UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

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

For the quarterly period ended September 30, 2023

Or

o 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: 001-41526

CASTELLUM, INC.

(Exact Name of Registrant as Specified in Charter)

NEVADA	**27-4079982**
(STATE OF INCORPORATION)	**(I.R.S Employer I.D.)**

3 Bethesda Metro Center, Suite 700, Bethesda, MD 20814
(301) 961-4895
(Address and telephone number of principal executive offices)

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 $0.0001 per share	CTM	NYSE American LLC

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 x 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 x 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 o	Accelerated filer o
Non-accelerated filer x	Smaller reporting company x
	Emerging growth company x

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. x

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date.

Class	**Outstanding as of November 10, 2023**
Common Stock, par value $0.0001 per share	47,642,427

CASTELLUM, INC.
FORM 10-Q
For the Quarter Ended September 30, 2023
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Explanatory Note Regarding Reverse Stock Split

On October 13, 2022, Castellum, Inc. (the “Company”, “our Company,” “we,” “our,” “us,” and “Castellum”) effected a 1-for-20 reverse split of our authorized and outstanding shares of common stock (the “Reverse Stock Split,” “Offering,” “Uplisting”) by way of the filing on October 5, 2022 of an amendment to the Company’s amended and restated articles of incorporation to effect the Reverse Stock Split which was approved by Financial Industry Regulatory Authority on October 12, 2022 in connection with the closing of an underwritten public offering of our common stock and the commencement of the trading of our common stock on the New York Stock Exchange American LLC ("NYSE American"). As a result of the Reverse Stock Split, all authorized and outstanding common stock and per share amounts in this Quarterly Report on Form 10-Q, including but not limited to, the consolidated financial statements and footnotes included herein, have been adjusted to reflect the Reverse Stock Split for all periods presented.

Explanatory Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the “Securities Act,” and Section 21E of the Securities Exchange Act of 1934, as amended, or the “Exchange Act,” which statements involve substantial risk and uncertainties. These statements do not relate strictly to historical or current facts. Forward-looking statements involve risks and uncertainties and include statements regarding, among other things, our projected revenue growth and profitability, our growth strategies and opportunity, anticipated trends in our market and our anticipated needs for working capital. They are generally identifiable by use of the words “may,” “will,” “should,” “anticipate,” “estimate,” “plans,” “potential,” “projects,” “continuing,” “ongoing,” “expects,” “management believes,” “we believe,” “we intend,” or the negative of these words or other variations on these words or comparable terminology. In particular, these statements relate to future actions, prospective products and services, market acceptance, future performance or results of current and anticipated products and services, sales efforts, expenses, and the outcome of contingencies such as legal proceedings and financial results.

Examples of forward-looking statements in this Quarterly Report on Form 10-Q include, but are not limited to, our expectations regarding our business strategy, business prospects, operating results, operating expenses, working capital, liquidity, and capital expenditure requirements. Important assumptions relating to the forward-looking statements include, among others, assumptions regarding demand for our products and services, the cost, terms, and availability of components, pricing levels, the timing and cost of capital expenditures, competitive conditions, and general economic conditions. These statements are based on our management’s expectations, beliefs, and assumptions concerning future events affecting us, which in turn are based on currently available information. These assumptions could prove inaccurate. Although we believe that the estimates and projections reflected in the forward-looking statements are reasonable, our expectations may prove to be incorrect.

Important factors that could cause actual results to differ materially from the results and events anticipated or implied by such forward-looking statements include, but are not limited to:

- changes in the market acceptance of our products and services;
- overall levels of government spending, including defense spending and spending on IT services;
- increased levels of competition;
- changes in political, economic, or regulatory conditions generally and in the markets in which we operate;
- adverse conditions in the industries in which our customers operate;
- our ability to retain and attract senior management and other employees;
- our ability to respond quickly and effectively to new technological developments;
- our ability to protect our trade secrets or other proprietary rights, operate without infringing upon the proprietary rights of others and prevent others from infringing on the proprietary rights of the Company;
- sequestration or other budgetary restrictions imposed by the United States government in the absence of an approved budget or continuing resolution;

- existing revenues related to small business contracts which are not replaced by other opportunities; and
- failure by our company to win prime contracts or acquire companies with prime contract vehicles.

We operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for us to predict all of those risks, nor can we assess the impact of all of those risks on our business or the extent to which any factor may cause actual results to differ materially from those contained in any forward-looking statement. The forward-looking statements in this Quarterly Report on Form 10-Q are based on assumptions management believes are reasonable. However, due to the uncertainties associated with forward-looking statements, you should not place undue reliance on any forward-looking statements. Further, forward-looking statements speak only as of the date they are made, and unless required by law, we expressly disclaim any obligation or undertaking to publicly update any of them in light of new information, future events, or otherwise.

In this Quarterly Report on Form 10-Q, unless the context otherwise requires, all references to the "Company," "our Company," "we," "our," "us," and "Castellum" refer to Castellum, Inc., a Nevada corporation, and its wholly owned subsidiaries.

Part I

Item 1. Unaudited Consolidated Financial Statements

Castellum, Inc. and Subsidiaries
Consolidated Balance Sheets
(Unaudited)

	September 30, 2023		December 31, 2022	
	(unaudited)			
Assets				
Current Assets:				
Cash	$	1,335,977	$	4,640,896
Accounts receivable		7,814,468		5,193,562
Contract asset		575,942		257,434
Prepaid income taxes		28,944		351,116
Prepaid expenses and other current assets		332,548		222,995
Total current assets		10,087,879		10,666,003
Fixed assets, net		353,816		173,350
Non-Current Assets:				
Right of use asset - operating lease		703,054		35,524
Intangible assets, net		9,592,449		6,634,167
Goodwill		10,716,907		15,533,964
Total non-current assets		21,366,226		22,377,005
Total Assets	$	31,454,105	$	33,043,008
Liabilities and Stockholders' Equity				
Liabilities				
Current Liabilities				
Accounts payable and accrued expenses	$	991,386	$	1,617,596
Accrued payroll and payroll related expenses		3,172,180		1,869,517
Due to seller		350,000		280,000
Obligation to issue common and preferred stock		284,500		—
Contingent earnout		877,000		812,000
Derivative liabilities		125,300		824,000
Revolving credit facility		625,025		300,025
Current portion of notes payable, net of discount		8,222,891		2,033,348
Current portion of convertible promissory notes - related parties, net of discount		1,920,125		—

Current portion of lease liability - operating lease	187,086	22,054
Total current liabilities	16,755,493	7,758,540
Non-Current Liabilities		
Deferred Tax Liability	—	—
Lease liability - operating lease, net of current portion	524,346	12,632
Note payable - related party, net of current portion	400,000	400,000
Convertible promissory notes - related parties, net of discount, net of current portion	—	999,430
Notes payable, net of discount, net of current portion	—	6,340,490
Total non-current liabilities	924,346	7,752,552
Total Liabilities	17,679,839	15,511,092
Stockholders' Equity		
Preferred stock, 50,000,000 shares authorized		
Series A Preferred stock, par value $0.0001; 10,000,000 shares authorized; 5,875,000 issued and outstanding as of September 30, 2023 and December 31, 2022, respectively	588	588
Series B Preferred stock, par value $0.0001; 10,000,000 shares authorized; 0 and 0 issued and outstanding as of September 30, 2023 and December 31, 2022, respectively	—	—
Series C Preferred stock, par value $0.0001; 10,000,000 shares authorized; 770,000 and 770,000 issued and outstanding as of September 30, 2023 and December 31, 2022, respectively	77	77
Common stock, par value, $0.0001, 3,000,000,000 shares authorized, 47,579,402 and 41,699,363 issued and outstanding as of September 30, 2023 and December 31, 2022, respectively	4,758	4,170
Additional paid in capital	55,536,292	43,621,651
Accumulated deficit	(41,767,449)	(26,094,570)
Total stockholders' equity	13,774,266	17,531,916
Total Liabilities and Stockholders' Equity	$ 31,454,105	$ 33,043,008

See notes to consolidated financial statements.

Castellum, Inc. and Subsidiaries
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenues	$ 11,741,164	$ 11,120,712	$ 34,153,979	$ 32,166,104
Cost of Revenues	6,903,689	6,474,261	20,066,904	18,698,820
Gross Profit	4,837,475	4,646,451	14,087,075	13,467,284
Operating Expenses				
Indirect costs	2,258,082	2,130,513	6,710,421	7,458,319
Overhead	493,706	407,804	1,498,325	1,167,346
General and administrative expenses	3,739,975	3,297,319	14,030,818	9,633,064
Goodwill impairment loss	6,919,094	—	6,919,094	—
Change in fair value of contingent earnout	—	864,000	65,000	864,000
Total operating expenses	13,410,857	6,699,636	29,223,658	19,122,729
Loss From Operations Before Other Income (Expense)	(8,573,382)	(2,053,185)	(15,136,583)	(5,655,445)
Other Income (Expense)				
Loss on induced conversion	—	—	(300,000)	—
Gain (loss) from change in fair value of derivative liability	241,700	76,000	1,086,325	(97,000)
Other income (expense)	85,230	—	84,157	303
Interest expense, net of interest income	(843,148)	(978,314)	(2,484,263)	(2,579,915)
Total other income (expense)	(516,218)	(902,314)	(1,613,781)	(2,676,612)
Loss From Operations Before Benefit For Income Taxes	(9,089,600)	(2,955,499)	(16,750,364)	(8,332,057)
Income tax benefit (expense)	(102,584)	(159,025)	1,136,345	(902,820)
Net Loss	(9,192,184)	(3,114,524)	(15,614,019)	(9,234,877)
Less: preferred stock dividends	28,719	29,911	88,858	70,447
Net Loss To Common Shareholders	$ (9,220,903)	$ (3,144,435)	$ (15,702,877)	$ (9,305,324)
Net Loss Per Share - Basic And Diluted	$ (0.19)	$ (0.12)	$ (0.34)	$ (0.39)
Weighted Average Shares Outstanding - Basic And Diluted	48,527,472	25,868,849	46,673,959	23,621,551

See notes to consolidated financial statements.

Castellum, Inc. and Subsidiaries
Consolidated Statement of Changes in Stockholders' Equity
(Unaudited)

	Series A Preferred		Series B Preferred		Series C Preferred		Common Stock		Additional Paid-In	Accumulated	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Deficit	Total
Balance - December 31, 2021	5,875,000	$ 588	3,610,000	$ 361	620,000	$ 62	19,960,632	$ 1,996	$ 26,405,126	$ (11,086,016)	$ 15,322,117
Stock-based compensation - options	—	—	—	—	—	—	—	—	875,640	—	875,640
Stock-based compensation - warrants	—	—	—	—	—	—	—	—	—	—	—
Stock-based compensation - restricted shares	—	—	—	—	—	—	—	—	30,937	—	30,937
Shares issued in acquisition of MFSI	—	—	—	—	—	—	—	—	—	—	—
Cancellation of shares in acquisition of MFSI	—	—	—	—	—	—	—	—	—	—	—
Shares issued for service, net of amounts prepaid	—	—	—	—	—	—	7,500	1	6,187	—	6,188
Shares issued in exercise of stock options	—	—	—	—	—	—	15,000	2	11,998	—	12,000
Shares issued for cash in Series C Preferred Subscription Agreement	—	—	—	—	150,000	15	15,000	2	149,983	—	150,000
Net loss for the period	—	—	—	—	—	—	—	—	—	(1,406,715)	(1,406,715)
Balance - March 31, 2022	5,875,000	588	3,610,000	361	770,000	77	19,998,132	2,001	27,479,871	(12,492,731)	14,990,167
Shares issued for services net of amounts prepaid	—	—	—	—	—	—	7,500	1	11,939	—	11,940
Shares issued for cash, including fair value adjustment	—	—	—	—	—	—	1,250,000	125	592,875	—	593,000
Shares issued for commitment fees	—	—	—	—	—	—	125,000	13	59,288	—	59,300
Shares issued to satisfy obligation to issue common stock	—	—	—	—	—	—	132,500	13	533,737	—	533,750
Shares issued to acquire LSG	—	—	—	—	—	—	600,000	60	2,279,940	—	2,280,000
Conversion of Series B Preferred to Common Shares	—	—	(535,000)	(54)	—	—	2,675,000	268	(214)	—	—
Stock-based compensation - options	—	—	—	—	—	—	—	—	1,117,335	—	1,117,335
Stock-based compensation - warrants	—	—	—	—	—	—	—	—	1,603,219	—	1,603,219
Stock-based compensation - restricted shares	—	—	—	—	—	—	—	—	30,938	—	30,938
Gain on extinguishment of related party convertible note	—	—	—	—	—	—	—	—	2,667,903	—	2,667,903
Net loss for the period	—	—	—	—	—	—	—	—	—	(4,754,175)	(4,754,175)
Balance - June 30, 2022	5,875,000	588	3,075,000	307	770,000	77	24,788,132	2,480	36,376,831	(17,246,906)	19,133,377
Stock-based compensation - options	—	—	—	—	—	—	—	—	1,139,018	—	1,139,018
Stock-based compensation - restricted shares	—	—	—	—	—	—	—	—	30,937	—	30,937
Net loss for the period	—	—	—	—	—	—	—	—	—	(3,144,435)	(3,144,435)
Balance - September 30, 2022	5,875,000	588	3,075,000	307	770,000	77	24,788,132	2,480	37,546,786	(20,391,341)	17,158,897

