanctions could harm our business, operating results, and financial condition.

Risks Related to Our Common Stock

Our actual operating results may differ significantly from our guidance.

From time to time, we have released, and may continue to release, guidance in our quarterly earnings releases, quarterly earnings conference calls, or otherwise, regarding our future performance that represents our management's estimates as of the date of release. This guidance, which includes forward-looking statements, has been and will be based on projections prepared by our management. These projections are not prepared with a view toward compliance with published guidelines of the American Institute of Certified Public Accountants, and neither our registered public accountants nor any other independent expert or outside party compiles or examines the projections. Accordingly, no such person expresses any opinion or any other form of assurance with respect to the projections.

Projections are based upon a number of assumptions and estimates that, while presented with numerical specificity, are inherently subject to significant business, economic, and competitive uncertainties, and contingencies, many of which are beyond our control, such as COVID-19, and are based upon specific assumptions with respect to future business decisions, some of which will change. The rapidly evolving market in which we operate may make it difficult to evaluate our current business and our future prospects, including our ability to plan for and model future growth. We intend to state possible outcomes as high and low ranges which are intended to provide a sensitivity analysis as variables are changed. However, actual results will vary from our guidance and the variations may be material. The principal reason that we release guidance is to provide a basis for our management to discuss our business outlook as of the date of release with analysts and investors. We do not accept any responsibility for any projections or reports published by any such persons. Investors are urged not to rely upon our guidance in making an investment decision regarding our common stock.

Any failure to successfully implement our operating strategy or the occurrence of any of the events or circumstances set forth in this "Risk Factors" section in this Annual Report on Form 10-K could result in our actual operating results being different from our guidance, and the differences may be adverse and material.

The issuance of additional stock in connection with financings, acquisitions, investments, our stock incentive plans, or exercise of the related warrants, or otherwise will dilute all other stockholders.

Our certificate of incorporation authorizes us to issue up to 100 million shares of common stock and up to 10.0 million shares of preferred stock with such rights and preferences as may be determined by our board of directors. Subject to compliance with applicable rules and regulations, we may issue shares of common stock or securities convertible into shares of our common stock from time to time in connection with a financing, acquisition, investment, our stock incentive plans, the settlement of our warrants, or otherwise. Any such issuance could result in substantial dilution to our existing stockholders and cause the market price of our common stock to decline.

We do not intend to pay dividends for the foreseeable future.

We have never declared or paid any dividends on our common stock. We intend to retain any earnings to finance the operation and expansion of our business, and we do not anticipate paying any cash dividends in the future. As a result, you may only receive a return on your investment in our common stock if the market price of our common stock increases.

Our charter documents and Delaware law could discourage takeover attempts and lead to management entrenchment, which could also reduce the market price of our common stock.

Provisions in our amended and restated certificate of incorporation and amended and restated bylaws may have the effect of delaying or preventing a change in control of our company or changes in our management. Our amended and restated certificate of incorporation and amended and restated bylaws include provisions that:

- establish that our board of directors is divided into three classes, Class I, Class II and Class III, with three-year staggered terms;
- authorize our board of directors to issue shares of preferred stock and to determine the price and other terms of those shares, including preferences and voting rights, without stockholder approval;
- provide our board of directors with the exclusive right to elect a director to fill a vacancy created by the expansion of our board of directors or the resignation, death or removal of a director;
- specify that special meetings of our stockholders may be called only by the chairman of our board of directors, our president, our secretary, or a majority vote of our board of directors;
- authorize our board of directors to amend our bylaws by majority vote; and
- establish advance notice procedures with which our stockholders must comply to nominate candidates to our board of directors or to propose matters to be acted upon at a stockholders’ meeting.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for our stockholders to replace members of our board of directors, which is responsible for appointing the members of management. In addition, as a Delaware corporation, we are subject to Section 203 of the Delaware General Corporation Law. These provisions may prohibit large stockholders, in particular those owning 15% or more of our outstanding voting stock, from merging or combining with us for a certain period of time.

The exercise of outstanding options and warrants to purchase our common stock could substantially dilute shareholders’ investments.

Under the terms of outstanding options and warrants to acquire our common stock issued to employees and others, the holders thereof are given an opportunity to profit from a rise in the market price of our common stock that, upon the exercise of such options and warrants, could result in dilution in the interests of our other shareholders.

The extent to which we can reach and encourage the participation of enough of our investors to secure minimum thresholds for shareholder approval for matters subject to shareholder approval is uncertain.

Given the limited amount trading our shares have experienced over the last several years, we have relied on relationships with investors owning material amounts of shares to reach minimum thresholds needed for shareholder approval of matters that were subject to a shareholder vote. The voting control over some of those shares has changed, and there is some question as to whether we can garner enough votes to decide shareholder matters by simple proxy solicitation. We may need to engage a third-party proxy solicitor if we obtain too little response to a proxy solicitation.

Risks Related to Financing

In the future, we may seek to enter into credit facilities to help fund our working capital needs. These credit facilities may expose us to additional risks associated with leverage and may inhibit our operating flexibility.

We may seek to enter into credit facilities with third-party lenders to help fund our business. Such credit facilities will likely require us to pay a commitment fee on the undrawn amount and will likely contain a number of affirmative and restrictive covenants.

If we violate any such covenants, our lenders could accelerate the maturity of any debt outstanding, and we may be prohibited from making any distributions to our stockholders. Such debt may be secured by our assets, including the stock we may own in subsidiaries and the rights we have under intercompany loan agreements that we may enter into in the future with our businesses. Our ability to meet our debt service obligations may be affected by events beyond our control and will depend primarily upon cash produced by our business. Any failure to comply with the terms of our indebtedness may have a material adverse effect on our financial condition.

In addition, we expect that such credit facilities will bear interest at floating rates which will generally change as interest rates change. We will bear the risk that the rates that we are charged by our lenders will increase faster than we can grow the cash flow from our businesses, which could reduce profitability, materially adversely affect our ability to service our debt and cause us to breach covenants contained in our third-party credit facilities.

Our failure to raise additional capital or generate the significant capital necessary to expand our operations and invest in new products and subscriptions could reduce our ability to compete and could harm our business.

We intend to continue to make investments to support our business growth and may require additional funds to respond to business challenges, including the need to develop new features, improve our operating infrastructure, or acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional equity or equity-linked financing, our stockholders may experience significant dilution of their ownership interests and the market price of our common stock could decline. If we engage in future debt financings, the holders of such additional debt would also have priority over the holders of our common stock. Current and future indebtedness may also contain terms that, among other things, restrict our ability to incur additional indebtedness. We may also be required to take other actions that would otherwise be in the interests of the debt holders and would require us to maintain specified liquidity or other ratios, any of which could harm our business, operating results, and financial condition. We may not be able to obtain additional financing on terms favorable to us, if at all. If we are unable to obtain adequate financing or financing on terms satisfactory to us when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly impaired, and our business may be adversely affected.

General Risk Factors

The requirements of being a public company may strain our resources, divert management's attention, and affect our ability to attract and retain qualified board members.

As a public company, we are subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act, the Dodd-Frank Act, the listing requirements of the Nasdaq Stock Market, and other applicable securities rules and regulations. Compliance with these rules and regulations have increased our legal and financial compliance costs, made some activities more difficult, time-consuming, or costly, and increased demand on our systems and resources. Among other things, the Exchange Act requires that we file annual, quarterly, and current reports with respect to our business and operating results. In addition, the Sarbanes-Oxley Act requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. In order to meet the requirements of this standard, significant resources and management oversight may be required. As a result, management's attention may be diverted from other business concerns, which could harm our business and operating results. Although we have already hired additional employees to comply with these requirements, we may need to hire even more employees in the future, which will increase our costs and expenses.

In addition, changing laws, regulations, and standards related to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs, and making some activities more time-consuming. These laws, regulations, and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest resources to comply with evolving laws, regulations, and standards, and this investment may result in increased general and administrative expense and a diversion of management's time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations, and standards differ from the activities intended by regulatory or governing bodies, regulatory authorities may initiate legal proceedings against us and our business may be harmed.

We rely on our management team and other key employees and will need additional personnel to grow our business, and the loss of one or more key employees or our inability to hire, integrate, train and retain qualified personnel, including members for our board of directors, could harm our business.

Our future success is substantially dependent on our ability to hire, integrate, train, retain and motivate the members of our management team and other key employees throughout our organization, including key employees obtained through our acquisitions. Competition for highly skilled personnel is intense where we have a substantial presence and need for highly skilled personnel. We may not be successful in hiring or retaining qualified personnel to fulfill our current or future needs, and potential changes in U.S. immigration and work authorization laws and regulations, including those that restrain the flow of technical and professional talent, may make it difficult to renew or obtain visas for highly skilled personnel that we have hired or are actively recruiting. We remain highly dependent on the services of Jamie Benoit, our Chief Executive Officer, who is critical to our thought leadership, market presence, reputation, future vision, and strategic direction. We are also substantially dependent on the continued service of our existing engineering personnel because of the complexity of our solutions. Engineering personnel and other employees in the technology industry, including the cybersecurity industry, are increasingly able to work remotely, which in turn increases employee mobility and our risk of unwanted employee attrition. Our competitors and other companies in the technology industry may be successful in recruiting and hiring members of our management team or other key employees, including key employees obtained through our acquisitions, and it may be difficult for us to find suitable replacements on a timely basis, on competitive terms, or at all. Also, to the extent we hire employees from mature public companies with significant financial resources, we may be subject to allegations that such employees have been improperly solicited, or that they have divulged proprietary or other confidential information or that their former employers own such employees' inventions or other work product.

We have made a number of organizational changes over the past year and, from time to time, key personnel may leave our company. Leadership transitions and management changes can be inherently difficult to manage, may cause uncertainty or a disruption to our business, and may increase the likelihood of turnover in other key officers and employees. Our success depends in part on having a successful leadership team. If we cannot effectively manage these and other leadership transitions and management changes, it could make it more difficult to successfully operate our business and pursue our business goals.

In addition, we believe that it is important to establish and maintain a corporate culture that facilitates the maintenance and transfer of institutional knowledge within our organization and also fosters innovation, teamwork, a passion for customers and a focus on execution. Any of our organizational changes may result in a loss of institutional knowledge and cause disruptions to our business. Furthermore, if we are not successful in identifying and recruiting new key employees and integrating them into our organization and creating effective working relationships among them and our other key employees, such failure could delay or hinder our development and the achievement of our strategic objectives, which could adversely affect our business, financial condition and results of operations.

Our employees, other than our chief executive officer and chief financial officer, work for us on an "at-will" basis, which means they may terminate their employment with us at any time. We do not maintain key person life insurance policies on any of our key employees. If Mr. Benoit or one or more of our other key employees resigns or otherwise ceases to provide us with their service, our business could be harmed.

Our continued success is dependent upon our ability to hire, retain and utilize qualified personnel.

The success of our business and our ability to operate profitably is dependent upon our ability to hire, retain and utilize qualified personnel, including personnel with expertise in very old computing languages, for which there is a limited supply, and personnel with expertise in cutting-edge immature technologies. We also must be able to hire and retain corporate management professionals who have the required experience and expertise at a reasonable cost. The market for these and other personnel is competitive. From time to time, it may be difficult to attract and retain qualified individuals with the expertise, and in the timeframe, demanded by our clients, or to replace such personnel when needed in a timely manner. In certain geographic areas, for example, we may not be able to satisfy the demand for our services because of our inability to successfully hire and retain a sufficient number of qualified personnel. Furthermore, some of our personnel may be required to obtain or hold government-granted clearances to obtain government projects. Loss of the services of, or failure to recruit, qualified technical and management personnel could limit our ability to successfully complete existing projects and compete for new projects.

Our results of operations may vary significantly from period to period, which could cause the trading price of our common stock to decline or fluctuate materially.

Our results of operations have varied significantly from period to period, and we expect that our results of operations, including, but not limited to our GAAP and non-GAAP measures, will continue to vary as a result of a number of factors, many of which are outside of our control and may be difficult to predict, including:

- our ability to attract new and retain existing customers or sell additional solutions to our existing customers;
- changes in our mix of solutions, subscriptions and services sold, including changes in the average contract length for subscriptions and support;
- budgeting cycles, seasonal buying patterns and purchasing practices of customers;
- the timing of new contracts for our solutions and length of our sales cycles;
- changes in customer, distributor or reseller requirements or market needs;
- changes in the growth rate of the digital logistics or IT security market;
- any change in the competitive landscape of the digital logistics or IT security market, including consolidation among our customers or competitors and strategic partnerships entered into by and between our competitors;
- our ability to successfully and continuously expand our business;
- decisions by organizations to purchase digital logistics or IT security solutions from larger, more established security vendors or from their primary IT equipment vendors or IT service providers;
- changes in our pricing policies or those of our competitors;
- the timing and costs related to the development or acquisition of technologies or businesses or strategic partnerships;
- the lack of synergy or the inability to realize expected synergies, resulting from acquisitions or strategic partnerships;
- our inability to execute, complete or integrate efficiently any acquisition that we may undertake;
- increased expenses, unforeseen liabilities, or write-downs and any impact on our operating results from any acquisitions we consummate;
- insolvency or credit difficulties confronting our customers, affecting their ability to purchase or pay for our products and services;
- the cost and potential outcomes of future litigation;
- the departure of key employees;
- seasonality or cyclical fluctuations in our business;
- political, economic and social instability, including with respect to the conflict in Ukraine;
- public health crises, such as the COVID-19 pandemic, and related measures to protect the public health;
- future accounting pronouncements or changes in our accounting policies or practices;
- the amount and timing of operating costs and capital expenditures related to the maintenance and expansion of our business, operations and infrastructure; and
- the amount and timing of costs related to any cost reduction initiatives and the impact of such initiatives.

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

If we fail to effectively manage our growth, if such growth occurs, our business, financial condition and results of operations would be harmed.

There is no assurance that we will be able to successfully implement or scale improvements to our systems, processes, and controls or that such systems, processes and controls will be effective in preventing or detecting errors, omissions or fraud.

As part of our efforts to improve our internal systems, processes, and controls, we might license technology from third parties. The support services available for such third-party technology might be outside of our control and may be negatively affected by consolidation in the software industry. In addition, if we do not receive adequate support for the software underlying our systems, processes and controls, our ability to provide solutions and services to our customers in a timely manner may be impaired, which may cause us to lose customers, limit us to smaller deployments of our platform or increase our technical support costs.

Many of our expenses are relatively fixed, at least in the short term. If our projections or assumptions on which we base our projections are incorrect, we may not be able to adjust our expenses rapidly enough to avoid an adverse impact on our profitability or cash flows.

In order to achieve organic growth, we must continue to improve our operational, financial and management systems and controls by, among other things:

- effectively hiring, training, and integrating new employees, particularly members of our sales, services and management teams;
- further improving our key business applications, processes, and IT infrastructure, including our data centers and enterprise resource planning system, to support our business needs;
- continuing to refine our ability to forecast our bookings, billings, revenues, expenses, and cash flows;
- enhancing our information and communication systems to ensure that our employees and offices are well coordinated and can effectively communicate with each other and our customers;
- improving our internal control over financial reporting and disclosure controls and procedures to ensure timely and accurate reporting of our operational and financial results; and
- appropriately documenting and testing our IT systems and business processes.

These and other improvements in our systems and controls will require significant capital expenditures and the allocation of valuable management and employee resources. If we fail to implement these improvements effectively, our ability to manage our expected growth, ensure uninterrupted operation of key business systems and comply with the rules and regulations applicable to public reporting companies would be impaired, and our business, financial condition and results of operations would be harmed.

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

We believe that maintaining and enhancing our brand and our reputation as a provider of high-quality security solutions and services is critical to our relationship with our existing customers, and future channel partners and technology alliance partners and our ability to attract new customers and partners. The successful promotion of our brand will depend on a number of factors, including our marketing efforts, and ultimately our ability to continue to develop additional high-quality security solutions and our ability to continue to provide services valued by customers. Although we believe it is important for our growth, our brand promotion activities may not be successful or yield increased revenue.

Any litigation against us could be costly and time-consuming to defend.

From time to time, we are and may become subject to legal proceedings and claims, such as claims brought by our customers in connection with commercial disputes, employment claims made by our current or former employees, intellectual property claims, or securities class actions or other claims related to our business or any volatility in the trading price of our common stock.

Litigation might result in substantial costs and may divert management's attention and resources, which might seriously harm our business, financial condition, and results of operations. Insurance might not cover such claims, might not provide sufficient payments to cover all the costs to resolve one or more such claims, and might not continue to be available on terms acceptable to us (including premium increases or the imposition of large deductible or co-insurance requirements). A claim brought against us that is uninsured or underinsured could result in unanticipated costs, potentially harming our business, financial position, and results of operations. In addition, we cannot be sure that our existing insurance coverage and coverage for errors and omissions will continue to be available on acceptable terms or that our insurers will not deny coverage as to any future claim.

Our business is subject to the risks of natural disasters, such as fire, power outages, floods, health risks and other catastrophic events, and to interruption by man-made problems such as terrorism.

Natural disasters, such as fire or floods, a significant power outage, telecommunications failure, terrorism, an armed conflict, cyberattacks, epidemics and pandemics such as COVID-19, or other geo-political unrest could affect our supply chain, manufacturers, logistics providers, or end-customers or the economy as a whole and such disruption could impact our shipments and sales. These risks may be further increased if the disaster recovery plans for us and our suppliers prove to be inadequate. To the extent that any of the above should result in delays or cancellations of customer orders, the loss of customers, or the delay in the manufacture, deployment, or shipment of our products, our business, financial condition, and operating results would be adversely affected.

Failure to keep pace with a changing technological environment could negatively impact our business.

The IT industry in general, and the market for our application software offerings and services, is characterized by rapidly changing technology, frequent new technology introductions, and significant competition. In order to keep pace with this rapidly changing market environment, we must continually develop and incorporate into our services new technological advances and features desired by the marketplace at acceptable prices. If we are unsuccessful in identifying, developing and marketing our services and technology or adapting our business to rapid technological change, it will have a material negative impact on our results of operations.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our principal office is located at 12015 Lee Jackson Memorial Highway, Fairfax, VA 22033 where we rent approximately 2,500 square feet pursuant to a lease that will expire on December 31, 2026. We also have a sub-lease for approximately 7,000 square feet of office space at 900 Bestgate Road, Annapolis, MD 21401. The Annapolis sub-lease will expire on October 31, 2024. We believe that our current physical space is adequate to meet our current needs. We will continue to evaluate our needs for office space and make changes as and when our needs change.

Item 3. Legal Proceedings

On January 25, 2023, Jeffrey Gerald, the individual from whom the Company purchased all the outstanding shares of GMI, filed a lawsuit against the Company in the Superior Court of the State of Delaware. In this case, Gerald sued for the one year's severance of $150,000 and benefits to which he claims he is entitled under his employment agreement with the Company. He has also claimed an anticipatory breach of the payment of $1,500,000 of deferred consideration otherwise due him on December 10, 2023, under the Stock Purchase Agreement between him and the Company and the anticipatory breach to release from escrow 436,481 shares of the Company's common stock which are held in escrow for application against potential indemnity claims under the Stock Purchase Agreement.

The Company filed an answer denying Gerald's claims. In addition, the Company filed a counterclaim seeking damages from Gerald associated with the acquisition transaction and arising under the Stock Purchase Agreement. The Company's counterclaim does not specify the damages being sought.

Other than the foregoing, there are no pending legal proceedings to which we are a party or to which any of our property is subject and, to the best of our knowledge, no such actions against us are contemplated or threatened.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock began trading on the NASDAQ Capital Market ("NASDAQ") under the symbol "WAVD" on November 26, 2021. Prior to trading on NASDAQ, our common stock started trading on the OTCQB market on January 15, 2021 under the symbol "IAIC." Prior thereto, our common stock traded on the OTC Pink Market and the OTC Bulletin Board.

Holders

As of December 31, 2022, we had 195 holders of record of our Common Stock.

Dividends

We have never paid any cash dividends on our common stock and do not anticipate paying cash dividends within the foreseeable future. Our management anticipates that all earnings, if any, will be reinvested in our business. Any future dividends will be subject to the discretion of the board of directors and will depend on, among other things, future earnings, our operating and financial condition, our capital requirements, and general business conditions.

Recent Sales of Unregistered Securities

There were no unregistered sales of equity securities during the year ended December 31, 2022 that were not disclosed by the Company on a Current Report on Form 8-K.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

On July 15, 2022, an employee tendered 30,435 shares of our common stock to facilitate a cashless exercise of incentive stock options. We did not repurchase any of our equity securities during 2022.

Item 6. [Reserved]

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

You should read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements and related notes and other financial information included elsewhere in this Annual Report. This discussion, particularly information with respect to our outlook, key trends and uncertainties, our plans and strategy for our business, and our performance and future success, includes forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed below. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Annual Report, particularly in Part I, Item 1A, "*Risk Factors.*"

Overview

Beginning in August 2021, we embarked on a transformative strategy to reposition the Company as a leader in the Zero-Trust, blockchain and Secure Supply Chain marketplace. In December 2021, we acquired Gray Matters, Inc. ("GMI") whose blockchain and encryption algorithm technology was built to solve real-world problems through purpose-built innovation in secure Supply Chain Management (SCM) in United States government organizations. After closing on the GMI acquisition, we focused on the second of our two intended foundational acquisitions, Knowmadics, Inc. ("KMI"), a leading Internet of Things (IoT) remote device management and monitoring platform company. After announcing a definitive agreement in March of 2022, we terminated the agreement with KMI on June 6, 2022 due to our inability to raise the funds required to complete the deal under its original terms. Beginning in late 2021 and through the third quarter of 2022, we hired salespeople, marketers, and software engineers, developed, and implemented sales and marketing programs, and expanded our compliance, governance, and administrative infrastructure to support this transformative strategy. The result has been a sharp increase in operating expenses in 2022 as compared to 2021. During the third quarter of 2022, GMI experienced delays in receiving approval from its government customer of certain milestone achievements specified in our contract with that customer. This delay, in turn, resulted in a decline in the reporting unit's estimated future cash flows. The delays in realizing revenue and gross margin in GMI coupled with the increase in operating expense resulted in negative operating cash flows for full year 2022 of $6.0 million.

In light of the continuing delays in generating revenue from the Blockchain SCM business and the need to invest significant additional capital into the business over at least the next two years to cover continuing operating cash losses, along with the uncertainty inherent in any early-stage technology business, the Company concluded, in the fourth quarter, that its likely best course of action was to divest of the Blockchain SCM business. On March 17, 2023, the Company sold effectively approximately 80.1% of the equity of its GMI subsidiary to Gray Matters Data Corporation ("GMDC"), whose lead investor is StealthPoint LLC, a venture capital fund, for cash of $0.9 million, approximately 19.9% of the voting securities of GMDC, and future cash payments contingent upon future GMI revenues. See Note 19 to the financial statements for further information about this transaction. The cash consideration and the elimination of cash expenses from the Blockchain SCM operating segment provide the Company with additional short-term liquidity.

As a result of the sale of GMI, the Company's current business remains its longstanding and legacy government services business through which the Company provides professional services for the benefit of government agencies. In the medium and long term, the Company will need to raise additional capital to grow its business either organically or through acquisitions. The Company is evaluating strategic alternatives which include the potential merger or sale of the Company, including a reverse merger with a private company. Alternatives we consider will most likely require stockholder approval under the rules of the Nasdaq Stock Market.

