

REFINITIV

## DELTA REPORT

10-Q

CTM - CASTELLUM, INC.

10-Q - JUNE 30, 2023 COMPARED TO 10-Q - MARCH 31, 2023

The following comparison report has been automatically generated

**TOTAL DELTAS** 633

█ CHANGES 163

█ DELETIONS 226

█ ADDITIONS 244

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

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

For the quarterly period ended **March 31, 2023** **June 30, 2023**  
Or

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

For the transition period from    to   

Commission File Number: 001-41526

**CASTELLUM, INC.**

(Exact Name of Registrant as Specified in Charter)

NEVADA

(STATE OF INCORPORATION)

27-4079982

(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  No

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

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input checked="" type="checkbox"/>	Smaller reporting company <input checked="" type="checkbox"/>
	Emerging growth company <input type="checkbox"/>

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

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

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 <b>May 10, 2023</b> <b>August 11, 2023</b>
Common Stock, par value \$0.0001 per share	47,331,674 47,524,762

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**CASTELLUM, INC.**  
**FORM 10-Q**  
**For the Quarter Ended March 31, 2023June 30, 2023**  
**INDEX**

<b>PART I</b>	<b>3</b>
<a href="#">Item 1. Unaudited Consolidated Financial Statements</a>	3
<a href="#">Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	24 25
<a href="#">Item 3. Quantitative and Qualitative Disclosures About Market Risk</a>	30 32
<a href="#">Item 4. Controls and Procedures</a>	30 32
<b>PART II</b>	<b>31 33</b>
<a href="#">Item 1. Legal Proceedings</a>	31 33
<a href="#">Item 1A. Risk Factors</a>	31 33
<a href="#">Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</a>	31 34
<a href="#">Item 3. Defaults Upon Senior Securities</a>	32 34
<a href="#">Item 4. Mine Safety Disclosures</a>	32 34
<a href="#">Item 5. Other Information</a>	32 34
<a href="#">Item 6. Exhibits</a>	32 35
<a href="#">Signatures</a>	36 39

**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", "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" NYSE American"). As a result of the Reverse Stock Split, all authorized and outstanding common stock and per share amounts in this AnnualQuarterly Report on Form 10-K, 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", Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the "Exchange Act", 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 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", "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**  
(Uaudited)

		March 31, 2023		December 31, 2022		June 30, 2023		December 31, 2022	
<b>Assets</b>		<b>Assets</b>				<b>Assets</b>			
Current Assets:	Current Assets:					Current Assets:			
Cash	Cash	\$ 2,270,987		\$ 4,640,896		Cash	\$ 2,989,677		\$ 4,640,896
Accounts receivable	Accounts receivable	8,246,053		5,193,562		Accounts receivable	6,607,784		5,193,562
Contract asset	Contract asset	184,325		257,434		Contract asset	635,691		257,434
Prepaid income taxes	Prepaid income taxes	329,036		351,116		Prepaid income taxes	371,412		351,116
Prepaid expenses and other current assets	Prepaid expenses and other current assets	393,568		222,995		Prepaid expenses and other current assets	324,553		222,995
Total current assets	Total current assets	11,423,969		10,666,003		Total current assets	10,929,117		10,666,003
Fixed assets, net	Fixed assets, net	337,242		173,350		Fixed assets, net	394,638		173,350

Non-Current Assets:		Non-Current Assets:		Non-Current Assets:	
<b>Deferred tax asset</b>		<b>—</b>		<b>—</b>	
Right of use asset - operating lease	Right of use asset - operating lease	—	35,524	Right of use asset - operating lease	830,451
Intangible assets, net	Intangible assets, net	10,860,535	6,634,167	Intangible assets, net	10,226,492
Goodwill	Goodwill	17,356,430	15,533,964	Goodwill	17,393,908
Total non-current assets	Total non-current assets	28,554,207	22,377,005	Total non-current assets	28,845,489
<b>Total Assets</b>	<b>Total Assets</b>	<b>\$ 39,978,176</b>	<b>\$ 33,043,008</b>	<b>Total Assets</b>	<b>\$ 39,774,606</b>
<b>Liabilities and Stockholders' Equity</b>		<b>Liabilities and Stockholders' Equity</b>		<b>Liabilities and Stockholders' Equity</b>	
<b>Liabilities</b>		<b>Liabilities</b>		<b>Liabilities</b>	
Current Liabilities	Current Liabilities			Current Liabilities	
Accounts payable and accrued expenses	Accounts payable and accrued expenses	\$ 1,715,776	\$ 1,617,596	Accounts payable and accrued expenses	\$ 1,076,899
Accrued payroll and payroll related expenses	Accrued payroll and payroll related expenses	2,900,703	1,869,517	Accrued payroll and payroll related expenses	3,041,351
Due to seller	Due to seller	350,000	280,000	Due to seller	506,847
Obligation to issue common and preferred stock	Obligation to issue common and preferred stock	86,560	—	Obligation to issue common and preferred stock	138,590
Contingent earnout	Contingent earnout	794,000	812,000	Contingent earnout	877,000
Derivative liabilities	Derivative liabilities	960,000	824,000	Derivative liabilities	367,000
Revolving credit facility	Revolving credit facility	625,025	300,025	Revolving credit facility	625,025
Current portion of notes payable, net of discount	Current portion of notes payable, net of discount	1,936,569	2,033,348	Current portion of notes payable, net of discount	1,979,622
Current portion of lease liability - operating lease	Current portion of lease liability - operating lease	17,608	22,054	Current portion of lease liability - operating lease	234,450
					22,054

Total current liabilities	Total current liabilities	9,386,241	7,758,540	Total current liabilities	8,846,784	7,758,540
Non-Current Liabilities	Non-Current Liabilities			Non-Current Liabilities		
Deferred Tax Liability	—	—	—	—	—	—
Lease liability - operating lease, net of current portion	Lease liability - operating lease, net of current portion	—	12,632	Lease liability - operating lease, net of current portion	571,277	12,632