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Balance - December 31, 2022	5,875,000	588	—	—	770,000	77	41,699,363	4,170	43,621,651	(26,094,570)	17,531,916
Stock-based compensation - options	—	—	—	—	—	—	—	—	2,436,299	—	2,436,299
Stock-based compensation - warrants	—	—	—	—	—	—	—	—	1,076,969	—	1,076,969
Stock-based compensation - restricted stock and shares issued for services	—	—	—	—	—	—	125,504	12	149,987	—	149,999
Shares issued to acquire GTMR	—	—	—	—	—	—	4,866,570	487	5,304,075	—	5,304,562
Shares issued in induced conversion of Crom note	—	—	—	—	—	—	556,250	56	589,944	—	590,000
Loss on induced conversion	—	—	—	—	—	—	—	—	300,000	—	300,000
Extinguishment of debt discount - derivative liability	—	—	—	—	—	—	—	—	(171,128)	—	(171,128)
Extinguishment of debt discount - debt issuance costs	—	—	—	—	—	—	—	—	(8,034)	—	(8,034)
Extinguishment of derivative liability	—	—	—	—	—	—	—	—	33,375	—	33,375
Net loss for the period	—	—	—	—	—	—	—	—	—	(4,353,710)	(4,353,710)
Balance - March 31, 2023	5,875,000	588	—	—	770,000	77	47,247,687	4,725	53,333,138	(30,448,280)	22,890,248
Stock-based compensation - options	—	—	—	—	—	—	—	—	1,089,165	—	1,089,165
Stock-based compensation - restricted stock and shares issued for services	—	—	—	—	—	—	63,025	6	74,994	—	75,000
Shares issued in private placement	—	—	—	—	—	—	63,000	6	125,994	—	126,000
Net loss for the period	—	—	—	—	—	—	—	—	—	(2,128,266)	(2,128,266)
Balance - June 30 2023	5,875,000	588	—	—	770,000	77	47,373,712	4,737	54,623,291	(32,576,546)	22,052,147
Stock-based compensation - options	—	—	—	—	—	—	—	—	1,089,163	—	1,089,163
Stock-based compensation - shares issued to advisory board	—	—	—	—	—	—	48,000	5	17,275	—	17,280
Restricted stock and shares issued for services	—	—	—	—	—	—	132,690	13	100,066	—	100,079
Shares issued to Crom Cortana in Crom Transaction	—	—	—	—	—	—	25,000	3	10,997	—	11,000
Balance sheet reclassification adjustment (Note 2)	—	—	—	—	—	—	—	—	(304,500)	30,000	(274,500)
Net loss for the period	—	—	—	—	—	—	—	—	—	(9,220,903)	(9,220,903)
Balance - September 30, 2023	5,875,000	588	—	—	770,000	77	47,579,402	4,758	55,536,292	(41,767,449)	13,774,266

See notes to consolidated financial statements.

Castellum, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
For the Nine Months Ended September 30, 2023 and 2022
(Unaudited)

	2023	2022
Cash Flow From Operating Activities		
Net loss	$ (15,614,019)	$ (9,234,877)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	1,865,839	1,520,329
Amortization of discounts, premium and deferred costs	1,746,019	1,869,152
Stock-based compensation	6,112,184	4,906,152
Deferred tax provision	(1,486,460)	610,033
Gain on disposal of fixed assets	—	(303)
Financing fee and bank charges for note payable and advances on revolving credit line	—	3,775
Goodwill impairment loss	6,919,094	—
Lease cost	128,403	833
Legal fees paid out of proceeds from a note payable	—	30,000
Gain from timing difference on issuance of shares	(85,231)	—
Change in fair value of contingent earnout	65,000	864,000
Change in fair value of derivative liability	(1,086,325)	97,000
Changes in assets and liabilities		
Accounts receivable	(2,118,021)	(2,637,969)
Proceeds from factoring accounts receivable	850,141	—
Prepaid expenses and other current assets	335,262	(58,051)
Contract asset (liability)	(318,509)	673,638
Lease liability	(94,295)	—
Accounts payable and accrued expenses	(354,502)	801,641
Net cash used in operating activities	(3,135,420)	(554,647)
Cash Flows From Investing Activities		
Acquisition of business, cash paid to seller	(485,739)	(250,000)
Cash paid to seller from factoring	(411,975)	—
Cash received in acquisition of GTMR	475,000	—
Purchases of fixed assets	(20,526)	(92,436)
Net cash used in investing activities	(443,240)	(342,436)
Cash Flows From Financing Activities		
Proceeds from revolving credit line	325,000	300,000
Payment of debt issuance costs	(15,000)	—
Proceeds from issuance of preferred and common stock	126,000	625,000
Proceeds from notes payable	1,200,000	1,470,000
Preferred stock dividend	(88,858)	(70,449)
Proceeds from exercise of stock options	—	12,000
Repayment of amounts due to seller	(280,000)	(160,000)
Loss on induced conversion	300,000	—
Repayment of convertible note payable - related party	—	(500,000)

Repayment of note payable	(1,293,401)	(943,995)
Net cash provided by financing activities	273,741	732,556
Net Decrease in Cash	(3,304,919)	(164,527)
Cash - Beginning of Period	4,640,896	2,017,915
Cash - End of Period	$ 1,335,977	$ 1,853,388
Supplemental Disclosures		
Cash paid for interest expense	$ 749,465	$ 559,234
Cash refunded (paid) from income taxes	$ (4,751)	$ 118,885
Summary of Non-Cash Activities:		
Debt discount on note payable	$ 28,000	$ 500,000
Derivative liability incurred for note payable	421,000	692,000
Extinguishment of debt discount - derivative liability	171,128	—
Extinguishment of debt discount - debt issuance costs	8,034	—
Extinguishment of derivative liability on Crom note	33,375	—
Adjustment to contingent consideration and customer relationships	—	275,000
Gain on extinguishment of convertible note payable - related party applied to APIC	—	2,667,903
Common shares issued for obligation to issue common stock	—	533,750
Deferred issuance costs recognized for note payable	—	59,300
Fair value adjustment recognized on issuance of common stock in Securities Purchase Agreement	—	93,000
Common shares issued in conversion of Series B preferred shares	$ —	$ 5,350

For the non-cash activities related to the Company's acquisitions and debt transaction see Note 3, "Acquisitions" and Note 7, "Notes Payable".

See notes to consolidated financial statements.

Castellum, Inc. and Subsidiaries
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2023 and 2022

Note 1: Nature of Operations

Castellum, Inc. (the "Company") is focused on acquiring and growing technology companies in the areas of cybersecurity, information technology, electronic warfare, and information warfare with businesses in the governmental and commercial markets. Services include intelligence analysis, software development, software engineering, Model Based Systems Engineering ("MBSE"), program management, strategic planning, information assurance and cybersecurity and policy along with analysis support. These services, which largely focus on securing data and establishing related policies, are applicable to customers in the federal government, financial services, healthcare and other users of large data applications. The services can be delivered to legacy, customer owned networks, or customers who rely upon cloud-based infrastructures. The Company works with multiple business brokers and contacts within its business network to identify potential acquisitions.

Since November 2019, the Company has made the following acquisitions that specialize in the areas noted above:

- Corvus Consulting, LLC ("Corvus"),
- Mainnerve Federal Services, Inc. dba MFSI Government Group ("MFSI"),
- Merrison Technologies, LLC ("Merrison"),
- Specialty Systems, Inc. ("SSI"),
- the business assets of Pax River from The Albers Group ("Pax River"),
- Lexington Solutions Group, LLC ("LSG"), and
- Global Technology and Management Resources, Inc. ("GTMR").

With the exception of Pax River, all of these acquisitions were considered business combinations under Topic 805 *Business Combinations* of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). See Note 3, "Acquisitions" for greater details on the acquisitions of the Company since January 1, 2022.

On October 13, 2022, the Company effected a $3,000,000 public offering, a 1-for-20 Reverse Stock Split of its common shares, and an uplisting to the NYSE American. All share and per share figures related to the common stock have been retroactively adjusted in accordance with SEC Staff Accounting Bulletin ("SAB") Topic 4C.

Note 2: Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements, including the notes, include the accounts of the Company and its wholly-owned subsidiaries and have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") and the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"). All intercompany balances and transactions have been eliminated in consolidation.

Basis of Presentation for Interim Periods

Certain information and footnote disclosures normally included for the annual financial statements prepared in accordance with U.S. GAAP have been condensed or omitted for the interim periods presented. We believe that the unaudited interim financial statements include all adjustments (which are normal and recurring in nature) necessary to present fairly our financial position and the results of operations and cash flows for the periods presented.

The results of operations for the interim periods presented are not necessarily indicative of results that may be expected for the year or future periods. The financial statements should be read in conjunction with our audited consolidated financial statements and the notes thereto for the year ended December 31, 2022 included in our Annual Report on Form 10-K for the year then ended. We have continued to follow the accounting policies set forth in those financial statements.

Business Segments

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker ("CODM") in deciding how to allocate resources and in assessing performance. The Company's CODM, the Chief Executive Officer, reviews consolidated results of operations to make decisions. The Company maintains one operating and reportable segment, which is the delivery of products and services in the areas of information technology, electronic warfare, information warfare and cybersecurity in the governmental and commercial markets.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. These estimates include, but are not limited to, management's estimate of provisions required for uncollectible accounts receivable, the acquired value of the intangible assets and goodwill, impaired value of intangible assets, liabilities to accrue, cost incurred in the satisfaction of performance obligations, fair value for consideration elements of business combinations, permanent and temporary differences related to income taxes and determination of the fair value of stock awards. Actual results could differ from those estimates.

Revenue Recognition

The Company accounts for revenue in accordance with ASC Topic 606, *Revenue from Contracts with Customers*.

The Company accounts for a contract with a customer that is within the scope of this Topic only when the five steps of revenue recognition under ASC 606 are met.

The five core principles will be evaluated for each service provided by the Company and is further supported by applicable guidance in ASC 606 to support the Company's recognition of revenue.

Revenue is derived primarily from services provided to the Federal government. The Company enters into agreements with customers that create enforceable rights and obligations and for which it is probable that the Company will collect the consideration to which it will be entitled as services and solutions are transferred to the customer. The Company also evaluates whether two or more agreements should be accounted for as one single contract.

When determining the total transaction price, the Company identifies both fixed and variable consideration elements within the contract. The Company estimates variable consideration as the most likely amount to which the Company expects to be entitled limited to the extent that it is probable that a significant reversal will not occur in a subsequent period.

At contract inception, the Company determines whether the goods or services to be provided are to be accounted for as a single performance obligation or as multiple performance obligations. For most contracts, the customers require the Company to perform several tasks in providing an integrated output and, hence, each of these contracts are deemed as having only one performance obligation. When contracts are separated into multiple performance obligations, the Company allocates the total transaction price to each performance obligation based on the estimated relative standalone selling prices of the promised services underlying each performance obligation.

This evaluation requires professional judgment, and it may impact the timing and pattern of revenue recognition. If multiple performance obligations are identified, the Company generally uses the cost plus a margin approach to determine the relative standalone selling price of each performance obligation. The Company does not assess whether a contract contains a significant financing component if the Company expects, at contract inception, that the period between when payment by the client and the transfer of promised services to the client occur will be less than one year.

The Company currently generates its revenue from three different types of contractual arrangements: cost plus fixed fee ("CPFF"), firm-fixed-price contracts ("FFP"), and time-and-materials ("T&M") contracts. The Company generally recognizes revenue over time as control is transferred to the customer, based on the extent of progress towards satisfaction of the performance obligation. The selection of the method used to measure progress requires judgment and is dependent on the contract type and the nature of the goods or services to be provided.

For CPFF contracts, the Company uses input progress measures to derive revenue based on hours worked on contract performance as follows: direct costs plus Defense Contract Audit Agency ("DCAA") approved provisional burdens plus fee. The provisional indirect rates are adjusted and billed at actual at year end. Revenue from FFP contracts is generally recognized ratably over the contract term, using a time-based measure of progress, even if billing is based on other metrics or milestones, including specific deliverables. For T&M contracts, the Company uses input progress measures to estimate revenue earned based on hours worked on contract performance at negotiated billing rates, plus direct costs and indirect cost burdens associated with materials and the direct expenses incurred in performance of the contract.

These arrangements generally qualify for the "right-to-invoice" practical expedient where revenue is recognized in proportion to billable consideration. FFP Level-Of-Effort contracts are substantially similar to T&M contracts except that the Company is required to deliver a specified level-of-effort over a stated period. For these contracts, the Company estimates revenue earned using contract hours worked at negotiated bill rates as the Company delivers the contractually required manpower.

Revenue generated by contract support service contracts is recognized over time as services are provided, based on the transfer of control. Revenue generated by FFP contracts is recognized over time as performance obligations are satisfied. Most contracts do not contain variable consideration and contract modifications are generally minimal. For these reasons, there is not a significant impact of electing these transition practical expedients.

Revenue generated from contracts with Federal, state, and local governments is recorded over time, rather than at a point in time. Under the contract support services contracts, the Company performs software design work as it is assigned by the customer, and bills the customer, generally semi-monthly, on either a CPFF or T&M basis, as labor hours are expended. Certain other government contracts for software development have specific deliverables and are structured as FFP contracts, which are generally billed as the performance obligations under the contract are met. Revenue recognition under FFP contracts requires judgment to allocate the transaction price to the performance obligations. Contracts may have terms up to five years.