Key Factors Affecting Our Performance

We believe that our performance and future success depend on a number of factors that present significant opportunities for us, as discussed in Part I, Item 1, "Business," but also pose risks and challenges, as discussed in Part I, Item 1A, "Risk Factors."

Results of Operations

The following table sets forth, for the periods indicated, selected information from our Consolidated Statements of Operations and the notes to the consolidated financial statements, expressed as a percentage of revenue:

Consolidated

	Year Ended December 31,	
	2022	2021
Revenues		
Professional fees	77.7%	70.5%
Software sales	22.3%	29.5%
Total revenues	100.0%	100.0%
Cost of revenues		
Cost of professional fees	57.6%	47.1%
Cost of software sales	20.9%	28.8%
Total cost of revenues excluding depreciation and amortization	78.5%	75.9%
Gross profit	21.5%	24.1%
Selling, general and administrative expenses	100.4%	41.5%
Change in fair value of contingent consideration	-7.7%	0.0%
Impairment of long-lived assets	31.3%	0.0%
Goodwill impairment	53.7%	0.0%
Loss from operations	-156.2%	-17.4%
Other income (expense):		
Interest expense	-0.7%	-0.2%
Other income (expenses), net	0.1%	0.1%
Gain on forgiveness of note payable	0.0%	3.0%
Loss before income tax benefit	-156.8%	-14.5%
Income tax benefit	9.1%	7.1%
Net loss	-147.7%	-7.4%

Prior to the acquisition of GMI and through June 30, 2022, we managed our business as a single operating segment. During the quarter ended September 2022, we reassessed our business strategy and our CODM changed his approach to managing the business and allocating resources. As a result, we determined that beginning July 1, 2022 we had two operating segments: Tellenger and Blockchain SCM. Tellenger provides professional services, primarily to U.S. government agencies, related to legacy software migration and modernization, developing web-based and mobile device solutions, including dynamic electronic forms development and conversion, and data analytics. The Blockchain SCM segment is an early-stage business focused on developing, marketing, and selling a SaaS supply chain management platform built on blockchain technology.

For purposes of discussing our results of operations, we will discuss revenue and gross profit for the discrete Blockchain SCM and Tellenger segments and operating expenses will be discussed on a combined basis. Where possible and meaningful, we discuss specific elements of operating expenses, such as impairments of long-lived assets and goodwill, with reference to the operating segment responsible for such operating expense.

The following table summarizes revenue and gross profit by segment:

	Tellenger		Blockchain SCM		Consolidated	
	2022	2021	2022	2021	2022	2021
Revenue:						
Professional services	$ 8,347,052	$ 10,592,278	$ 998,970	$ -	$ 9,346,022	$ 10,592,278
Third-party software	2,675,930	4,441,226	-	-	2,675,930	4,441,226
Total revenue	11,022,982	15,033,504	998,970	-	12,021,952	15,033,504
Gross profit:						
Professional services	2,695,627	3,549,357	(282,685)	(39,846)	2,412,942	3,509,511
Third-party software	167,216	106,105	-	-	167,216	106,105
Total gross profit	$ 2,862,843	$ 3,655,462	$ (282,685)	$ (39,846)	$ 2,580,158	$ 3,615,616
Gross profit %:						
Professional services	32.3%	33.5%	-28.3%	na	25.8%	33.1%
Third-party software	6.2%	2.4%	na	na	6.2%	2.4%
Total	26.0%	24.3%	-28.3%	na	21.5%	24.1%

Tellenger
Revenue

Revenue decreased by 26.7%, or $4.0 million, from $15.0 million in 2021 to $11.0 million in 2022. This net decrease includes a decrease in professional services revenue of 21.2%, or $2.2 million and a decrease in revenue from sales of third-party software, primarily Adobe products, of 39.7% or $1.8 million. Approximately $1.9 million, or 83%, of the $2.2 million decrease in services revenue is attributable to our largest software modernization program. In 2021, we deployed significant resources to achieve particular milestones while in 2022 the level of effort required from us has declined resulting in lower revenue in 2022 versus 2021. The balance of the approximately $0.3 million remaining net decrease in revenue includes incremental revenue as a result of having the Tellenger acquisition for all of 2022 versus just under nine months in 2021, partially offset by a forms modernization program that ended in 2021 having delivered $0.6 million in revenue. That contract generated approximately $0.1 million in gross profit in 2021.

During 2022, we continued to de-emphasize sales of third-party software products because they have generated very low gross profits in the 2.4% to 6.2% range (as shown in the table above) and also require relatively significant administrative effort.

Gross Profit

Gross profit decreased by $0.8 million, or 21.6%, from $3.7 million in 2021 to $2.9 million in 2021, with gross profit percentage increasing from 24.3% to 26.0%. This net decrease in gross profit is nearly all attributable to professional services, with $0.9 million of lower gross profit from our largest software modernization program discussed in *Tellenger Revenue* above. Gross profit from forms modernization services increased from $0.2 million in 2021 to $0.4 million in 2022, notwithstanding the loss of $0.6 million in revenue from one contract that ended in 2021. The improvement in gross profit percentage for third-party software sales from 2021 to 2022, is a result of our eliminating very low gross margin sales in 2022 versus 2021.

Blockchain SCM
Revenue

We had $1.0 million of revenue in 2022 as compared to zero for the 21 days in 2021 when we owned GMI. At the time of our acquisition of GMI it was in the midst of performing under a prime contract with a U.S. government ("USG") entity to finalize its supply chain management platform ("Doubtfire") and gain authority to operate ("ATO") with that customer. Achievement of ATO is a critical milestone for both expanding the scope of GMI's initial customer's use of the platform as well as providing the ability to offer the platform to other USG entities. In the first quarter of 2022 the platform was authorized for use on Amazon Web Services' GovCloud. AWS GovCloud authorization is necessary for our web-based platforms to be accessed by USG agencies. During the second quarter of 2022, we continued to work towards achieving ATO and in the second quarter we recognized $0.5 million of revenue in connection with those efforts. During the third quarter of 2022, we expended significant time addressing myriad issues identified by our customer with Doubtfire and related processes. In December 2022, we billed and recognized, and subsequently collected, an additional $0.5 million of revenue associated with continued development and maintenance of Doubtfire. However, as of the date of issuing our financial statements Doubtfire has not yet been granted ATO and it is uncertain when or if ATO will be granted.

Gross Profit

During 2022, we had $1.3 million of costs related to the Doubtfire platform and revenue of $1.0 million, resulting in negative gross profit of $0.3 million. The negative margin is due to unanticipated issues with Doubtfire that caused us to expend significant time and resources to resolve. The delays in achieving ATO adversely impacted our ability to generate follow-on sales and gross profit and was a key element of the Company's decision to divest GMI.

Change in Fair Value of Contingent Consideration

Under the terms of the Gray Matters purchase agreement, the Seller was eligible to receive up to $4,000,000 of additional consideration, payable in cash, based on the amounts of revenue and gross profit achieved by GMI for the year ended December 31, 2022 (the "Earnout Period"). In the purchase accounting for GMI in the fourth quarter of 2021, we recorded a contingent liability of $930,000 based on our estimate for GMI's expected performance for 2022, which liability is marked to estimated fair value at each balance sheet date with changes in fair value being a component of our loss from operations. Since that initial estimate there have been delays in the timing of realizing revenue, as well as delays in obtaining new customer contracts which, together, have pushed a material amount of the projected revenue and related gross profit outside of the Earnout Period. As of June 30, 2022 we estimated that the contingent consideration was no longer probable of being realized by the seller and reduced the contingent consideration liability to zero. During the 2022 Earnout Period GMI generated revenue of $998,970 and gross profit of negative $318,337, neither of which meet the minimum revenue and gross profit thresholds for additional consideration of $3,500,000 and $1,500,000, respectively. The result of writing down the contingent liability to zero has been the recognition of non-cash operating income of $930,000.

Impairment of Long-lived Assets and Goodwill

The delays in GMI achieving ATO have resulted in a decline in its estimated future cash flows for this operating segment. Accordingly, we performed an interim goodwill impairment test of the GMI reporting unit as of September 30, 2022, prior to our annual impairment test and the estimated fair value of the Gray Matters reporting unit was determined to be lower than its carrying value. In the third quarter of 2022, we recorded a non-cash pre-tax and after-tax charge of $2,254,624 to impair the carrying value of this reporting unit's goodwill.

In the fourth quarter 2022, further developments required us to further assess the carrying value of the GMI reporting unit. In December 2022, the Company entered into negotiations with an unrelated investor to provide the capital required to continue to support the Blockchain SCM business. On January 18, 2023, we executed a non-binding letter of intent to sell all of the shares of GMI to the investor ("Buyer") in exchange for a mix of cash, Buyer common stock, and contingent consideration (the "January LOI"). While the Company continues to believe in the long-term commercial viability of its Blockchain SCM product, it will continue to incur losses and will require additional cash investment before it can generate positive cash flow. We identified the ongoing discussions with the Buyer and arms-length negotiations of fair value of our Gray Matters reporting unit as a trigger event for purposes of assessing impairment of our Gray Matters reporting unit. As a result, in addition to our annual impairment test performed as of October 31, 2022, we performed an additional impairment test as of December 31, 2022.

We further determined that the consideration negotiated with the Buyer under the January LOI was the most objective measure available of the fair value of the GMI reporting unit as of December 31, 2022. As a result of the December 31, 2022 impairment testing of the GMI reporting unit we recorded an impairment of long-lived assets of $3,762,915 and an impairment for the remaining balance of goodwill of $4,205,544, bringing the total goodwill impairment to $6,460,168 for 2022.

Consolidated Expenses and Net Loss

Selling, General and Administrative Expenses ("SG&A")

SG&A expenses increased from $6.2 million in 2021 to $12.1 million in 2022 as follows:

	2022	2021	Increase
Blockchain SCM	$ 3,782,882	$ 125,787	$ 3,657,095
Tellenger	2,252,090	--	--
Corporate	6,029,711	--	--
Sub-total Tellenger and Corporate	8,281,801	6,116,978	2,164,823
	$ 12,064,683	$ 6,242,765	$ 5,821,918

The following table shows the major components of SG&A expenses and the changes from 2021 to 2022. We acquired our Blockchain SCM operating segment in December, 2021 and 2022 expenses include a full year of expenses while 2021 had less than one month.

	2022	2021	Increase
Salaries and benefits	$ 4,056,845	$ 2,114,517	$ 1,942,328
Stock based compensation	1,967,927	1,868,897	99,030
Legal and professional fees	1,604,657	424,970	1,179,687
Depreciation & Amortization	1,443,314	236,598	1,206,716
Acquisition costs	889,696	754,781	134,915
Software, IT & office expenses	546,217	274,576	271,641
Governance and investor relations	435,432	304,739	130,693
Recruiting	286,215	9,091	277,124
Marketing and promotions	235,940	52,241	183,699
All other	598,440	202,355	396,085
Total SG&A	$ 12,064,683	$ 6,242,765	$ 5,821,918

Gain on Debt Forgiveness

In 2021, we had $0.5 million of gain on debt forgiveness related to the Paycheck Protection Program and no gain on debt forgiveness for 2022.

Income Taxes

We recorded a tax benefit of $1.1 million in 2022 and 2021. In connection with our acquisitions of Tellenger and Gray Matters in 2021, we recorded deferred tax liabilities that arise because we have intangible assets that will be amortized for book purposes but not for tax purposes. The recording of these liabilities in 2021 has the effect of allowing us to recognize tax benefits that arose in prior years, primarily related to net operating loss carryforwards, that we were unable to recognize previously. See Note 12 in the notes to the consolidated financial statements for details.

Net Loss

For 2022 we had a net loss of $17.8 million versus $1.1 million in 2021. The $16.7 million increased loss in 2022 includes $10.2 million of impairment charges related to GMI, additional net operating losses of the Blockchain SCM segment of $3.0 million, Tellenger gross profit decrease of $0.8 million, $0.5 million gain on debt forgiveness in 2021 versus none in 2022, and increases of $2.2 million in other selling, general and administrative expenses.

Liquidity and Capital Resources

During the year ended December 31, 2022, the Company generated a loss from operations of $18.8 million, which includes impairment charges of long-lived assets and goodwill at its Blockchain SCM segment totaling $10.2 million. As of December 31, 2022, the Company had working capital of $0.3 million, excluding deferred acquisition consideration of $1.4 million and including cash and cash equivalents of $0.7 million, and had an accumulated deficit of $31.2 million. As of December 31, 2022 the Company had availability of $0.6 million under its bank line of credit. In August 2022, we sold 1,572,506 unregistered shares of our common stock in a private offering at a price of $1.20 per share from which we raised aggregate gross proceeds of $1,887,000.

Beginning in late 2021 and through the third quarter of 2022 we hired salespeople, marketers, and software engineers, developed, and implemented sales and marketing programs, and expanded our compliance, governance, and administrative infrastructure to support this transformative strategy to enter the Blockchain SCM business. During the course of 2022 we also experienced delays in the adoption of our SCM platform by our primary government customer and, as a result, starting in the third quarter and continuing throughout the remainder of the year, we took measures to reduce our operating expenses, including eliminating staff and implementing salary reductions for senior management. For the whole of 2022, however, there has been a sharp increase in operating expenses, without growth in revenue and gross margins, and negative operating cash flows.

Cash consideration from the sale of GMI provided the Company with $1.0 million of cash in March 2023. In the medium and long term, the Company will need to raise additional capital to grow its business either organically or through acquisition. The Company is also evaluating strategic alternatives which include the potential merger or sale of the Company, including a merger with a private company that either has a strong cash position or generates sufficient cash flows from operations. There is no assurance that such activities will result in any transactions or provide additional capital, which creates substantial doubt about the Company's ability to continue as a going concern for at least one year from the date that the accompanying financial statements are issued. We estimate that by the fourth quarter of 2023 the Company will need to raise additional capital to meet its ongoing operating cash flow requirements.

We used cash from operating activities of approximately $6.0 million in 2022 and anticipate that over the twelve months from the date of these financial statements our operating activities may use as much as approximately $1.5 million to $2.0 million, including satisfying our current liabilities of approximately $2.1 million as of December 31, 2022, excluding deferred acquisition consideration of $1.4 million and $0.4 million outstanding under our bank line of credit, and our other typical operating expenses, including payroll for our workforce and other costs.

The Company has no commitments for capital spending nor any plans for material capital expenditures.

Under the terms of our purchase agreement for GMI dated December 10, 2021, a cash payment of $1,500,000 is due to the selling shareholder of GMI (the "GMI Seller") on the second anniversary of the acquisition, December 10, 2023. The Company is pursuing damages from the GMI Seller associated with the acquisition transaction and arising under the Stock Purchase Agreement. The damages the Company is seeking are intended to offset the payment of the deferred consideration if we are successful in our claim against GMI Seller. Pending adjudication or settlement of the dispute between the Company and GMI Seller, which could extend into 2024, we intend to withhold the deferred consideration amount of $1,500,000. We have no other outstanding debt that we are required to repay over the next 12 months and have no off-balance-sheet arrangements that are likely to have a material future effect on our financial condition, or changes in financial condition, liquidity or capital resources or expenditures.

As of December 31, 2022, the Company had $0.4 million outstanding under its bank line of credit and had drawn down the full remaining $0.6 million of available borrowings as of the date of this filing. Other sources of liquidity include the Common Stock Purchase Agreement we entered into with B. Riley Principal Capital II, LLC on July 8, 2022 (the "ELOC"), which will enable us to raise additional capital under an equity line of credit. However, the amount of capital we can raise under the ELOC is a function of our trading volume and the market price of our common shares. Based on our recent share price and trading volumes, we do not anticipate that the ELOC will be able to meaningfully support our capital needs. There can be no assurance that additional capital will be available on terms acceptable to us, or at all.

Critical Accounting Estimates

Our significant accounting policies are described in Note 1 to our accompanying consolidated financial statements. We consider the accounting policies related to revenue recognition to be critical to the understanding of results of operations. We prepare our financial statements in conformity with accounting principles generally accepted in the United States. As such, we are required to make certain estimates and assumptions that we believe are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the periods presented. The actual results could be different from these estimates. Our critical accounting estimates are those where we have made particularly difficult, subjective or complex judgments. Changes in the assumptions and conditions included in these critical accounting estimates can materially impact our future financial results.

Revenue Recognition

We account for revenue in accordance with Accounting Standards Codification ("ASC") Topic 606, "Revenue from Contracts with Customers." The unit of account in ASC 606 is a performance obligation, which is a promise in a contract with a customer to transfer a good or service to the customer. ASC 606 prescribes a five-step model for recognizing revenue that includes identifying the contract with the customer, determining the performance obligation(s), determining the transaction price, allocating the transaction price to the performance obligation(s), and recognizing revenue as the performance obligations are satisfied. The timing of the satisfaction of performance obligations varies based on whether we are selling a product or service and the contractual terms. Significant judgment can be required in determining certain performance obligations, and these determinations could change the amount of revenue and profit recorded in a given period. Our contracts may have a single performance obligation or multiple performance obligations. When there are multiple performance obligations within a contract, we allocate the transaction price to each performance obligation based on our best estimate of standalone selling price. The estimate of standalone selling price for each performance obligation constitutes a critical accounting estimate, since it is particularly complex and subjective and prone to change from period to period.

Stock-Based Compensation

The Company estimates the fair value of options granted using a Black-Scholes valuation model to establish the expense. Determining the inputs for the valuation model requires significant judgment, particularly related to the estimation of stock price volatility. Historically there has been a limited public market for the Company's stock, and as a result the Company estimates its expected volatility by using the volatility of a pool of several public company issuers that operate within its market segment as a benchmark. The Company adjusts the results of the benchmark analysis on the stock price volatility assumption to reflect differences in the size of the benchmark companies and their capital structures as compared to ours. The selection of comparable companies and the amount of the size adjustment require significant judgment and changes in those assumptions could have a material impact on our reported results of operations.

The fair values of option awards granted in 2022 and 2021 were estimated using the Black-Sholes option pricing model under the following assumptions:

	2022	2021
Risk-free interest rate	1.88% - 4.26%	0.46% - 1.26%
Dividend yield	0%	0%
Expected term	3.25 years – 6 years	2.5 years – 5 years
Expected volatility	45.8% - 48.1%	46.0% - 92.0%

Business Combinations and Acquired Intangible Assets

We allocate the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values at the acquisition date. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. The purchase price allocation process requires management to make significant estimates of projected financial information and assumptions with respect to valuation of intangible assets. Although we believe the assumptions and estimates we have made are reasonable, they are based in part on historical experience, market conditions and information obtained from management of the acquired companies and are inherently uncertain. Examples of highly subjective judgments used to estimate the fair value of intangibles assets include, but are not limited to, projections of future expected cash flows, expected customer attrition rates, estimated technology obsolescence rates, and discount rates.

These estimates were particularly subjective and uncertain during the interim periods of 2022 and at the end of 2022 as it relates to the acquired intangibles in the Gray Matters acquisition due to the relative novelty of blockchain supply chain software solutions, the fast pace of emerging competitive solutions and our limited experience managing and monetizing blockchain technology.

Goodwill, Intangible Assets and Other Long-lived Assets

Management evaluates the recoverability of the Company's indefinite-lived intangible assets (tradenames) annually on October 31, or more often when events or circumstances indicate a potential
-ment exists.

Management evaluates the recoverability of the Company's finite-lived intangible assets and other long-lived assets when events or circumstances indicate a potential impairment exists. In determining if impairment exists, the Company estimates the undiscounted cash flows to be generated from the use and ultimate disposition of these assets or asset groups that contain those assets. If impairment is indicated based on a comparison of an asset group's carrying values and the undiscounted cash flows, the impairment loss is measured as the amount by which the carrying amount of the asset group exceeds the fair value of the asset group.

Goodwill is not amortized but instead tested for impairment (i) on at least an annual basis and (ii) when changes in circumstances indicate that it is more likely than not that the fair value of a reporting unit may be below its carrying value. These circumstances include, but are not limited to, significant changes in performance relative to expected operating results; significant changes in the use of the assets; significant negative industry or economic trends; a significant decline in the Company's stock price for a sustained period of time; and changes in the Company's planned revenue or earnings. Management evaluates the recoverability of the Company's goodwill annually on October 31 or more often as events or circumstances indicate the fair value of a reporting unit is below its carrying value, including goodwill. If the fair value of a reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the reporting unit carrying amount exceeds the estimated fair value of the reporting unit.

Prior to the acquisition of GMI and through June 30, 2022, we managed our business as a single operating segment. The Company determined that beginning July 1, 2022 we have two operating segments: Tellenger and Blockchain SCM., which are also its two reporting units and its two asset groups for purposes of impairment testing, including impairment of intangible assets, other long-lived assets and goodwill. As discussed further in Note 6 to our consolidated financial statements, during 2022 we recognized goodwill and long-lived asset impairment charges related to our Blockchain SCM unit of $6,460,168 and $3,762,915, respectively, which are separately identified in our consolidated statements of operations.

Segment Information

In accordance with the provisions of ASC 280-10, “Disclosures about Segments of an Enterprise and Related Information”, the Company is required to report financial and descriptive information about its reportable operating segments. The Company has two operating and reportable segments as of December 31, 2022: Tellenger and Blockchain SCM. As of December 31, 2021, the Company had a single operating and reportable segment.

Government Regulation

We are bound by various rules and regulations promulgated by the federal government and agencies thereunder. We have not experienced undue expense beyond those expenses normally incurred in our ordinary course of business in adhering to such rules and regulations. Since historically most of our business is derived from contracts either directly with the U.S. federal government or as a subcontractor on behalf of U.S. federal government customers, most of our contracts are subject to termination at the election of the government.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

As a smaller reporting company, as defined by Rule 12b-2 of the Securities Exchange Act of 1934, as amended, and Item 10(f)(1) of Regulation S-K, the Company has elected to comply with certain scaled disclosure reporting obligations, and therefore is not required to provide the information required by Item 305 of Regulation S-K.

Item 8. Financial Statements and Supplementary Data.

Our financial statements and notes thereto begin on page F-1 of this report and are incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

During the last two years, for which consolidated financial statements are presented herein, there have been no changes in or disagreements with our independent registered accountants on accounting and financial disclosures.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, under the supervision and with the participation of our Chief Executive Office and Chief Financial Officer, and people performing similar functions, has evaluated the effectiveness of the design and operation of our controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of the end of the period reported in this Annual Report (the "Evaluation Date"). Based upon this evaluation, our Chief Executive Office and Chief Financial Officer have concluded that, as of the Evaluation Date, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act was recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and that such information required to be disclosed was accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

None.

Management's Annual Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, including the Chief Executive Officer and Chief Financial Officer, has conducted an evaluation of the effectiveness of our internal control over financial reporting as of the Evaluation Date, based on the criteria for effective internal control described in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its assessment, management concluded that our internal control over financial reporting was effective as of the Evaluation Date.

This Annual Report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm.

This report shall not be deemed to be filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities of that section, and is not incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Item 9B. Other Information

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item will be presented in, and is incorporated herein by reference to, an amendment to this Annual Report on Form 10-K/A, which will be filed with the SEC no later than 120 days after December 31, 2022.