Note payable - related party, net of current portion	Note payable - related party, net of current portion	400,000	400,000	Note payable - related party, net of current portion	400,000	400,000
Convertible promissory notes - related parties, net of discount, net of current portion	Convertible promissory notes - related parties, net of discount, net of current portion	1,299,173	999,430	Convertible promissory notes - related parties, net of discount, net of current portion	1,606,015	999,430
Notes payable, net of discount, net of current portion	Notes payable, net of discount, net of current portion	6,002,514	6,340,490	Notes payable, net of discount, net of current portion	6,298,385	6,340,490
Total non-current liabilities	Total non-current liabilities	7,701,687	7,752,552	Total non-current liabilities	8,875,677	7,752,552
<b>Total Liabilities</b>	<b>Total Liabilities</b>	17,087,928	15,511,092	<b>Total Liabilities</b>	17,722,461	15,511,092
<b>Stockholders' Equity</b>	<b>Stockholders' Equity</b>			<b>Stockholders' Equity</b>		
Preferred stock, 50,000,000 shares authorized	Preferred stock, 50,000,000 shares authorized			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 March 31, 2023 and December 31, 2022, respectively		588	588	Series A Preferred stock, par value \$0.0001; 10,000,000 shares authorized; 5,875,000 issued and outstanding as of March 31, 2023 and December 31, 2022, respectively		588
Series B Preferred stock, par value \$0.0001; 10,000,000 shares authorized; 0 and 0 issued and outstanding as of March 31, 2023 and December 31, 2022, respectively		—	—	Series B Preferred stock, par value \$0.0001; 10,000,000 shares authorized; 0 and 0 issued and outstanding as of March 31, 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 March 31, 2023 and December 31, 2022, respectively		77	77	Series C Preferred stock, par value \$0.0001; 10,000,000 shares authorized; 770,000 and 770,000 issued and outstanding as of March 31, 2023 and December 31, 2022, respectively		77
Common stock, par value, \$0.0001, 3,000,000,000 shares authorized, 47,247,687 and 41,699,363 issued and outstanding as of March 31, 2023 and December 31, 2022, respectively		4,725	4,170	Common stock, par value, \$0.0001, 3,000,000,000 shares authorized, 47,247,687 and 41,699,363 issued and outstanding as of March 31, 2023 and December 31, 2022, respectively		4,170
Series A Preferred stock, par value \$0.0001; 10,000,000 shares authorized; 5,875,000 issued and outstanding as of June 30, 2023 and December 31, 2022, respectively				Series A Preferred stock, par value \$0.0001; 10,000,000 shares authorized; 5,875,000 issued and outstanding as of June 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 June 30, 2023 and December 31, 2022, respectively	Series B Preferred stock, par value \$0.0001; 10,000,000 shares authorized; 0 and 0 issued and outstanding as of June 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 June 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 June 30, 2023 and December 31, 2022, respectively	77	77
Common stock, par value, \$0.0001, 3,000,000,000 shares authorized, 47,373,712 and 41,699,363 issued and outstanding as of June 30, 2023 and December 31, 2022, respectively	Common stock, par value, \$0.0001, 3,000,000,000 shares authorized, 47,373,712 and 41,699,363 issued and outstanding as of June 30, 2023 and December 31, 2022, respectively	4,737	4,170
Additional paid in capital	Additional paid in capital	53,333,138	43,621,651
Accumulated deficit	Accumulated deficit	(30,448,280)	(26,094,570)
Total stockholders' equity	Total stockholders' equity	22,890,248	17,531,916
<b>Total Liabilities and Stockholders' Equity</b>	<b>Total Liabilities and Stockholders' Equity</b>	<b>\$39,978,176</b>	<b>\$33,043,008</b>
	<b>Total Liabilities and Stockholders' Equity</b>	<b>\$</b>	<b>39,774,606</b>
			<b>\$</b>
			<b>33,043,008</b>

See notes to consolidated financial statements.

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

		Three Months Ended March 31,		Three Months Ended June 30,		Six Months Ended June 30,	
		2023	2022	2023	2022	2023	2022
<b>Revenues</b>	<b>Revenues</b>	\$ 9,937,013	\$ 9,990,141	<b>Revenues</b>	\$ 12,475,802	\$ 11,055,251	\$ 22,412,815
<b>Cost of Revenues</b>	<b>Cost of Revenues</b>	5,899,231	5,855,641	<b>Cost of Revenues</b>	7,263,984	6,368,918	13,163,215
<b>Gross Profit</b>	<b>Gross Profit</b>	4,037,782	4,134,500	<b>Gross Profit</b>	5,211,818	4,686,333	9,249,600
<b>Operating Expenses</b>	<b>Operating Expenses</b>			<b>Operating Expenses</b>			8,820,833
Indirect costs	Indirect costs	2,210,879	1,729,195	Indirect costs	2,241,460	3,598,611	4,452,339
Overhead	Overhead	467,682	418,970	Overhead	536,937	340,572	1,004,619
General and administrative expenses	General and administrative expenses	6,046,530	2,842,140	General and administrative expenses	4,244,312	3,493,605	10,290,842
Gain from change in fair value of contingent earnout		(18,000)	—				6,335,745
Change in fair value of contingent earnout						Change in fair value of contingent earnout	65,000
Total operating expenses	Total operating expenses	8,707,091	4,990,305	Total operating expenses	7,105,709	7,432,788	15,812,800
<b>Loss From Operations Before Other Income (Expense)</b>	<b>Loss From Operations Before Other Income (Expense)</b>	(4,669,309)	(855,805)	<b>Loss From Operations Before Other Income (Expense)</b>	(1,893,891)	(2,746,455)	(6,563,200)
<b>Other Income (Expense)</b>	<b>Other Income (Expense)</b>			<b>Other Income (Expense)</b>			(3,602,260)
Gain on disposal of fixed assets		(1,075)	—			Gain (loss) on disposal of fixed assets	303
Gain (loss) on disposal of fixed assets						2	(1,073)
Loss on induced conversion	Loss on induced conversion	(300,000)	—	Loss on induced conversion	—	—	(300,000)
Gain from change in fair value of derivative liability		251,625	—				303
Gain (loss) from change in fair value of derivative liability						Gain (loss) from change in fair value of derivative liability	(173,000)
Interest expense, net of interest income	Interest expense, net of interest income	(830,281)	(689,626)	Interest expense, net of interest income	(810,837)	(911,975)	(1,641,115)
							(1,601,601)

Total other income (expense)	Total other income (expense)	(879,731)	(689,626)	Total other income (expense)	(217,835)	(1,084,672)	(1,097,563)	(1,774,298)
<b>Loss From Operations Before Benefit For Income Taxes</b>	<b>Loss From Operations Before Benefit For Income Taxes</b>			<b>Loss From Operations Before Benefit For Income Taxes</b>				
		(5,549,040)	(1,545,431)		(2,111,726)	(3,831,127)	(7,660,763)	(5,376,558)
Income Tax Benefit		1,225,649	149,628					
Income tax benefit (expense)				Income tax benefit (expense)			13,280	(893,422)
<b>Net Loss</b>	<b>Net Loss</b>	(4,323,391)	(1,395,803)	<b>Net Loss</b>	(2,098,446)	(4,724,549)	(6,421,834)	(6,120,352)
Less: Preferred Stock Dividends		30,319	10,912					
Less: preferred stock dividends				Less: preferred stock dividends			29,820	29,626
<b>Net Loss To Common Shareholders</b>	<b>Net Loss To Common Shareholders</b>	\$ (4,353,710)	\$ (1,406,715)	<b>Net Loss To Common Shareholders</b>	\$ (2,128,266)	\$ (4,754,175)	\$ (6,481,973)	\$ (6,160,890)
<b>Net Loss Per Share - Basic And Diluted</b>	<b>Net Loss Per Share - Basic And Diluted</b>	\$ (0.10)	\$ (0.07)	<b>Net Loss Per Share - Basic And Diluted</b>	\$ (0.04)	\$ (0.20)	\$ (0.14)	\$ (0.27)
<b>Weighted Average Shares Outstanding - Basic And Diluted</b>	<b>Weighted Average Shares Outstanding - Basic And Diluted</b>	43,065,128	19,970,438	<b>Weighted Average Shares Outstanding - Basic And Diluted</b>	48,369,250	23,891,707	45,731,842	22,479,278

See notes to consolidated financial statements.