Contract accounting requires judgment relative to assessing risks and estimating contract revenue and costs and assumptions for schedule and technical issues. Due to the size and nature of contracts, estimates of revenue and costs are subject to a number of variables. For contract change orders, claims or similar items, judgment is required for estimating the amounts, assessing the potential for realization and determining whether realization is probable. Estimates of total contract revenue and costs are continuously monitored during the term of the contract and are subject to revision as the contract progresses. From time to time, facts develop that require revisions of revenue recognized or cost estimates. To the extent that a revised estimate affects the current or an earlier period, the cumulative effect of the revision is recognized in the period in which the facts requiring the revision become known.

The Company accounts for contract costs in accordance with ASC Topic 340-40, *Contracts with Customers*. The Company recognizes the cost of sales of a contract as expense when incurred or at the time a performance obligation is satisfied. The Company recognizes an asset from the costs to fulfill a contract only if the costs relate directly to a contract, the costs generate or enhance resources that will be used in satisfying a performance obligation in the future and the costs are expected to be recovered. The incremental costs of obtaining a contract are capitalized unless the costs would have been incurred regardless of whether the contract was obtained.

The following table disaggregates the Company's revenue by contract type for the nine months ended September 30:

	2023	2022
Revenue:		
Time and material	$ 19,481,565	$ 17,924,100
Firm fixed price	2,452,726	3,607,597
Cost plus fixed fee	12,219,688	10,634,407
Total	$ 34,153,979	$ 32,166,104

Accounting for Income Taxes

Accounting for income taxes are accounted for under the asset and liability method. We estimate our income taxes in each of the jurisdictions where the Company operates. This process involves estimating our current tax expense or benefit together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in our consolidated balance sheets. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. When assessing the realizability of deferred tax assets, we consider if it is more likely than not that some or all of the deferred tax assets will not be realized. In making this assessment, we consider the availability of loss carryforwards, projected reversals of deferred tax liabilities, projected future taxable income, and ongoing prudent and feasible tax planning strategies.

We are subject to income taxes in the federal and state tax jurisdictions based upon our business operations in those jurisdictions. Significant judgment is required in evaluating uncertain tax positions. We record uncertain tax positions in accordance with ASC 740-10 on the basis of a two-step process whereby (1) we determine whether it is more likely than not that the tax positions will be sustained based on the technical merits of the position, and (2) with respect to those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is greater than 50% likely to be realized up on ultimate settlement with the related tax authority. Management evaluates its tax positions on a quarterly basis.

The Company files income tax returns in the US Federal tax jurisdiction and various state tax jurisdictions. The federal and state income tax returns of the Company are subject to examination by the Internal Revenue Service (“IRS”) and state taxing authorities, generally for three years after they were filed.

Recent Accounting Pronouncements

The Company does not discuss recent pronouncements that are not anticipated to have an impact on or are unrelated to its financial condition, results of operations, cash flows, or disclosures. There have been no recently issued accounting pronouncements as of September 30, 2023 that would materially impact the Company.

Balance Sheet Reclassification Adjustment

The Company identified an immaterial error in its annual and interim financial statements for the year ended December 31, 2022 and the first and second quarters of 2023, whereby additional paid in capital was overstated by $304,500 and the obligation to issue common shares account and the accumulated deficit account were understated by $274,500 and $30,000 respectively. These immaterial amounts have been adjusted and the corrected balances are reflected in the Company's Consolidated Balance Sheets, Consolidated Statements of Cash Flows, and the Consolidated Statement of Changes in Stockholders' Equity.

Note 3: Acquisitions

The Company has completed the following acquisitions to achieve its business purposes as discussed in Note 1. As the acquisitions made by the Company in 2022 and 2023 were of the common stock or membership interests of the companies, certain assets in some of the acquisitions (intangible assets and goodwill) are not considered deductible for tax purposes. For the LSG acquisition goodwill is deductible for tax.

GTMR

On March 22, 2023, the Company entered into an agreement and plan of merger with GTMR. This acquisition was accounted for as a business combination whereby GTMR became a 100% owned subsidiary of the Company. The Company acquired GTMR to expand our capabilities, increase market share, gain access to new contracts, and achieve cost efficiencies through synergies and economies of scale.

The following represents the preliminary assets and liabilities acquired in this acquisition:

	March 31, 2023	Adjustments	September 30, 2023
Cash	$ 475,000	$ —	$ 475,000
Accounts receivable other receivables	1,380,203	(9,384)	1,370,819
Income tax receivable	155,449	(127,992)	27,457
Prepaid expenses	116,892	(30,856)	86,036
Other asset	17,182	—	17,182
Furniture and equipment	163,301	103,760	267,061
Right of use asset – operating lease	—	641,392	641,392
Customer relationships	2,426,000	—	2,426,000
Right of use asset - finance lease	—	17,456	17,456
Tradename	517,000	—	517,000
Backlog	1,774,000	—	1,774,000
Goodwill	1,822,466	279,571	2,102,037
Deferred tax liability	(1,244,368)	(242,093)	(1,486,461)
Lease liability – operating lease	(17,608)	(603,799)	(621,407)
Lease liability – finance lease	—	(12,549)	(12,549)
Accounts payable and accrued expenses	$ (1,030,957)	$ 141,341	$ (889,616)
Net assets acquired	$ 6,554,560	$ 156,847	$ 6,711,407

The consideration paid for GTMR was as follows:

Cash	$ 470,233
Due to Seller	350,000
Other consideration	17,791
Cash from factoring	411,975
Common stock	5,304,561
Accounts receivable note	156,847
Total consideration paid	$ 6,711,407

The GTMR acquisition has been accounted for under the acquisition method of accounting. Under the acquisition method of accounting, the total acquisition consideration price was allocated to the assets acquired and liabilities assumed based on their preliminary estimated fair values. The fair value measurements utilize estimates based on key assumptions of the GTMR acquisition, and historical and current market data. The excess of the purchase price over the total of the estimated fair values assigned to tangible and identifiable intangible assets acquired and liabilities assumed is recognized as goodwill. To determine the fair values of tangible and intangible assets acquired and liabilities assumed for GTMR, we have engaged a third-party independent valuation specialist. On the date of the acquisition, the Company simultaneously factored $411,975 of the accounts receivable from GTMR to finance the acquisition.

The Company had received a preliminary valuation from its specialist and recorded the value of the assets and liabilities acquired based on historical inputs and data as of March 22, 2023. The allocation of the purchase price is based on the best information available. The Company paid $185,896 in transaction costs of GTMR, which was excluded from the purchase price.

During the measurement period (which is the period required to obtain all necessary information that existed at the acquisition date, or to conclude that such information is unavailable, not to exceed one year), additional assets or liabilities may be recognized, or there could be changes to the amounts of assets or liabilities previously recognized on a preliminary basis, if new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have resulted in the recognition of these assets or liabilities as of that date. The measurement period for the GTMR acquisition is currently open and may remain open until March 22, 2024.

During the measurement period, the Company recorded several adjustments to goodwill as a result of GTMR's adoption of ASC 842, tax adjustments, and an update to the fair value of acquired furniture and equipment. These measurement period adjustments were subsequently identified as a result of the completion of third party accounting assistance.

The Company also recorded a measurement period adjustment to goodwill as a result of finalizing the transaction price. The Company entered into an accounts receivable note payable due to the sellers four months after the closing date of the transaction, subject to the adjustment of any net working capital deficiencies. This amount was determined to be $156,847.

LSG

On April 15, 2022, the Company entered into Amendment No. 1 to Business Acquisition Agreement ("LSG Business Acquisition Agreement") with LSG to acquire the assets of LSG. The Company acquired LSG to expand our capabilities, increase market share, gain access to new contracts, and achieve cost efficiencies through synergies and economies of scale. This LSG Business Acquisition Agreement superseded the Business Acquisition Agreement originally entered into on February 11, 2022. Under the terms of the LSG Business Acquisition Agreement, the Company acquired assets and assumed liabilities of LSG for consideration as follows: (a) 625,000 shares of common stock (600,000 shares paid at closing (issued on May 4, 2022) and 25,000 shares to be held and due within three business days of payment of the second tranche of cash described below); and (b) cash payments as follows: $250,000 due at closing ("initial cash payment"); $250,000 plus or minus any applicable post-closing adjustments paid on the date that is six months after the closing date ("second tranche") (paid in October 2022); and $280,000 that was due no later than 10 months after the closing date of the acquisition (paid in January 2023).

The following represents the assets and liabilities acquired in this acquisition:

Receivable from seller	$	413,609
Due from employee/travel advance		5,000
Miscellaneous license		2,394
Customer relationships		785,000
Non-compete agreements		10,000
Backlog		489,000
Goodwill		1,471,000
Net assets acquired	$	3,176,003

The consideration paid for the acquisition of LSG was as follows:

Common stock (600,000 shares issued May 4, 2022)	$	2,280,000
Holdback shares (25,000 shares due six months after the closing date)		95,000
Cash		250,000
Due to seller (cash)		551,003
	$	3,176,003

The LSG acquisition has been accounted for under the acquisition method of accounting. Under the acquisition method of accounting, the total acquisition consideration price was allocated to the assets acquired and liabilities assumed based on their preliminary estimated fair values. The fair value measurements utilize estimates based on key assumptions of the LSG acquisition, and historical and current market data. The excess of the purchase price over the total of the estimated fair values assigned to tangible and identifiable intangible assets acquired and liabilities assumed is recognized as goodwill. To determine the fair values of tangible and intangible assets acquired and liabilities assumed for LSG, we engaged a third-party independent valuation specialist.

The Company had received a valuation from its specialist and recorded the value of the assets and liabilities acquired based on historical inputs and data as of April 15, 2022. The allocation of the purchase price is based on the best information available. The Company paid $44,752 in transaction costs of LSG, which was excluded from the purchase price.

During the measurement period (which is the period required to obtain all necessary information that existed at the acquisition date, or to conclude that such information is unavailable, not to exceed one year), additional assets or liabilities may be recognized, or there could be changes to the amounts of assets or liabilities previously recognized on a preliminary basis, if new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have resulted in the recognition of these assets or liabilities as of that date. There have been no adjustments in the nine months ended September 30, 2023 and the measurement period is closed as of June 30, 2023.

For all acquisitions disclosed, there were no transaction costs that were not recognized as an expense.

The following table shows unaudited pro-forma results for the nine months ended September 30, 2023 and 2022, as if the acquisitions of LSG and GTMR had occurred on January 1, 2022. These unaudited pro forma results of operations are based on the historical financial statements of each of the companies.

For the nine months ended September 30, 2023		
Revenues	$	36,521,201
Net loss	$	(15,523,013)
Net loss per share - basic	$	(0.32)
For the nine months ended September 30, 2022		
Revenues	$	41,519,606
Net loss	$	(8,692,978)
Net loss per share - basic	$	(0.37)

Note 4: Fixed Assets

Fixed assets consisted of the following as of September 30, 2023 and December 31, 2022:

	September 30, 2023	December 31, 2022
Equipment	$ 239,348	$ 141,732
Furniture	43,119	32,574
Software	62,671	-
Leasehold improvements	192,962	83,266
Total fixed assets	538,100	257,572
Accumulated depreciation	(184,284)	(84,222)
Fixed assets, net	$ 353,816	$ 173,350

Depreciation expense for the three and nine months ended September 30, 2023 was $ 40,822 and $107,121 and depreciation expense for the three and nine months ended September 30, 2022 was $34,105 and $47,589, respectively.

Note 5: Intangible Assets and Goodwill

Intangible assets consisted of the following as of September 30, 2023 and December 31, 2022:

		September 30, 2023	December 31, 2022
Customer relationships	4.5– 15 years	$ 11,961,000	$ 9,535,000
Tradename	4.5 years	783,000	266,000
Trademark	10-15 years	533,864	533,864
Backlog	2-5 years	3,210,000	1,436,000
Non-compete agreement	3-5 years	684,000	684,000
		17,171,864	12,454,864
Accumulated amortization		(7,579,415)	(5,820,697)
Intangible assets, net		$ 9,592,449	$ 6,634,167

The intangible assets with the exception of the trademarks were recorded as part of the acquisitions of Corvus, MFSI, Merrison, SSI, LSG, and GTMR. Amortization expense for the three and nine months ended September 30, 2023 was $634,043 and $1,758,718, respectively, and amortization expense for the three and nine months ended September 30, 2022 was $497,693 and $1,472,740, respectively, and the intangible assets are being amortized based on the estimated future lives as noted above.

Future amortization of the intangible assets for the next five years as of September 30 are as follows:

2023	$ 621,585
2024	2,074,686
2025	1,453,000
2026	1,242,863
2027	1,034,302
Thereafter	3,166,013
Total	$ 9,592,449

Impairment of Goodwill

The Company performs its annual testing of goodwill and intangible assets in the fourth quarter of each year. Between annual testing dates, the Company monitors factors such as its market capitalization, comparable company market multiples and macroeconomic conditions to identify conditions that could impact the Company's assumptions utilized in the determination of the estimated fair values of the Company's reporting units and intangible assets significantly enough to trigger an impairment.