Item 11. Executive Compensation

The information required by this Item will be presented in, and is incorporated herein by reference to, an amendment to this Annual Report on Form 10-K/A, which will be filed with the SEC no later than 120 days after December 31, 2022.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item will be presented in, and is incorporated herein by reference to, an amendment to this Annual Report on Form 10-K/A, which will be filed with the SEC no later than 120 days after December 31, 2022.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item will be presented in, and is incorporated herein by reference to, an amendment to this Annual Report on Form 10-K/A, which will be filed with the SEC no later than 120 days after December 31, 2022.

Item 14. Principal Accounting Fees and Services (CohnReznick LLP, Tysons, Virginia, PCAOB ID 596)

The information required by this Item will be presented in, and is incorporated herein by reference to, an amendment to this Annual Report on Form 10-K/A, which will be filed with the SEC no later than 120 days after December 31, 2022.

PART IV

Item 15. Exhibits, Financial Statement Schedules

The following is an explanation of documents filed as part of this report:

- *Financial Statements*. Reference is made to the Index to Consolidated Financial Statements on page F-1, where these documents are listed.
- *Financial Statement Schedules*. Financial statement schedules have been omitted because the required information is not applicable, or not present in amounts sufficient to require submission of the schedules, or because the information is included in the financial statements or notes thereto.
- *Exhibits*. A list of exhibits required to be filed as a part of this Annual Report on Form 10-K is set forth in the Exhibit Index, which is presented elsewhere in this document and incorporated herein by reference.

Item 16. Form 10-K Summary

None.

WAVEDANCER, INC. AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

(INCLUDING REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM)

Years Ended December 31, 2022 and 2021

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<u>Report of Independent Registered Public Accounting Firm</u>

To the Board of Directors and Stockholders of

WaveDancer, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of WaveDancer, Inc. (formerly Information Analysis Incorporated) (the "Company") as of December 31, 2022 and 2021, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Going Concern

The accompanying financial statements have been prepared assuming that the entity will continue as a going concern. As discussed in Note 1 to the financial statements, the entity has suffered recurring losses from operations that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (i) relate to accounts or disclosures that are material to the financial statements and (ii) involved our especially challenging, subjective, or complex judgements. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing a separate opinion on the critical audit matters or on the accounts or disclosures to which they relate.

Impairment Evaluation of Goodwill and Intangible Assets arising from the acquisition of Gray Matters, Inc. ('GMI") (Notes 3, 6, 8 and 9 to the Financial Statements)

Critical Audit Matter

As disclosed in the financial statements, goodwill and indefinite-lived intangibles are tested for impairment annually at the reporting unit level on October 31 unless an interim test is required due to the presence of indicators that goodwill and indefinite-lived intangibles may be impaired. Management evaluates the recoverability of the Company's finite-lived intangible assets and other long-lived assets when events or circumstances indicates a potential impairment exists. As discussed in Note 3 of the financial statements, the Company reassessed its business strategy and the Chief Operating Decision Maker changed his approach to managing the business and allocating resources, resulting in the Company having two operating segments which are also its two reporting units. As further discussed in Note 6 of the financial statements, the Company determined in the three months ended September 30, 2022 that there were indicators of impairment of its GMI reporting unit and, after performing an interim impairment test, determined goodwill was impaired and recorded an impairment charge of approximately $2,250,000. As of year-end, the Company determined there were again triggering events related to the GMI reporting unit resulting in impairment charges of approximately $3,650,000 of intangible assets, $114,000 of long-lived assets and $4,210,000 of goodwill.

The determination of the Company's reporting units and the fair value of those reporting units and related intangibles in the impairment tests requires significant estimates and assumptions. Changes in these assumptions could have a significant impact on the determination of the need for, and amount of, impairment charges.

Given these factors, auditing management's impairment tests for goodwill, indefinite-lived and finite-lived intangible assets involved especially challenging, subjective, and complex auditor judgment and increased audit effort.

How our audit addressed the Critical Audit Matter

Our principal audit procedures related to the Company's impairment assessment of goodwill and intangibles included the following:

- We gained an understanding of and evaluated the design and implementation of the Company's controls that address the risk of material misstatement related to potential impairment.
- We evaluated management's significant accounting policies related to the post-acquisition accounting for acquired assets, including the determination of operating segments and reporting units.
- We evaluated the reasonableness of management's determination of reporting units.
- We gained an understanding of the process used by management to estimate future cashflows, including methods, data, and significant assumptions used.
- We evaluated management's projected revenues and cash flows by comparing the projections to the underlying business strategies and growth plans and performed a sensitivity analysis related to the key inputs to projected cash flows, including revenue growth rates, to evaluate the changes in the fair value of the reporting unit that would result from changes in assumptions.
- We evaluated management's assessment of transactions subsequent to the balance sheet date that had the potential to provide evidence of the value of the reporting unit and related intangible assets as of the balance sheet date and how that information was utilized in management's conclusions as to impairment.
- With the assistance of our firm's valuation professionals with specialized skills and knowledge, we tested the Company's discounted cash flow models, including certain assumptions such as the discount rates and terminal value as well as the estimates of the fair value of rollover equity and contingent royalty payments.

Stock-based Compensation (Note 14 to the Financial Statements)

Critical Audit Matter

The Company measures stock-based awards at fair value and recognizes compensation expense related to such awards over the respective vesting or service period. The Company uses the Black-Scholes option pricing model to determine the fair value of the awards. Certain inputs in the model used for determination of fair value of the awards of the Company, such as the expected term, volatility, and fair value of stock, require management to make significant judgments. As disclosed in the financial statements, historically there has been a limited public market for the Company's stock, and as a result the Company estimates its expected volatility by using the volatility of a pool of several public company issuers that operate within its market segment as a benchmark. The Company adjusts the results of the benchmark analysis on the stock price volatility assumption to reflect differences in the size of the benchmark companies and their capital structures as compared to their own.

Significant judgment is exercised by the Company in determining the selection of guideline companies and, due to the size of the guideline companies chosen, required management to utilize a valuation specialist to determine a premium on the guideline companies' volatility to increase the volatility used in the Company's calculation in order to compensate for the size difference between the Company and the selected guideline companies.

Given these factors, the related audit effort in evaluating management's judgments was challenging, subjective, and complex and required a high degree of auditor judgment.

How our audit addressed the Critical Audit Matter

Our principal audit procedures related to the Company's calculation of volatility used in stock-based compensation included the following:

- We gained an understanding of and evaluated the design and implementation of the Company's controls that addressed the risk of material misstatement related to the selection of inputs into the valuation model used for the determination of the fair value of stock-based compensation.
- We evaluated management's significant accounting policies related to accounting for stock compensation expense and the selection of inputs in the valuation model for reasonableness.
- We agreed the inputs of the grant date fair value calculation to the key terms of the underlying agreements and read such agreements to assess the completeness of the inputs utilized.
- We assessed the appropriateness of the comparable companies used in the volatility calculation, recomputed expected volatility of the Company and volatility of the similar companies using the changes in the respective stock prices over the term.
- With the assistance of our valuation professionals with specialized skills and knowledge, we assessed the methodology used in determining the volatility, in part by developing an independent range of reasonable values including the related premium to be applied to the comparable companies' historical volatilities and comparing those to management's estimates of expected volatility of its stock.
- We recomputed the fair value of each grant using management's inputs and compared to the fair value calculated by management.

We have served as the Company's auditor since 2012.

/s/CohnReznick LLP

Tysons, Virginia

April 17, 2023

WAVEDANCER, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

		December 31, 2022		December 31, 2021
ASSETS				
Current assets				
Cash and cash equivalents	$	731,081	$	4,931,302
Accounts receivable		1,629,559		1,664,862
Prepaid expenses and other current assets		442,445		276,990
Total current assets		2,803,085		6,873,154
Intangible assets, net of accumulated amortization of $1,600,604 and $201,032 and impairment of $3,649,193 and $0, respectively.		3,000,203		8,048,968
Goodwill, net of impairment of $6,460,168 and $0, respectively.		1,125,101		7,585,269
Right-of-use operating lease asset		376,104		672,896
Property and equipment, net of accumulated depreciation and amortization of $391,628 and $347,886, respectively		597,416		105,256
Other assets		79,305		77,100
Total assets	$	7,981,214	$	23,362,643
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities				
Accounts payable	$	573,789	$	650,499
Revolving line of credit		425,000		-
Accrued payroll and related liabilities		676,796		524,055
Commissions payable		125,033		224,250
Income taxes payable		3,101		-
Other accrued liabilities		283,497		204,080
Contract liabilities		182,756		186,835
Operating lease liabilities - current		203,342		192,128
Deferred acquisition consideration - current		1,415,098		-
Total current liabilities		3,888,412		1,981,847
Operating lease liabilities - non-current		303,778		507,120
Deferred tax liabilities, net		59,121		1,167,504
Contingent acquisition consideration		-		930,000
Deferred acquisition consideration - non-current		-		1,335,000
Total liabilities		4,251,311		5,921,471
Stockholders' equity				
Common stock, $0.001 par value 100,000,000 shares authorized; 20,838,599 and 18,882,313 shares issued, 19,165,548 and 17,239,697 shares outstanding as of December 31, 2022 and December 31, 2021, respectively		20,839		18,882
Additional paid-in capital		35,865,076		31,789,464
Accumulated deficit		(31,190,801)		(13,436,963)
Treasury stock, 1,673,051 and 1,642,616 shares at cost, as of December 31, 2022 and December 31, 2021, respectively		(965,211)		(930,211)
Total stockholders' equity		3,729,903		17,441,172
Total liabilities and stockholders' equity	$	7,981,214	$	23,362,643

The accompanying notes are an integral part of the consolidated financial statements.

WAVEDANCER, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,	
	2022	2021
Revenues		
Professional fees	$ 9,346,022	$ 10,592,278
Software sales	2,675,930	4,441,226
Total revenues	12,021,952	15,033,504
Cost of revenues		
Cost of professional fees	6,933,080	7,082,767
Cost of software sales	2,508,714	4,335,121
Total cost of revenues excluding depreciation and amortization	9,441,794	11,417,888
Gross profit	2,580,158	3,615,616
Selling, general and administrative expenses	12,064,683	6,242,765
Change in fair value of contingent consideration	(930,000)	-
Impairment of long-lived assets	3,762,915	-
Goodwill impairment	6,460,168	-
Loss from operations	(18,777,608)	(2,627,149)
Other income (expense)		
Interest expense	(81,621)	(37,325)
Other income, net	7,107	12,171
Gain on forgiveness of note payable	-	450,000
Loss before provision for income taxes	(18,852,122)	(2,202,303)
Income tax benefit	1,098,284	1,070,854
Net loss	$ (17,753,838)	$ (1,131,449)
Net loss per common share - basic and diluted	$ (0.98)	$ (0.09)
Weighted average common shares outstanding		
Basic and diluted	18,057,455	12,574,016

The accompanying notes are an integral part of the consolidated financial statements.

WAVEDANCER, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Shares of Common Stock Issued		Common Stock		Additional Paid-In Capital		Accumulated Deficit		Treasury Stock		Total
Balances at December 31, 2020	12,904,376	$	129,043	$	14,720,065	$	(12,305,514)	$	(930,211)	$	1,613,383
Net loss	-		-		-		(1,131,449)		-		(1,131,449)
Stock option compensation	-		-		1,868,897		-		-		1,868,897
Stock and warrants issued	5,524,937		55,249		14,939,305		-		-		14,994,554
Issuance of stock from exercise of options	453,000		4,530		91,257		-		-		95,787
Change in par value of common stock	-		(169,940)		169,940		-		-		-
Balances at December 31, 2021	18,882,313		18,882		31,789,464		(13,436,963)		(930,211)		17,441,172
Net loss	-		-		-		(17,753,838)		-		(17,753,838)
Stock option compensation	-		-		1,967,927		-		-		1,967,927
Stock issued	1,692,286		1,693		2,035,307		-		-		2,037,000
Issuance of stock from exercise of options	264,000		264		72,378		-		(35,000)		37,642
Balances at December 31, 2022	20,838,599	$	20,839	$	35,865,076	$	(31,190,801)	$	(965,211)	$	3,729,903

The accompanying notes are an integral part of the consolidated financial statements.

WAVEDANCER, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2022	2021
Cash flows from operating activities		
Net loss	$ (17,753,838)	$ (1,131,449)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,443,314	236,598
Impairment of long-lived assets	3,762,915	-
Goodwill impairment	6,460,168	-
Stock-based compensation	1,967,927	1,868,897
Gain on forgiveness of note payable	-	(450,000)
Deferred income tax expense (benefit)	(1,108,383)	(1,070,854)
Amortization of right-of-use assets	183,070	(621,491)
Accretion of deferred acquisition consideration	80,098	-
Change in fair value of contingent consideration liability	(930,000)	-
Changes in operating assets and liabilities:		
Accounts receivable	35,303	388,840
Prepaid expenses and other current assets	(15,455)	(127,882)
Contract assets	-	210,688
Other assets	(2,205)	(12,138)
Accounts payable	(76,710)	(111,797)
Contract liabilities	(4,079)	(760,049)
Accrued payroll and related liabilities and other accrued liabilities	235,259	149,345
Operating lease liability	(192,128)	653,653
Commissions payable	(99,217)	42,624
Net cash used in operating activities	(6,013,961)	(735,015)
Cash flows from investing activities		
Acquisition of property and equipment	(535,902)	(69,754)
Acquisition of Gray Matters, net of cash acquired	-	(7,278,546)
Acquisition of Tellenger, net of cash acquired	-	(2,233,884)
Net cash used in investing activities	(535,902)	(9,582,184)
Cash flows from financing activities		
Borrowing under revolving line of credit	425,000	602,306
Repayments under revolving line of credit	-	(602,306)
Borrowing under long-term note	-	1,000,000
Repayments of long-term note	-	(1,000,000)
Proceeds from issuance of stock	1,887,000	13,294,554
Proceeds from exercise of stock options	37,642	95,787
Net cash provided by financing activities	2,349,642	13,390,341
Net (decrease) increase in cash and cash equivalents	(4,200,221)	3,073,142
Cash and cash equivalents, beginning of year	4,931,302	1,858,160
Cash and cash equivalents, end of year	$ 731,081	$ 4,931,302

The accompanying notes are an integral part of the consolidated financial statements.

WAVEDANCER, INC. AND SUBSIDIARIES

Supplemental Cash Flow Information

	Year Ended December 31,	
	2022	2021
Interest paid	$ 1,250	$ 35,202
Non-cash investing and financing activities		
Forgiveness of note payable	$ -	$ 450,000
Deferred and contingent consideration in connection with the acquisition of Gray Matters, Inc.	$ -	$ 2,265,000
Value of common stock issued in connection with:		
Common stock purchase agreement	$ 150,000	$ -
The acquisition of Tellenger, Inc.	$ -	$ 200,000
The acquisition of Gray Matters, Inc.	$ -	$ 1,500,000

The accompanying notes are an integral part of the consolidated financial statements.

Note 1. Summary of Significant Accounting Policies

Organization and Business

Founded in 1979 as Information Analysis Incorporated ("IAI"), IAI changed its name to WaveDancer, Inc. ("WaveDancer" or the "Company ") and converted from a Virginia corporation to a Delaware corporation in December 2021. The Company is in the business of developing and maintaining information technology ("IT") systems, modernizing client information systems, and performing other IT-related professional services to government and commercial organizations. With our acquisition of Gray Matters, Inc. ("GMI") in 2021 we expanded our offerings to include licensing and implementation services for proprietary blockchain based Supply Chain Management ("SCM") software. Our Chief Executive Officer, as the chief operating decision maker ("CODM"), organizes our company, manages resource allocations, and measures performance among two operating and reportable segments: Tellenger and Blockchain SCM.

Liquidity and Going Concern

During the year ended December 31, 2022, the Company generated a loss from operations of $18,777,608, which includes impairment charges of long-lived assets and goodwill at its Blockchain SCM segment totaling $10,223,083. As of December 31, 2022, the Company had net working capital of $329,771, excluding deferred acquisition consideration of $1,415,098 and including cash and cash equivalents of $731,081, and had an accumulated deficit of $31,190,801. As of December 31, 2022, the Company had availability of $575,000 under its bank line of credit. On March 17, 2023, the Company sold its GMI subsidiary to StealthPoint LLC for cash of $935,000, stock, and future cash payments contingent upon GMI revenues. See Note19 for further information about this transaction. The cash consideration and the elimination of cash expenses from the Blockchain SCM segment provide additional short-term liquidity. However, we estimate that by the end of 2023 the Company will need to raise additional capital to meet its ongoing operating cash flow requirements as well as to grow its business either organically or through acquisition. The Company is evaluating strategic alternatives which include the potential merger or sale of the Company. There is no assurance that such activities will result in any transactions or provide additional capital, which creates substantial doubt about the Company's ability to continue as a going concern for at least one year from the date that the accompanying consolidated financial statements are issued.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates continuity of operations, realization of assets, and satisfaction of liabilities in the ordinary course of business. The propriety of using the going-concern basis is dependent upon, among other things, the achievement of future profitable operations, the ability to generate sufficient cash from operations and potential other funding sources, in addition to cash on-hand, to meet its obligations as they become due. The Company's consolidated financial statements do not include any adjustment that might result from the outcome of this uncertainty.

Basis of Presentation and Consolidation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") and applicable rules and regulations of the Securities and Exchange Commission ("SEC") regarding annual financial reporting. The accompanying consolidated financial statements include the accounts of WaveDancer, Inc. and its consolidated subsidiaries (collectively, the "Company", "we" or "our"). All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

Preparation of consolidated financial statements in conformity with GAAP requires us to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. Actual results could differ materially from these estimates due to uncertainties. On an ongoing basis, we evaluate our estimates, including those related to the allowance for credit losses; fair values of financial instruments, reporting units, intangible assets, and goodwill; useful lives of intangible assets and property and equipment; the valuation of stock-based compensation, the valuation of deferred tax assets and liabilities; and contingent liabilities, among others. We base our estimates on assumptions, both historical and forward looking, that are believed to be reasonable, and the results of which form the basis for making judgments about the carrying values of assets and liabilities.

Revenue Recognition

See Note 2 for a detailed description of our revenue recognition policy.

Cash and Cash Equivalents

We consider all highly-liquid investments with maturities of ninety days or less at the time of purchase to be cash equivalents. Deposits are maintained with a federally insured bank. Balances at times exceed federally insured limits, but management does not consider this to be a significant concentration of credit risk.

Accounts Receivable

Our payment terms for accounts receivable vary by the types of our customers and the products or services offered. Typically, we invoice for services on a monthly basis, and we invoice for product sales upon delivery.

We maintain an allowance for credit losses for accounts receivable, which is recorded as an offset to accounts receivable, and changes in such are classified as general and administrative expense in the consolidated statements of operations. We assess collectability on an individual customer basis. In determining the amount of the allowance for credit losses, we consider historical collectability based on past due status and make judgments about the creditworthiness of customers based on ongoing credit evaluations. Our allowance for doubtful accounts as of December 31, 2022 and 2021 was immaterial.

Property and Equipment

Property and equipment are stated at cost and are depreciated using the straight-line method over the estimated useful lives of the assets. Furniture and fixtures are depreciated over the lesser of the useful life or five years, purchased software is depreciated over the lesser of three years or the term of the license, and computer equipment is depreciated over three years. Leasehold improvements are amortized over the estimated term of the lease or the estimated life of the improvement, whichever is shorter. Maintenance and minor repairs are charged to operations as incurred. Gains and losses on dispositions are recorded in operations.

Software Development Costs

The Company capitalizes costs related to software developed or obtained for internal use in accordance with Accounting Standards Codification ("ASC") 350-40, Internal-Use Software ("ASC 350-40"). The following illustrates the various stages and related processes of computer software development in accordance with ASC 350-40:

- Preliminary project stage: (a) conceptual formulation of alternatives; (b) evaluation of alternatives; (c) determination of existence of needed technology; and (d) final selection of alternatives. Internal and external costs incurred during the preliminary project stage are expensed as incurred.

- Application development stage: (a) design of chosen path, including software configuration and software interfaces; (b) coding; (c) installation to hardware; and (d) testing, including parallel processing phase. Internal and external costs incurred to develop internal-use computer software during the application development stage are capitalized.

- Post-implementation-operation stage: (a) training; and (b) application maintenance. Internal and external costs incurred during the post-implementation-operation stage are expensed as incurred.

During 2022, the Company began to develop its Maverix blockchain SCM software which it marketed under a Software as a Service ("SaaS") model, whereby, a customer would not take possession of the Company's software; rather, the software would be accessed on an as-needed basis over the Internet.

Therefore, when the software is used to produce a product or in a process to provide a service to a customer, and the customer is not given the right to obtain or use the software, the related costs are accounted for in accordance with ASC 350-40. When a hosting arrangement includes multiple modules or components, capitalized costs are amortized on a module-by-module basis. When a module or component is substantially ready for its intended use, amortization begins, regardless of whether the overall hosting arrangement is being placed in service in planned stages. If the module's functionality is entirely dependent on the completion of one or more other modules, then amortization does not begin until that group of interdependent modules is substantially ready for use.

Capitalized software development costs are included in property and equipment on the consolidated balance sheets, see Note 7.

Stock-Based Compensation

The Company's stock-based compensation plans as of December 31, 2022 are described in Note 14 below. Total compensation expense related to these plans was $1,967,927 and $1,868,897 for the years ended December 31, 2022 and 2021, respectively, and is included in selling, general and administrative expenses on the consolidated statements of operations. The Company estimates the fair value of options granted using a Black-Scholes valuation model to establish the expense. When stock-based compensation is awarded, the expense is recognized ratably over the requisite service period. The Company recognizes forfeitures at the time the forfeiture occurs.

Income Taxes

Deferred tax assets and liabilities are computed based on the difference between the financial statement and tax basis of assets and liabilities and are measured by applying enacted tax rates and laws for the taxable years in which those differences are expected to reverse. The Company expects that recent tax law changes contained in the Inflation Reduction Act and CHIPS Act will not have a material impact on its provision for income taxes. In addition, a valuation allowance is required to be recognized if it is believed more likely than not that a deferred tax asset will not be fully realized. Authoritative guidance prescribes a recognition threshold of more likely than not, and a measurement attribute for all tax positions taken or expected to be taken on a tax return, in order for those positions to be recognized in the financial statements. The Company continually reviews tax laws, regulations and related guidance in order to properly record any uncertain tax liabilities. See Note 12.

Loss Per Share

The Company's loss per share calculation is based upon the weighted average number of shares of common stock outstanding. The dilutive effect of stock options, warrants, and other equity instruments are included for purposes of calculating diluted income per share, except for periods when the Company reports a net loss, in which case the inclusion of such equity instruments would be antidilutive. See Note 17.

Concentration of Credit Risk

During the year ended December 31, 2022, the Company's prime contracts with U.S. government agencies represented 31.3% of revenue, subcontracts under federal procurements represented 65.4% of revenue, and 3.3% of revenue came from local government and commercial contracts. The terms of these contracts and subcontracts vary from single transactions to five years. Three subcontracts under federal procurements represented 26.0%, 15.8% and 10.3% of revenue, respectively. Revenue in our Tellenger operating segment from one prime contractor under which the Company has multiple subcontracts represented 39.9% of the Company's revenue in aggregate.