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

		Additional Paid-In Accumulated										Additional Paid-In Accumulated									
		Series A Preferred				Series B Preferred				Series C Preferred		Common Stock		Series A Preferred				Series B Preferred			
		Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Capital	Deficit	Total	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	
Balance -	Balance -																				
December 31,	December 31,																				
2021	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	Stock-based compensation - options	—	—	—	—	—	—	—	—	875,640	—	875,640									
Stock-based compensation - warrants	Stock-based compensation - warrants	—	—	—	—	—	—	—	—	—	—	—									
Stock-based compensation - restricted shares	Stock-based compensation - restricted shares	—	—	—	—	—	—	—	—	30,937	—	30,937									
Shares issued in acquisition of MFSI	Shares issued in acquisition of MFSI	—	—	—	—	—	—	—	—	—	—	—									



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		
Stock-based compensation - restricted shares										Stock-based compensation - restricted shares			
Gain on extinguishment of related party convertible note										Gain on extinguishment of related party convertible note			
Net loss for the period	Net loss for the period	—	—	—	—	—	—	—	(4,353,710)	(4,353,710)	Net loss for the period	—	—

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	
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	
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	0	0	770,000	77	47,247,687	4,725	53,333,138	(30,448,280)	\$ 22,890,248	
Stock-based compensation - options	—	—	—	—	—	—	—	—	1,089,163	—	1,089,163	
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	0	0	770,000	77	47,373,712	4,737	54,623,289	(32,576,546)	22,052,145

See notes to consolidated financial statements.

**Castellum, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**For the Three Six Months Ended March 31, 2023 June 30, 2023 and 2022**  
(Uaudited)

Cash Flow From Operating Activities	Cash Flow From Operating Activities	2023		2022		Cash Flow From Operating Activities	2023		2022	
		2023	2022	2022	2022		2023	2022	2022	2022
Net loss	Net loss	\$ (4,323,391)		\$ (1,395,803)		Net loss	\$ (6,421,834)		\$ (6,120,352)	
Adjustments to reconcile net loss to net cash (used in) provided by operating activities										
Adjustments to reconcile net loss to net cash used in operating activities						Adjustments to reconcile net loss to net cash used in operating activities				
Depreciation and amortization	Depreciation and amortization	510,568		490,836		Depreciation and amortization	1,190,974		1,005,400	
Amortization of discounts, premium and deferred costs	Amortization of discounts, premium and deferred costs	561,851		475,629		Amortization of discounts, premium and deferred costs	1,147,921		1,154,062	
Stock-based compensation	Stock-based compensation	3,721,828		942,765		Stock-based compensation	4,938,021		3,736,197	
Deferred tax provision	Deferred tax provision	(1,244,366)		(202,795)		Deferred tax provision	(1,089,677)		610,033	
Gain on disposal of fixed assets						Gain on disposal of fixed assets	—		(303)	
Financing fee and bank charges for note payable and advances on revolving credit line	Financing fee and bank charges for note payable and advances on revolving credit line	—		3,750		Financing fee and bank charges for note payable and advances on revolving credit line	—		3,775	
Lease cost	Lease cost	838		277		Lease cost	1,006		556	
Legal fees paid out of proceeds from a note payable						Legal fees paid out of proceeds from a note payable	—		30,000	
Change in fair value of contingent earnout	Change in fair value of contingent earnout	(18,000)		—		Change in fair value of contingent earnout	65,000		—	
Change in fair value of derivative liability	Change in fair value of derivative liability	(251,625)		—		Change in fair value of derivative liability	(844,625)		173,000	
Changes in assets and liabilities	Changes in assets and liabilities					Changes in assets and liabilities				

Accounts receivable	Accounts receivable	(2,102,056)	317,951	Accounts receivable	(473,170)	(810,386)
Proceeds from factoring accounts receivable	Proceeds from factoring accounts receivable	411,975	—	Proceeds from factoring accounts receivable	411,975	—
Prepaid expenses and other current assets	Prepaid expenses and other current assets	132,996	33,035	Prepaid expenses and other current assets	(12,564)	(2,125)
Contract asset (liability)	Contract asset (liability)	73,108	(140,615)	Contract asset (liability)	(378,258)	(452,293)
Accounts payable and accrued expenses	Accounts payable and accrued expenses	98,409	(440,257)	Accounts payable and accrued expenses	(399,820)	(96,570)
<b>Net cash (used in) provided by operating activities</b>		<b>(2,427,865)</b>	<b>84,773</b>			
<b>Net cash used in operating activities</b>				<b>Net cash used in operating activities</b>	<b>(1,865,051)</b>	<b>(769,006)</b>
<b>Cash Flows From Investing Activities</b>	<b>Cash Flows From Investing Activities</b>			<b>Cash Flows From Investing Activities</b>		
Acquisition of business, cash paid to seller	Acquisition of business, cash paid to seller	(470,233)	—	Acquisition of business, cash paid to seller	(470,233)	(250,000)
Cash paid to seller from factoring	Cash paid to seller from factoring	(411,975)	—	Cash paid to seller from factoring	(411,975)	—
Cash received in acquisition of GTMR	Cash received in acquisition of GTMR	475,000	—	Cash received in acquisition of GTMR	475,000	—
Purchase of fixed assets		(20,526)	(67,613)	Purchases of fixed assets	(20,526)	(80,545)
Purchases of fixed assets				<b>Net cash (used in) provided by investing activities</b>	<b>(427,734)</b>	<b>(330,545)</b>
<b>Net cash (used in) provided by investing activities</b>	<b>Net cash (used in) provided by investing activities</b>					
<b>Cash Flows From Financing Activities</b>	<b>Cash Flows From Financing Activities</b>			<b>Cash Flows From Financing Activities</b>		
Proceeds from revolving credit line	Proceeds from revolving credit line	325,000	—	Proceeds from revolving credit line	325,000	300,000
Payment of debt issuance costs	Payment of debt issuance costs	(15,000)	—	Payment of debt issuance costs	(15,000)	—
Proceeds from issuance of preferred and common stock	Proceeds from issuance of preferred and common stock	—	125,000	Proceeds from issuance of preferred and common stock	126,000	625,000
Proceeds from notes payable	Proceeds from notes payable	800,000	500,000	Proceeds from notes payable	1,200,000	1,470,000
Preferred stock dividend	Preferred stock dividend	(30,319)	(10,912)	Preferred stock dividend	(60,139)	(40,538)
Proceeds from exercise of stock options	Proceeds from exercise of stock options	—	12,000	Proceeds from exercise of stock options	—	12,000
Conversion of note payable		—	—	Repayment of amounts due to seller	(280,000)	(100,000)
Repayment of amounts due to seller	Repayment of amounts due to seller	(280,000)	(40,000)	Repayment of amounts due to seller	(280,000)	(100,000)

Loss on induced conversion	Loss on induced conversion	300,000	—	Loss on induced conversion	300,000	—
Repayment of convertible note payable - related party				Repayment of convertible note payable - related party		(500,000)
Repayment of note payable	Repayment of note payable	(613,991)	(311,378)	Repayment of note payable	(954,295)	(627,074)
<b>Net cash provided by financing activities</b>	<b>Net cash provided by financing activities</b>	<b>485,690</b>	<b>274,710</b>	<b>Net cash provided by financing activities</b>	<b>641,566</b>	<b>1,139,388</b>
<b>Net (Decrease) Increase in Cash</b>		<b>(2,369,909)</b>	<b>291,870</b>			