The goodwill impairment tests are based on determining the fair value of the specified reporting units based on management judgments and assumptions using the discounted cash flows under the income approach classified in Level 3 of the fair value hierarchy and comparable company market valuation classified in Level 2 of the fair value hierarchy approaches. The Company has identified SSI, Corvus, and MFSI as its reporting units for the purposes of allocating goodwill and intangibles as well as assessing impairments. The valuation approaches are subject to key judgments and assumptions that are sensitive to change such as judgments and assumptions about appropriate revenue growth rates, gross profit, and comparable company market multiples.

As a result of a decrease in the Company's market capitalization, the Company determined that a triggering event occurred requiring goodwill impairment testing for each of its reporting units as of September 30, 2023. The impairment test indicated a non-cash goodwill impairment charge related to all three reporting units of $6,919,094 which the Company recorded during the three months ended September 30, 2023. Future declines in estimated after tax cash flows or a decline in market capitalization could result in an additional indication of impairment in one or more of the Company's reporting units.

The activity of goodwill (including impairment) for the nine months ended September 30, 2023, is as follows:

	Corvus	SSI	MFSI	Total
December 31, 2022	$ 6,387,741	$ 8,461,150	$ 685,073	$ 15,533,964
Goodwill acquired through acquisitions	—	2,102,037	—	2,102,037
Impairment loss	(4,429,000)	(1,845,094)	(645,000)	(6,919,094)
September 30, 2023	$ 1,958,741	$ 8,718,093	$ 40,073	$ 10,716,907

When the Company acquires a controlling financial interest through a business combination, the Company uses the acquisition method of accounting to allocate the purchase consideration to the assets acquired and liabilities assumed, which are recorded at fair value. Any excess of purchase consideration over the net fair value of the net assets acquired is recognized as goodwill. The additions of goodwill in the respective periods relate to the acquisitions made by the Company. The Company has not disposed of any entities.

Note 6: Convertible Promissory Notes – Related Parties

The Company entered into convertible promissory notes – related parties as follows as of September 30, 2023 and December 31, 2022:

	September 30, 2023	December 31, 2022
Convertible note payable with a trust related to one of the Company's directors, convertible at $ 0.26 per share, at 5% interest (amended April 4, 2022, maturity date September 30, 2024)	3,209,617	3,209,617
Less: Beneficial conversion feature discount	(1,289,492)	(2,210,187)
	$ 1,920,125	$ 999,430

Interest expense which includes amortization of discount for the three and nine months ended September 30, 2023 was $ 354,230 and $1,030,552, respectively, and $404,906 and $1,205,123 for the three and nine months ended September 30, 2022, respectively. There was no accrued interest on the note payable as of September 30, 2023. The amount of the BCF discount recorded was evaluated for characteristics of liability or equity and was determined to be equity under ASC 470 and ASC 480. The Company recognized this as additional paid in capital, and the discount is being amortized over the life of the note.

The entire convertible promissory note – related parties balance is reflected in current liabilities.

Note 7: Notes Payable

The Company entered into notes payable as follows as of September 30, 2023 and December 31, 2022:

	September 30, 2023	December 31, 2022
Note payable at 7% originally due November 2023, maturing September 30, 2024	$ 5,600,000	$ 5,600,000
Note payable at 10% interest dated February 28, 2022 and matures the earlier of (i) September 30, 2024 or (ii) the acceleration of the obligations as contemplated under the promissory note including the successful completion of an equity offering of at least $15,000,000 (a)	400,000	400,000
Note payable at 12% interest dated April 6, 2023 and matures the earlier of (i) September 30, 2024 or (ii) the acceleration of the obligations as contemplated under the promissory note (b)	400,000	-
Convertible note payable, convertible at $1.60 per share, at 7%, maturing April 4, 2023 (c)	—	890,000
Convertible note payable, convertible at $1.20 per share, at 10%, maturing February 13, 2024 (c)	840,000	—
Term note payable, at prime plus 3% interest, applied on a deferred basis (7.75% at September 30, 2023 and 6.25% at December 31, 2022) maturing August 11, 2024	1,330,835	2,324,236
Total Notes Payable	8,570,835	9,214,236
Less: Debt Discount	(347,944)	(840,398)
	$ 8,222,891	$ 8,373,838

(a) On February 28, 2022, the Company was obligated to issue 125,000 shares of common stock as further consideration for making this loan to the Company. The shares were issued in April 2022.

(b) On April 6, 2023, the Company entered into a promissory note with principal balance of $ 400,000 bearing interest at 12% per annum. This promissory note matures at the earlier of September 30, 2024 or at the acceleration of the obligations under the promissory note. Interest is paid in monthly installments and the total principal is due upon maturity.

(c) On February 13, 2023, the Company entered into a series of transactions with Crom Cortana Fund LLC (“Crom”), the primary purpose of which is related to the GTMR acquisition entered into on March 22, 2023. In connection therewith, the Company and Crom entered into an agreement to pay off the amount owed to Crom under the terms of the convertible promissory note in the original principal amount of $1,050,000 due April 4, 2023 ("Prior Crom Note"). In consideration of a $300,000 cash payment and 556,250 shares of common stock representing conversion of the remaining principal balance of the Company’s obligations under the Prior Crom Note are deemed satisfied reducing the balance to zero; we induced conversion of the debt, which effectively extinguished the debt. Simultaneously therewith, the parties entered into the Securities Purchase Agreement (the “2023 SPA”) pursuant to which Crom purchased (a) a convertible promissory note in the principal amount of $840,000 (the “2023 Note Payable”), which matures February 13, 2024 and bears interest at a per annum rate equal to 10% to be paid monthly, and (b) a warrant pursuant to which Crom has the right to purchase up to 700,000 shares of the Company’s common stock (the “2023 Warrant”) at an exercise price of $1.38 which expires 60 months from the date of issuance. The proceeds of the 2023 Note Payable were used primarily to fund the GTMR acquisition, as well as fund the aforementioned debt repayment.

Interest expense which includes amortization of discount for the three and nine months ended September 30, 2023 was $ 486,079 and $1,444,540, respectively, and $538,666 and $1,325,885 for the three and nine months ended September 30, 2022, respectively. Accrued interest on the notes payable as of September 30, 2023 was $0.

Each note discussed above will reach maturity during 2024. Future principal payments are scheduled to be $ 358,090 and $8,212,745 in 2023 and 2024, respectively.

Note 8: Note Payable – Related Party

The Company entered into a note payable with a related party in August 2021 with balances as of September 30, 2023 (unaudited) and December 31, 2022, as follows:

	September 30, 2023 (unaudited)	December 31, 2022
Note payable at 5% due December 31, 2024, in connection with the acquisition of SSI	$ 400,000	$ 400,000

Interest expense for the three and nine months ended September 30, 2023 was $ 5,092 and $15,004, respectively, and $5,047 and $14,959 for the three and nine months ended September 30, 2022, respectively. The entire note payable – related party balance is reflected in noncurrent liabilities.

Note 9: Revolving Credit Facility

On April 4, 2022, the Company secured a $950,000 revolving credit facility with Live Oak Bank ("Revolving Credit Facility"). The Revolving Credit Facility matures on March 28, 2029, and draws on it are charged interest at the rate of prime plus 2.75% per annum. Interest is payable monthly. On April 12, 2022, the Company was advanced $300,025 and on January 19, 2023, the Company was advanced an additional $ 325,000 under the Revolving Credit Facility. The Company currently has $625,025 outstanding on the Revolving Credit Facility. The Company incurred $ 42,701 in interest in the nine months ended September 30, 2023, none of which is accrued as of September 30, 2023.

Note 10: Due to Seller

In the acquisition of GTMR, the Company was obligated to pay $ 1,250,000 which included $350,000 held back to satisfy any net working capital deficiencies. This balance was originally scheduled to be paid six months following the closing date, however, payment has been postponed and the unpaid balance of $350,000 will accrue interest at an annual rate of 11.05% until it is paid in full. The $350,000 is recorded in current liabilities on the Company's Consolidated Balance Sheets as of September 30, 2023.

In the acquisition of GTMR, the Company also issued an Accounts Receivable Note to the sellers of GTMR whereby the Company is obligated to pay the sellers a principal amount of $206,587, adjusted for deficiencies in net working capital, for four months following the closing date of the acquisition. The Company determined a net working capital deficiency of $49,740 resulting in an amount due to the sellers of $ 156,847. This amount was paid in full during the three months ended September 30, 2023.

Note 11: Stockholders' Equity

On October 13, 2022, the Company effected a 1-for-20 reverse split ("Reverse Stock Split") of our authorized and outstanding shares of common stock. As a result of the Reverse Stock Split, all authorized and outstanding common stock and per share amounts in this Quarterly Report on Form 10-Q, including but not limited to, the consolidated financial statements and footnotes included herein, have been adjusted to reflect the Reverse Stock Split for all periods presented.

Preferred Stock

The Company has 50,000,000 shares of preferred stock authorized. The Company has designated a Series A Preferred Stock, Series B Preferred Stock, and a Series C Preferred Stock.

Series A Preferred Stock

The Company has designated 10,000,000 shares of Series A Preferred Stock, par value of $ 0.0001. As of September 30, 2023 and December 31, 2022, the Company has 5,875,000 shares of Series A Preferred Stock issued and outstanding, which is convertible into 587,500 shares of the Company's common stock.

For the nine months ended September 30, 2023, the Company recognized $ 55,078 in Series A dividends, all of which has been paid as of September 30, 2023.

Series B Preferred Stock

The Company has designated 10,000,000 shares of Series B Preferred Stock, par value of $ 0.0001. As of September 30, 2023 and December 31, 2022, the Company has 0 shares of Series B Preferred Stock issued and outstanding.

Series C Preferred Stock

The Company has designated 10,000,000 shares of Series C Preferred Stock, par value of $ 0.0001. As of September 30, 2023 and December 31, 2022, the Company has 770,000 shares of Series C Preferred Stock issued and outstanding, which is convertible into 481,250 shares of the Company's common stock.

For the nine months ended September 30, 2023, the Company recognized $ 35,150 in Series C dividends, all of which has been paid as of September 30, 2023.

Common Stock

The Company has 3,000,000,000 shares of common stock, par value $ 0.0001 authorized. The Company has 47,579,402 and 41,699,363 shares issued and outstanding as of September 30, 2023 and December 31, 2022, respectively. Shares issued during the nine months ended September 30, 2023 were as follows:

- The Company issued 369,219 shares for services;
- 4,866,570 shares issued in the acquisition of GTMR;
- 556,250 shares issued to partially extinguish the Prior Crom Note;
- 63,000 shares issued to an existing shareholder in a private placement at $ 2.00 per share.
- 25,000 shares issued to Crom as commitment shares for the 2023 Note Payable.

During the nine months ended September 30, 2023, the Company issued 314,600 restricted shares of common stock, that vest ratably over a period of one year, to its Board of Directors for their service. Any unvested restricted shares of common stock are forfeited upon termination of the Board members position on the Board of Directors prior to the end of 2023. As of September 30, 2023, there were 251,554 total restricted shares of common stock that have vested and 63,046 that are expected to vest during the remainder of 2023.

Warrants

The following represents a summary of warrants for the nine months ended September 30, 2023 and the year ended December 31, 2022:

	Nine Months Ended September 30, 2023		Year Ended December 31, 2022	
	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Beginning balance	5,678,836	$ 1.84	3,161,568	$ 1.60
Granted	1,765,862	1.17	2,517,268	2.22
Ending balance	7,444,698	$ 1.68	5,678,836	$ 1.84
Warrants exercisable	7,444,698		5,678,836	
Intrinsic value of warrants	$ 250,864		$ 1,374,303	
Weighted Average Remaining Contractual Life (Years)	4.95		5.48	

No warrants were granted during the three months ended September 30, 2023. During the nine months ended September 30, 2023, the Company granted 1,065,862 warrants to two of its officers at $1.04 per share that expire on March 22, 2030. The warrants were issued as part of a bonus achieved under the respective employment agreements for two of the officers of the Company. The Company also granted 700,000 warrants to Crom, as part of the debt transaction discussed in Note 7, at $1.38 per share that expire on February 13, 2028.

All of the warrants have been fully expensed through September 30, 2023.

Options

The Company on November 9, 2021, approved the Stock Incentive Plan, that authorizes the Company to grant up to 2,500,000 shares and options. Prior to this date, the granting of options was not done in accordance with a stock option plan. As of September, 30, 2023, 862,500 stock options have been granted under the Stock Incentive Plan.

The following represents a summary of options for the nine months ended September 30, 2023 and the year ended December 31, 2022:

	Number		Weighted Average Exercise Price	Weighted-Average Remaining Contractual Term (in Years)		Weighted Average Fair Value
Outstanding, December 31, 2022	6,425,000	$	2.69	5.63	$	4.26
Granted	812,500		1.62	6.84		1.10
Exercised	—		—	—		—
Forfeited	—		—	—		—
Outstanding. March 31, 2023	7,237,500	$	2.57	5.55	$	3.91
Granted	—		—	—		—
Exercised	—		—	—		—
Forfeited	—		—	—		—
Outstanding, June 30, 2023	7,237,500	$	2.57	5.30	$	3.91
Granted	—		—	—		—
Exercised	—		—	—		—
Forfeited	—		—	—		—
Outstanding, September 30, 2023	7,237,500	$	2.57	5.05	$	3.91
As of September 30, 2023						
Vested and exercisable	3,845,728	$	2.36	4.82	$	3.22

During the nine months ended September 30, 2023, the Company recognized $ 4,614,625 of noncash stock based compensation related to the vesting of service-based stock options. No options were exercised during the nine months ended September 30, 2023.