During the year ended December 31, 2021, the Company's prime contracts with U.S. government agencies represented 31.7% of revenue, subcontracts under federal procurements represented 66.4% of revenue, and 1.9% of revenue came from commercial contracts. The terms of these contracts and subcontracts vary from single transactions to five years. Three subcontracts under federal procurements represented 33.2%, 10.0% and 9.6% of revenue, respectively. Revenue in our Tellenger operating segment from one prime contractor under which the Company has multiple subcontracts represented 28.7% of revenue in aggregate.

The Company sold third-party software and maintenance contracts under agreements with one major supplier in 2022 and 2021, accounting for 22.3% and 29.3% of total revenue, respectively.

As of December 31, 2022, the Company's accounts receivable included receivables from one prime contract and one subcontract under federal procurements that represented 26.5% and 25.8% of the Company's outstanding accounts receivable, respectively. Receivables from one prime contractor under which the Company has multiple subcontracts represented 39.2% of the Company's outstanding accounts receivable in aggregate.

As of December 31, 2021, the Company's accounts receivable included receivables from two subcontracts under federal procurements that represented 52.6% and 19.6% of the Company's outstanding accounts receivable, respectively. Receivables from one prime contractor under which the Company has multiple subcontracts represented 72.2% of the Company's outstanding accounts receivable in aggregate.

Business Combinations

We include the results of operations of the businesses that we acquire as of the acquisition date. We allocate the purchase price of the acquisitions to the assets acquired and liabilities assumed based on their estimated fair values. The excess of the purchase price over the fair values of identifiable assets and liabilities is recorded as goodwill. The Company amortizes identifiable intangible assets with finite lives over their respective estimate useful lives. Identifiable intangible assets that are subject to amortization are evaluated for impairment and the Company will periodically reassess the carrying value, useful lives, and classifications of all identifiable intangible assets. Acquisition-related expenses are recognized separately from the business combination and are expensed as incurred.

Determining fair value of assets acquired and liabilities assumed requires management's judgment, the utilization of independent valuation experts, and involves significant estimates and assumptions with respect to the timing and amount of future cash flows, discount rates, market prices, and asset lives, among other items. The judgments made in the determination of the estimated fair value assigned to the assets acquired and liabilities assumed and any noncontrolling interests in the investee, as well as the estimated useful life of each asset can materially impact the consolidated financial statements in periods after acquisition, such as through depreciation and amortization. See Note 8.

Intangibles and Goodwill

The Company accounts for goodwill and other intangible assets in accordance with ASC Topic 350, Goodwill – Intangibles and Other ("ASC 350") and has concluded that it has two operating segments, which are also its two reporting units for purposes of goodwill impairment testing. Goodwill is not amortized but instead tested for impairment (i) on at least an annual basis and (ii) when changes in circumstances indicate that it is more likely than not that the fair value of a reporting unit may be below its carrying value. These circumstances include, but are not limited to, significant changes in performance relative to expected operating results; significant changes in the use of the assets; significant negative industry or economic trends; a significant decline in the Company's stock price for a sustained period of time; and changes in the Company's planned revenue or earnings. Management evaluates the recoverability of the Company's goodwill annually on October 31 or more often as events or circumstances indicate the fair value of a reporting unit is below its carrying value, including goodwill. If the fair value of a reporting unit is less than its carrying value, an impairment loss is recorded to the extent that the reporting unit carrying amount exceeds the estimated fair value of the reporting unit.

Management evaluates the recoverability of the Company's indefinite-lived intangible assets (tradenames) annually on October 31, or more often when events or circumstances indicate a potential impairment exists.

Management evaluates the recoverability of the Company's finite-lived intangible assets and other long-lived assets when events or circumstances indicate a potential impairment exists. In determining if impairment exists, the Company estimates the undiscounted cash flows to be generated from the use and ultimate disposition of these assets or asset groups that contain those assets. If impairment is indicated based on a comparison of an asset group's carrying values and the undiscounted cash flows, the impairment loss is measured as the amount by which the carrying amount of the asset group exceeds the fair value of the asset group.

As discussed further in Note 6, during 2022 we recognized goodwill and long-lived asset impairment charges related to our Blockchain SCM unit of $6,460,168 and $3,762,915, respectively, which are separately identified in our consolidated statements of operations.

Recently Issued Accounting Pronouncements

In October 2021, the FASB issued Accounting Standards Update ("ASU") No. 2021-08, Business Combinations (Topic 805): *Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. This ASU requires companies to measure contract assets and contract liabilities from contracts acquired in a business combination in accordance with ASC Topic 606 on the acquisition date. We early adopted the ASU as of January 1, 2022 and will apply it prospectively to future acquisitions. The adoption of this accounting standard had no impact on the Company's consolidated financial statements as of and for the year ended December 31, 2022.

No other recently issued accounting pronouncements are expected to have a material effect on our consolidated financial statements.

Note 2. Revenue Recognition

Revenue is recognized when all the following steps have been taken and criteria met for each contract:

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

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

- ***Determination of the transaction price -*** The transaction price is determined based on the consideration to which the Company will be entitled in exchange for transferring goods or services to the customer adjusted for estimated variable consideration, if any. The Company typically estimates the transaction price impact of discounts offered to the customers for early payments on receivables or rebates based on sales target achievements. Constraints are applied when estimating variable considerations based on historical experience where applicable.

- ***Allocation of the transaction price to the performance obligations in the contract -*** If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price basis. The Company determines standalone selling price by considering available information such as historical selling prices of the performance obligation, geographic location, overall strategic pricing objective, market conditions and internally approved pricing guidelines related to the performance obligations.

- ***Recognition of revenue when, or as, the Company satisfies performance obligations -*** The Company satisfies performance obligations either over time or at a point in time as discussed in further detail below. Revenue is recognized at or over the time the related performance obligation is satisfied by transferring a promised good or service to a customer.

Nature of Products and Services

We generate revenue from the sales of information technology professional services, sales ofthird-party software licenses and implementation and training services, sales ofthird-party support and maintenance contracts based on those software products, and incentive payments received from third-party software suppliers for facilitating sales directly between that supplier and a customer introduced by the Company. In addition, with the GMI acquisition, we expanded our offerings to include licensing and implementation services for proprietary blockchain based SCM software. We sell through our direct relationships with end customers and under subcontractor arrangements.

Professional services are offered through several arrangements – through time and materials arrangements, fixed-price-per-unit arrangements, fixed-price arrangements, or combinations of these arrangements within individual contracts. Revenue under time and materials arrangements is recognized over time in the period the hours are worked or the expenses are incurred, as control of the benefits of the work is deemed to have passed to the customer as the work is performed. Revenue under fixed-price-per-unit arrangements is recognized at a point in time when delivery of units has occurred and units are accepted by the customer or are reasonably expected to be accepted. Generally, revenue under fixed-price arrangements and mixed arrangements is recognized either over time or at a point in time based on the allocation of transaction pricing to each identified performance obligation as control of each is transferred to the customer. For fixed-price arrangements under which documentary evidence of acceptance or receipt of deliverables is not present or withheld by the customer, the Company recognizes revenue when it has the right to invoice the customer. For fixed-price arrangements for which the Company is paid a fixed fee to make itself available to support a customer, with no predetermined deliverables to which transaction prices can be estimated or allocated, revenue is recognized ratably over time.

Third-party software licenses are classified as enterprise server-based software licenses or desktop software licenses, and desktop licenses are further classified by the type of customer and whether the licenses are bulk licenses or individual licenses. The Company's obligations as the seller for each class differ based on its reseller agreements and whether its customers are government or non-government customers. Revenue from enterprise server-based sales to either government or non-government customers is usually recognized in full at a point in time based on when the customer gains use of the full benefit of the licenses, after the licenses are implemented. If the transaction prices of the performance obligations related to implementation and customer support for the individual contract is material, these obligations are recognized separately over time, as performed. Revenue for desktop software licenses for government customers is usually recognized on a gross basis at a point in time, based on when the customer's administrative contact gains training in and beneficial use of the administrative portal. Revenue for bulk desktop software licenses for non-government customers is usually recognized on a gross basis at a point in time, based on when the customer's administrative contact gains training in and beneficial use of the administrative portal. For desktop software licenses sold on an individual license basis to non-government customers, where the Company has no obligation to the customer after the third-party makes delivery of the licenses, the Company has determined it is acting as an agent, and the Company recognizes revenue upon delivery of the licenses only for the net of the selling price and its contract costs.

Third-party support and maintenance contracts for enterprise server-based software include a performance obligation under the Company's reseller agreements for it to be the first line of support (direct support) and second line of support (intermediary between customer and manufacturer) to the customer. Because of the support performance obligations, and because the amount of support is not estimable, the Company recognizes revenue ratably over time as it makes itself available to provide the support.

Incentive payments are received under reseller agreements with software manufacturers and suppliers where the Company introduces and courts a customer, but the sale occurs directly between the customer and the supplier or between the customer and the manufacturer. Since the transfer of control of the licenses cannot be measured from outside of these transactions, revenue is recognized when payment from the manufacturer or supplier is received.

Disaggregation of Revenue from Contracts with Customers

	Year ended December 31, 2022		Year ended December 31, 2021	
Contract Type	Amount	Percentage	Amount	Percentage
Services time & materials	$ 7,521,165	62.6%	$ 9,383,810	62.5%
Services firm fixed price	998,970	8.3%	367,229	2.4%
Services fixed price over time	407,611	3.4%	634,036	4.2%
Services combination	113,610	0.9%	92,940	0.6%
Services fixed price per unit	304,666	2.5%	114,263	0.8%
Third-party software	2,427,937	20.2%	4,245,730	28.2%
Software support & maintenance	142,891	1.2%	106,428	0.7%
Incentive payments	105,102	0.9%	89,068	0.6%
Total revenue	$ 12,021,952	100.0%	$ 15,033,504	100.0%

Contract Balances

Contract Assets

Contract assets consist of assets resulting when revenue recognized exceeds the amount billed or billable to the customer due to allocation of transaction price, and of amounts withheld from payment of invoices as a financing component of a contract. Changes in contract assets balances in 2022 and 2021 are as follows:

Balance at December 31, 2020	$ 210,668
Contract assets added	312,475
Revenue billed	(523,143)
Balance at December 31, 2021	-
Contract assets added	-
Revenue billed	-
Balance at December 31, 2022	$ -

Contract Liabilities

Contract liabilities consist of amounts that have been invoiced and for which the Company has the right to bill, but that have not been recognized as revenue because the related goods or services have not been transferred. Changes in contract liabilities balances in 2022 and 2021 are as follows:

Balance at December 31, 2020	$	946,884
Contract liabilities added		359,896
Revenue recognized		(1,119,945)
Balance at December 31, 2021		186,835
Contract liabilities added		439,230
Revenue recognized		(443,309)
Balance at December 31, 2022	$	182,756

Revenue recognized during 2022 from the balance as of December 31, 2021 was $160,809, and revenue recognized during 2021 from the balance as of December 31, 2020 was $946,884.

Costs to Obtain or Fulfill a Contract

When applicable, the Company recognizes an asset related to the costs incurred to obtain a contract only if it expects to recover those costs and it would not have incurred those costs if the contract had not been obtained. The Company recognizes an asset from the costs incurred to fulfill a contract if the costs (i) are specifically identifiable to a contract, (ii) enhance resources that will be used in satisfying performance obligations in future and (iii) are expected to be recovered. There were no such assets as of December 31, 2022, and 2021. When incurred, these costs are amortized ratably over the expected life of the customer.

Deferred Costs of Revenue

Deferred costs of revenue consist of the costs of third-party support and maintenance contracts for enterprise server-based software, as well direct costs associated with contract deliverables for which control of the work product has not passed to the customer and contract revenue has not been recognized. These costs are reported under the prepaid expenses and other current assets caption on the Company's consolidated balance sheets. The Company recognizes these direct costs ratably over time as it makes itself available to provide its performance obligation for software support, commensurate with its recognition of revenue. Changes in deferred costs of revenue balances during 2022 and 2021 are as follows:

Balance at December 31, 2020	$	89,068
Deferred costs added - maintenance		228,010
Deferred costs added - deliverables		17,406
Deferred costs expensed		(180,266)
Balance at December 31, 2021		154,218
Deferred costs added - maintenance		223,148
Deferred costs expensed		(220,647)
Balance at December 31, 2022	$	156,719

Note 3. Segment Information

Prior to the acquisition of GMI and through June 30, 2022, we managed our business as a single operating segment. During the quarter ended September 2022, we reassessed our business strategy and our CODM changed his approach to managing the business and allocating resources. As a result, we determined that beginning July 1, 2022 we have two operating segments: Tellenger and Blockchain SCM. Tellenger provides professional services, primarily to U.S. government agencies, related to legacy software migration and modernization, developing web-based and mobile device solutions, including dynamic electronic forms development and conversion, and data analytics. The Blockchain SCM segment is an early-stage business focused on developing, marketing, and selling a SaaS supply chain management platform built on blockchain technology.

For the year ended December 31, 2022:

	Tellenger	Blockchain SCM	Corporate	Consolidated
Revenue	$ 11,023,982	$ 998,970	$ -	$ 12,022,952
Depreciation and amortization	211,360	1,223,328	8,626	1,443,314
Other significant non-cash items:				
Stock-based compensation	175,693	691,472	1,100,762	1,967,927
Change in fair value of contingent consideration	-	(930,000)	-	(930,000)
Impairment of long-lived assets	-	3,762,915	-	3,762,915
Goodwill impairment	-	6,460,168	-	6,460,168
Total other significant non-cash items	175,693	9,984,555	1,100,762	11,261,010
Operating income (loss)	$ 610,753	$ (13,358,651)	$ (6,029,710)	$ (18,777,608)
Interest expense				(81,621)
Other income, net				7,107
Income tax benefit				1,098,284
Net loss				$ (17,753,838)
Acquisition of property and equipment	$ 10,447	$ 498,425	$ 27,030	$ 535,902

For the year ended December 31, 2021:

	Tellenger	Blockchain SCM	Consolidated
Revenue	$ 15,033,504	$ -	$ 15,033,504
Depreciation and amortization	167,332	69,266	236,598
Operating loss			$ (2,627,149)
Interest expense			(37,325)
Other income, net			12,171
Gain on forgiveness of note payable			450,000
Income tax benefit			1,070,854
Net loss			$ (1,131,449)
Acquisition of property and equipment			$ 69,754

Total assets for each operating segment as of December 31 are as follows:

	2022	2021
Tellenger	$ 4,000,760	$ 4,812,450
Blockchain SCM	2,500,000	13,159,805
Corporate	1,480,454	5,390,388
Consolidated	$ 7,981,214	$ 23,362,643

Note 4. Leases

The Company has two significant operating leases, one for its headquarters offices in Fairfax, Virginia and one for additional office space in Annapolis, Maryland. The leases both commenced in 2021 and have original lease terms ranging from 37 to 67 months and rental rates escalate by approximately 2.5% annually under both leases. The Company determines if an arrangement is a lease at inception. Operating leases are included in right-of-use operating lease assets and operating lease liabilities in the Company's consolidated balance sheets as of December 31, 2022 and 2021. The Company previously had an operating lease for its headquarters offices which expired on June 30, 2021 at the end of its 49-month fixed term.

As of December 31, 2022 and 2021, the Company does not have any sales-type or direct financing leases.

The Company's operating lease asset represents its right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. Operating lease assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. Since the lease does not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The operating lease asset also includes any lease payments made and excludes lease incentives. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The Company's lease agreement includes rental payments escalating annually for inflation at a fixed rate. These payments are included in the initial measurement of the operating lease liability and operating lease asset. The Company does not have any rental payments which are based on a change in an index or a rate that can be considered variable lease payments, which would be expensed as incurred.

The Company's lease agreements do not contain any material residual value guarantees or material restrictions or covenants.

The Company does not sublease any real estate to third parties.

As of December 31, 2022, our two operating leases had a weighted average remaining lease term of 34 months and a weighted average discount rate of 5.0%. Future lease payments under operating leases as of December 31, 2022 were as follows:

2023	$	228,862
2024		174,721
2025		74,804
2026		70,220
Total lease payments		548,607
Less: discount		(41,487)
Present value of lease liabilities	$	507,120

The total expense incurred related to its operating leases was $214,241 and $129,709 for the years ended December 31, 2022 and 2021, respectively, and is included in selling, general and administrative expenses on the consolidated statements of operations.

Note 5. Receivables

Accounts receivable as of December 31, 2022 and 2021, consist of the following:

		2022		2021
Billed federal government	$	1,573,407	$	1,594,473
Billed commercial		56,152		-
Unbilled receivables		-		70,389
Accounts receivable	$	1,629,559	$	1,664,862

Billed receivables from the federal government include amounts due from both prime contracts and subcontracts where the federal government is the end customer. Unbilled receivables include short-term contract assets where billing cycles differ from calendar months, or a monthly fixed billing amount does not reflect the revenue earned in a given month. The accounts receivable balance as of December 31, 2020, was $1,442,231.

Note 6. Fair Value Measurements

The Company defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value which are the following:

- Level 1—Quoted prices in active markets for identical assets or liabilities;
- Level 2—Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and
- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table represents the fair value hierarchy for the Company's financial instruments measured at fair value on a recurring basis as of December 31, 2022 and 2021:

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	$ 58,242	$ -	$ -	$ 58,242
Other liabilities:				
Fair value of contingent consideration	$ -	$ -	$ -	$ -

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	$ 1,600,663	$ -	$ -	$ 1,660,663
Other liabilities:				
Fair value of contingent consideration	$ -	$ -	$ 930,000	$ 930,000

The following table reflects the change in fair value of our financial instruments measured at fair value on a recurring basis based on Level 3 inputs:

December 31, 2020	$ -
Change in fair value	930,000
December 31, 2021	930,000
Change in fair value	(930,000)
December 31, 2022	$ -

Money market funds are highly-liquid investments and are included in cash and cash equivalents on the consolidated balance sheets. The pricing information on these investment instruments is readily available and can be independently validated as of the measurement date. This approach results in the classification of these securities as Level 1 of the fair value hierarchy. See Note 8 for a discussion of the fair value of contingent consideration.

The carrying amounts of financial instruments such as accounts receivable and accounts payable approximate the related fair value due to the short-term maturities of these instruments.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The following table is a summary of gains and losses on assets measured at fair value on a nonrecurring basis:

	2022	2021
Impairment of long-lived assets		
Intangible assets	$ 3,649,193	$ -
Right of use assets	113,722	-
	3,762,915	-
Impairment of goodwill	6,460,168	-
Total	$ 10,223,083	$ -

During the third quarter of 2022, our Gray Matters reporting unit, which is the same as our Blockchain SCM operating segment, experienced delays in receiving approval from its government customer of certain milestone achievements specified in our contract with that customer. This delay, in turn, resulted in a decline in the reporting unit's estimated future cash flows. Accordingly, we performed an interim goodwill impairment test as of September 30, 2022, prior to our annual impairment test and the estimated fair value of the Gray Matters reporting unit was determined to be lower than its carrying value. In the third quarter of 2022, we recorded a non-cash pre-tax and after-tax charge of $2,254,624 to impair the carrying value of this reporting unit's goodwill.

For our third quarter 2022 interim goodwill impairment testing, the fair value of the reporting unit was determined using an income approach based on a discounted cash flow ("DCF") model which requires a complex series of judgments about future events and uncertainties and relies heavily on estimates of expected cash flows, an appropriate discount rate, and a terminal growth rate. Any changes in key assumptions, including failure to grow the revenue and improve the profitability of GMI, or other unanticipated events and circumstances, may affect such estimates. Fair value assessments of the reporting unit are considered a Level 3 measurement due to the significance of unobservable inputs developed using company specific information. The discount rate and terminal growth rate used in our 2022 third quarter interim impairment test for the Gray Matters reporting unit were 22.5% and 3.0%, respectively.

In December 2022, the Company entered into negotiations with the venture capital firm StealthPoint LLC ("SP") whereby GMI would be spun-off into a stand-alone entity and SP would make a cash investment into the spun-off GMI. In January 2023, SP determined that a spin-off was not acceptable to them and on January 18, 2023 we executed a non-binding letter of intent to sell of the shares of GMI to an affiliate of SP ("Buyer"). While the Company continued to believe in the long-term commercial viability of its Blockchain SCM product, we also believed that GMI would continue to incur losses for a longer period than was originally estimated and would require additional cash investment before it could generate positive cash flow. As of December 31, 2022, we determined that the ongoing discussions with the investor and negotiations of potential value of our Gray Matters reporting unit are considered trigger events for purposes of evaluating the recoverability of that reporting unit and its associated goodwill.

The components of the consideration and methods for valuing them to determine the fair value of the Gray Matters reporting unit are as follows:

Consideration	Amount	Description and Valuation Methodology
Cash, net	$ 935,000	Cash at closing of $1 million less estimated value of transition services to be provided.
Buyer stock	581,000	Based on estimated post-money valuation of GMI after SP investment, applying a minority interest discount.
Contingent payments	682,000	Annual cash payments, over approximately seven years, up to a total of $4 million, equal to 5% of GMI's net revenue. Applied a discount rate of 40.8% to projected revenue.
Net working capital	302,000	Carrying value approximates fair value.
Estimated fair value of reporting unit	$ 2,500,000	

As a result of the December 31, 2022 impairment testing of the GMI reporting unit, we recorded a non-cash pre-tax charge for impairment of definite lived intangible assets of $3,649,193, which resulted in a deferred tax benefit of $910,147 and a non-cash pre-tax and after-tax charge of $4,205,544 to impair the remaining balance of goodwill, bringing the total goodwill impairment to $6,460,168 for 2022. We also recorded a non-cash pre-tax impairment charge of right of use assets of $113,722 which resulted in a deferred tax benefit of $16,116.

Note 7. Property and Equipment

Property and equipment consist of the following as of December 31:

	2022	2021
Software development costs	$ 498,425	$ -
Computer equipment and purchased software	365,874	328,397
Furniture and equipment	117,307	117,307
Leasehold improvements	7,438	7,438
Property and equipment, gross	989,044	453,142
Less: Accumulated depreciation	(391,628)	(347,886)
Property and equipment, net	$ 597,416	$ 105,256

Depreciation and amortization expense related to property and equipment for the years ended December 31, 2022 and 2021, totaled $43,742 and $35,566, respectively. During 2022, we recorded $498,425 of capitalized internal use software development costs related to the Blockchain SCM segment and zero amortization of software development costs.

Note 8. Business Combinations

Gray Matters, Inc.