<b>Net (Decrease) Increase in Cash</b>		<b>Net (Decrease) Increase in Cash</b>	
<b>Cash - Beginning of Period</b>	<b>Cash - Beginning of Period</b>	<b>4,640,896</b>	<b>2,017,915</b>
<b>Cash - End of Period</b>	<b>Cash - End of Period</b>	<b>\$ 2,270,987</b>	<b>\$ 2,309,785</b>
<b>Supplemental Disclosures</b>	<b>Supplemental Disclosures</b>		
Cash paid for interest expense	Cash paid for interest expense	\$ (247,541)	\$ (196,474)
Cash refunded from income taxes		\$ 9,900	\$ —
Cash refunded (paid) from income taxes			
<b>Summary of Non-Cash Activities:</b>	<b>Summary of Non-Cash Activities:</b>		
Debt discount on note payable applied to obligation to issue common stock	Debt discount on note payable applied to obligation to issue common stock	\$ 28,000	\$ 500,000
Derivative liability incurred for note payable	Derivative liability incurred for note payable	421,000	-
Extinguishment of debt discount - derivative liability	Extinguishment of debt discount - derivative liability	171,128	-

Extinguishment of debt discount - debt issuance costs	Extinguishment of debt discount - debt issuance costs	8,034	-	Extinguishment of debt discount - debt issuance costs	8,034	-	
Extinguishment of derivative liability on Crom note	Extinguishment of derivative liability on Crom note	\$ 33,375	\$	-	Crom note	\$ 33,375	\$

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)**  
**March 31, June 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 and cybersecurity with businesses in the governmental and commercial markets. Services include intelligence analysis, software development, software engineering, 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 has worked 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") MFSI",
- Merrison Technologies, LLC ("Merrison"),
- Specialty Systems, Inc. ("SSI"),
- the business assets of Pax River from The Albers Group ("Pax River"), and
- 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 17, 2022 October 13, 2022, the Company completed 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 exchange. 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.

**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, 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 workforce.

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 expedites.

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 **three** **six** months ended **March 31**:**June 30**:

	2023		2022		2023		2022	
<b>Revenue:</b>	<b>Revenue:</b>				<b>Revenue:</b>			
Time and material	Time and material		\$ 5,723,610	\$ 4,884,186	Time and material	\$ 12,934,662		\$ 10,946,928
Firm fixed price	Firm fixed price		943,875	1,774,092	Firm fixed price	1,641,322		3,635,560
Cost plus fixed fee	Cost plus fixed fee		3,269,528	3,331,863	Cost plus fixed fee	7,836,831		6,462,904
<b>Total</b>	<b>Total</b>		<b>\$ 9,937,013</b>	<b>\$ 9,990,141</b>	<b>Total</b>	<b>\$ 22,412,815</b>		<b>\$ 21,045,392</b>

#### **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 **March 31, 2023****June 30, 2023** that would materially impact the **company****Company**.

#### **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.

#### **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:

Cash	\$ 475,000
Accounts receivable other receivables	1,380,203
Income tax receivable	155,449
Prepaid expenses	116,892
Other asset	17,182
Furniture and equipment	163,301
Customer relationships	2,426,000
Tradenames	517,000
Backlog	1,774,000
Goodwill	1,822,466
Deferred tax liability	(1,244,368)
Lease liability – operating lease	(17,608)
Accounts payable and accrued expenses	\$ (1,030,957)
<b>Net assets acquired</b>	<b>\$ 6,554,560</b>

	March 31, 2023	Adjustments	June 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	37,478	1,859,944
Deferred tax liability	(1,244,368)	—	(1,244,368)
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
<b>Stock</b>	<b>\$ Common stock 5,304,561</b>
Accounts receivable note	156,847
Total consideration paid	\$ 6,554,560 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.

**LSG** 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 (this amount was paid (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) 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 three six months ended March 31, 2023 June 30, 2023 and we do not intend to include any additional adjustments through the remainder of the measurement period. 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 three six months ended March 31, 2023 June 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 three six months ended March 31, 2023 June 30, 2023	
Revenues	\$ 12,583,985 25,379,875
Net loss	\$ (6,532,634) (6,293,003)
Net loss per share - basic	\$ (0.16) (0.15)
For the three six months ended March 31, 2022 June 30, 2022	
Revenues	\$ 13,932,618 28,830,236
Net loss	\$ (961,653) (5,379,080)
Net loss per share - basic	\$ (0.05) (0.24)

#### Note 4: Fixed Assets

Fixed assets consisted of the following as of March 31, 2023 (unaudited) June 30, 2023 and December 31, 2022:

Equipment	Equipment	March 31, 2023	December 31, 2022	Equipment	June 30, 2023	December 31, 2022
		\$ 210,572	\$ 141,732		\$ 230,092	\$ 141,732

Furniture	Furniture	40,267	32,574	Furniture	43,119	32,574
Software	Software	62,671	-	Software	71,928	-
Leasehold improvements	Leasehold improvements	120,830	83,266	Leasehold improvements	192,962	83,266
Total fixed assets	Total fixed assets	434,340	257,572	Total fixed assets	538,101	257,572
Accumulated depreciation	Accumulated depreciation	(97,098)	(84,222)	Accumulated depreciation	(143,463)	(84,222)
Fixed assets, net	Fixed assets, net	\$ 337,242	\$ 173,350	Fixed assets, net	\$ 394,638	\$ 173,350

Depreciation expense for the three and six months ended March 31, 2023, June 30, 2023 was \$46,364 and 2022 \$66,299 and depreciation expense for the three and six months ended June 30, 2022 was \$19,936 \$6,150 and \$13,484, respectively.

#### Note 5: Intangible Assets and Goodwill

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

		March 31, 2023	December 31, 2022		June 30, 2023	December 31, 2022
Customer relationships	Customer relationships	4.5- 15 years	\$ 11,961,000	\$ 9,535,000	Customer relationships	4.5- 15 years
Tradename	Tradename	4.5 years	783,000	266,000	Tradename	4.5 years
Trademark	Trademark	10-15 years	533,864	533,864	Trademark	10-15 years
Backlog	Backlog	2-5 years	3,210,000	1,436,000	Backlog	2-5 years
Non-compete agreement	Non-compete agreement	3-5 years	684,000	684,000	Non-compete agreement	3-5 years
			17,171,864	12,454,864		
Accumulated amortization	Accumulated amortization		(6,311,329)	(5,820,697)	Accumulated amortization	
Intangible assets, net	Intangible assets, net		\$ 10,860,535	\$ 6,634,167	Intangible assets, net	
					\$ 10,226,492	\$ 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 six months ended March 31, 2023, June 30, 2023 was \$634,044 and 2022, \$1,124,675, respectively, and amortization expense for the three and six months ended June 30, 2022 was \$490,631 \$497,695 and \$1,123,590, \$975,047, respectively, and the intangible assets are being amortized based on the estimated future lives as noted above. On March 31, 2022, \$275,000 of customer relationships was adjusted for the contingent consideration that is no longer required to be paid for the acquisition related to The Albers Group.