The fair value of each option and warrant is estimated using the Black-Scholes valuation model. Changes to these inputs could produce a significantly higher or lower fair value measurement. The following assumptions were used for the periods as follows:

	Nine Months Ended September 30, 2023	Year Ended December 31, 2022
Expected term	7 years	7 years
Expected volatility	116 – 162%	114 – 157%
Expected dividend yield	—	—
Risk-free interest rate	3.53 – 3.89%	2.00% - 4.18%

Note 12: Fair Value

Fair value is defined as the exit price, or the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. U.S. GAAP sets forth a three-level fair value hierarchy, which prioritizes the inputs used in measuring fair value. The three levels are as follows:

Level 1 – defined as observable inputs, such as quoted market prices in active markets.

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Level 2 – defined as inputs other than quoted prices in active markets that are either directly or indirectly observable.

Level 3 – defined as unobservable inputs in which little or no market data exists, therefore, requiring an entity to develop its own assumptions.

Our financial assets and liabilities subject to the three-level fair value hierarchy consist principally of cash and cash equivalents, accounts receivable, accounts payable, contingent consideration, and derivative liabilities. The estimated fair value of cash and cash equivalents, accounts receivable, and accounts payable approximates their carrying value.

The Company issued common stock, a convertible note, and warrants in a securities purchase agreement with Crom ("Derivative Liabilities") in 2022. During the three months ended March 31, 2023, the Company terminated the Prior Crom Note through an induced conversion and extinguished the conversion option liability associated with the Prior Crom Note. As part of this transaction, the Company entered into the 2023 Note Payable with Crom and issued common stock, a convertible note, and warrants under the 2023 SPA. The Company evaluated the conversion option in the convertible note and the warrants to determine proper accounting treatment and determined them to be Derivative Liabilities. The Derivative Liabilities identified have been accounted for utilizing ASC 815 *"Derivatives and Hedging."* The Company has incurred a liability for the estimated fair value of Derivative Liabilities. The estimated fair value of the Derivative Liabilities has been calculated using a binomial pricing model with key input variables by an independent third party, as of the date of issuance, with changes in fair value recorded as gains or losses on revaluation in other income (expense).

The contingent earnout included in total consideration for the SSI acquisition, included in current liabilities on the Consolidated Balance Sheets, is measured at fair value on a recurring basis using the present value approach, which incorporates factors such as revenue growth and forecasted operating profit to estimate expected value. Changes in fair value of the contingent earnout are recorded as gains or losses on revaluation in other income (expense) on the Consolidated Statements of Operations.

The Company determined that the significant inputs used to value the Derivative Liabilities and the contingent earnout fall within Level 3 of the fair value hierarchy. As a result, the Company has determined that the valuation of its Derivative Liabilities and contingent earnout are classified in Level 3 of the fair value hierarchy as shown in the table below:

	Fair Value Measurements at September 30, 2023			
	Level 1	Level 2	Level 3	Total
Crom Derivative Liabilities	$ —	$ —	$ 77,300	$ 77,300
Prior Crom Note warrant liability	$ —	$ —	$ 48,000	$ 48,000
Contingent earnout	$ —	$ —	$ 877,000	$ 877,000
Total	$ —	$ —	$ 1,002,300	$ 1,002,300

	Fair Value Measurements at December 31, 2022			
	Level 1	Level 2	Level 3	Total
Crom Derivative Liabilities	$ -	$ -	$ 824,000	$ 824,000
Contingent earnout	$ -	$ -	$ 812,000	$ 812,000
Total	$ -	$ -	$ 1,636,000	$ 1,636,000

The Company’s derivative liabilities as of September 30, 2023 and December 31, 2022 associated with the Derivative Liabilities are as follows.

	September 30, 2023	December 31, 2022	Inception
Fair value of conversion option of Prior Crom note	$ —	$ 191,000	$ 314,000
Fair value of 656,250 warrants on April 4, 2022	48,000	633,000	378,000
Fair value of conversion option of Crom Cortana Fund LLC convertible note	77,000	—	162,000
Fair value of 700,000 warrants on February 13, 2023	300	—	259,000
	$ 125,300	$ 824,000	

Changes to these inputs could produce a significantly higher or lower fair value measurement. The fair value of each Derivative Instrument is estimated using a binomial valuation model. The following assumptions were used for the period as follows:

	September 30, 2023
Expected term – conversion option	0.40 years
Expected term - warrants	4.40 years
Stock price as of measurement date	$ 0.23
Equity volatility - unadjusted	103.80 %
Volatility haircut	5.00 %
Selected volatility – post haircut	101.00 %
OAS differential between CCC+ and B- bonds	694 bps
Risk-free interest rate	5.50 %

Note 13: Concentrations

Concentration of Credit Risk. The Company’s customer base is concentrated with a relatively small number of customers. The Company does not generally require collateral or other security to support accounts receivable. To reduce credit risk, the Company performs ongoing credit evaluations on its customers’ financial condition. The Company establishes allowances for doubtful accounts based upon factors surrounding the credit risk of customers, historical trends, and other information.

For the nine months ended September 30, 2023, and 2022, the Company had three and two customers representing 52% and 57% of revenue earned, respectively. Any customer that represents 10% or greater of total revenue represents a risk. The Company also has three customers that represent 42% and 62% of the total accounts receivable as of September 30, 2023 and December 31, 2022, respectively.

Note 14: Commitments

As part of the acquisition of GTMR, the Company entered into an employment agreement with the GTMR Chief Executive Officer (the "Executive") on March 22, 2023 for a three year term. During the term of the employment agreement, the Company shall pay the Executive an annual base salary of $200,000 (the “Base Salary”). The Base Salary shall be payable to the Executive during the term in substantially equal installments in accordance with the Company’s customary payroll practices. The Executive, as of the date of the acquisition, was awarded an incentive stock option to purchase 300,000 shares of the the Company’s Common Stock (the “Options”). The Executive is also eligible to receive an annual bonus (the “Annual Bonus”) in fiscal year 2023 which, provided GTMR obtains a net profit above $1,000,000 (the “Threshold”), shall be awarded in an amount equal to $ 0.25 for every $1 above the Threshold up to a net profit of $2,000,000. The Annual Bonus amount payable to the Executive for fiscal year 2023 shall not exceed $ 250,000.

Note 15: Income Taxes

The Company's quarterly provision for income taxes is measured using an estimated annual effective tax rate adjusted for discrete items that occur within the quarter. The effective income tax rate was (1.1)% and (5.4)% for the three months ended September 30, 2023 and 2022, respectively and 6.8% compared to (10.9)% for the nine months ended September 30, 2023 and 2022, respectively. The increase in the effective tax for the three months ended September 30, 2023 was primarily the difference in non-deductible goodwill expense and non-deductible expenses. The increase in the effective tax rate for the nine months was primarily due to the partial release of the valuation allowance due to the increase in deferred tax liabilities that related to the GTMR acquisition resulting in a $1.5 million net income tax benefit whereas the Company increased its valuation allowance in 2022 by $ 0.5 million.

Our effective tax rate was lower than the U.S. federal statutory rate for the three and nine months ended September 30, 2023, primarily due to the Company being in a full valuation allowance and non-deductible goodwill expense.

Note 16: Factoring of Accounts Receivable

On January 24, 2023, GTMR (acquired by the Company on March 22, 2023 and discussed in Note 3) entered into a factoring agreement (the "Factoring Agreement") with Republic Capital Access LLC ("RCA") wherein GTMR agreed to sell certain of its accounts receivable, up to a limit of $1,000,000 without recourse.

During the nine months ended September 30, 2023, total receivables sold under the Factoring Agreement was $ 1,757,281. Without recourse indicates that the Company assigns and transfers its rights, title, and interest in and to the accounts receivable to RCA, meaning that the Company will not be liable to repay all or any portion of the advance amount if any portion of the accounts receivable is not paid by the Company's customer(s). Information on accounts receivable identified for factoring are provided and verified by RCA prior to being accepted for factoring. Pursuant to the Factoring Agreement, the Company will receive an initial payment of 90% or 85% on prime contracts or subcontracts, respectively. The remaining balance of the receivable is paid upon receipt of payment by RCA, less RCA factoring fees.

The Company pays factoring fees associated with the sale of receivables based on the dollar value of the receivables sold. Factoring fees paid under this arrangement were $11,716 for the nine months ended September 30, 2023.

Note 17: Going Concern Uncertainty

Under ASC 205-40, we have the responsibility to evaluate whether conditions and/or events raise substantial doubt about our ability to meet our future financial obligations as they become due within one year after the date that the financial statements are issued. As required by this standard, our evaluation shall initially not take into consideration the potential mitigating effects of our plans that have not been fully implemented as of the date the financial statements are issued.

In performing the first step of this assessment, we concluded that the scheduled principal and interest payments due in the next 12 months raise substantial doubt about our ability to meet our financial obligations as they become due. The majority of our debt agreements, which do not require principal payments until maturity, will reach maturity within the next 12 months. The following financial obligations are due within the next 12 months:

- Buckhout Charitable Remainder Trust Note (Note 6)
- Live Oak Banking Company Term Note (Note 7)
- Note payable at 7% originally due November 2023, maturing September 30, 2024 (Note 7)
- Note payable at 10% interest dated February 28, 2022 (Note 7)
- Note payable at 12% interest dated April 6, 2023 (Note 7)
- Crom Cortana Fund LLC 2023 Note Payable (Note 7)

The Company has an aggregate of $12,588,297 in principal and interest payments due in the next twelve months.

Additionally, as of September 30, 2023, we had cash of $ 1,335,977, current assets of $10,087,879, current liabilities of $16,755,493 and an accumulated deficit of $(41,767,449). For the nine months ended September 30, 2023, we used cash from operating activities of $ 3,135,420. We expect to continue to incur negative operating cash flows until such time as our operating segments generate sufficient cash inflows to finance our operations and debt service requirements. Our cash flows will not be sufficient to satisfy all debt service payments coming due upon their maturity within the next 12 months.

In performing the second step of this assessment, we are required to evaluate whether our plans to mitigate the conditions above alleviate the substantial doubt about our ability to meet our obligations as they become due within one year after the date that the financial statements are issued. Management is actively engaged with all four creditors and is currently negotiating a restructuring of the terms of the notes. Our future plans include extending the maturity date and/or restructuring our financial obligations noted above, converting some or all of our convertible debt into common stock, and securing additional funding sources.

While the Company's plans are designed to provide it with adequate liquidity to meet its obligations for at least the 12 month period following the date its financial statements are issued, the remediation plan is dependent on conditions and matters that may be outside of the Company's control, and no assurances can be given that certain options will be available on terms acceptable to the Company, or at all. Accordingly, management could not yet conclude that it was probable that the plans will mitigate the relevant conditions or events that raise substantial doubt about the Company's ability to continue as a going concern. We have, therefore, concluded there is substantial doubt about our ability to continue as a going concern through November 2024.

The accompanying consolidated financial statements have been prepared on a going-concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The accompanying consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from our failure to continue as a going concern.

Note 18: Subsequent Events

Castellum, Inc. has performed an evaluation of subsequent events through the date the consolidated financial statements were issued. This evaluation did not result in any subsequent events that necessitated disclosure and/or adjustments.

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

The following discussion and analysis of our financial condition and results of operations is provided to enhance the understanding of, and should be read together with, our financial statements and related notes included in our Annual Report on Form 10-K for fiscal year 2022 filed with the Securities and Exchange Commission on March 17, 2023 and elsewhere in this Quarterly Report on Form 10-Q, as applicable.

Business Overview

Castellum, Inc. is focused on acquiring and growing technology companies in the areas of cybersecurity, IT, electronic warfare, information warfare, and information operations with businesses in the governmental and commercial markets. Our services include intelligence analysis, software development, software engineering, program management, strategic and mission planning, information assurance, cybersecurity and policy support, and data analytics. Our primary customers are agencies and departments of the U.S. Government ("USG"), and our expertise and technology support national security missions and government modernization for intelligence, defense, and federal civilian customers.

Recent Developments

On March 23, 2023, the Company closed on its acquisition of Global Technologies Management Resources, Inc. ("GTMR"). Subject to the terms and conditions of the Agreement and Plan of Merger, all of the capital stock of GTMR outstanding immediately prior to the effective time was converted into (a) 4,866,570 shares of the Company's common stock, par value $0.0001 per share and (b) $1,250,000 in cash.

Budgetary Environment

On October 2, 2023, Congress passed a Continuing Resolutions ("CR") to fund the government through November 17, 2023. It is unknown whether Congress will pass an additional CR or potentially fail to act and resulting in a government shutdown.

Basis of presentation

We have presented results of operations, including the related discussion and analysis, for the following periods:

- the three months ended September 30, 2023 compared to the three months ended September 30, 2022;
- the nine months ended September 30, 2023 compared to the nine months ended September 30, 2022.