Initial Acquisition in 2021

On December 10, 2021, the Company purchased all the issued and outstanding shares of Gray Matters, Inc. GMI provides supply chain management software designed to aggregate customer data into a single, interconnected, blockchain secured framework. The purchase price of $11,005,100 was composed of the following:

Net cash consideration	$ 7,240,100
Buyer common stock	1,500,000
Fair value of deferred consideration	1,335,000
Fair value of contingent consideration	930,000
Total	$ 11,005,100

Common stock consideration consisted of 436,481 shares of WaveDancer common stock valued at $1,500,000 as of the transaction closing date. The deferred consideration of $1,335,000 is the estimated present value as of the closing date of the $1,500,000 cash payment due to the selling shareholder of GMI (the "Seller") on the second anniversary of the acquisition. We applied a discount rate of 6% reflecting our recent secured borrowing rate adjusted to include a premium for the unsecured status of the deferred consideration liability. Accretion of the liability will be recorded as interest expense. Contingent consideration has been estimated using a probability weighted average of possible outcomes, discounted to its net present value as of the acquisition date. We identified the set of possible outcomes and assigned probabilities to each by applying management judgment to the assumptions underlying the projections of 2022 revenue and gross profit. Under the terms of the purchase agreement, the Seller is eligible to receive from zero up to $4,000,000 of additional consideration, payable in cash, based on the amounts of revenue and gross profit achieved by GMI during the year ended December 31, 2022. We estimated that the outcomes to apply a probability weighting to range from $500,000 to $1,500,000, with an outcome of $1,000,000 given the highest probability weighting. The undiscounted probability weighted outcome was determined to be $1,000,000 and was discounted back to its present value of $930,000 as of December 31, 2021. We applied a discount rate of 6% reflecting our recent secured borrowing rate adjusted to include a premium for the unsecured status of the contingent consideration liability. The contingent consideration liability will be remeasured at fair value at the end of each reporting period and any changes in the fair value will be reported in the consolidated statements of operations until the liability is settled.

The Company incurred $246,045 of legal, valuation, accounting, consulting, and other fees related to the GMI acquisition, and these costs are included in acquisition costs in the consolidated statement of operations. Goodwill was attributable to human capital related intangible assets like the value of the acquired assembled workforce and strategic and enterprise related intangible assets including growth opportunities that were not reportable separately from goodwill. The transaction did not result in a step-up in tax basis and the Company carried over the legacy tax basis of $0 for all intangibles. Neither the intangible assets nor goodwill recorded for financial reporting purposes generates deductible amortization for tax purposes. The consolidated statement of operations includes no revenues and $165,633 net loss from December 10 through December 31, 2021 related to the GMI acquisition.

The purchase price for GMI was allocated as follows:

	Useful Lives (years)	Amounts	Valuation Methodology
Cash		$ 20,235	
Fixed assets		8,902	
Intangible assets with estimated useful lives:			
Technology	5	2,900,000	Replacement cost and relief from royalty
Customer relationships	6	3,860,000	Multi-period excess earnings
Goodwill		4,560,099	
Total assets acquired		11,349,236	
Current liabilities		(344,136)	
Net assets acquired		$ 11,005,100	

Goodwill also arose from recognizing deferred tax liabilities from recording in the purchase accounting intangible assets that are amortizable for financial reporting but not for income tax purposes. We recorded goodwill of $1,900,069 for this timing difference which, when added to the $4,560,099 of purchase price allocation, resulted in total goodwill of $6,460,168 from the acquisition of GMI.

2022 Developments

We remeasured the contingent consideration liability as of December 31, 2022 and determined that the undiscounted probability weighted outcome had decreased to zero and we reduced the contingent consideration liability amount to zero with a corresponding pick up of $930,000 non-cash income for the year ended December 31, 2022. As discussed in Note 6, in 2022 we recorded impairment charges related to the technology and customer relationships assets of $1,526,564 and $2,122,629, respectively, and goodwill impairment charges of $6,460,168, which reduced the carrying value of goodwill to zero as of December 31, 2022. As discussed in Note 19, on March 17, 2023 the Company sold all the issued and outstanding shares of GMI.

Tellenger, Inc.

On April 7, 2021, the Company purchased all of the issued and outstanding shares of stock of Tellenger, Inc. (“Tellenger”). Tellenger is primarily engaged in providing professional services related to cybersecurity, cloud computing, and data analytics. Tellenger’s customers include U.S. government agencies, either as a prime contractor or sub-contractor, as well as several national not-for-profit organizations. The purchase price of $2,515,357 was paid with $2,315,357 of cash and 68,264 shares of Company common shares valued at $200,000 as of the transaction closing date. The value of the shares was determined by the closing price as of the transaction date. The Company incurred $165,827 of legal, valuation and other fees related to the Tellenger acquisition, and these costs are included in acquisition costs in the consolidated statement of operations. Goodwill is attributable to human capital related intangible assets like the value of the acquired assembled workforce and strategic and enterprise related intangible assets including growth opportunities that are not reportable separately from goodwill. Goodwill also arises from recognizing deferred tax liabilities from intangible assets that are amortizable for financial reporting but not for income tax purposes. The transaction did not result in a step-up in tax basis and neither the intangible assets nor goodwill recorded for financial reporting purposes results in deductible amortization for tax purposes. The consolidated statement of operations includes $2,446,607 of revenues and $167,721 of net income from April 7 through December 31, 2021.

The purchase price for Tellenger was allocated as follows:

	Useful Lives (years)	Amounts	Valuation Methodology
Cash		$ 81,473	
Accounts receivable		611,471	
Other current assets		6,338	
Intangible assets with estimated useful lives:			
Customer relationships	8	1,090,000	Replacement cost and relief from royalty
Non-compete agreements	3	120,000	Multi-period excess earnings
Intangible assets with indefinite lives:			
Trade names		280,000	
Goodwill		785,000	
Total assets acquired		2,974,282	
Current liabilities		(458,925)	
Net assets acquired		$ 2,515,357	

Goodwill also arises from recognizing deferred tax liabilities from recording in the purchase accounting intangible assets that are amortizable for financial reporting but not for income tax purposes. We recorded goodwill of $340,101 for this timing difference which, when added to the $785,000 of purchase price allocation, resulted in total goodwill of $1,125,101 from the acquisition of Tellenger.

Supplemental Combined Pro Forma Information

The following unaudited pro forma financial information presents combined results of operations for the periods presented as if the acquisitions of both Tellenger and Gray Matters had been completed on January 1, 2021. The pro forma information includes adjustments to amortization expense for the intangible assets acquired and interest expense for the additional debt used to partially fund the Tellenger acquisition.

The pro forma data are for informational purposes only and are not necessarily indicative of the consolidated results of operations of the combined business had the acquisitions of both Tellenger and Gray Matters occurred on January 1, 2021, or the results of future operations of the combined business. For instance, planned or expected operational synergies following the acquisition are not reflected in the pro forma information. Consequently, actual results will differ from the unaudited pro forma information presented below. Pro forma results for 2021 have been adjusted to exclude $496,027 of legal, valuation and other transaction expenses directly related to the acquisitions.

	2022	2021
Revenues	$ 12,022,952	$ 16,789,286
Net loss	$ (17,753,838)	$ (3,012,182)

Note 9. Intangible Assets and Goodwill

The following table summarizes our intangible assets as of December 31, 2022 and 2021 and the changes during 2022:

	Weighted Average Useful Life (Years)	December 31, 2021	Additions	Impairment	December 31, 2022
Intangible assets with estimated useful lives					
Technology	5.0	$ 2,900,000	$ -	$ (1,526,564)	$ 1,373,436
Customer relationships	6.4	4,950,000	-	(2,122,629)	2,827,371
Non-compete agreements	3.0	120,000	-	-	120,000
Accumulated amortization		(201,032)	(1,399,572)	-	(1,600,604)
Sub-total		7,768,968	(1,399,572)	(3,649,193)	2,720,203
Intangible assets with indefinite lives					
Trade names	Indefinite	280,000	-	-	280,000
Net identifiable intangible assets		$ 8,048,968	$ (1,399,572)	$ (3,649,193)	$ 3,000,203

As of December 31, 2022, expected amortization expense relating to purchased intangible assets for each of the next five years and thereafter is as follows:

2023	$ 578,088
2024	548,151
2025	538,092
2026	537,846
2027	347,538
Thereafter	170,488
Total	$ 2,720,203

Information regarding our goodwill for each operating segment is as follows:

	Tellenger	Blockchain SCM	Consolidated
Goodwill, gross			
Balance at December 31, 2021	$ 1,125,101	$ 6,460,168	$ 7,585,269
Additions	-	-	-
Balance at December 31, 2022	1,125,101	6,460,168	7,585,269
Cumulative impairment loss			
Balance at December 31, 2021	-	-	-
Impairment expense	-	(6,460,168)	(6,460,168)
Balance at December 31, 2022	-	(6,460,168)	(4,210,168)
Goodwill, net			
Balance at December 31, 2021	$ 1,125,101	$ 6,460,168	$ 7,585,269
Balance at December 31, 2022	$ 1,125,101	$ -	$ 1,125,101

See Note 6 for details on the impairments to intangible assets and goodwill recorded for the year ended December 31, 2022.

Note 10. Revolving Lines of Credit

On September 30, 2022, the Company entered a revolving line of credit with Summit Community Bank ("Summit") that provided for on-demand or short-term borrowings of up to $1,000,000 at a variable interest rate equal to the prime rate as published in *The Wall Street Journal*, with a minimum rate of 3.99% and a maximum rate of 20.00%, and subject to a borrowing base calculated using outstanding accounts receivable. Borrowings under the line of credit are secured by the assets of the Company. As of December 31, 2022, there was $425,000 outstanding and $575,000 of borrowing availability under this line of credit and the interest rate in effect was 7.5%.

As of December 31, 2022, the fair value of debt outstanding on our revolving line of credit approximates its carrying value due to the short term nature of the facility.

On April 16, 2021 the Company entered into a revolving line of credit with Summit Community Bank ("Summit") that provides for on-demand or short-term borrowings of up to $,000,000 at a variable interest rate equal to the greater of 3.25% or the prime rate as published in *The Wall Street Journal*, and subject to a borrowing base calculated using outstanding accounts receivable. Borrowings under the line of credit are secured by the assets of the Company. The line expired on April 16, 2022. As of December 31, 2021, there was no outstanding balance under this line of credit.

The Company previously had a revolving line of credit with another bank ("prior LOC") providing for demand or short-term borrowings of up to $1,000,000 at an interest rate of the greater of 4.0% or LIBOR +3.5%. The prior LOC originally was due to expire on July 31, 2021 and was secured by the assets of the Company. The Summit line of credit was used to pay off the prior LOC and it was closed on May 3, 2021.

Note 11. Notes Payable

Paycheck Protection Program ("PPP") Loan

On April 20, 2020, we were granted a PPP loan in the amount of $450,000. During 2021, we applied for forgiveness of the full amount of the loan including interest and on October 13, 2021 our application for forgiveness was approved. The loan forgiveness is included in the 'Other income (expense)' section of the consolidated statements of operations as 'Gain on forgiveness of note payable'.

There were no outstanding notes payable balances as of December 31, 2022 and 2021.

Summit Community Bank Loan

On April 16, 2021, we entered into a $1 million term loan agreement with Summit Community Bank. The term of the loan was two years with monthly installments comprising a fixed principal amount plus interest accruing at a fixed rate of 4.89%. The loan was collateralized by a security interest in substantially all the assets of the Company. On December 30, 2021, we fully repaid the outstanding balance of the loan.

Note 12. Income Taxes

Income tax expense for the years ended December 31, 2022 and 2021 consists of the following:

	2022	2021
Current income tax (expense) benefit		
Federal	$ (2,533)	$ -
State & Local	(7,566)	(1,813)
	(10,099)	(1,813)
Deferred income tax (expense) benefit		
Federal	723,041	973,918
State & Local	385,342	98,749
	1,108,383	1,072,667
Income tax benefit	$ 1,098,284	$ 1,070,854

The provision for income taxes is at an effective rate different from the federal statutory rate due principally to the following:

		2022		2021
Loss before taxes	$	(18,852,122)	$	(2,202,303)
Income tax benefit at federal statutory rate	$	3,957,892	$	462,484
State income tax benefit, net of federal benefit		379,365		97,318
Permanent Differences		(1,313,947)		(111,237)
Net Operating Loss ("NOL") expirations		(12,431)		-
Other		163,945		19,485
Federal valuation allowance		(2,076,540)		602,804
Income tax benefit	$	1,098,284	$	1,070,854

Deferred Income Taxes

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred tax assets and liabilities were as follows:

		2022		2021
Deferred tax assets				
Net operating losses	$	2,649,902	$	547,035
Stock-based compensation		743,915		428,072
Accrued commissions		17,836		50,047
Accrued vacations		46,665		41,331
Fixed assets		1,509		-
Other		28,025		-
Deferred tax assets before valuation allowance		3,487,852		1,066,485
Valuation allowance		(2,793,271)		-
Net deferred tax assets		694,581		1,066,485
Deferred tax liabilities				
Intangible Assets		(753,702)		(2,185,281)
Fixed Assets		-		(3,434)
Other		-		(45,274)
Deferred tax liabilities		(753,702)		(2,233,989)
Net deferred tax liabilities	$	(59,121)	$	(1,167,504)

The Company has net operating loss carryforwards of approximately $9.4 million, of which $1.3 million will expire, if unused, between the years 2023 and 2037. As of each reporting date, management considers new evidence, both positive and negative, that could affect its view of the future realization of deferred tax assets.

The Company has analyzed its income tax positions using the criteria required by U.S. GAAP and concluded that, as of December 31, 2022 and 2021, it has no material uncertain tax positions and no interest and penalties have been accrued. The Company has elected to recognize any estimated penalties and interest on its income tax liabilities as a component of its provision for income taxes.

Our income tax returns are subject to examination by income taxing authorities in all jurisdictions for which we file tax returns, generally for three years after each return was filed, but extending to years from which net operating loss carryforwards are utilized to reduce current year taxes. We are not currently under audit in any jurisdiction.

Note 13. 401(k) Plans

We have two 401(k) Savings Plans that qualify as deferred salary arrangements under Section 401(k) of the Internal Revenue Code. Under these 401(k) Plans, matching contributions are based upon the amount of the employees' contributions subject to certain limitations. We recognized expense of $195,367 and $85,199 for the years ended December 31, 2022 and 2021, respectively, which is included in cost of professional fees and selling, general and administrative expenses on the consolidated statements of operations.

Note 14. Stock-Based Compensation

We have three stock-based compensation plans. The 2006 Stock Incentive Plan was adopted in 2006 (“2006 Plan”) and had options granted under it through April 12, 2016. The 2016 Stock Incentive Plan (“2016 Plan”) was adopted in 2016 (“2016 Plan”) and had options granted under it through November 15, 2021. On October 11, 2021, the Board of Directors approved the 2021 Stock Incentive Plan (“2021 Plan”) and on December 2, 2021, our shareholders approved the plan.

The Company recognizes compensation costs for those shares expected to vest on a straight-line basis over the requisite service period of the awards. The fair values of option awards granted in 2022 and 2021 were estimated using the Black-Sholes option pricing model under the following assumptions:

	2022			2021		
Risk-free interest rate	1.88%	-	4.26%	0.46%	-	.26%
Dividend yield		0%			0%	
Expected term (in years)	3.25	–	6	2.5	–	5
Expected volatility	45.8%	-	48.1%	46.0%	-	92.0%

Determining the assumptions for the expected term and volatility requires management to exercise significant judgment. The expected term represents the weighted-average period that options granted are expected to be outstanding giving consideration to vesting schedules. Since the Company does not have an extended history of actual exercises, the Company has estimated the expected term using a simplified method which calculates the expected term as the average of the time-to-vesting and the contractual life of the awards. Given the limited public market for the Company’s stock, the Company has elected to estimate its expected volatility by benchmarking its volatility to that of several public company issuers that operate within its market segment. The guideline companies’ volatility was increased by a size adjustment premium to compensate for the difference in size between the guideline companies and the Company in its calculation.

2021 Stock Incentive Plan

The 2021 Plan became effective October 11, 2021 and expires October 11, 2031. The 2021 Plan provides for the granting of equity awards to key employees, including officers and directors. The maximum number of shares for which equity awards may be granted under the 2021 Plan is 5,000,000. Options under the 2021 Plan expire no later than ten years from the date of grant or after prescribed periods of time after employment ceases, whichever comes first, and vest over periods determined by the Board of Directors. The minimum exercise price of each option is the fair market value of the Company’s stock on the date of grant. Under the Plan, fair market value means the average of the reported high and low sale prices of our common stock on the Nasdaq Stock Market. As of December 31, 2022 and 2021, there were 3,507,000 and 1,590,000, respectively, of outstanding unexpired options issued under the 2021 Plan, of which 1,295,000 and 1,000,000, respectively, were exercisable, and there were 1,458,000 and 3,410,000, respectively, options available to be granted.

2016 Stock Incentive Plan

The 2016 Plan became effective June 1, 2016 and expires April 4, 2026. The 2016 Plan provides for the granting of equity awards to key employees, including officers and directors. The maximum number of shares for which equity awards may be granted under the 2016 Plan is 1,000,000. Options under the 2016 Plan expire no later than ten years from the date of grant or after prescribed periods of time after employment ceases, whichever comes first, and vest over periods determined by the Board of Directors. The minimum exercise price of each option is the quoted market price of the Company’s stock on the date of the grant. As of December 31, 2022 and 2021, there were 773,500 and 940,500 options, respectively, of outstanding unexpired options under the 2016 Plan, of which 629,750 and 578,000 were exercisable, respectively. No additional options may be granted under the 2016 Plan.

2006 Stock Incentive Plan

The 2006 Plan became effective May 18, 2006, and expired April 12, 2016. The 2006 Plan provides for the granting of equity awards to key employees, including officers and directors. The maximum number of shares for which equity awards could be granted under the 2006 Plan was 1,950,000. Options under the 2006 Plan expire no later than ten years from the date of grant or after prescribed periods of time after employment ceases, whichever comes first, and vested over periods determined by the Board of Directors. There were 272,000 and 374,000 outstanding unexpired options remaining from the 2006 Plan as of December 31, 2022 and 2021, respectively, all of which were exercisable.

The status of the options issued under the foregoing option plans as of December 31, 2022 and 2021, and changes during the years then ended were as follows:

	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contract Term	Aggregate Intrinsic Value
Outstanding at December 31, 2020	1,395,000	$ 0.31	4 years, 5 months	$ 1,591,223
Granted	1,982,500	4.48		
Exercised	(453,000)	0.21		
Expired	(20,000)	0.17		
Outstanding at December 31, 2021	2,904,500	$ 3.17	4 years, 11 months	$ 5,195,253
Granted	1,952,000	2.82		
Exercised	(264,000)	0.28		
Expired	(5,000)	0.35		
Forfeited	(35,000)	1.30		
Outstanding at December 31, 2022	4,552,500	3.21	6 years, 5 months	$ 95,397
Exercisable at December 31, 2022	2,196,750	$ 3.31	4 years, 4 months	$ 95,397

The total intrinsic value of options exercised in the years ended December 31, 2022 and 2021 was $756,888 and $1,179,855, respectively.

Nonvested stock option awards as of December 31, 2022 and 2021, and changes during the years then ended were as follows:

	Shares	Weighted Average Exercise Price Per Share	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2020	235,000	$ 0.64	$ 0.36
Granted	1,982,500	4.48	1.55
Vested	(1,265,000)	4.07	1.35
Nonvested at December 31, 2021	952,500	$ 4.08	$ 1.51
Granted	1,952,000	2.82	1.36
Vested	(513,750)	3.90	1.47
Forfeited	(35,000)	1.30	0.62
Nonvested at December 31, 2022	2,355,750	$ 3.11	$ 1.32

As of December 31, 2022, unrecognized compensation cost associated with non-vested share-based employee and non-employee compensation totaled $1,709,838, which is expected to be recognized over a weighted average period of 9.5 months.

Note 15. Common Stock Purchase Agreement

On July 8, 2022, we entered into a Common Stock Purchase Agreement (the “Purchase Agreement”) and a Registration Rights Agreement (the “Registration Rights Agreement”) with B. Riley Principal Capital II, LLC (“B. Riley”). Pursuant to the Purchase Agreement, subject to certain limitations and conditions, the Company has the right, but not the obligation, to sell to B. Riley up to $15,000,000 of shares of the Company’s common stock, par value $0.001 per share (“Common Stock”), from time to time. Sales of Common Stock to B. Riley under the Purchase Agreement, and the timing of any such sales, are solely at the Company’s option, and the Company is under no obligation to sell any securities to B. Riley under the Purchase Agreement. Pursuant to the Registration Rights Agreement, the Company agreed to file a registration statement with the Securities Exchange Commission (the “SEC”) to register under the Securities Act of 1933, as amended (the “Securities Act”) the resale by B. Riley of up to 4,500,000 shares of Common Stock that the Company may issue or elect, in the Company’s sole discretion, to issue and sell to B. Riley, from time to time under the Purchase Agreement. We issued 19,780 common shares valued at $150,000 to B. Riley as a commitment fee. The cost of the shares is included in prepaid expenses and other current assets on the condensed consolidated balance sheet and will be charged to additional paid in capital as shares are sold under the ELOC. As of December 31, 2022, no shares have been sold to B. Riley under the Purchase Agreement.

Note 16. Private Offerings of Common Stock

In August 2022 the Company sold 1,572,506 unregistered shares of its common stock in a private offering at a price of $1.20 per share from which it raised aggregate gross proceeds of $1,887,000.

In March 2021, the Company sold 330,666 unregistered shares of its common stock in a private offering at a price of $1.50 per share from which it raised aggregate gross proceeds of $495,999.

In August 2021, the Company sold 1,400,000 units at a price of $2.00 per unit, each unit consisting of one unregistered share of common stock and one warrant exercisable at $3.00 for one share of common stock, in a private offering from which it raised aggregate gross proceeds of $2,800,000. The warrants expire on August 31, 2026. 1,400,000 shares of common stock issuable upon exercise of warrants in connection with the offering have been reserved for issuance.

In December 2021, the Company sold 3,289,526 units at a price of $3.04 in a private offering from which it raised $10,000,000 resulting in the issuance of a like number of shares of common stock and Series A warrants exercisable for 657,933 shares of common stock. The warrants are exercisable at a price of $4.50 per share, with the warrants exercisable from January 1, 2023 through December 31, 2026. If the shares underlying the warrants are not registered when the warrants become exercisable, the warrants can be exercised on a cashless basis. The warrants are subject to mandatory exercise if, commencing January 1, 2024, the volume weighted average price per share for 10 consecutive trading days equals or exceeds $12.50.

The total offering costs associated with the sales of unregistered shares of common stock in 2022 and 2021 were not material.

The shares in the private offering transactions in August of 2022 are unregistered and subject to a six-month holding period under SEC Rule 144 before the securities are able to be sold in the public market.

The shares in the private offering transactions in August and December of 2021 were unregistered and were subject to a six-month holding period under SEC Rule 144 before the securities were able to be sold in the public market. The warrants are also exercisable for unregistered shares and are freely transferable after six months from their issuance. The shares underlying the warrants must be held for a period of at least six months if exercised for cash. If exercised on a cashless basis, the shares can be freely traded once the holding period of the warrants and the shares is at least six months combined. The warrants are freestanding securities that are separately exercisable and legally detachable from the common shares and have been classified as equity in accordance with ASC Topic 480, *Distinguishing Liabilities from Equity*. The proceeds from the offerings in August and December of 2021 were allocated using the relative fair value method as follows:

	Common Stock	Paid-In Capital	Total
August 2021			
Unregistered shares	$ 14,000	$ 2,142,000	$ 2,156,000
Warrants	-	644,000	644,000
Total	$ 14,000	$ 2,786,000	$ 2,800,000
December 2021			
Unregistered shares	$ 32,895	$ 9,295,105	$ 9,328,000
Warrants	-	672,000	672,000
Total	$ 32,895	$ 9,967,105	$ 10,000,000

Note 17. Loss Per Share

Basic loss per share excludes dilution and is computed by dividing the loss attributable to common shareholders by the weighted-average number of shares outstanding for the period. Diluted (loss) income per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, except for periods when the Company reports a net loss, because the inclusion of such items would be antidilutive. The antidilutive effect of 841,724 and 692,312 shares from stock options and 75,371 and 39,847 shares from warrants were excluded from diluted shares for the years ended December 31, 2022 and 2021, respectively.