Future amortization of the intangible assets for the next five years as of March 31, June 30 are as follows:

2023	2023	\$ 1,889,671	2023	\$ 1,255,628
2024	2024	2,074,686	2024	2,074,686
2025	2025	1,453,000	2025	1,453,000
2026	2026	1,242,863	2026	1,242,863
2027	2027	1,034,302	2027	1,034,302
Thereafter	Thereafter	3,166,013	Thereafter	3,166,013
Total	Total	\$ 10,860,535	Total	\$ 10,226,492

The activity of goodwill for the three six months ended March 31, 2023 and year ended December 31, 2022, June 30, 2023, is as follows:

December 31, 2022	December 31, 2022	Corvus	SSI	MFSI	Total	December 31, 2022	Corvus	SSI	MFSI	Total
		6,387,741	8,461,150	685,073	15,533,964		6,387,741	8,461,150	685,073	15,533,964

Goodwill acquired through acquisitions	Goodwill acquired through acquisitions	—	1,822,466	—	1,822,466	Goodwill acquired through acquisitions	—	1,859,944	—	1,859,944
<b>March 31, 2023</b>		6,387,741	10,283,616	685,073	17,356,430					
<b>June 30, 2023</b>						<b>June 30, 2023</b>	6,387,741	10,321,094	685,073	17,393,908

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, nor has the Company recognized impairment on the goodwill in these periods.

#### Note 6: Convertible Promissory Notes – Related Parties

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

	<b>March 31, 2023</b>	<b>December 31, 2022</b>	<b>June 30, 2023</b>	<b>December 31, 2022</b>
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)	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)	3,209,617	3,209,617	3,209,617
Less: BCF Discount	(1,910,444)	(2,210,187)		
Less: Beneficial conversion feature discount			Less: Beneficial conversion feature discount (1,603,602)	(2,210,187)
	\$ 1,299,173	\$ 999,430	\$ 1,606,015	\$ 999,430

Interest expense which includes amortization of discount for the three and six months ended **March 31, 2023** **June 30, 2023** was \$336,202 and **2022** was \$340,120 \$676,322, respectively, and \$417,219, \$382,998 and \$800,217 for the three and six months ended **June 30, 2022**, respectively. There was no accrued interest on the note payable at **March 31, 2023** **June 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 long-term liabilities.

#### Note 7: Notes Payable

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

	<b>March 31, 2023</b>	<b>December 31, 2022</b>	<b>June 30, 2023</b>	<b>December 31, 2022</b>
Note payable at 7% originally due November 2023, maturing September 30, 2024	Note payable at 7% originally due November 2023, maturing September 30, 2024	\$ 5,600,000	\$ 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 at least \$15,000,000 (a)	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 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
Convertible note payable, convertible at \$1.60 per share, at 7%, maturing April 4, 2023 (b)	—	890,000	—	—	—	—
Convertible note payable, convertible at \$1.20 per share, at 10%, maturing February 13, 2024 (b)	840,000	—	—	—	—	—
Term note payable, at prime plus 3% interest, applied on a deferred basis (7.75% at March 31, 2023 and 6.25% at December 31, 2022) maturing August 11, 2024	2,010,245	2,324,236	—	—	—	—
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 June 30, 2023 and 6.25% at December 31, 2022) maturing August 11, 2024	—	1,669,940	2,324,236	—	—	—
<b>Total Notes Payable</b>	<b>Total Notes Payable</b>	<b>8,850,245</b>	<b>9,214,236</b>	<b>Total Notes Payable</b>	<b>8,909,940</b>	<b>9,214,236</b>

Less: Debt Discount	Less: Debt Discount	Less: Debt Discount	Less: Debt Discount
	(911,162)	(840,398)	(631,933)
\$ 7,939,083	\$ 8,373,838	\$ 8,278,007	\$ 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 expire 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 six months ended March 31, 2023 June 30, 2023 was \$473,461 and 2022 was \$485,000 \$958,461, respectively, and \$268,576, \$518,643 and \$787,219 for the three and six months ended June 30, 2022, respectively. Accrued interest on the notes payable as of March 31, 2023 is \$16,388. June 30, 2023 was \$0.

Each note discussed above will reach maturity during 2024. Future principal payments will be \$1,046,796 \$706,943 and \$7,803,449 \$8,202,997 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 March 31, 2023 June 30, 2023 (unaudited) and December 31, 2022, as follows:

	March 31, 2023 (unaudited)	December 31, 2022
Note payable at 5% due December 31, 2024, in connection with the acquisition of SSI	\$ 400,000	\$ 400,000
	June 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 six months ended March 31, 2023 June 30, 2023 was \$4,984 and 2022 was \$4,928 \$9,912, respectively, and \$4,928, \$4,990 and \$9,918 for the three and six months ended June 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 \$19,351 \$26,442 in interest in the three six months ended March 31, 2023 June 30, 2023, none of which \$11,971 is accrued for as of March 31, 2023 June 30, 2023.

#### Note 10: Due to Seller

In the acquisition of LSG, the Company was obligated to pay \$3,176,003, which included cash of \$780,000 and a working capital adjustment of \$21,003. Of this amount, \$521,003 was paid by December 31, 2022. The remaining \$280,000 of this balance was paid on January 23, 2023.

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 is scheduled to be paid six months following the closing date and is currently recorded in current liabilities on the Company's consolidated balance sheets as of **March 31, 2023****June 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.

## **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 **March 31, 2023****June 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 **three****six** months ended **March 31, 2023****June 30, 2023**, the Company recognized **\$18,269** **\$36,538** in Series A dividends, all of which has been paid as of **March 31, 2023****June 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 **March 31, 2023****June 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 **March 31, 2023****June 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 **three****six** months ended **March 31, 2023****June 30, 2023**, the Company recognized **\$12,050** **\$23,600** in Series C dividends, all of which has been paid as of **March 31, 2023****June 30, 2023**.

### **Common Stock**

The Company has 3,000,000,000 shares of common stock, par value \$0.0001 authorized. The Company has **47,247,687** **47,373,712** and 41,699,363 shares issued and outstanding as of **March 31, 2023****June 30, 2023** and December 31, 2022, respectively. Shares issued during the **three****six** months ended **March 31, 2023****June 30, 2023** were as follows:

- The Company issued **125,504** **188,529** shares for services;
- 4,866,570 shares issued in the acquisition of GTMR;
- 556,250 shares issued to **partially** extinguish the Prior Crom **Note** **Note**;
- 63,000 shares issued to an existing shareholder in a private placement at \$2.00 per share.

During the **three****six** months ended **March 31, 2023****June 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**, **termination of the Board members position on the Board of Directors prior to the end of 2023**. As of **March 31, 2023****June 30, 2023**, there were **125,504** **188,529** total restricted shares of common stock that have vested and **189,096** **126,071** that **will** **are expected to** vest during the remainder of 2023.