Key Components of Revenue and Expenses

Revenues

Our revenues are primarily derived from services provided to the U.S. Federal, state, and local governments. We currently generate our revenue from three different types of contractual arrangements: Cost Plus Fixed Fee ("CPFF"), Fixed Firm Price ("FFP"), and Time and Materials ("T&M") contracts. For CPFF contracts, we use input progress measures to derive revenue based on hours worked on contract performance as follows: direct costs plus Defense Contract Audit Agency approved provisional burdens plus fee. The provisional indirect rates are adjusted and billed at actual at year end. Revenue from FFP contracts is generally recognized ratably over the contract term, using a time-based measure of progress, even if billing is based on other metrics or milestones, including specific deliverables. For T&M contracts, we use input progress measures to estimate revenue earned based on hours worked on contract performance at negotiated billing rates, plus direct costs and indirect cost burdens associated with materials and the direct expenses incurred in performance of the contract.

Cost of Revenues

Cost of Revenues include direct costs incurred to provide goods and services related to contracts, specifically labor, contracted labor, materials, and other direct costs, which includes rent, insurance, and software licenses. Cost of Revenues related to contracts is recognized as expense when incurred or at the time a performance obligation is satisfied.

Gross Profit and Gross Profit Margin

Our gross profit comprises our revenues less our cost of revenues. Gross profit margin is our gross profit divided by our revenues.

Operating Expenses

Our operating expenses include indirect costs, overhead, and general and administrative expenses.

- Indirect costs consist of expenses generally associated with bonuses and fringe benefits, including employee health and medical insurance, 401k matching contributions, and payroll taxes.
- Overhead consists of expenses associated with the support of operations or production, including labor for management of contracts, operations, training, supplies, and certain facilities to perform customer work.
- General and administrative expenses consist primarily of corporate and administrative labor expenses, administrative bonuses, legal expenses, IT expenses, and insurance expenses.

Results of operations

The period to period comparisons of our results of operations have been prepared using the historical periods included in our unaudited consolidated financial statements. The following discussion should be read in conjunction with the unaudited consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q.

Three Months Ended September 30, 2023 Compared to Three Months Ended September 30, 2022

	Three Months Ended September 30,		Change	
	2023	**2022**	**Amount**	**%**
Revenues	$ 11,741,164	$ 11,120,712	$ 620,452	6 %
Cost of revenues	6,903,689	6,474,261	429,428	7 %
Gross Profit	4,837,475	4,646,451	191,024	4 %
Operating expenses:				
Indirect costs	2,258,082	2,130,513	127,569	6 %
Overhead	493,706	407,804	85,902	21 %
General and administrative expenses	3,739,975	3,297,319	442,656	13 %
Goodwill impairment loss	6,919,094	—	6,919,094	NM
Change in fair value of contingent earnout	—	864,000	(864,000)	NM
Total operating expenses	13,410,857	6,699,636	6,711,221	100 %
Loss from operations:	(8,573,382)	(2,053,185)	(6,520,197)	318 %
Other expense, net	(516,218)	(902,314)	386,096	(43)%
Loss before income taxes and preferred stock dividends	(9,089,600)	(2,955,499)	(6,134,101)	208 %
Income tax benefit (expense)	(102,584)	(159,025)	56,441	(35)%
Preferred stock dividend	28,719	29,911	(1,192)	(4)%
Net loss	$ (9,220,903)	$ (3,144,435)	$ (6,076,468)	193 %

NM - Not Meaningful

Revenue

Total revenue was $11,741,164 for the three months ended September 30, 2023 as compared to total revenue of $11,120,712 for the three months ended September 30, 2022. The increase of $620,452 or 6%, was driven primarily by contributions from the inorganic revenues derived from the GTMR acquisition that occurred in Q1 2023, partially offset by negative organic growth.

Cost of revenues

Total cost of revenues was $6,903,689 for the three months ended September 30, 2023 as compared to total cost of revenues of $6,474,261 for the three months ended September 30, 2022. The increase of $429,428, or 7%, is in line with the change in revenue noted above due to the GTMR acquisition and higher direct costs on lower margin projects.

Gross Profit

Total gross profit was $4,837,475 for the three months ended September 30, 2023 as compared to total gross profit of $4,646,451 for the three months ended September 30, 2022. The increase of $191,024, or 4%, was driven primarily by the increase in revenues due to inorganic growth, from the acquisition of GTMR, and managing labor costs on certain projects.

Operating expenses

Total operating expenses were $13,410,857 for the three months ended September 30, 2023 as compared to total operating expense of $6,699,636 for the three months ended September 30, 2022. The increase of $6,711,221, or 100%, was primarily driven by the goodwill impairment loss incurred during the three months ended September 30, 2023.

Other expense

Total other expense was $516,218 for the three months ended September 30, 2023 as compared to total other expense of $902,314 for the three months ended September 30, 2022. The decrease of $386,096 or 43%, was primarily driven by the gain from change in fair value of the derivative liability of $241,700 partially offset by interest expense.

Income tax (expense) benefit

Income tax (expense) was $(102,584) for the three months ended September 30, 2023 as compared to $(159,025) for the three months ended September 30, 2022. The increase of $56,441 or 35% was primarily driven by an increase in the effective tax rate due to the release of a valuation allowance against the Company's net deferred tax assets offset by non-deductible goodwill.

Nine Months Ended September 30, 2023 Compared to Nine Months Ended September 30, 2022 .

	Nine Months Ended September 30, 2023		Change	
	2023	**2022**	**Amount**	**%**
Revenues	$ 34,153,979	$ 32,166,104	$ 1,987,875	6 %
Cost of revenues	20,066,904	18,698,820	1,368,084	7 %
Gross Profit	14,087,075	13,467,284	619,791	5 %
Operating expenses:				
Indirect costs	6,710,421	7,458,319	(747,898)	(10)%
Overhead	1,498,325	1,167,346	330,979	28 %
General and administrative expenses	14,030,818	9,633,064	4,397,754	46 %
Goodwill impairment loss	6,919,094	—	6,919,094	NM
Gain from change in fair value of contingent earnout	65,000	864,000	(799,000)	NM
Total operating expenses	29,223,658	19,122,729	10,100,929	53 %
Loss from operations:	(15,136,583)	(5,655,445)	(9,481,138)	168 %
Other expense, net	(1,613,781)	(2,676,612)	1,062,831	(40)%
Loss before income taxes and preferred stock dividends	(16,750,364)	(8,332,057)	(8,418,307)	101 %
Income tax benefit (expense)	1,136,345	(902,820)	2,039,165	(226)%
Preferred stock dividend	88,858	70,447	18,411	26 %
Net loss	$ (15,702,877)	$ (9,305,324)	$ (6,397,553)	69 %

NM - Not Meaningful

Revenue

Total revenue was $34,153,979 for the nine months ended September 30, 2023 as compared to total revenue of $32,166,104 for the nine months ended September 30, 2022. The increase of, $1,987,875 or 6%, was driven primarily by inorganic contributions from the acquisitions of LSG and GTMR, partially offset by negative organic growth.

Cost of revenues

Total cost of revenues was $20,066,904 for the nine months ended September 30, 2023 as compared to total cost of revenues of $18,698,820 for the nine months ended September 30, 2022. The increase of $1,368,084, or 7%, is in line with the change in revenue noted above due to the LSG and GTMR acquisitions and higher costs of certain projects.

Gross Profit

Total gross profit was $14,087,075 for the nine months ended September 30, 2023 as compared to total gross profit of $13,467,284 for the nine months ended September 30, 2022. The increase of $619,791, or 5%, was driven primarily by inorganic contributions from the acquisitions of LSG and GTMR, slightly offset by higher direct labor costs on certain projects.

Operating expenses

Total operating expenses were $29,223,658 for the nine months ended September 30, 2023 as compared to total operating expense of $19,122,729 for the nine months ended September 30, 2022. The increase of $10,100,929, or 53%, was primarily driven by the goodwill impairment loss incurred during the three months ended September 30, 2023 as well as an increase in general and administrative expenses from increases in noncash stock based compensation and salaries due to increased headcount and increased legal and auditing fees related to the GTMR acquisition.

Other expense

Total other expense was $1,613,781 for the nine months ended September 30, 2023 as compared to total other expense of $2,676,612 for the nine months ended September 30, 2022. The decrease of $1,062,831 or 40%, was primarily driven by the gain from change in fair value of the derivative liability of $1,086,325 partially offset by interest expense.

Income tax (expense) benefit

Income tax (expense) benefit was $1,136,345 for the nine months ended September 30, 2023 as compared to $(902,820) for the nine months ended September 30, 2022. The increase of $2,039,165 or 226% was primarily driven by an increase in the effective tax rate due to the release of a valuation allowance due to the increase in deferred tax liabilities that related to the GTMR acquisition in the first quarter of 2023.

Contract backlog

We define backlog to include the following three components:

- *Funded Backlog* - Funded backlog represents the revenue value of orders for services under existing contracts for which funding is appropriated or otherwise authorized less revenue previously recognized on these contracts.
- *Unfunded Backlog* - Unfunded backlog represents the revenue value of orders (including optional orders) for services under existing contracts for which funding has not been appropriated or otherwise authorized.
- *Priced Options* - Priced contract options represent 100% of the revenue value of all future contract option periods under existing contracts that may be exercised at our clients' option and for which funding has not been appropriated or otherwise authorized.

Our backlog does not include contracts that have been awarded but are currently under protest and also does not include any task orders under Indefinite Delivery Indefinite Quantity ("IDIQ") contracts, except to the extent that task orders have been awarded to us under those contracts.

Contract Backlog

Funded	$	19,426,865
Unfunded		30,376,042
Priced Options		130,382,969
Total Backlog	$	180,185,876

Total backlog

Our total backlog consists of remaining performance obligations, certain orders under contracts for which the original period of performance has expired, and unexercised option periods, and other unexercised optional orders. As of September 30, 2023 the Company had $180 million of remaining performance obligations. We expect to recognize approximately 25.9% of the remaining performance obligations over the next 12 months, and approximately 36.5% over the next 24 months. The remainder is expected to be recognized thereafter. As with all government contracts there is no guarantee the customer will have future funding or exercise their contract option in the out-years. Our backlog includes orders under contracts that, in some cases, extend for several years. Congress generally appropriates funds for our clients on a yearly basis, even though their contracts with us may call for performance that is expected to take a number of years to complete. As a result, contracts typically are only partially funded at any point during their term and all or some of the work to be performed under the contracts may remain unfunded unless and until the U.S. Congress makes subsequent appropriations and the procuring agency allocates funding to the contract.

We cannot predict with any certainty the portion of our backlog that we expect to recognize as revenue in any future period and we cannot guarantee that we will recognize any revenue from our backlog. The primary risks that could affect our ability to recognize such revenue on a timely basis or at all are: program schedule changes, contract modifications, and our ability to assimilate and deploy new consulting staff against funded backlog; cost-cutting initiatives and other efforts to reduce USG spending, which could reduce or delay funding for orders for services; and delayed funding of our contracts due to delays in the completion of the USG's budgeting process and the use of continuing resolutions by the USG to fund its operations. The amount of our funded backlog is also subject to change, due to, among other factors: changes in congressional appropriations that reflect changes in USG policies or priorities resulting from various military, political, economic, or international developments; changes in the use of USG contracting vehicles, and the provisions therein used to procure our services and adjustments to the scope of services, or cancellation of contracts by the USG at any time. In our recent experience, none of the following additional risks have had a material negative effect on our ability to realize revenue from our funded backlog: the unilateral right of the USG to cancel multi-year contracts and related orders or to terminate existing contracts for convenience or default; in the case of unfunded backlog, the potential that funding will not be made available; and, in the case of priced options, the risk that our clients will not exercise their options.

In addition, contract backlog includes orders under contracts for which the period of performance has expired, and we may not recognize revenue on the funded backlog that includes such orders due to, among other reasons, the tardy submission of invoices by our subcontractors and the expiration of the relevant appropriated funding in accordance with a predetermined expiration date such as the end of the USG's fiscal year.

We expect to recognize revenue from a substantial portion of funded backlog within the next 24 months. However, given the uncertainties discussed above, we can give no assurance that we will be able to convert our backlog into revenue in any particular period, if at all.

Liquidity and capital resources

The Company has an aggregate of $12,588,297 in principal and interest payments due in the next twelve months. Management concluded that the scheduled principal and interest payments due in the next twelve months raise substantial doubt about our ability to meet our financial obligations as they become due. Additionally, as of September 30, 2023, we had cash of $1,335,977, current assets of $10,087,879, current liabilities of $16,755,493 and an accumulated deficit of $(41,767,449). For the nine months ended September 30, 2023, we used cash from operating activities of $(3,135,420). We expect to continue to incur negative operating cash flows until such time as our operating segments generate sufficient cash inflows to finance our operations and debt service requirements.

Management is actively engaged with Buckhout Remainder Charitable Trust, Robert Eisiminger, Live Oak Banking Company, and Crom Cortana Fund LLC and is currently negotiating a restructuring of the terms of the notes. Our future plans include extending the maturity date and/or restructuring our financial obligations noted above, converting some or all of our convertible debt into common stock, and securing additional funding sources. While the Company’s plans are designed to provide it with adequate liquidity to meet its obligations for at least the twelve month period following the date its unaudited consolidated financial statements are issued, the remediation plan is dependent on conditions and matters that may be outside of the Company’s control, and no assurances can be given that certain options will be available on terms acceptable to the Company, or at all. Accordingly, management could not conclude that it was probable that the plans will mitigate the relevant conditions or events that raise substantial doubt about the Company’s ability to continue as a going concern. We have therefore concluded there is substantial doubt about our ability to continue as a going concern through November 2024.