Note 18. Financial Statement Captions

The following table summarizes the Company's prepaid expenses and other current assets as of December 31, 2022 and 2021:

	2022	2021
Licenses and subscriptions	$ 196,277	$ 43,146
Stock issuance costs	150,000	-
Prepaid insurance	96,168	72,800
Deferred costs of software sales	-	154,218
Other	-	6,826
Total	$ 442,445	$ 276,990

The following table summarizes the Company's other current liabilities as of December 31, 2022 and 2021:

	2022	2021
Legal and professional fees	$ 190,200	$ 144,486
Cost of professional services	45,762	-
Cost of software sales	19,180	7,652
Interest expense	1,195	1,002
Other	27,160	50,940
Total	$ 283,497	$ 204,080

Note 19. Subsequent Event

On March 17, 2023, the Company entered into and closed a Stock Purchase Agreement with Gray Matters Data Corp. ("GMDC"), a company newly formed by StealthPoint LLC, a San Francisco based venture fund, under which the Company sold all of the shares of its subsidiary, Gray Matters, Inc. In exchange for this sale, the Company received shares of common stock of GMDC representing on a primary share basis, assuming the conversion of the Series A preferred referenced below, approximately a 19.9% interest in GMDC after completion of its initial anticipated fund raising, cash consideration of approximately $935,000 and contingent annual payments equal to five percent (5%) of the purchaser's GAAP based revenue through December 31, 2029 attributable to the purchaser's blockchain-enabled digital supply chain management platform and associated technologies. The equity interest StealthPoint and other GMDC investors, other than WaveDancer, are receiving is in the form of Series A non-participating convertible preferred stock having a one-time liquidation preference and no cumulative dividends. In addition, the Company and GMDC entered into a transition services agreement whereby the Company will continue to provide certain administrative services for GMI. The value of these services is estimated to be $65,000 which was paid by GMDC at closing and is not subject to adjustment. The total cash paid at closing was $1,000,000. The Company also has the right to appoint a designee to GMDC's board of directors and a right to co-invest in the anticipated Series B preferred stock financing round which GMDC. intends to consummate in the future. The Stock Purchase Agreement contains customary representations, warranties, indemnities, and covenants.

EXHIBIT INDEX

Exhibit No.	Exhibit
2.1	Plan of Domestication (incorporated by reference to Exhibit 2.1 of the Company’s Current Report on Form 8-K filed on December 16, 2021)
2.2	Stock Purchase Agreement, dated November 12, 2021, among Jeffrey P. Gerald, Gray Matters, Inc. and the Company (incorporated by reference to Exhibit 10.1 of the Company’s Current Report on Form 8-K filed on December 16, 2021)
2.3	Stock and Warrant Purchase Agreement, dated as of March 18, 2022, by and among the Company, Knowmadics, Inc., the sellers party thereto, and Shareholder Representative Services LLC as Sellers’ Representative (incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K filed on March 24, 2022)
3.1	Certificate of Incorporation (incorporated by reference to Exhibit 3.1 of the Company’s Current Report on Form 8-K filed on December 16, 2021)
3.2	Bylaws (incorporated by reference to Exhibit 3.2 of the Company’s Current Report on Form 8-K filed on December 16, 2021)
4.1	Description of Securities (incorporated by reference to Exhibit 4.1 of the 2021 Company’s Annual Report on Form 10-K filed on April 12, 2022)
10.1+	Executive Employment Agreement, by and between the Company and G. James Benoit, Jr. (incorporated by reference to Exhibit 10.1 of the Company’s Current Report on Form 8-K filed on August 30, 2021)
10.2+	Executive Employment Agreement, by and between the Company and Timothy G. Hannon (incorporated by reference to Exhibit 10.2 of the Company’s Current Report on Form 8-K filed on March 24, 2022)
10.3	Form of Warrant (Incorporated by reference to Exhibit 4.1 to Form 8-K filed on August 30, 2021)
10.4*	Commercial Line of Credit Renewal Agreement, dated April 30, 2022, by and between the Company, Tellenger, Inc. and Summit Community Bank
10.5*	Business Loan Agreement, dated April 30, 2022, by and between the Company, Tellenger, Inc. and Summit Community Bank
10.6*	Commercial Security Agreement, dated April 30, 2022, by and between the Company, Tellenger, Inc. and Summit Community Bank
10.7+	2006 Stock Incentive Plan (incorporated by reference to Appendix A of the Company’s definitive proxy statement on Schedule 14A filed on April 19, 2006)
10.8+	2016 Stock Incentive Plan (incorporated by reference to Exhibit A of the Company’s definitive proxy statement filed on April 11, 2016)

10.9+	2021 Stock Incentive Plan (incorporated by reference to Appendix 4 of the Company’s definitive proxy statement filed on October 26, 2021)
10.10	Form of Series A Warrant (Incorporated by reference to Exhibit 4.1 to Form 8-K filed on December 16, 2021)
10.11	Common Stock Purchase Agreement by and between WaveDancer, Inc., and B. Riley Principal Capital II, LLC dated July 8, 2022 (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on July 11, 2022)
10.12	Registration Rights Agreement by and between WaveDancer, Inc., and B. Riley Principal Capital II, LLC dated July 8, 2022 (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on July 11, 2022)
21.1*	Subsidiaries of the Company
23.1*	Consent of Independent Registered Public Accounting Firm, CohnReznick LLP
24.1*	Power of Attorney (included as part of the signature page of this Annual Report on Form 10-K)
31.1*	Rule 13a-14(a) / 15a-14(a) Certification by Chief Executive Officer
31.2*	Rule 13a-14(a) / 15a-14(a) Certification by Chief Financial Officer
32.1**	Section 1350 Certifications of Chief Executive Officer and Chief Financial Officer
101.INS*	Inline XBRL Instance Document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101.INS)

\+ Management contract, compensatory plan or arrangement.
* Filed herewith.
** Furnished herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

WaveDancer, Inc.

By: /s/ G. James Benoit
G. James Benoit, Chief Executive Officer
April 17, 2023

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints G. James Benoit and Timothy G. Hannon, jointly and severally, his attorney-in-fact, each with the full power of substitution, for such person, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might do or could do in person hereby ratifying and confirming all that each of said attorneys-in-fact and agents, or his substitute, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
By: /s/ G. James Benoit G. James Benoit	Chief Executive Officer	April 17, 2023
By: /s/ Timothy G. Hannon Timothy G. Hannon	Chief Financial Officer	April 17, 2023
By: /s/ Paul B. Becker Paul B. Becker	Director	April 17, 2023
By: /s/ James C. DiPaula, Jr. James C. DiPaula, Jr.	Director	April 17, 2023
By: /s/ Jack L. Johnson, Jr. Jack L. Johnson, Jr.	Director	April 17, 2023
By: /s/ William Pickle William Pickle	Director	April 17, 2023
By: /s/ Donald J. Tringali Donald J. Tringali	Director	April 17, 2023
By: /s/ Bonnie K. Wachtel Bonnie K. Wachtel	Director	April 17, 2023

COMMERCIAL LINE OF CREDIT

RENEWAL AGREEMENT AND NOTE

Open End

COMMUNITY BANK*

Summit

310 North Main Street Moorefield, WV 26836

Phone number: (877) 776 9722

LOAN NUMBER·.	AGREEMENT DATE	LINE OF CREDIT LIMIT	DRAW EXPIRATION DATE	MATURITY DATE
****577	September 30, 2022	$1,000,000.00	May 16, 2023	May 16, 2023
LOAN PURPOSE: Renewal of Credit Line for short term working capital with an Amendment to Borrowing Entity Name				

BORROWER INFORMATION

WAVEDANCERINC 11240 WAPLES MILL RD STE201
FAIRFAX, VA 22030

TELLENGER INC

2275 RESEARCH BLVD

ROCKVILLE, MD 20850

LINE OF CREDIT AGREEMENT AND NOTE. This Commercial Line of Credit Agreement and Note will be referred to in this document as the "Agreement."

LENDER.
"Lender" means SUMMIT COMMUNITY BANK, INC whose address is 12030 Sunrise Valley Drive, Suite 170, Reston, Virginia 2019l, its successors and assigns.

BORROWER. "Borrower" means each person or legal entity who signs this Agreement.

PROMISE TO PAY. For value received, receipt of which is hereby acknowledged, on or before the Maturity Date, the Borrower promises to pay the principal amount of One Million and 00/100 Dollars ($1,000,000,00) or such lesser amount as sha11 have been advanced by Lender, from time to time, to or on behalf of Borrower under the terms of this Agreement, and all interest on the outstanding principal balance and any other charges, including service charges, to the order of Lender at its office at the address noted above or at such other place as Lender may designate in writing. The Borrower will make all payments in lawful money of the United States of America.

PAYMENT SCHEDULE. This Agreement will be paid according to the following required payment schedule: Beginning on October 16, 2022, monthly payments of accrued and unpaid interest. The unpaid principal balance of this Note, together with all accrued interest and charges owing in connection therewith, shall be due and payable on the Maturity Date. All payments received by the Lender from the Bonower for application to this Agreement may be applied to the Bon-ower's obligations under this Agreement in such order as detennined by the Lender.

INTEREST RATE AND SCHEDULED PAYMENT CHANGES, Interest will begin to accrue on September 30, 2022. The initial variable interest rate on this Agreement will be 5.500% per annum. This interest rate may change on October l) 2022, and eve1y day thereafter. Each date on which the interest rate may change is called the "Change Date." Prior to each Change Date, Lender will calculate the new interest rate based on Prime Rate as published in the Wall Street Journal in effect on the Change Date (the 11Index11) plus 0.000 percentage points (the "Margin11), The interest rate will never be greater than 20.000% or less than 3.990%.

If the Index is not available at the time of the Change Date) Lender will choose a new Index which is based on comparable information. The Index is used solely to establish a base from which tile actual rate of interest payable under the Agreement will be calculated, and is not a reference to any actual rate of interest charged by any lender to any particular borrower.

Nothing contained herein shall be construed as to require the Borrower to pay interest at a greater rate than the maximum allowed by law. If, however, from any circumstances, Borrower pays interest at a greater rate than the maximum allowed by law, the obligation to be fulfilled will be reduced to an amount computed at the highest rate of interest permissible under applicable law and if, for any reason whatsoever, Lender ever receives interest in an amount which would be deemed unlawful under applicable law, such interest shall be automatically applied to amounts owed, in Lender's sole discretion) or as otherwise allowed by applicable law. An increase in the interest rate will result in a higher payment amount. Interest on this Agreement is calculated on an **Actual/360** day basis. This calculation method results in a higher effective interest rate than the numeric interest rate stated in this Agreement.

LATE PAYMENT CHARGE. If any required payment is more than 10 days late, then at Lender's option, Lender will assess a late payment charge of 5.000% of the amount of the regularly scheduled payment then past due, subject to a maximum charge of $1)000.00 and a 1ninimum charge of $30.00.

LINE OF CREDIT TERMS. The advances under this Agreement are discretiona1y. The Borrower acknowledges and agrees that although the Borrower may from time lo time request an advance under this Agreement up to a maximum amount equal to the Line of Credit Limit) the Lender in no way is obligated to make such advance, Lender may at any time) with or without cause, refuse to extend credit, and all advances will be made by Lender in its sole and absolute discretion and subject to the terms and conditions of this Agreement.

Advances,

Advances under this Agreement may be Oral, Written or Electronic,

The total of any pending advances requested and the unpaid principal amount, at any given time, cannot exceed the Line of Credit Limit.
All advances made will be charged to a loan account in Borrower's name on Lender's books, and the Lender shall debit such account the amount of each advance made to, and credit to such account the amount of each repayment made by Borrower.

Borrowing Base, The total unpaid principal outstanding under this Agreement at any time cannot exceed the lesser of (a) the Line of Credit limit or (b) the Borrowing Base Amount. For purposes of this Agreement, the "Borrowing Base Amount"

means the following: 80.00% of Eligible Accounts; and Eligible Accounts that are the equivalent to the sum of 90% on eligible billed accounts receivable due from prime government contracts..

"Eligible Accounts" are accounts: (a) belonging to the Borrower , net of any allowance or credit given to the account debtor) any contra offset arising from a liability of the Borrower to the account debtor and any accounts payable of the Borrower that may result in decreasing the number or aggregate value of accounts to be realized by the Borrower or Lender as disclosed in the statements provided by the Borrower to Lender as required in tl1is Agreement; (b) resulting from the sale of the Borrower's finished goods inventory or services rendered by the Borrower to the account holder that are legally binding and enforceable obligations of the account debtor to the Borrower; (c) are free and clear of any other security interests or liens; (d) with appropriate verification and authorization and copies of which are provided to the Lender; and (e) Borrowers eligible accounts receivable will be subject to the 50/50 Rule, whereby in the instance when 50% or more of a client account is ineligible) then all accounts from tlrnt client (or contract) are deemed to be ineligible; it being understood and agreed that such calculation shall be made on a customer/client basis for all commercial contracts, and on a contract basis for government contracts..
"Ineligible Accounts" shall consist of accounts that are: (a) 90 days aged from invoice date; (b) inter company accounts; (c) consignment accounts; and (d) owed by account debtors outside of the United States.

As long as the Borrower owes any amounts under this Agreement to the Lender, Borrower shall calculate the Borrowing Base within 20 days after the end of each fiscal month and provide the Lender with the Borrowing Base Certificate that includes an assignment of all Eligible Accounts and Borrowing Base Certificate. The Borrowing Base Certificate will be in a form and substance acceptable to Lender, will contain Borrower's Borrowing Base calculation and will be certified and signed by Borrower. Borrower's calculation is subject to Lender's confirmation and redetermination. Lender's calculation of the Borrowing Base will be the final determination when Lender's calculation of the ratio differs from Borrower's.

Suspension and Termination. Subject to Lendcr1s right to make any advances under this Agreement in its sole and absolute discretion, advances under this Agreement will be available until the earliest of any date or event described below occurs: (a) The Draw Expiration Date, (b) the Maturity Date, (c) the date the Line of Credit is canceled by Borrower, or (d) the date the Line of Credit is canceled by the Lender due to an occurrence of an Event of Default.

SECURITY TO NOTE. Security (the "Collateral") for this Agreement is granted pursuant to the following security document(s):

Security Agreement dated September· 30, 2022 evidencing security interest in UCC filing on Accounts Receivable, Inventory, Chattel Paper, Accounts, Equipment, Furniture, Fixtures and General Intangibles; whether any of the foregoing is owned now or acquired later; all accessions, additions, replacements, and substitutions relating to any of the foregoing; all records of any kind relating to any of the foregoing; all proceeds relating to any of the foregoing (including insurance, general intangibles and other accounts proceeds),

RIGHT OF SET-OFF. To the extent permitted by law, Borrower agrees that Lender has the right to set-off any amount due and payable under this Agreement, whether matured or unmatured, against any amount owing by Lender to Borrower including a11y or all of Borrower's accounts with Lender. This shall include all accounts Borrower holds jointly with someone else and all accounts Borrower may open in the future. Such right of set-off may be exercised by Lender against Borrower or against any assignee for the benefit of creditors, receiver) or execution, judgment or attachment creditor of Borrower, or against anyone else claiming through or against Borrower or such assignee for the benefit of creditors receiver, or execution) judgment or attachment creditor, notwithstanding the fact that such right of set-off has not been exercised by Lender prior to the making) filing or issuance or service upon Lender of) or of notice of, assignment for the benefit of creditors, appointment or application for the appointment of a receiver, or issuance of execution) subpoena or order or warrant. Lender will not be liable for the dishonor of any check when the dishonor occurs because Lender set-off a debt against Borrower's account. Borrower agrees to hold Lender harmless from any claim arising as a result of Lender exercising Lender's right to set-off.

DISHONORED ITEM FEE. If Borrower makes a payment on the loan with a check or preauthorized charge which is later dishonored, a fee in the amount of $32.00 will be charged.

RELATED DOCUMENTS, The words "Related Documents" mean all promissory notes, security agreements, mortgages, deeds of trust, deeds to secure debt, business loan agreements, construction loan agreements, resolutions, guaranties, environmental agreements, subordination agreements, assignments, and any other documents or agreements executed in connection with the indebtedness evidenced hereby this Agreement whether now or hereafter existing, including any modifications, extensions, substitutions or renewals of any of the foregoing. The Related Documents are hereby made a part of this Agreement by reference thereto, with the same force and effect as if fully set forth herein.

DEFAULT. Upon the occurrence of any one of the following events (each, an "Event of Default" or "default" or "event of default", Lender's obligations, if any, to make any advances will, at Lender's option, immediately terminate and Lender, at its option, may declare all indebtedness of Borrower to Lender under this Agreement immediately due and payable without further notice of any kind notwithstanding anything to the contrary in this Agreement or any other agreement: (a) Borrower's failure to make any payment on time or in the amount due; (b) any default by Borrower under the terms of this Agreement or any other Related Documents; (c) any default by Borrower under the terms of any other agreement between Lender and Borrower; (d) the death, dissolution, or termination of existence of Borrower or any guarantor; (e) B01Tower is not paying Borrower's debts as such debts become due; (f) the commencement of any proceeding under bankruptcy or insolvency laws by or against Borrower or any guarantor or the appointment of a receiver; (g) any default under the terms of any other indebtedness of Borrower to any other creditor; (h) any writ of attachment, garnishment, execution, tax lien or similar instrument is issued against any collateral securing the loan, if any, or any of Borrower's property or any judgment is entered against Borrower or any guarantor; (i) any part of Borrower's business is sold to or merged with any other business, individual, or entity; (j) any representation or warranty made by Borrower to Lender in any of the Related Documents or any financial statement delivered to Lender proves to have been false in any material respect as of the time when made or given; (k) if any guarantor, or any other party to any Related Documents terminates, attempts to terminate or defaults under any such Related Documents; (l) Lender has deemed itself insecure or there has been a material adverse change of condition of the financial prospects of Borrower or any collateral securing the obligations owing to Lender by Borrower. Upon the occurrence of an event of default, Lender may

pursue any remedy available under any Related Document, at law or in equity.

GENERAL WAIVERS. To the extent permitted by law, the Borrower severally waives any required notice of presentment, demand, acceleration, intent to accelerate, protest, and any other notice and defense due to extensions of time or other indulgence by Lender or to any substitution or release of collateral. No failure or delay on the part of Lender, and no course of dealing between 801Tower and Lender, shall operate as a waiver of such power or right, nor shall any single or pattial exercise of any power or right preclude other or further exercise thereof or the exercise of any other power or right.

JOINT AND SEVERAL LIABILITY. If permitted by law, each Borrower executing this Agreement is jointly and severally bound.

SEVERABILITY. If a court of competent jurisdiction determines any term or provision of this Agreement is invalid or prohibited by applicable law, that term or provision will be ineffective to the extent required. Any term or provision that has been determined to be invalid or prohibited will be severed from the rest of this Agreement without invalidating the remainder of either the affected provision or this Agreement.

SURVIVAL. The rights and privileges of the Lender hereunder shall inure to the benefits of its successors and assigns, and this Agreement shall be binding on all heirs, executors, administrators, assigns, and successors of Borrower.

ASSIGNABILITY, Lender may assign, pledge or otherwise transfer this Agreement or any of its rights and powers under this Agreement without notice, with all or any of the obligations owing to Lender by Borrower, and in such event the assignee shall have the same rights as if originally named herein in place of Lender. Bo11'ower may not assign this Agreement or any benefit acc1ui11g to it hereunder without the express written consent of the Lender.

ORAL AGREEMENTS DISCLAIMER. This Agreement represents the final agreement between the parties and may not be contradicted by evidence of prior, contemporaneous or subsequent oral agreements of the parties. There are no unwritten oral agreements between the parties.

GOVERNING LAW. This Agreement is governed by the laws of the state of Virginia except to the extent that federal law controls.

HEADING AND GENDER. The headings preceding text in this Agreement are for general convenience in identifying subject matter, but have no limiting impact on the text which fol1ows any pa1ticular heading. All words used in this Agreement shall be construed to he of such gender or number as the circumstances require.

ATTORNEYS' FEES AND OTHER COSTS. Borrower agrees to pay all of Lender's costs and expenses in connection with the enforcement of this Agreement including, without limitation, reasonable attorneys' fees, to the extent permitted by law.

ADDITIONAL PROVISIONS. Upon the occurrence of an Event of Default as set out above, the Lender shall provide written notice of such Event of Default to Borrower (Notice to Cure), and Borrower shall have thirty (30) calendar days after the date of a Notice to Cure to correct, cure, and/or remedy the Event of Default described in the written notice.

Notwithstanding anything to the contrary in this Note or in any other agreement the following will replace the Event of Default for payment which will now be defined as Borrowers failure to make any payment within ten (10) calendar days of the date due as defined in the payment schedule or in the amount due .

Monthly collateral administrative fee has been waived.

AUTOMATIC PAYMENT. If your account is paid by automatic payment the following will apply. You understand that should regular scheduled debit or transfer date fall on a non-processing date (weekend or federal holiday), the debit or transfer will be made on the first processing day after the scheduled debit or transfer date. I understand that for an adjustable rate mortgage loan, the payment will adjust when the rnte changes and that I will be notified of the rate change 30 days in advance. I understand that for a loan that includes escrow that my payment will change as my insurances and taxes increase or decrease. I will be notified of the change 15 days in advance.

DIFFERENCE BETWEEN ANY COMMITMENT LETTER AND NOTE For commercial loans, shall there be any conflict in the terms and conditions of the term sheet (if any) and the terms and conditions of this note and related documents, then the terms and conditions of this note and related documents shall prevail.

DELINQUENT REAL ESTATE TAXES FOR COMMERCIAL LOANS ONLY if the bank has to pay real estate taxes at any point in time to protect its collateral position, Borrower acknowledges and accepts that the Bank shall charge an administrative fee of $500 per tax ticket and add that charge to the balance of the loan. This only applies to Commercial Real Estate loans.

WAIVER OF JURY TRIAL. All parties to this Agreement hereby knowingly and voluntarily waive, to the fullest extent permitted by law, any right to trial by jury of any dispute, whether in contract, tort, or otherwise, arising out of, in connection with, related to, or incidental to the relationship established between them in this Agreement or any other instrument, document or agreement executed or delivered in connection with this Agreement or the Related Documents.

RATIFICATION AND CONTINUED VALIDITY. Except for the terms expressly modified by this Agreement, the undersigned Borrowers hereby acknowledge they are still bound by the terms of the instruments and prior modifications, extensions and supplements evidencing the existing debt as if they were fully set forth and repeated in this Agreement and that those terms will continue to bind the Borrowers as provided in this Agreement and those instruments. Consent to this Agreement does not waive the right to strictly enforce any rights under this Agreement or the instruments evidencing the existing debt. Consent to this Agreement does not require the Borrowers to enter into another Agreement like this one in the future. The Borrowers and Lender agree that this Agreement shall not be construed as a novation or extinguishment of the existing debt, but a restatement of the existing debt with modifications.