### **Warrants**

The following represents a summary of warrants for the **three** **six** months ended **March 31, 2023** **June 30, 2023** and the year ended December 31, 2022:

		Three Months Ended		Year Ended		Six Months Ended		Year Ended	
		March 31, 2023		December 31, 2022		June 30, 2023		December 31, 2022	
		Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price
Beginning balance	Beginning balance	5,678,836	\$ 1.84	3,161,568	\$ 1.60	Beginning balance	5,678,836	\$ 1.84	\$ 1.60
Granted	Granted	1,765,862	1.17	2,517,268	2.22	Granted	1,765,862	1.17	2,517,268
Ending balance	Ending balance	7,444,698	\$ 1.68	5,678,836	\$ 1.84	Ending balance	7,444,698	\$ 1.68	\$ 1.84
Warrants exercisable	Warrants exercisable	7,444,698		5,678,836		Warrants exercisable	7,444,698		5,678,836
Intrinsic value of warrants	Intrinsic value of warrants	\$ 1,242,174		\$ 1,374,303		Intrinsic value of warrants	\$ 545,358		\$ 1,374,303
Weighted Average Remaining Contractual Life (Years)	Weighted Average Remaining Contractual Life (Years)	6.15		5.48		Weighted Average Remaining Contractual Life (Years)	5.20		5.48

During **March 31, 2023** **June 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 **March 31, 2023** **June 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, shares and options. Prior to this date, the granting of options was not done in accordance with a stock option plan. As of **March 31, 2023**, **June 30, 2023**, 812,500 stock options have been granted under the Stock Incentive Plan.

The following represents a summary of options for the **three** **six** months ended **March 31, 2023** **June 30, 2023** and the year ended December 31, 2022:

		Weighted-Average				Weighted-Average				
		Weighted-Average Exercise Price		Remaining Contractual Term (in Years)		Weighted-Average		Remaining Contractual Term (in Years)		
		Number	Price	Number	Years	Number	Price	Number	Years	
Outstanding, December 31, 2022	Outstanding, December 31, 2022	6,425,000	\$ 2.69	5.63	\$ 4.26	Outstanding, December 31, 2022	6,425,000	\$ 2.69	5.63	\$ 4.26
Granted	Granted	812,500	1.62	6.84	1.10	Granted	812,500	1.62	6.84	1.10
Exercised						Exercised	—	—	—	—
Forfeited						Forfeited	—	—	—	—
Outstanding, March 31, 2023	Outstanding, March 31, 2023	7,237,500	\$ 2.57	5.55	\$ 3.91	Outstanding, March 31, 2023	7,237,500	\$ 2.57	5.55	\$ 3.91
Granted						Granted	—	—	—	—
Exercised						Exercised	—	—	—	—
Forfeited						Forfeited	—	—	—	—

Outstanding, June 30, 2023		Outstanding, June 30, 2023		7,237,500	\$ 2.57	5.30	\$ 3.91
As of March 31, 2023				As of June 30, 2023			
As of June 30, 2023		As of June 30, 2023		Vested and exercisable	Vested and exercisable	Vested and exercisable	Vested and exercisable
Vested and exercisable	Vested and exercisable	3,178,870	\$ 2.24	5.21	\$ 3.20	3,511,122	\$ 2.31
3,178,870	\$ 2.24	5.21	\$ 3.20	3,511,122	\$ 2.31	5.02	\$ 3.21

During the six months ended June 30, 2023, the Company recognized \$3,525,463 of noncash stock based compensation related to the vesting of service-based stock options. No options were exercised during the six months ended June 30, 2023.

The fair value of each option/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:

	Three Months Ended March 31, June 30, 2023		Year Ended December 31, 2022
	7 years	7 years	7 years
Expected term	7 years	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.

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 SPA securities purchase agreement with Crom ("Derivative Liabilities") in 2022. During the three months ended March 31, 2023, the Company terminated this note 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 another note the 2023 Note Payable with Crom and issued common stock, a convertible note, and warrants in this 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 adjusted EBITDA 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 March 31, 2023				Fair Value Measurements at June 30, 2023			
	Crom		Crom		Crom		Crom	
	Derivative	Derivative	Derivative	Derivative	Derivative	Derivative	Derivative	Derivative
	Liabilities	\$ —	\$ —	\$ 421,000	\$ 421,000	\$ —	\$ —	\$ 202,000
		Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Crom	Crom							
Derivative	Derivative							
Liabilities	Liabilities	\$ —	\$ —	\$ 421,000	\$ 421,000	\$ —	\$ —	\$ 202,000

Prior Crom liability	Prior Crom liability	\$ —	\$ —	\$ 539,000	\$ 539,000	Prior Crom liability	\$ —	\$ —	\$ 165,000	\$ 165,000
Contingent earnout	Contingent earnout	\$ —	\$ —	\$ 794,000	\$ 794,000	Contingent earnout	\$ —	\$ —	\$ 877,000	\$ 877,000
<b>Total</b>	<b>Total</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 1,754,000</b>	<b>\$ 1,754,000</b>	<b>Total</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 1,244,000</b>	<b>\$ 1,244,000</b>

#### 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
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,636,000</b>	<b>\$ 1,636,000</b>

The Company's derivative liabilities as of **March 31, 2023** **June 30, 2023** and December 31, 2022 associated with the Derivative Liabilities are as follows.

	December 31,			Inception	December 31,			Inception
	March 31, 2023	2022	Inception		June 30, 2023	2022	Inception	
Fair value of conversion option of Prior Crom note	Fair value of conversion option of Prior Crom note	\$ —	\$ 191,000	\$ 314,000	Fair value of conversion option of Prior Crom note	\$ —	\$ 191,000	\$ 314,000
Fair value of 656,250 warrants on April 4, 2022	Fair value of 656,250 warrants on April 4, 2022	539,000	633,000	378,000	Fair value of 656,250 warrants on April 4, 2022	165,000	633,000	378,000
Fair value of conversion option of Crom Cortana Fund LLC convertible note	Fair value of conversion option of Crom Cortana Fund LLC convertible note	162,000	—	162,000	Fair value of conversion option of Crom Cortana Fund LLC convertible note	29,000	—	162,000
Fair value of 700,000 warrants on February 13, 2023	Fair value of 700,000 warrants on February 13, 2023	259,000	—	259,000	Fair value of 700,000 warrants on February 13, 2023	173,000	—	259,000
		<b>\$ 960,000</b>	<b>\$ 824,000</b>			<b>\$ 367,000</b>	<b>\$ 824,000</b>	

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 **periods** **period** as follows:

	3/31/June 30, 2023
Expected term - conversion option	1 year 0.60 years
Expected term - warrants	5.46 years
Stock price as of measurement date	\$ 1.12 0.50
Equity volatility - unadjusted	131.90 111.10 %
Volatility haircut	5.00 %
Selected volatility - post haircut	124.20 107.20 %
Senior unsecured synthetic credit rating	CCC+
OAS differential between CCC+ and B- bonds	1047 bps 881 bps
Risk-free interest rate	4.90 8.35 %

### 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 **three** **six** months ended **March 31, 2023** **June 30, 2023** and 2022, the Company had **three** **two** customers representing **60%** **44%** and **70%** **38%** of revenue earned, respectively. Any customer that represents 10% or greater of total revenue represents a risk. The Company also has **four** **three** customers that represent **38%** **57%** and 60% of the total accounts receivable as of **March 31, 2023** **June 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 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 provision for effective income taxes tax rate was a benefit of \$1,225,649 (0.7%) and \$149,628 (23.3%) for the three months ended **March 31, 2023** **June 30, 2023** and 2022, respectively, and 16.4% and (13.8%) for the six months ended **June 30, 2023** and 2022, respectively. The effective income tax rate was 22.1% and 9.7% for the three months ended **March 31, 2023** and 2022, respectively. The increase decrease in the effective tax rate was primarily due to the release establishment of a valuation allowance against the Company's net deferred tax assets. assets in the three months ended **June 30, 2022**. The Company recognized a discrete increase in the effective tax benefit of \$1,244,368 rate for the six months was primarily due to the release of the valuation allowance due to the increase in deferred tax liabilities that related to the GTMR acquisition in the period ended **March 31, 2023**.