Sources

We have historically sourced our liquidity requirements with cash flows from operations, borrowings under our current credit facilities, and in October, 2022, with an equity issuance through the listing of our common stock on the New York Stock Exchange American LLC ("NYSE American"). As of September 30, 2023, we had $1,335,977 of cash on hand and unused borrowing capacity of $324,975 from our revolving line of credit.

Uses

Our material cash requirements from known contractual and other obligations primarily relate to payments on our credit facilities. For information related to these cash requirements, refer to Note 6, Note 7, Note 8, and Note 9 in this quarterly report on Form 10-Q.

Shares of our common stock included in our public float as of November 10, 2023 was 22,385,824 which excludes 142,665 restricted shares and 25,113,938 shares held by officers, directors, and affiliates.

Cash flows

The following tables present a summary of cash flows from operating, investing, and financing activities for the following comparative periods.

Nine Months Ended September 30, 2023 Compared to Nine Months Ended September 30, 2022

	Nine Months Ended September 30, 2023		Change	
	2023	2022	Amount	%
Net cash used in operating activities	$ (3,135,420)	$ (554,647)	$ (2,580,773)	NM
Net cash used in investing activities	(443,240)	(342,436)	$ (100,804)	29 %
Net cash provided by financing activities	273,741	732,556	$ (458,815)	-63 %
Change in cash	$ (3,304,919)	$ (164,527)	$ (3,140,392)	NM

NM - not meaningful

Operating activities

Net cash (used) by operating activities increased to $(3,135,420), for the nine months ended September 30, 2023, from $(554,647) for the nine months ended September 30, 2022. This increase in net cash (used) by operating activities was primarily driven by an increase in net loss for the nine months ended September 30, 2023, offset by noncash adjustments related to stock based compensation and warrants issued for the GTMR acquisition during the six months ended September 30, 2023.

Investing activities

Net cash (used) by investing activities increased to $(443,240), for the nine months ended September 30, 2023, from $(342,436), for the nine months ended September 30, 2022. The increase in net cash (used) by investing activities was primarily due to the cash paid in the acquisition of GTMR during 2023.

Financing activities

Net cash provided by financing activities decreased to $273,741, for the nine months ended September 30, 2023, from $732,556, for the nine months ended September 30, 2022. The decrease in net cash provided by financing activities was primarily due to the reduction in proceeds from issuance of preferred and common stock, the reduction in proceeds from notes payable, and an increase in payments on notes payable.

Critical Accounting Policies and Estimates

A summary of our critical accounting estimates is included in Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K for the year-ended December 31, 2022. There have been no material changes to the critical accounting estimates disclosed in our Annual Report on Form 10-K for the year-ended December 31, 2022.

Principles of Consolidation

Refer to Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Annual Report on Form 10-K for the year-ended December 31, 2022. There have been no material changes to our principles of consolidation disclosed in our Annual Report on Form 10-K for the year-ended December 31, 2022.

Recently Issued Accounting Standards

Management believes that there have not been any recently issued, but not effective, accounting standards which, if currently adopted, would have a material effect on the Company’s financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks in the ordinary course of our business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. These risks include the following:

Interest rate and market risk

The Company maintains a revolving promissory note and a term loan note with Live Oak Banking Company, referred to as the “Live Oak Revolving Note” and the “Live Oak Term Loan Note”, respectively. The Live Oak Revolving Note is a variable rate instrument with a per annum interest rate equal to the prime rate as quoted in the Wall Street Journal (the “Prime Rate”), plus 2.75%. Additionally, the Live Oak Term Loan Note has a per annum interest rate equal to the Prime Rate, plus three percentage points (3%). Rising interest rates are likely to increase our interest expense in the future. Such additional cost would need to be funded out of existing cash or additional financing. Future increase in interest rates are not expected to materially impact our Company’s liquidity. The Company has no other debt obligations tied to the Prime Rate, Secured Overnight Financing Rate, or London Interbank Offered Rate.

Effects of inflation

U.S. inflation has been near a 40-year high. Because costs rise faster than revenues during the early phase of inflation, we may need to give higher than normal raises to employees, start new employees at higher wages and/or have increased cost of employee benefits, but not be able to pass the higher costs through to the government due to competition and government pressures. Therefore, we may be adversely affected (i) with lower gross profit margins; (ii) by losing contracts which are lowest price technically acceptable where another bidder underbids the real rates and then has difficulty staffing the project; and (iii) by having difficulty maintaining our staff at current salaries. Given the long-term nature of the Company’s contracts, we may be unable to take sufficient action to mitigate inflationary pressures.

Sustained inflation also can cause the Federal Reserve Board and its Open Market Committee (“Fed”) to raise the target for the federal funds rate which normally translates into an increase in most banks’ Prime Rate. Because our notes with Live Oak Banking Company are both variable interest rate instruments tied to the prime rate, actions by the Fed to increase the federal funds rate will increase our cost of debt and our interest expense thereby increasing our pre-tax loss and net loss. Our borrowing costs have recently increased and are expected to increase with future Fed interest rate increases, although the impacts have been and are expected to continue to be immaterial. Our contracts with U.S. Federal, state, and local government customers do not permit us to pass along our increased financing costs. The increases to our borrowing costs have not impacted (and are not expected to impact) our ability to make timely payments.

Item 4. Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized, and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in Company reports filed or submitted under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), to allow timely decisions regarding required disclosure.

As required by Rules 13a-15 and 15d-15 under the Exchange Act, our CEO and CFO carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of September 30, 2023. Based upon their evaluation, our CEO and CFO concluded that our disclosure controls and procedures (as defined in Rules 13a- 15 (e) and 15d-15 (e) under the Exchange Act) were effective as of September 30, 2023.

Changes in Internal Control over Financial Reporting

There have been no changes in the Company’s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the three months ended September 30, 2023 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Part II

Item 1. Legal Proceedings

As a commercial enterprise and employer, the Company and our subsidiaries are subject to threatened litigation and other legal actions in the ordinary course of business, including employee-related matters, inquiries, and administrative proceedings regarding our employment practices or other matters. Neither our Company nor any of our subsidiaries is a party to any legal proceeding that, individually or in the aggregate, we believe to be uncovered by insurance or otherwise material to our Company as a whole.

Item 1A. Risk Factors

In the course of conducting our business operations, we are exposed to a variety of risks. Any of the risk factors we described in Part I, Item 1A. of our Annual Report on Form 10-K for the year ended December 31, 2022 filed on March 17, 2023 have affected or could materially adversely affect our business, prospects, operating results, and financial condition. Certain statements in "Risk Factors" are forward-looking statements. See "Explanatory Note Regarding Forward-Looking Statements."

We removed the following risk factors from those disclosed in Part I, Item 1A., Risk Factors included in our Annual Report on Form 10-K for the year ended December 31, 2022:

Risks Related to our Business, Industry and Operations

The effects of health epidemics, pandemics and similar outbreaks may have material adverse effects on our business, financial position, results of operations, and/or cash flows.

We face various risks related to health epidemics, pandemics, and similar outbreaks, including the global outbreak of COVID-19. The COVID-19 pandemic and the mitigation efforts to control its spread have adversely impacted the U.S and global economies, leading to disruptions and volatility in global capital markets. The continued spread of COVID-19 may have a material adverse effect on our business, financial position, results of operations, and/or cash flows as the result of significant portions of our workforce being unable to work due to illness, quarantines, government actions, facility closures or other restrictions; the inability for us to fully perform on our contracts; delays or limits to the ability of the USG or other customers to make timely payments; incurrence of increased costs which may not be recoverable; adverse impacts on our access to capital; or other unpredictable events. We continue to monitor the effect of COVID-19 on our business, but we cannot predict the full impact of Covid-19 as the extent of the impact will depend on the duration and spread of the pandemic and the actions taken by federal, state, local, and foreign governments to prevent the spread of COVID-19.

Risks Related to our Common Stock and Preferred Stock

Shares of our common stock that have not been registered under federal securities laws are subject to resale restrictions imposed by Rule 144, including those set forth in Rule 144(i) which apply to a former "shell company."

The Company was once an entity with no or nominal operations and no or nominal non-cash assets (otherwise known as a "shell company"). Pursuant to Rule 144 promulgated under the Securities Act, sales of the securities of a former shell company, such as us, under Rule 144 are not permitted (i) until at least 12 months have elapsed from the date on which we have first filed current "Form 10 information," reflecting our status as a non-shell company with the SEC and (ii) unless at the time of a proposed sale, we are subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). As of September 2, 2022, we became subject to the reporting rules under the Exchange Act and expect to remain subject to the reporting requirements under the Exchange Act. Sales may not be made under Rule 144 unless we are in compliance with the requirements of Rule 144. Further, it will be more difficult for us to raise funding to support our operations through the sale of debt or equity securities unless we agree to register such securities under the Securities Act which could cause us to expend significant time and cash resources.

Additionally, our previous status as a shell company could also limit our use of our securities to pay for any acquisitions we may seek to pursue in the future. The lack of liquidity of our securities as a result of the inability to sell under Rule 144 for a longer period of time than a non-former shell company could adversely affect our stock price.

We have added the following risk factor to those disclosed in Part I, Item 1A., Risk Factors included in our Annual Report on Form 10-K for the year ended December 31, 2022:

Risks Related to our Business, Industry and Operations

As required by ASC 205-40, Going Concern, our management has performed an analysis of our ability to continue as a going concern and has identified substantial doubt about our ability to continue as a going concern and management's plans to alleviate this condition may be unsuccessful.

Pursuant to the requirements of ASC 205-40, Going Concern, management must evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are issued. Based on their assessment, our management has raised concerns about our ability to continue as a going concern within one year after the date that the unaudited condensed financial statements contained in this Form 10Q are issued. As required by this standard, our evaluation shall initially not take into consideration the potential mitigating effects of our plans that have not been fully implemented as of the date the financial statements are issued. The Company's unaudited consolidated financial statements have been prepared on a going-concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company's consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from our failure to continue as a going concern. See Footnote 17 to the Company's unaudited consolidated financial statements.

The Company has an aggregate of $12,588,297 in principal and interest payments due in the next twelve months. Management concluded that the scheduled principal and interest payments due in the next twelve months raise substantial doubt about our ability to meet our financial obligations as they become due. Additionally, as of September 30, 2023, we had cash of $1,335,977, current assets of $10,087,879, current liabilities of $16,755,493 and an accumulated deficit of $(41,767,449). For the nine months ended September 30, 2023, we used cash from operating activities of $(3,135,420). We expect to continue to incur negative operating cash flows until such time as our operating segments generate sufficient cash inflows to finance our operations and debt service requirements. The amounts and timing of our capital needs have and will continue to depend on many factors, as discussed under "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources."

Management is actively engaged with Buckhout Remainder Charitable Trust, Robert Eisiminger, Live Oak Banking Company, and Crom Cortana Fund LLC and is currently negotiating a restructuring of the terms of the notes. Our future plans include extending the maturity date and/or restructuring our financial obligations noted above, converting some or all of our convertible debt into common stock, and securing additional funding sources. While the Company’s plans are designed to provide it with adequate liquidity to meet its obligations for at least the twelve month period following the date its unaudited consolidated financial statements are issued, the remediation plan is dependent on conditions and matters that may be outside of the Company’s control, and no assurances can be given that certain options will be available on terms acceptable to the Company, or at all. Accordingly, management could not conclude that it was probable that the plans will mitigate the relevant conditions or events that raise substantial doubt about the Company’s ability to continue as a going concern. We have therefore concluded there is substantial doubt about our ability to continue as a going concern through November 2024.

As substantial doubt about our ability to continue as a going concern exists, Management's plan to finance our operations by extending the maturity date and/or restructuring our financial obligations, converting our convertible debt into equity securities, or securing additional financing through the sale and issuance of debt securities or through bank or other financing, may be impaired. If we raise funds by issuing debt securities or preferred stock, or by incurring loans, these forms of financing would have rights, preferences, and privileges senior to those of holders of our common stock. If adequate capital is not available to use when needed, or in the amounts required, we may be forced to terminate, significantly curtail or cease our operations or to pursue other strategic alternatives, including commencing a case under the U.S. Bankruptcy Code. Our results of operations could be materially adversely affected by these decisions and your investment in the Company could be materially impaired.

Risks Related to our Common Stock and Preferred Stock

Low Trading Price of Common Stock on the NYSE American

Our common stock was approved for listing on the NYSE American and began trading there on October 13, 2022. The closing price of our common stock has been below $1.00 for more than thirty (30) consecutive trading days. In the case of a company whose common stock sells for a low price per share for a substantial period of time, the NYSE
American continued listing rules permit the exchange to de-list a listed company in the event it fails to effect a reverse split of such shares within a reasonable time after being notified that the exchange deems such action to be appropriate under the circumstances. We have not received any such notification from the NYSE American but could receive it in the future. In the event we received such a notice from the NYSE American and failed to comply within a reasonable time after receiving such notice with its request to effect a reverse stock split of our common shares, our shares of common stock could be delisted from the NYSE American.

Aside from the change mentioned above, there have been no other material changes in our risk factors from those disclosed in Part I, Item 1A., Risk Factors included in our Annual Report on Form 10-K for the year ended December 31, 2022.

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

(a) Recent Sales of Unregistered Securities.

On August 4, 2023, the Company issued 25,000 shares of common stock to Crom Cortana Fund LLC at $0.44 per share, valued at $11,000 as a commitment fee in connection with the Securities Purchase Agreement dated February 13, 2023.