By signing this Agreement, Borrower acknowledges reading, understanding and agreeing to all its provisions and receipt of a copy hereof.

WAVEDANCER, INC.

/S/GERALD JAMES BENOIT 9/30/2022 /S/ TIMOTHY G. HANNON 9/30/2022
By: GERALD JAMES BENOIT Date By: TIMOTHY G. HANNON Date
Its: CEO Its: CFO

TELLENGER, INC.

/S/ STANLEY A REESE 9/30/2022 /S/ TIMOTHY G. HANNON 9/30/2022
By: STANLEY A REESE Date By: TIMOTHY G. HANNON Date
Its: PRESIDENT Its: CFO

BUSINESS LOAN AGREEMENT

Summit
COMMUNITY BANK

310 North Main Street Moorefield, WV 26836

Phone number: (877) 776-9722

AGREEMENT DATE	LOAN NUMBER	AGREEMENT/ACCOUNT NUMBER
September 30, 2022	****577	****577

BORROWER INFORMATION

WAVEDANCER INC 11240 WAPLES MILL RD STE 201
FAIRFAX, VA 22030

TELLENGER INC

2275 RESEARCH BLVD

ROCKVILLE, MD 20850

Type of Business Entity: Corporation

State of Organization/Formation: Delaware

Type of Business Entity: Corporation

State of Organization/Formation: Maryland

AGREEMENT. This Business Loan Agreement will be referred to in this document as the11Agreement.11 This Agreement is made by SUMMIT COMMUNITY BANK, INC (Lender), WAVEDANCER INC and TELLENGER INC (Borrower). The consideration is the promises, representations, and warranties made in this Agreement and the Related Documents,

DEFINITIONS, These definitions are used in this Agreement.

"Collateral" means the Property that any Party to this Agreement or the Related Documents may pledge, mortgage, or give Lender a security interest in, regardless of where the Property is located mid regardless of when it was or will be acquired, together with all replacements, substitutions, proceeds, and products of the Property.

"Events of Default" means any of the events described in the
"
Events of Default"

section of this Agreement.

11Financial Statements" mean the balance sheets, earnings statements, and other financial information that any Party has, is, or will be giving to Lender.

"Indebtedness" means the Loan and all other loans and indebtedness of Bol'1'ower to Lender, including but not limited to Lender's payments of insurance or taxes, all amounts Lender pays to protect its interest in the Collateral, overdrafts in deposit accounts with
Lender, and all other indebtedness, obligations, and liabilities of Borrower to Lender, whether matured or unmatured, liquidated or
unliquidated, direct or indirect, absolute or contingent, joint or several, due or to become due, now existing or hereafter arising.

"Loan" means any loan or loans described in the "Identification of Loan"section of this Agreement.

"Parties" means any Borrower signing this Agreement.

"Party" means any Borrowcr signing this Agreement.

"Property" means the Parties' assets, regardless of what kind of assets they are.

"Related Documents" means all documents, promissory notes, security agreements, leases, mortgages, construction loan agreements, assignments of leases and rents, guaranties, pledges, and all other documents or agreements executed in connection with this Agreement as such documents may be modified, amended, substituted, or renewed from time to time. The term includes both documents existing at the time of execution of this Agreement and documents executed after

the date of this Agreement.

"Company Net Worth" means Company Net Worth

IDENTIFICATION OF LOAN. The following loan and all other indebtedness[l] obligations, and liabilities of Borrower to Lender, due or to become due, now existing or hereafter arising, as well as any and all amendments, modifications[1] extensions, and renewals thereof are subject to this Agreement:

- Loan Number ****577 with a principal amount of $1,000,000.00

BORROWER'S REPRESENTATIONS AND WARRANTIES. The statements made in this section will continue and remain in effect until all of the Indebtedness is fully paid to Lender. Each Borrower represents and warrants to Lender the following:

Borrower's Existence and Authority. Each Borrower is duly formed and in good standing under all laws governing the borrower and the Borrower's business, and each Borrower executing this Agreement has the power and authority execute this Agreement and the Related Documents and to bind that Borrower to the obligation created in this Agreement and the Related Documents.

Financial Information and Filing. All Financial Statements provided to Lender have been prepared and will continue lo be prepared in accordance with generally accepted accounting principles, consistently applied, and fully and fairly present the financial condition of each Borrower, and there has been no material adverse change in Borrower[1]s business, Property, or condition, either financial or otherwise, since the date of Borrower[l]s latest Financial Statements. Each Borrower has filed all federal, state, and local tax returns and other reports and filings required by law to be filed before the dale of this Agreement and has paid all taxes, assessments, and other charges that are due and payable prior lo the date of this Agreement. Each Borrower has made reasonable provision for these types of payments that arc accrued but not yet payable. The Borrower does not know of any deficiency or additional assessment not disclosed in the Borrower's books and records.

All financial statements or records submitted to Lender via electronic means, including, but not limited to, facsimile, open internet communications or other telephonic or electronic methods, including, but not limited to, documents in Tagged Image Format Files ("TIFF") and Portable Document Format ([11]PDF[11]) shall be treated as originals, and will be fully binding with full legal force and effect. Parties waive any right they may have to object to such treatment. Lender may rely on all such records in good faith as complete and accurate records produced or maintained by or on behalf of the Party submitting such records,

Title and Encumbrances. Borrower has good title to all of the Borrower[l]s assets. All encumbrances on any part of the Property were disclosed to Lender in writing prior to the date of this Agreement.

Compliance with General Law. Each Bon-ower is in compliance with and will conduct its business and use its assets in compliance with all laws, regulations, ordinances, directives, and orders of any level of governmental authority that has jurisdiction over the Borrower, the Borrower's business, or the Borrowers' assets.

Environmental Laws. Each Borrower is in compliance with all applicable laws and rules of federal, state) and local authorities affecting the environment, as all have been or are amended.

No Litigation/No Misrepresentations. There a.re no existing or pending suits or proceedings before any court, government agency, arbitration panel, administrative tribunal, or other body, or threatened against Borrower that may result in any material adverse change in the Borrower1s business, property) or financial condition, and all representations and warranties in this Agreement and the Related Documents are true and c01Tect and 110 material fact has been omitted.

COVENANTS. On the date of this Agreement and continuing until the Indebtedness is repaid and Borrower's obligations are fully performed, Borrower covenants as follows.

Notices of Claims and Litigation/Notice of Adverse Events. Borrower will promptly notify Lender in writing of all threatened and actual litigation, governmental proceeding, default, and eve1y other occurrence that may have a material adverse effect on Borrower[1]s business, financial condition, or the Property.

Monthly Borrowing Base, If Borrower request advance from the loan or carries an outstanding balance, then the following will be required on a monthly basis: Borrower shall provide Bank with a Borrowing Base Certificate, in form and substance acceptable to Bank in its sole discretion, along with supporting data as shall be required by Bank in its sole discretion. Borrower shall be permitted to advance on the following basis) the definitions of which shall be further defined in the Loan documents: (a) 90% on eligible billed accounts receivable due from prime government contracts aged 90 days or less (from the date of original invoice); (b) 80% on eligible billed accounts receivable due from approved commercial contracts and subcontracts aged 90 days or less (from the date of original invoice); (c) Borrowers eligible accounts receivable will be subject to the 50/50 Rule, whereby in the instance when 50% or more ofa client account is ineligible, then a11 accounts from that client (or contract) are deemed to be ineligible; it being understood and agreed that such calculation shall be made on a customer/client basis for all commercial contracts, and on a contract basis for government contracts Other Reporting. Other customaty data (such as contract backlogs, projections, etc.) as may be reasonably requested from the Bank from time to time in the form acceptable to the Lender.
Company Net Worth. Wavedancer Inc: Shall maintain a minimum Company Net Worth of $1,000,000.00, tested annually as of December 31, 2022.
Other Information. From the date hereof until the Indebtedness is fully repaid and all of Debtors' obligations are fully performed and satisfied, the Parties cited below agree, unless otherwise consented to in writing by the Lender, they will submit the following:

Wavedancer Inc - Compiled Tax Returns within 15 days after the end of each filing due date (as such date may be extended in accordance with properly granted extensions) each year.

Wavedancer Inc - Compiled Form 10-K within 15 days after the end of each calendar Year in form acceptable to Lender. Wavedancer Inc - Compiled Form 10-Q within 15 days after the end of each calendar Year in form acceptable to Lender. Wavedancer Inc - Compiled Covenant Compliance Certificate within 30 days after the end of each calendar Year in form acceptable to Lender.

EVENTS OF DEFAULT. The occurrence of any of the following events will be an Event of Default.

Noncompliance with Lender Agreements. Default by Borrower under any provision of this Agreement, the Related Documents, or any other agreement with Lender.

False Statements. If a Party made or makes a false or misleading misrepresentation in this Agreement, in the Related Documents, in any supporting material submitted to Lender or to third parties providing reports to Lender) or in Financial Statements given or to be given to Lender.

Material Adverse Change. Any material adverse change in the Bon-ower[1]s business, financial condition) or the Prope1ty has occurred or is imminent; if the full performance of the obligations of any Party is materially impaired; or if the Collateral and its value or Lender[l]s rights with respect thereto are materially impaired in any way. The existence or reasonable likelihood of litigation, governmental proceeding, default, or other event that may materially and adversely affect a Patty's business, financial condition, or the Property,

Insolvency or Liquidation. A Party voluntarily suspends transaction of its business or does not generally pay debts as they mature. If a Party has or will make a general assignment for the benefit of creditors or will file, or have filed against it, any petition under federal bankruptcy law or under any other state or federal law providing for the relief of debtors if the resulting proceeding is not discharged within thirty days after filing. If a receiver, trustee, or custodian is or will be appointed for a Party.

Default on Unrelated Debt. If Borrower materially defaults under a provision of an agreement with a third party or if the indebtedness under such an agreement is accelerated.

Judgments or Attachments. If there is entered against a Party a judgment that materially affects the Borrower's business, financial condition, or the Property, or if a tax lien, levy, writ of attachment, garnishment, execution, or similar item is or will be issued against the Collateral or which materially affects Borrower's business, financial condition, or the Property, and which remains unpaid, unstayed on appeal, undischarged, unbonded, or undismissed for thirty days after it was issued,

Collateral Impairment. Lender has a good-faith belief that Lender's rights in the Collateral are or will soon be impaired or that the Collateral itself is or soon will be impaired.

Termination of Existence or Change in Control. If Borrower or Borrower's business is sold or merged or if Borrower or Borrower1s business suspends business or ceases to exist.

Insecurity. If Lender has a good-faith belief that any Party is unable or will soon be unable to perform that Party's duties under this Agreement or under the Related Documents.

Death. The death of an individual who is a Party, a partner in a partnership that is a Party, a member in a limited liability company that is a Party, an officer of a corporation that is a Party, or an individual of similar position in any other type of business organization that is a Party.

Change In Management. Any change in management or ownership of Borrower outside of the current shareholder group unacceptable to Bank

REMEDIES ON DEFAULT.

Remedies, No Waiver. The remedies provided for in this Agreement, the Related Documents, and by law are cumulative and not exclusive. Lender reserves the right to exercise some, all, or none of its rights and reserves the right to exercise any right at any time that Lender has the right, without regard to how much time has passed since the right arose. Lender may exercise its rights in its sole, absolute discretion.

Acceleration, Setoff. Upon an Event of Default, the Loan and the Indebtedness may, at Lender1s sole option, be declared immediately due and payable, Lender may apply the Parties1 bank accounts and any other property held by Lender against the Indebtedness.

ATTORNEYS' FEES AND OTHER COSTS, Borrower agrees to pay all of Lender1s costs and expenses incurred in connection with the enforcement of this Agreement, including without limitation, reasonable attorneys' fees, to the extent permitted by law.

EXPENSES. The Parties agree to pay all of Lender's reasonable expenses incidental to perfecting Lender1s security interests and liens, all insurance premiums, Uniform Commercial Code search fees, and all reasonable fees incurred by Lender for audits, inspection, and copying of the Parties1 books and records. The Parties also agree to pay all reasonable costs and expenses of Lender in connection with the enforcement of Lender1s rights and remedies under this Agreement, the Related Documents, and any other agreement between one or more Parties and Lender, and in connection with the preparation of all amendments, modifications, and waivers of consent with respect to this Agreement, including reasonable attorneys' fees.

GOVERNING LAW/PARTIAL ILLEGALITY. This Agreement and the Related Documents are and will be governed by, and the rights of the Parties will be determined by the laws of the state of Virginia except to the extent that federal law controls. If any part, term, or provision of this Agreement is determined to be illegal or in conflict with state or federal law, the validity of the remaining po1tion or provisions of this Agreement will not be affected, unless the stticken portion 01· provision adversely affects Lender's risk of realizing Lender's anticipated return, in which case Lender may, in its sole discretion, deem the Loan matured.

NOTICES. All notices required under this Agreement must be in writing and will be considered given: (i) on the day of personal delivery, or

(ii) one business day after deposit with a nationally recognized overnight courier service, or (iii) three business days after deposit with the United States Postal Service sent certified mail, return receipt requested. Any of these methods may be used to give notice. All notices must be sent to the party or parties entitled Lo notice at the addresses first set forth in this Agreement. Any Party may change its address for notice purposes on five days prior written notice to the other Pa1ties.

INTEGRATION AND AMENDIHENT. This Agreement and other written agreements among the Parties, including but not limited to the Related Documents, are the entire agreement of the Parties and will be interpreted as a group, one with the others. None of the Parties will be bound by anything not expressed in writing, and this Agreement cannot be modified except by a writing executed by those Parties burdened by the modification.

FURTHER ACTION. The Parties will, upon request of Lender, make, execute) acknowledge, and deliver to Lender the modified and additional instruments, documents, and agreements, and will take the further action that is reasonably required, to cany out the intent and purpose of this transaction.

CONTINUING EFFECT. Unless superseded by a later Business Loan Agreement, this Agreement will continue in full force and effect until all of the Parties1 obligations to Lender are fully satisfied and the Loan and Indebtedness are fully repaid.

HEADINGS. All headings in this Agreement are included for reference only and do not have any effect on the interpretation of this Agreement.

COUNTERPARTS. This Agreement may be executed by the Patties using any number of copies of the Agreement. All executed copies taken together will be treated as a single Agreement.

TIME IS OF THE ESSENCE. Time is of the essence in the performance of this Agreement.

TRANSFERS. Borrower may not assign or transfer its rights or obligations under this Agreement without Lender's prior written consent. Lender may transfer its interest in Lender1s sole discretion. Borrower waives all rights of offset and counterclaim Borrower has against Lender. The purchaser of a participation in the loan may enforce its interest regardless of any claims or defenses Borrower has against Lender.

JURISDICTION. The Parties agree to waive any objection to jurisdiction or venue on the ground that the Parties are not residents of Lender1s locality. The Parties authorize any action brought to enforce the Pmties1 obligations to be instituted and prosecuted in any state court having jurisdiction or in the United States District Court for the District that includes Lender1s location as set forth at the beginning of this Agreement. The Parties authorize Lender to elect the court at Lender's sole discretion.

WAIVER OF JURY TRIAL. All parties to this Agreement hereby knowingly and voluntarily waive, to the fullest extent permitted by law, any right to trial by jury of any dispute, whether in contract, tort, or otherwise, arising out of, in connection with, related to, or incidental to the relationship established between them in this Agreement or any other instrument, document or agreement executed or delivered in connection with this Agreement 01· the Related Documents.

ORAL AGREEMENTS DISCLAIMER. This Agreement represents the final agreement between the parties and may not be contradicted by evidence of prior, contemporaneous or subsequent oral agreements of the patties. There are no unwritten oral agreements between the parties.

ADDITIONAL PROVISIONS. Death and Change of Management shall not be deemed as an Event of Default as described above in the Business Loan Agreement.

By signing this Agreement, Borrower acknowledges reading, understanding and agreeing to all its provisions and receipt of a copy hereof.

WAVEDANCER, INC.

/S/GERALD JAMES BENOIT 9/30/2022 /S/ TIMOTHY G. HANNON 9/30/2022
By: GERALD JAMES BENOIT Date By: TIMOTHY G. HANNON Date
Its: CEO Its: CFO

TELLENGER, INC.

/S/ STANLEY A REESE 9/30/2022 /S/ TIMOTHY G. HANNON 9/30/2022
By: STANLEY A REESE Date By: TIMOTHY G. HANNON Date
Its: PRESIDENT Its: CFO

COMMERCIAL SECURITY AGREEMENT

Summit

COMMUNITY BANK

310 North Main Street Moorefield, WV 26836

Phone number: (877) 776 9722

AGREEMENT DATE

September 30, 2022

BORROWER INFORMATION

WAVEDANCER INC 11240 WAPLES MILL RD STE201

FAIRFAX, VA 22030

TELLENGER INC

2275 RESEARCH BLVD

ROCKVILLE, MD 20850

COLLATERAL OWNER INFORMATION

WAVEDANCERINC 11240 WAPLES MILL RD STE 201
FAIRFAX, VA 22030

TELLENGER INC

2275 RESEARCH BLVD

ROCKVILLE, MD 20850

AGREEMENT. For purposes of this document, the term "Agreement" is used when reference is made to this Commercial Security Agreement.

LENDER. "Lender" means SUMMIT COMMUNITY BANK, INC whose address is 12030 Sunrise Valley Drive, Suite 170, Reston, Virginia 20191, its successors and assigns.

DEBTOR. For purposes of this Agreement, "Debtor" refers to any party to this Agreement, whose name and address is recited above, and who executes this Agreement.

SECURITY INTEREST GRANT. Debtor, in consideration of the Obligations to Lender) as defined in the "OBLIGATIONS" provision below, hereby agrees to all of the terms of this Agreement and further hereby specifically grants Lender a continuing security interest in the Collateral as defined in the "DESCRIPTION OF COLLATERAL" provision below. Debtor further grm1ts Lender a security interest in the proceeds of said Collateral;· the proceeds of hazard insurance and eminent domain or condemnation awards involving the Collateral; all products of, and accessions to, such Collateral or interests therein; any and all deposits or other sums at any time credited by or due from Lender to Debtor; and any and all instruments, documents, policies, and certificates of insurance) securities, goods) accounts receivable, choses in action) chattel paper, cash, property, and the proceeds thereof (whether or not the same are Collateral or proceeds thereof hereunder), owned by Debtor or in which Debtor has an interest which are now or at any time hereafter in possession or control of Lender, or in transit by mail or carrier to or from Lender, or in possession of any third party acting on Lender's behalf, without regard to whether Lender received the same in pledge, for safekeeping, as agent or otherwise, or whether Lender has conditionally released the same. Debtor's grant of a continuing security interest in the foregoing described Collateral secures to Lender the payment of all loans, advances, and extensions of credit from Lender to Bon-owe1-, including all renewals and extensions thereof, and any and all obligations of every kind whatsoever, whether heretofore, now, or hereafter existing or arising between Lender and Borrower and howsoever incurred or evidenced, whether primary, secondary, contingent, or otherwise.

OBLIGATIONS. As used in this Agreement, the term "Obligations" shall mean any and all of Debtor's obligations to Lender, whether they arise under this Agreement or the note, loan agreement, guaranty, or other evidence of debt executed in connection with this Agreement, or under any other mortgage, trust deed, deed of trust, security deed, security agreement, note, lease, instrument, contract, document, or other similar writing heretofore, now, or hereafter executed by the Borrower to Lender, including any renewals, extensions and modifications thereof, and including oral agreements and obligations arising by operation of law. The Obligations shall also include all expenditures that Lender may make under the terms of this Agreement or for the benefit of Borrower or Debtor, all interest, costs, expenses, and attorneys' fees accruing to or incurred by Lender in enforcing the Obligations or in the protection, maintenance, preservation, or liquidation of the Collateral, and any of the foregoing that may arise after the filing of any petition by or against Borrower or Debtor under the Bankruptcy Code, irrespective of whether the obligations do not accrue because of the automatic stay under Bankruptcy Code Section 362 or otherwise.

RELATED DOCUMENTS. The words "Related Documents" mean all promissory notes, security agreements, prior mortgages, prior deeds of b.ust prior deeds to secure debt, business loan agreements, construction loan agreements, resolutions, guaranties, environmental agreements, subordination agreements, assignments of leases and rents and any other documents or agreements executed in connection with this Agreement whether now or hereafter existing, including any modifications, extensions, substitutions or renewals of any of the foregoing. The Related Documents are hereby made a part of this Agreement by reference thereto, with the same force and effect as if fully set forth herein.

DESCRIPTION OF COLLATERAL. The collateral covered by this Agreement (the "Collateral" is all of the Debtor's property described below which the Debtor now owns or may hereafter acquire or create and all proceeds and products thereof, whether tangible or intangible, including proceeds of insurance and which may include, but shall not be limited to, any items listed on any schedule or list attached hereto.

Equipment. "Equipment" shall consist of all goods of the Debtor that are not inventory, farm products, or consumer goods. Equipment includes, but is not limited to, all equipment and fixtures of every nature and description whatsoever, now owned or hereafter acquired by Debtor, wherever located, including all machinery, manufacturing equipment, shop equipment, furnishings, furniture, record-keeping equipment, and vehicles, together with all accessions, parts, embedded software, attachments, accessories, tools, and dies, or appurtenances thereto intended for use in connection therewith, and all substitutions, betterments, and replacements thereof and additions thereto.

Specific Collateral. "Specific" refers to the specific property, together with all related rights, described below.