As first quarter of **March 31, 2023**, the Company had a valuation allowance of \$1,458,722 primarily related to the Company's deferred tax assets that are more likely than not will not be realized, **2023**.

### 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 the GTMR agreed to sell certain of its accounts receivable, up to a limit of \$1,000,000 without recourse.

During the **three** **six** months ended **March 31, 2023** **June 30, 2023**, total receivables sold under the Factoring Agreement was \$484,677, \$1,335,813. 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 \$0 \$8,257 for the **three** **six** months ended **March 31, 2023** **June 30, 2023**.

### Note 17: Subsequent Events

As disclosed previously, on January 18, 2023, Castellum, Inc. has performed an evaluation of subsequent events through the Company had signed a non-binding letter of intent to acquire an East Coast based government contractor. Subsequent to March 31, 2023, date the Company determined consolidated financial statements were issued. This evaluation did not result in any subsequent events that it is not currently pursuing this acquisition, 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 and cybersecurity 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, (the "Agreement"), 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 (the "Closing Cash Consideration").

#### **Budgetary Environment**

On March 15, 2022 August 2, 2023, the President signed U.S. Senate passed their version of the Consolidated Appropriations National Defense Authorization Act 2022, providing annual funding for the Department of Defense ("DoD" NDAA) and other government departments have adjourned to return in September when lawmakers in the U.S House of Representatives and agencies. The appropriation provided \$798 billion in discretionary spending for national defense, which includes U.S. Senate will negotiate the DoD, Department of Energy ("DoE") nuclear weapons-related activities, final NDAA. Although the final NDAA is subject to further negotiations and the national security activities of the Coast Guard, Federal Bureau of Investigation, and others. Additionally, the legislation included supplemental funding is expected to support Ukraine and foreign military financing for Ukraine other Eastern European allies. Our programs have additional revisions, we do not believe that there will be revisions that have an impact on our existing contracts. We will continue to be well supported and funded monitor the process closely as the NDAA progresses through the fiscal year 2023 budget appropriations process.

#### **Basis of presentation**

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

- the three months ended March 31, 2023 June 30, 2023 compared to the three months ended March 31, 2022 June 30, 2022;
- the six months ended June 30, 2023 compared to the six months ended June 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 ("DCAA")-approved 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 March 31, 2023 June 30, 2023 Compared to Three Months Ended March 31, 2022 June 30, 2022**

		Three Months Ended March				Three Months Ended June 30,				Change	
		31,		Change		2023		2022		Change	
		2023	2022	Amount	%	2023	2022	Amount	%	2023	2022
<b>Revenues</b>	<b>Revenues</b>	\$ 9,937,013	\$ 9,990,141	\$ (53,128)	(1)%	\$ 12,475,802	\$ 11,055,251	\$ 1,420,551	13%		
<b>Cost of revenues</b>	<b>Cost of revenues</b>	5,899,231	5,855,641	43,590	1%	7,263,984	6,368,918	895,066	14%		
<b>Gross Profit</b>	<b>Gross Profit</b>	4,037,782	4,134,500	(96,718)	(2)%	5,211,818	4,686,333	525,485	11%		
<b>Operating expenses:</b>	<b>Operating expenses:</b>										
Indirect costs	Indirect costs	2,210,879	1,729,195	481,684	28%	Indirect costs	2,241,460	3,598,611	(1,357,151)	(38)%	
Overhead	Overhead	467,682	418,970	48,712	12%	Overhead	536,937	340,572	196,365	58%	
General and administrative expenses	General and administrative expenses	6,046,530	2,842,140	3,204,390	113%	General and administrative expenses	4,244,312	3,493,605	750,707	21%	
Gain from change in fair value of contingent earnout	Gain from change in fair value of contingent earnout	(18,000)	—	(18,000)	—%	Gain from change in fair value of contingent earnout	83,000	—	83,000	—%	
<b>Total operating expenses</b>	<b>Total operating expenses</b>	8,707,091	4,990,305	3,716,786	74%	<b>Total operating expenses</b>	7,105,709	7,432,788	(327,079)	(4)%	
<b>Loss from operations:</b>	<b>Loss from operations:</b>	(4,669,309)	(855,805)	(3,813,504)	446%	<b>Loss from operations:</b>	(1,893,891)	(2,746,455)	852,564	(31)%	
<b>Other expense, net</b>	<b>Other expense, net</b>	(879,731)	(689,626)	(190,105)	28%	<b>Other expense, net</b>	(217,835)	(1,084,672)	866,837	(80)%	
<b>Loss before income taxes and preferred stock dividends</b>	<b>Loss before income taxes and preferred stock dividends</b>	(5,549,040)	(1,545,431)	(4,003,609)	259%	<b>Loss before income taxes and preferred stock dividends</b>	(2,111,726)	(3,831,127)	1,719,401	(45)%	
Income tax benefit (expense)	Income tax benefit (expense)	1,225,649	149,628	1,076,021	719%	Income tax benefit (expense)	13,280	(893,422)	906,702	(101)%	
Preferred stock dividend	Preferred stock dividend	30,319	10,912	19,407	178%	Preferred stock dividend	29,820	29,626	194	1%	
<b>Net loss</b>	<b>Net loss</b>	\$ (4,353,710)	\$ (1,406,715)	\$ (2,946,995)	209%	<b>Net loss</b>	\$ (2,128,266)	\$ (4,754,175)	\$ 2,625,909	(55)%	

### Revenue

Total revenue was \$9,937,013 \$12,475,802 for the three months ended March 31, 2023 June 30, 2023 as compared to total revenue of \$9,990,141 \$11,055,251 for the three months ended March 31, 2022 June 30, 2022. The decrease increase of \$(53,128) \$1,420,551 or (1)% 13%, was driven primarily by a decrease contributions from the acquisition of LSG in head count on continuing contracts Q2 2022 and inorganic revenues derived from the GTMR acquisition that occurred in Q1 and the completion of programs in 2022, offset by contributions from LSG in the first quarter of 2023 and nine days of activity from GTMR in Q1 2023.

### Cost of revenues

Total cost of revenues was \$5,899,231 \$7,263,984 for the three months ended March 31, 2023 June 30, 2023 as compared to total cost of revenues of \$5,855,641 \$6,368,918 for the three months ended March 31, 2022 June 30, 2022. The increase of \$43,590, \$895,066, or 1% 14%, is in line with the minimal change in revenue noted above due to the acquisitions offset by the completion of programs in 2022 and higher costs of certain projects.