On August 16, 2023, the Company issued an aggregate of 117,665 shares of common stock, as follows:

(a) 7,000 shares of common stock at $0.71 per share and 7,000 shares of common stock at $0.50 per share to the Company's public relations firm for services rendered valued at an aggregate of $8,470;

(b) 11,904 shares of common stock at $1.26 per share, 13,761 shares of common stock at $1.09 per share, and 30,000 shares of common stock at $0.50 per share to a consultant for services rendered valued at an aggregate of $45,000; and

(c) an aggregate of 48,000 shares of common stock to six former advisory board members for services rendered at $1.19 per share, valued at $57,120.

The issuances described in this subsection were made in reliance on the private placement exemption pursuant to Section 4(a)(2) of the Securities Act because the issuance did not involve a public offering.

(b) Use of Proceeds from the Public Offering.

On October 12, 2022, the registration statement on Form S-1 (File No. 333-267249) for our initial public offering ("Public Offering") of our common stock was declared effective by the Securities and Exchange Commission (the "SEC"). On October 17, 2022, we closed our Public Offering and 1,500,000 shares of our common stock were issued and sold at a public offering price of $2.00 per share. The shares of common stock sold consisted of 1,350,000 shares offered by us and 150,000 shares offered by an existing stockholder, for an aggregate proceeds of $3,000,000. We received $2,700,000 in offering proceeds before deducting underwriting discounts and offering expenses. We did not receive any proceeds from the sale of shares of our common stock by the selling stockholder.

The underwriters of our Public Offering were EF Hutton, division of Benchmark Investments, LLC and Joseph Gunnar & Co. LLC. We paid the underwriters of our Public Offering underwriting discounts and commissions and incurred offering costs totaling approximately $700,000. Thus, our net offering proceeds, after deducting underwriting discounts and commissions and offering expenses, were approximately $2,000,000. Other than the proceeds payable directly to the selling stockholder, no payments were made to our directors or officers or their associates, holders of 10% or more of any class of our equity securities, or any affiliates, other than payments in the ordinary course of business to officers for payments made in connection with their employment agreements.

There has been no material change in the planned use of proceeds from our Public Offering as described in our final prospectus dated October 12, 2022 and filed with the SEC on October 14, 2022 pursuant to Rule 424(b)(4) of the Securities Act. As of the date of this Quarterly Report on Form 10-Q, we cannot predict with certainty all of the particular uses for the net proceeds, or the amounts that we will actually spend on the uses set forth in the prospectus.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

The documents listed in this Exhibit Index of this Quarterly Report on Form 10-Q are incorporated by reference or are filed with this Quarterly Report on Form 10-Q, in each case as indicated therein (numbered in accordance with Item 601 of Regulation S-K).

		Incorporated by Reference			
Exhibit Number	**Exhibit Title**	**Form**	**File Number**	**Exhibit**	**Filing Date**
2.1	Stock Purchase Agreement dated May 6, 2019, by and among BioNovelus, Inc., Bayberry Acquisition Corp., and all of the stockholders of the company	S-1	333-267249	2.1	September 2, 2022
2.2	First Amendment to Stock Purchase Agreement dated June 2, 2019 by and among BioNovelus, Inc., Bayberry Acquisition Corp., and all the stockholders of the company	S-1	333-267249	2.2	September 2, 2022
2.3	Second Amendment to Stock Purchase Agreement dated June 8, 2019, by and among BioNovelus, Inc., Bayberry Acquisition Corp., and all the stockholders of the company	S-1	333-267249	2.3	September 2, 2022
2.4	Securities Purchase Agreement dated November 21, 2019, by and among BioNovelus, Inc., Corvus Consulting, LLC, and the Buckhout Charitable Remainder Trust	S-1	333-267249	2.4	September 2, 2022
2.5	Agreement and Plan of Merger dated August 12, 2021, by and among Castellum, Inc., KC Holdings Company, Inc., and Specialty Systems, Inc., and the Stockholders Named Herein	S-1	333-267249	2.5	September 2, 2022
2.6	Agreement and Plan of Merger dated as of March 22, 2023 by and among Castellum, Inc., GTMR Merger Sub., Inc., Global Technology and Management Resources, Inc. ("GTMR"), the stockholders of GTMR, and James Morton, as the representative of the Stockholders.	8-K	001-41526	2.1	March 28, 2023
3.1	Amended and Restated Articles of Incorporation of Registrant	S-1	333-267249	3.1	September 2, 2022
3.2	Amended and Restated Bylaws of Registrant	S-1/A	333-267249	3.2	October 4, 2022
3.3	Certificate of Amendment to the Amended and Restated Articles of Incorporation of Registrant	8-K	001-41526	3.1	October 18, 2022
3.4	Certificate of Amendment to the Amended and Restated Articles of Incorporation of Registrant	8-K	001-41526	3.1	April 6, 2023
4.1	Form of Warrant to Purchase Common Stock	S-1	333-267249	4.1	September 2, 2022
4.2	Amended Convertible Promissory Note Re-Issued as of February 1, 2021, by Corvus Consulting, LLC and Registrant to the Buckhout Charitable Remainder Trust	S-1	333-267249	4.2	September 2, 2022
4.3	Convertible Promissory Note Issued as of April 4, 2022 by Registrant to Crom Cortana Fund LLC	S-1	333-267249	4.3	September 2, 2022

4.4	Common Stock Purchase Warrant dated April 4, 2022, by and between Registrant and Crom Cortana Fund LLC	S-1	333-267249	4.4	September 2, 2022
4.5	Common Stock Purchase Warrant dated February 13, 2023 by and between Registrant and Crom Cortana Fund LLC	8-K	001-41526	4.1	February 16, 2023
4.6	Convertible Promissory Note dated February 13, 2023 by and between Registrant and Crom Cortana Fund LLC	8-K	001-41526	10.1	February 16, 2023
10.1	Secured Promissory Note Issued on August 10, 2021 by Corvus Consulting, LLC and BioNovelus, Inc. to Robert Eisiminger	S-1	333-267249	10.1	September 2, 2022
10.2	Term Loan Promissory Note Issued on August 11, 2021 by and between Registrant, Specialty Systems, Inc., Corvus Consulting, LLC, Mainnerve Federal Services, Inc., Merrison Technologies, LLC, and Live Oak Banking Company	S-1	333-267249	10.2	September 2, 2022
10.3	Term Loan and Security Agreement dated August 11, 2021, by and between Registrant, Specialty Systems, Inc., Corvus Consulting, LLC, Mainnerve Federal Services, Inc., Merrison Technologies, LLC and Live Oak Banking Company	S-1	333-267249	10.3	September 2, 2022
10.4	Promissory Note Issued on August 12, 2021 by Corvus Consulting, LLC and Registrant to Emil Kaunitz	S-1	333-267249	10.4	September 2, 2022
10.5	Promissory Note Issued on February 28, 2022 by Corvus Consulting, LLC and Registrant to Robert Eisiminger	S-1	333-267249	10.5	September 2, 2022
10.6	Revolving Line of Credit Promissory Note Issued on March 28, 2022 by Registrant, Specialty Systems, Inc., Corvus Consulting, LLC, Mainnerve Federal Services, Inc., Merrison Technologies, LLC to Live Oak Banking Company	S-1	333-267249	10.6	September 2, 2022
10.7	Loan and Security Agreement dated March 28, 2022, by and between Registrant, Specialty Systems, Inc., Corvus Consulting, LLC, Mainnerve Federal Services, Inc., Merrison Technologies, LLC and Live Oak Banking Company	S-1	333-267249	10.7	September 2, 2022
10.8	Business Acquisition Agreement dated February 11, 2022, by and between Registrant and Lexington Solutions Group, LLC	S-1	333-267249	10.8	September 2, 2022
10.9+	Registrant's Stock Incentive Plan	S-1	333-267249	10.9	September 2, 2022
10.10+	Form of Stock Option Agreement	S-1	333-267249	10.10	September 2, 2022
10.11+	Employment Agreement dated April 1, 2020, by and between Registrant and Mark Fuller	S-1	333-267249	10.11	September 2, 2022
10.12+	Employment Agreement dated April 1, 2020, by and between Registrant and Jay Wright	S-1	333-267249	10.12	September 2, 2022

10.13+	Employment Agreement dated April 1, 2020, by and between Registrant and Glen Ives	S-1	333-267249	10.13	September 2, 2022
10.14+	Employment Agreement dated April 25, 2022, by and between Registrant and David T. Bell	S-1	333-267249	10.14	September 2, 2022
10.15+	Employment Agreement dated as of November 21, 2019 between Corvus Consulting, LLC and Laurie Buckhout	10-Q	001-41526	10.23	November 14, 2022
10.16	Lease Agreement dated January 11, 2018, between LTD Realty investment, IV, LP, and Specialty Systems, Inc.	S-1	333-267249	10.15	September 2, 2022
10.17	Form of Director Agreement	S-1	333-267249	10.16	September 2, 2022
10.18++	Labor Hour Subcontract Agreement between Corvus Consulting, LLC and CACI, Inc. - Federal	S-1	333-267249	10.17	September 2, 2022
10.19++	Modification dated April 8, 2022 to Purchase Order No. P000096970 between Corvus Consulting, LLC and CACI, Inc.- Federal	S-1	333-267249	10.18	September 2, 2022
10.20++	Contract No. N00178-14D-7931 effective February 14, 2019 between Specialty Systems, Inc. and NAVAIR Aircraft Division Lakehurst	S-1	333-267249	10.19	September 2, 2022
10.21++	Modification No. 1 of Contract effective November 2, 2021 between Specialty Systems, Inc. and NAVAIR Aircraft Division Lakehurst	S-1	333-267249	10.20	September 2, 2022
10.22++	Time and Material Subcontract Number PO-0018098 between Perpsecta Engineering, Inc. and Corvus Consulting, LLC	S-1	333-267249	10.21	September 2, 2022
10.23++	Modification 13 to Time and Material Subcontract between Perspecta Engineering, Inc. and Corvus Consulting, Inc.	S-1	333-267249	10.22	September 2, 2022
10.24	Pay-Off Letter Agreement by and between Registrant and Crom Cortana Fund LLC dated February 13, 2023	8-K	001-41526	10.2	February 16, 2023
10.25+	Employment Agreement executed on March 22, 2023 by and between James Morton and Castellum, Inc.	8-K	001-41526	10.1	March 28, 2023

10.26+	Form of Restrictive Covenant Agreement, by and among ______, individually, in favor of and for the benefit of Global Technology and Management Resources, Inc. and Castellum, Inc.	8-K	001-41526	10.2	March 28, 2023
31.1*	Certification of Principal Executive Officer pursuant to Exchange Act Rules 13(a)-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
31.2*	Certification of Principal Financial Officer pursuant to Exchange Act Rules 13(a)-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
32.1**	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
32.2**	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
104	The cover page from the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2022, has been formatted in Inline XBRL and contained in Exhibits 101.				

* Filed herewith.
** The certifications attached as Exhibits 32.1 and 32.2 that accompany this Quarterly Report on Form 10-Q are not deemed filed with the SEC and not to be incorporated by reference into any filing of the Registrant under the Securities Act of 1933, as amended, or the Exchange Act whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.
+ Management contract or compensatory plan.
++ Portions of this exhibit have been omitted pursuant to Item 601(b)(10)(iv) of Regulation S-K because such information is (i) not material and (ii) the type of information the Company treats as confidential. The Company will furnish supplementally an unredacted copy of such exhibit to the SEC or its staff upon its request.

Signatures

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

Date: November 14, 2023	CASTELLUM, INC.
	/s/ Mark C. Fuller
	Mark C. Fuller
	Chief Executive Officer (Principal Executive Officer)
	/s/ David T. Bell
	David T. Bell
	Chief Financial Officer (Principal Financial Officer)

Exhibit 31.1

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO RULES 13a-14(a) AND 15d-14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934**

I, Mark C. Fuller, Chief Executive Officer of Castellum. Inc. (the "Company"), certify that:

(1) I have reviewed this Quarterly Report on Form 10-Q for the fiscal period ended September 30, 2023;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order 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 the report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods represented in this report;

(4) The Company'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 Company 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 Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the 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 Company'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 Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

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

(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 Company'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 Company's internal control over financial reporting.

November 14, 2023

/s/ Mark C. Fuller

Mark C. Fuller
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO RULES 13a-14(a) AND 15d-14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934

I, David T. Bell, Chief Financial Officer of Castellum, Inc. (the “Company”), certify that:

(1) I have reviewed this Quarterly Report on Form 10-Q for the fiscal period ended September 30, 2023;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order 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 the report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods represented in this report;

(4) The Company’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 Company 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 Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which the 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 Company’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 Company’s internal control over financial reporting that occurred during the Company’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting; and

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

(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 Company’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 Company’s internal control over financial reporting.

November 14, 2023

/s/ David T. Bell

David T. Bell
Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of Castellum, Inc. (the “Company”) for the period ended September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, Mark C. Fuller, Chief Executive Officer of the Company hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Mark C. Fuller

Mark C. Fuller
Chief Executive Officer
(Principal Executive Officer)

November 14, 2023

Exhibit 32.2

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

In connection with the Quarterly Report on Form 10-Q of Castellum, Inc. (the “Company”) for the period ended September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), the undersigned, David T. Bell, Chief Financial Officer of the Company hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ David T. Bell

David T. Bell
Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

November 14, 2023