SPECIFIC COLLATERAL DESCRIPTION: UCC filing on Accounts Receivable, Inventory, Chattel Paper, Accounts, Equipment, Furniture, Fixtures and General Intangibles; whether any of the foregoing is owned now or acquired later; all accessions, additions, replacements, and substitutions relating to any of the foregoing; all records of any kind relating to any of the foregoing; all proceeds relating to any of the foregoing (including insurance, general intangibles and other accounts proceeds)

WARRANTIES. The Debtor warrants the following: Debtor has or will acquire free and clear title to all of the Collateral, unless otherwise provided herein; the security interest granted to the Lender shall be a first security interest unless the Lender specifically agrees otherwise, and the Debtor will defend same to the Lender against the claims and demands of all persons; the Debtor will fully cooperate in placing, perfecting, or maintaining Lender's lien or security interest; the Debtor agrees to lake whatever actions requested by Lender to perfect and continue Lender's security interest on the Collateral; the Debtor agrees not to allow or permit any lien, security interest, adverse claim, charge, or encumbrance of any kind against the Collateral or any part thereof, without the Lender's prior written consent; all of the Collateral is located in the state of the Debtor's address specified at the beginning of this Agreement, unless otherwise certified to and agreed to by the Lender, or, alternatively, is in possession of the Lender; the Debtor will not remove or change the location of any Collateral without the Lender's prior written consent; the Debtor will use the Collateral only in the conduct of its own business, in a careful and proper manner; the Debtor will not use the Collateral or permit it to be used for any unlawful purpose; except as otherwise provided in this Agreement with respect to inventory, Debtor will not, without the Lender's prior written consent, sell, assign, transfer, lease, charter, encumber, hypothecate, or dispose of the Collateral, or any part thereof, or any interest therein, nor will Debtor offer to sell, assign, transfer, lease, charter, encumber, hypothecate, or dispose of the Collateral, or any part thereof, or any interest therein; the Debtor will not conduct business under any name other than that given at the beginning of this Agreement, nor change, nor reorganize the type of business entity as described, *except* upon the prior written approval of the Lender, in which event the Debtor agrees to execute any documentation of whatsoever character or nature demanded by the Lender for filing or recording, at the Debtor's expense, before such change occurs; the information regarding Debtor's state of organization or formation as set forth in the Resolution is correct, and Debtor further warrants that Debtor will not change Debtor's state of organization or formation without Lender's prior written consent and will assist Lender with any changes to any documents, filings, or other records resulting or required therefrom; the Debtor will keep all records of account, documents, evidence of title, and all other documentation regarding its business and the Collateral at the address specified at the beginning of this Agreement, unless notice thereof is given to the Lender at least ten (10) days prior to the change of any address for the keeping of such records; the Debtor will, at all times, maintain the Collateral in good condition and repair and will not sell or remove same except as to inventory in the ordinary course of business; all financial information and statements delivered by the Debtor to the Lender to obtain loans and extensions of credit are true and correct and are prepared in accordance with generally accepted accounting principles; there has been no material adverse change in the financial condition of the Debtor since it last submitted any financial information to the Lender; there are no actions or proceedings, including set-off or counterclaim, which are threatened or pending against the Debtor which may result in any material adverse change in the Debtor's financial condition or which might materially affect any of the Debtor's assets; and the Debtor has duly filed all federal, state, municipal, and other governmental tax returns, and has obtained all licenses, permits, and the like which the Debtor is required by law to file or obtain, and all such taxes and fees for such licenses and permits required to be paid, have been paid in full.

INSURANCE. The Debtor agrees that it will, at its own expense, fully insure the Collateral against all loss or damage for any risk of whatsoever nature in such amounts) with such companies, and under such policies as shall be satisfactory to the Lender. All policies shall expressly provide that the Lender shall be the loss payee or, alternatively, if requested by Lender, mortgagee. The Lender is granted a security interest in the proceeds of such insurance and may apply such proceeds as it may receive toward the payment of the Obligations, whether or not due, in such order as the Lender may in its sole discretion determine. The Debtor agrees to maintain, at its own expense, public liability and property damage insurance upon all its other property, to provide such policies in such form as the Lender may approve, and to furnish the Lender with copies of other evidence of such policies and evidence of the payments of the premiums thereon. All policies of insurance shall provide for a minimum 10 days' written notice of cancellation to Lender. At the request of Lender, such policies of insurance shall be delivered to and held by Lender. Debtor agrees that Lender is authorized to act as attorney for Debtor in obtaining, adjusting, settling, and canceling such insurance and endorsing any drafts or instruments issued or connected with such insurance. Debtor specifically authorizes Lender to disclose information obtained in conjunction with this Agreement and from policies of insurance to prospective insurers of the Collateral. If the Debtor at any time fails to obtain or to maintain any of the insurance required above or pay any premium in whole or in part relating thereto, the Lender, without waiving any default hereunder, may make such payment or obtain such policies as the Lender, in its sole discretion, deems advisable to protect the Debtor's property. All costs incurred by the Lender, including reasonable attorneys' fees, court costs, expenses, and other charges thereby incurred, shall become a part of the Obligations and shall be payable on demand.

ADDITIONAL COLLATERAL. In the event that Lender should, at any time, determine that the Collateral or Lender's security interest in the Collateral is impaired, insufficient, or has declined or may decline in value, or if Lender should deem that payment of the Obligations is insecure, time being of the very essence, then Lender may require, and Debtor agrees to furnish, additional Collateral that is satisfactory to Lender. Lender's request for additional collateral may be oral or in writing delivered by United States mail addressed to Debtor and shall not affect any other subsequent right of the Lender to request additional Collateral.

FINANCING STATEMENT(S) AND LIEN PERFECTION. Lender is authorized to file a conforming financing statement or statements to perfect its security interest in the Collateral, as provided in Revised Article 9, Uniform Commercial Code - Secured Transactions. Debtor agrees to provide such information, supplements, and other documents as Lender may from time to time require to supplement or amend such financing statement filings, in order to comply with applicable state or federal law and to preserve and protect the Lender's rights in the Collateral. The Debtor further grants the Lender a power of attorney to execute any and all documents necessary for the Lender to perfect or maintain perfection of its security interest in the Collateral, and to change or correct any error on any

financing statement or any other document necessary for proper placement of a lien on any Collateral which is subject to this Agreement.

LANDLORD'S WAIVER. Upon request, Debtor shall furnish to Lender, in a form and upon such terms as are acceptable to Lender, a landlord's waiver of all liens with respect to any Collateral covered by this Agreement that is or may be located upon leased premises.

RELATIONSHIP TO OTHER AGREEMENTS. This Agreement and the security interests (and pledges and assignments, as applicable) herein granted are in addition to (and not in substitution, novation or discharge of) any and all prior or contemporaneous security agreements, security interest, pledges, assignments, mortgages, liens, rights, titles, or other interests in favor of Lender or assigned to Lender by others in connection with the Obligations. All rights and remedies of Lender in all such agreements are cumulative.

TAXES, LIENS, ETC. The Debtor agrees to pay all taxes, levies, judgments, assessments, and charges of any nature whatsoever relating to the Collateral or to the Debtor's business. If the Debtor fails to pay such taxes or other charges, the Lender, at its sole discretion, may pay such charges on behalf of the Debtor; and all sums so dispensed by the Lender, including reasonable attorneys' fees, court costs, expenses, and other charges relating thereto, shall become a part of the Obligations and shall be payable on demand.

ENVIRONMENTAL HAZARDS. Debtor certifies that the Collateral has never been, and so long as this Agreement continues to be a lien on the Collateral, never will be used in violation of any local, state or federal environmental laws, statutes or regulations or used for the generation, storage, manufacture, transportation, disposal, treatment, release or threatened release of any hazardous substances and Debtor will immediately notify Lender in writing of any asse1tion made by any party to the contrary. Debtor indemnifies and holds Lender and Lender's directors, officers, employees, and agents harmless from any liability or expense of whatsoever nature, including reasonable attorneys' fees, incurred directly or indirectly as a result of Debtor's involvement with hazardous or environmentally harmful substances as may be defined or regulated as such under any local, state or federal law or regulation or otherwise resulting from a breach of this provision of this Agreement.

PROTECTION OF COLLATERAL. Debtor agrees that Lender may, at Lender's sole option, whether before or after any event of default, and without prior notice to Debtor, take the following actions to protect Lender's interest in the Collateral: (a) pay for the maintenance, preservation, repair, improvement, or testing of the Collateral; (b) pay any filing$_1$ recording, registration, licensing, certification, or other fees and charges related to the Collateral: or (c) take any other action to preserve and protect the Collateral or Lender's rights and remedies under this Agreement, as Lender may deem necessary or appropriate from time to time. Debtor agrees that Lender is not obligated and has no duty whatsoever to take the foregoing actions. Debtor further agrees to reimburse Lender promptly upon demand for any payment made or any expenses incurred by Lender pursuant to this authorization. Payments and expenditures made by Lender under this authorization shall constitute additional Obligations, shall be secured by this Agreement, and shall bear interest thereon from the date incurred at the maximum rate of interest, including any default rate, if one is provided, as set forth in the notes secured by this obligation.

INFORMATION AND REPORTING. The Debtor agrees to supply to the Lender such financial and other information concerning its affairs and the status of any of its assets as the Lender, from time to time, may reasonably request. The Debtor further agrees to permit the Lender, its employees, and agents, to have access to the Collateral for the purpose of inspecting it, together with all of the Debtor's other physical assets, if any, and to pe1mit the Lender, from time to time, to verify Accounts$_1$ if any, as well as to inspect, copy, and to examine the books, records, and files of the Debtor.

CROSS-COLLATERALIZATION. Debtor agrees that any security interest provided in Collateral under this Agreement or any Collateral provided in connection with any and all other indebtedness of Debtor to Lender, whether or not such indebtedness is related by class or claim and whether or not contemplated by the parties at the time of executing each evidence of indebtedness, shall act as Collateral for all said indebtedness. This cross-collateralization provision shall not apply to any Collateral that is/are household goods or a principal dwelling,

DEFAULT. The occurrence of any of the following events shall constitute a default of this Agreement: (a) the non-payment, when due (whether by acceleration of maturity or otherwise), of any amount payable on any of the Obligations or any extension or renewal thereof; (b) the failure to perform any agreement of the Debtor contained herein or in any other agreement Debtor has or may have with Lender; (c) the publication of any statement, representation, or warranty, whetl1er written or oral, by the Debtor to the Lender, which at any time is untrue in any respect as of the date made; (d) the condition that any Debtor becomes insolvent or unable to pay debts as they mature, or makes an assignment for the benefit of the Debtor's creditors, or conveys substantially all of its assets, or in the event of any proceedings instituted by or against any Debtor alleging that such Debtor is insolvent or unable to pay debts as they mature (failure to pay being conclusive evidence of inability to pay); (e) Debtor makes application for appointment of a receiver or any other legal custodian, or in the event that a petition of any kind is filed under the Federal Bankruptcy Code by or against such Debtor and the resulting proceeding is not discharged within thi1ty days after filing; (f) the entry of any judgment against any Debtor, or the issue of any order of attachment, execution, sequestration, claim and delivery, or other order in the nature of a writ levied against the Collateral; (g) the death of any Debtor who is a natural person, or of any partner of any Debtor that is a partnership; (h) the dissolution, liquidation, suspension of normal business, termination of existence, business failure, merger, or consolidation or transfer of a substantial part of the property of any Debtor which is a corporation, limited liability company, partnership, or other non-individual business entity; (i) the Collateral or any part of the Collateral declines in value in excess of normal wear, tear, and depreciation or becomes, in the judgment of Lender, impaired, unsatisfacto1y, or insufficient in character or value, including but not limited to the filing of a competing financing statement; breach of warranty that the Debtor is the owner of the Collateral free and clear of any encumbrances (other than those encumbrances disclosed by Debtor or otherwise made known to Lender, and which were acceptable to Lender at the time); sale of the Collateral (except in the ordinary course of business) without Lender's express written consent; failure to keep the Collateral insured as provided herein; failure to allow Lender to inspect the Collateral upon demand or at reasonable ti.inc; failure to make prompt payment of taxes on the Collateral; loss, theft, substantial damage, or destruction of the Collateral; and, when Collateral includes inventory, accounts, chattel paper, or instmments, failure of account debtors to pay their obligations in due course; or (j) the Lender in good faith, believes the Debtor[1]s ability to repay the Debtor's indebtedness secured by this Agreement, any Collateral, or the Lender's ability to resort to any Collateral, is or soon will be impaired, time being of the very essence.

REMEDY. Upon the occurrence of an event of default, Lender, at its option, shall be entitled to exercise any one or more of the remedies described in this Agreement, in all documents evidencing the Obligations, in any other agreements executed by or delivered by Debtor for benefit of Lender, in any third-party security agreement, mortgage, pledge, or guaranty relating to the Obligations, in the Uniform Commercial Code of the state in which Lender is located, and all remedies at law and equity, all of which shall be deemed cumulative. The Debtor agrees that, whenever a default exists, all Obligations may (notwithstanding any provision in any other agreement at the sole option and discretion of the Lender and without demand or notice of any kind, be declared, and thereupon immediately shall become due and payable; and the Lender may exercise, from time to time, any rights and remedies, including the right to immediate possession of the Collateral, available to it under applicable law. The Debtor agrees, in the case of default, to assemble, at its own expense, all Collateral at a convenient place acceptable to the Lender. The Lender shall, in the event of any default, have the right to take possession of and remove the Collateral, with or without process of law, and in doing so, may peacefully enter any premises where the Collateral may be located for such purpose. Debtor waives any right that Debtor may have, in such instance, to a judicial hearing prior to such retaking. The Lender shall have the 1ight to hold any property then in or upon said Collateral at the time of repossession not covered by the security agreement until return is demanded in writing by Debtor. Debtor agrees to pay all reasonable costs of the Lender in connection with the collecting of the Obligations and enforcement of any rights connected with retaking, holding, testing, repairing, improving, selling, leasing, or disposing of the Col1ateral, or like expenses. These expenses, together with interest thereon from the date incurred until paid by Debtor at the maximum post-default rate slated in the notes secured hereby, which Debtor agrees to pay, shall constitute additional Obligations and shall be secured by and entitled to the benefits of this Agreement. The Lender may sell, lease, or othe1wise dispose of the Collateral, by public or private proceedings, for cash or credit, without assumption of credit risk. Unless the Collateral is perishable or threatens to decline speedily in value or of a type customarily sold on a recognized market, Lender will send Debtor reasonable notice of the time and place of any public sale or of the time after which any private sale or other disposition will be made. Any notification of intended disposition of the Collateral by the Lender shall be deemed to be reasonable and proper if sent United States mail, postage prepaid, electronic mail, facsimile, overnight delivery or other commercially reasonable means to the Debtor at least ten (10) days before such disposition, and addressed to the Debtor either at the address shown herein or at any other address provided to Lender in writing for the purpose of providing notice. Proceeds received by Lender from disposition of the Collateral may be applied toward Lender's expenses and other obligations in such order or manner as Lender may elect. Debtor shall be entitled to any surplus if one results after lawful application of the proceeds. If the proceeds from a sale of the Collateral are insufficient to extinguish the Obligations of the Debtor hereunder, Debtor shall be liable for a deficiency, Lender shall have the right,

whether before or after default, to collect and receipt for, compound, compromise, and settle, and give releases, discharges, and acquittances with respect to any and all amounts owed by any person or entity with respect to the Collateral. Lender may remedy any default and may waive any default without waiving the default remedied and without waiving any other prior or subsequent default. The rights and remedies of the Lender are cumulative, and the exercise of any one or more of the rights or remedies shall not be deemed an election of rights or remedies or a waiver of any other right or remedy.

FUTURE ADVANCES AND AFTER-ACQUIRED PROPERTY. Future advances may be made at any time by the Lender under this Agreement to the extent allowed by law. The security interest grant contained in this Agreement also applies to any Collateral of the type(s) identified in this Agreement that the Debtor acquires after this Agreement is executed, except that no security interest attaches to after-acquired consumer goods unless the Debtor acquires rights in such goods within 10 days of Lender giving value. In anticipation of future advances by Lender, the Debtor authorizes Lender to file any necessary financing statements to protect Lender's security interest.

EXERCISE OF LENDER'S RIGHTS. Any delay on the pat1 of the Lender in exercising any power, privilege, or right hereunder, or under any other document executed by Debtor to the Lender in connection herewith, shall not operate as a waiver thereof, and no single or pat1ial exercise thereof or any other power, privilege, or right shall preclude other or further exercise thereof. The waiver by the Lender of any default of the Debtor shall not constitute a waiver of subsequent default.

CONTINUING AGREEMENT. This is a continuing agreement and the security interest (and pledge and assignment, as applicable) hereby granted and all of the terms and provisions of this Agreement shall be deemed a continuing agreement and shall remain in full force and effect until the Obligations are paid in full. In the event that Lender should take additional Collateral, or enter into other security agreements, mortgages, guarantees, assignments, or similar documents with respect to the Obligations, or should Lender enter into other such agreements with respect to other obligations of Debtor, such agreements shall not discharge this Agreement, which shall be construed as cumulative and continuing and not alternative and exclusive.

Any attempted revocation or termination shall only be effective if explicitly confirmed in a signed writing issued by Lender to such effect and shall in no way impair or affect any transactions entered into or rights created or liabilities incurred or arising prior to such revocation or termination, as to which this Agreement shall be truly operative until same are repaid and discharged in full. Unless otherwise required by applicable law, Lender shall be under no obligation to issue a termination statement or similar document unless Debtor requests same in writing, and providing furthe1\ that all Obligations have been repaid and discharged in full and there are no commitments to make advances, incur any obligations, or otherwise give value.

ABSENCE OF CONDITIONS OF LIABILITY. This Agreement is unconditional. Lender shall not be required to exhaust its remedies against Debtor, other collateral, or guarantors, or pursue any other remedies within Lender's power before being entitled to exercise its remedies hereunder. Lender's rights to the Collateral shall not be altered by the lack of validity or enforceability of the Obligations against Debtor, and this Agreement shall be fully enforceable irrespective of any counterclaim which the Debtor may assert on the w1derlying debt and notwithstanding any stay, modification, discharge, or extension of Debtor's Obligation arising by virtue of Debtor’s insolvency, bankruptcy, or reorganization, whether occurring with or without Lender's consent.

NOTICES. Any notice or demand given by Lender to Debtor in connection with this Agreement, the Collateral, or the Obligations, shall be deemed given and effective upon deposit in the United States mail, postage prepaid, electronic mail, facsimile, overnight delivery or other commercially reasonable means addressed lo Debtor at the address designated at the beginning of this Agreement, or such other address as Debtor may provide to Lender in writing from time lo time for such purposes. Actual notice to Debtor shall always be effective no matter how such notice is given or received.

WAIVERS. Debtor waives notice of Lender’s acceptance of this Agreement, defenses based on suretyship, and to the fullest extent permitted by law, any defense arising as a result of any election by Lender under the Bankruptcy Code or the Uniform Commercial Code. Debtor and any maker, endorser, guarantor, surety, third-party pledgor, and other party executing this Agreement that is liable in any capacity with respect to the Obligations hereby waive demand, notice of intention to accelerate, notice of acceleration, notice of nonpayment, presentment, protest, notice of dishonor, and any other similar notice whatsoever,

WAIVER OF JURY TRIAL. All parties to this Agreement hereby knowingly and voluntarily waive, to the fullest extent permitted by law, any right to trial by jury of any dispute, whether in contract, tort, or otherwise, arising out of, in connection with, related to, or incidental to the relationship established between them in this Agreement or any other instrument, document or agreement executed or delivered in connection with this Agreement or the Related Documents,

JOINT AND SEVERAL LIABILITY. To the extent permitted by law, each Debtor executing this Agreement is jointly and severally bound.

SEVERABILITY. Whenever possible, each provision of this Agreement shall be inte1preted in such manner as to be effective and valid under applicable law; but, in the event any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity and shall be severed from the rest of this Agreement without invalidating the remainder of such provision or the remaining provisions of this Agreement.

SURVIVAL. The rights and privileges of the Lender hereunder shall inure to the benefits of its successors and assigns, and this Agreement shall be binding on all heirs, executors, administrators, assigns, and successors of Debtor,

ASSIGNABILITY. Lender may assign, pledge, or othe1wise transfer this Agreement or any of its rights and powers under this Agreement without notice, with all or any of the Obligations, and in such event the assignee shall have the same rights as if originally named herein in place of Lender. Debtor may not assign this Agreement or any benefit accruing to it hereunder without the express written consent of the Lender.

GOVERNING LAW. This Agreement has been delivered in the State of Virginia and shall be construed in accordance with the laws of that state.

HEADINGS AND GENDER. The headings preceding text in this Agreement are for general convenience in identifying subject matter, but have no limiting impact on the text which follows any particular heading. All words used in this Agreement shall be construed to be of such gender or number as the circumstances require.

MISCELLANEOUS. Time is of the essence of this Agreement. Except as otherwise defined in this Agreement, all terms herein shall have the meanings provided by the Uniform Commercial Code as it has been adopted in the state of Virginia. All rights, remedies, and powers of the Lender hereunder are irrevocable and cumulative, and not alternative or exclusive, and shall be in addition to all rights, remedies, and powers given hereunder or in or by any other instruments or by the provision of the Uniform Commercial Code as adopted in the state where the Lender is located, or any other laws, now existing or hereafter enacted. The Debtor specifically agrees that, if it has heretofore or hereafter executed any loan agreement in conjunction with the Agreement, any ambiguities between this Agreement and any such loan agreement shall be construed under the provisions of the loan agreement, to the extent that it may be necessary to eliminate any such ambiguity. Debtor releases Lender from any liability which might otherwise exist for any act or omission of Lender related to the collection of any debt secured by this Agreement or the disposal of any Collateral, except for the Lender's willful misconduct.

ORAL AGREEMENTS DISCLAIMER. This Agreement represents the final agreement between the parties and may not be contradicted by evidence of prior, contemporaneous or subsequent oral agreements of the parties. There are no unwritten oral agreements between the parties.

ACKNOWLEDGMENT, Debtor acknowledges agreeing to all of the provisions in this Agreement, and further acknowledges receipt of a true and complete copy of this Agreement,

IN WITNESS WHEREOF, Debtor has executed this Agreement on the date and year shown below.

WAVEDANCER, INC.

/S/GERALD JAMES BENOIT 9/30/2022 /S/ TIMOTHY G. HANNON 9/30/2022
By: GERALD JAMES BENOIT Date By: TIMOTHY G. HANNON Date
Its: CEO Its: CFO

TELLENGER, INC.

/S/ STANLEY A REESE 9/30/2022 /S/ TIMOTHY G. HANNON 9/30/2022
By: STANLEY A REESE Date By: TIMOTHY G. HANNON Date
Its: PRESIDENT Its: CFO

Exhibit 21.1

SUBSIDIARIES OF WAVEDANCER, INC.

Subsidiary	State of Incorporation
Tellenger, Inc.	Maryland
Gray Matters, Inc.	Delaware

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

1. Registration Statement (Form S-1 No. 333-266096) of WaveDancer, Inc. (“the Company”),
2. Registration Statement (Form S-8 No. 333-138836) pertaining to the 2006 Stock Incentive Plan,
3. Registration Statement (Form S-8 No. 333-259377) pertaining to the 2016 Stock Incentive Plan, and
4. Registration Statement (Form S-8 No. 333-262097) pertaining to the 2021 Stock Incentive Plan;

of our report, dated April 17, 2023, on our audits of the consolidated financial statements of WaveDancer, Inc. as of December 31, 2022 and 2021, and for the years then ended, included in this Annual Report on Form 10-K for the year ended December 31, 2022, which includes an explanatory paragraph relating to the Company’s ability to continue as a going concern.

/s/ CohnReznick LLP

Tysons, Virginia
April 17, 2023

EXHIBIT 31.1

CERTIFICATION

I, G. James Benoit, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of WaveDancer, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: April 17, 2023

By: /s/ G. James Benoit, Jr.
G. James Benoit, Jr.
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Timothy G. Hannon, certify that:

1. I have reviewed this annual report on Form 10-K of WaveDancer, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Date:	April 17, 2023	By:	/s/ Timothy G. Hannon Timothy G. Hannon Chief Financial Officer

Exhibit 32.1

SECTION 1350 CERTIFICATIONS

I, G. James Benoit, Jr., Chief Executive Officer of WaveDancer, Inc., and I, Timothy G. Hannon, Chief Financial Officer of WaveDancer, Inc., certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Annual Report on Form 10-K for the year ended December 31, 2022 (the "Annual Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

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

Date: April 17, 2023

/s/ G. James Benoit, Jr.
G. James Benoit, Jr.
Chief Executive Officer

/s/ Timothy G. Hannon
Timothy G. Hannon
Chief Financial Officer