### Gross Profit

Total gross profit was \$4,037,782 \$5,211,818 for the three months ended March 31, 2023 June 30, 2023 as compared to total gross profit of \$4,134,500 \$4,686,333 for the three months ended March 31, 2022 June 30, 2022. The decrease increase of \$(96,718) \$525,485, or (2)% 11%, was driven primarily by the lower margins of certain projects increase in revenues due to higher inorganic growth, from the acquisitions of LSG and GTMR, and managing labor costs and increased competition amongst contractors.

on certain projects.

#### Operating expenses

Total operating expenses were \$8,707,091 \$7,105,709 for the three months ended March 31, 2023 June 30, 2023 as compared to total operating expense of \$4,990,305 \$7,432,788 for the three months ended March 31, 2022 June 30, 2022. The increase decrease of \$3,716,786 \$327,079, or 74% 4%, was primarily driven by an increase in indirect costs due of \$1,357,151, as the indirect costs in 2022 were higher primarily because of executive bonuses related to the additional LSG labor from the acquisition and acquisition. The decrease in indirect costs was partially offset by an increase of \$750,707 in general and administrative expenses ("G&A") due to which was driven by an increase in noncash stock based compensation in 2023 paid to executives, expenses related to warrants issued to two officers, and additional legal and auditing fees related to from the GTMR acquisition. vesting of stock options during the three months ended June 30, 2023.

#### Other income (expense) expense

Total other income (expense) expense was \$(879,731) \$217,835 for the three months ended March 31, 2023 June 30, 2023 as compared to total other income (expense) expense of \$(689,626) \$1,084,672 for the three months ended March 31, 2022 June 30, 2022. The increase decrease of \$(190,105) \$866,837 or 28% 80%, was primarily driven by the loss on gain from change in fair value of the debt extinguishment related to Crom and derivative liability of \$593,000 partially offset by an increase in interest expense due to rising interest rates on variable rate debt and interest on convertible notes. expense.

#### Income tax (expense) benefit

Income tax (expense) benefit was \$1,225,649 \$13,280 for the three months ended March 31, 2023 June 30, 2023 as compared to \$149,628 \$(893,422) for the three months ended March 31, 2022 June 30, 2022. The increase of \$1,076,021 \$906,702 or 71% 101% 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.

#### **Six Months Ended June 30, 2023 Compared to Six Months Ended June 30, 2022.**

	Six Months Ended June 30, 2023		Change	
	2023	2022	Amount	%
<b>Revenues</b>	\$ 22,412,815	\$ 21,045,392	\$ 1,367,423	6 %
<b>Cost of revenues</b>	13,163,215	12,224,559	938,656	8 %
<b>Gross Profit</b>	9,249,600	8,820,833	428,767	5 %
<b>Operating expenses:</b>				
Indirect costs	4,452,339	5,327,806	(875,467)	(16)%
Overhead	1,004,619	759,542	245,077	32 %
General and administrative expenses	10,290,842	6,335,745	3,955,097	62 %
Gain from change in fair value of contingent earnout	65,000	—	65,000	—
<b>Total operating expenses</b>	15,812,800	12,423,093	3,389,707	27 %
<b>Loss from operations:</b>				
	(6,563,200)	(3,602,260)	(2,960,940)	82 %
<b>Other expense, net</b>	(1,097,563)	(1,774,298)	676,735	(38)%
<b>Loss before income taxes and preferred stock dividends</b>	(7,660,763)	(5,376,558)	(2,284,205)	42 %
Income tax benefit (expense)	1,238,929	(743,794)	1,982,723	(267)%
Preferred stock dividend	60,139	40,538	19,601	48 %
<b>Net loss</b>	\$ (6,481,973)	\$ (6,160,890)	\$ (321,083)	5 %

#### Revenue

Total revenue was \$22,412,815 for the six months ended June 30, 2023 as compared to total revenue of \$21,045,392 for the six months ended June 30, 2022. The Company recognized increase of, \$1,367,423 or 6%, was driven primarily by inorganic contributions from the acquisitions of LSG and GTMR.

#### Cost of revenues

Total cost of revenues was \$13,163,215 for the six months ended June 30, 2023 as compared to total cost of revenues of \$12,224,559 for the six months ended June 30, 2022. The increase of \$938,656, or 8%, is in line with the minimal change in revenue noted above due to the acquisitions and higher costs of certain projects.

### Gross Profit

Total gross profit was \$9,249,600 for the six months ended June 30, 2023 as compared to total gross profit of \$8,820,833 for the six months ended June 30, 2022. The increase of \$428,767, or 5%, was driven primarily by the higher margins of certain projects due to managing costs on certain projects and inorganic contributions from the acquisitions of LSG and GTMR.

### Operating expenses

Total operating expenses were \$15,812,800 for the six months ended June 30, 2023 as compared to total operating expense of \$12,423,093 for the six months ended June 30, 2022. The increase of \$3,389,707, or 27%, was primarily driven by the increase in general and administrative expenses caused largely by noncash stock based compensation of \$4,938,021 and salaries of \$2,184,333 due to increased headcount, and increased legal and auditing fees related to the GTMR acquisition. The increase in general and administrative expenses was partially offset by a discrete decrease in indirect costs pertaining to a reduction in acquisition-related bonuses paid to executives.

### Other expense

Total other expense was \$(1,097,563) for the six months ended June 30, 2023 as compared to total other expense of \$(1,774,298) for the six months ended June 30, 2022. The decrease of \$676,735 or 38%, was primarily driven by the gain from change in fair value of the derivative liability of \$844,625 partially offset by interest expense.

### Income tax (expense) benefit

Income tax (expense) benefit was \$13,280 for the six months ended June 30, 2023 as compared to \$(743,794) for the six months ended June 30, 2022. The increase of \$1,244,368 for \$1,982,723 or 267% was primarily driven by an increase in the effective tax rate due to the release of the valuation allowance due to the increase in deferred tax liabilities that related to the GTMR acquisition in the period ended March 31, 2023.

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 IDIQ Indefinite Delivery Indefinite Quantity ("IDIQ") contracts, except to the extent that task orders have been awarded to us under those contracts.

### Contract Backlog

Funded	\$ 23,567,806	22,627,723
Unfunded	\$ 23,976,539	18,900,858
Priced Options	\$ 121,026,239	67,772,103
<b>Total Backlog</b>	<b>\$ 168,570,584</b>	<b>109,300,684</b>

### 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 March 31, 2023 June 30,

2023 the Company had \$169 million \$109 million of remaining performance obligations. We expect to recognize approximately 34% 31% of the remaining performance obligations over the next 12 months, and approximately 55% 54% 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 **United States Government ("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**

#### *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 ("NYSE American LLC, LLC")**. As of **March 31, 2023****June 30, 2023**, we had **\$2,270,987****\$2,989,677** of cash on hand and unused borrowing capacity of \$324,975 from our revolving line of credit. We believe our existing cash and cash equivalents provided by our ongoing operations together with funds available under our credit facilities will be sufficient to meet our working capital, capital expenditures and cash needs for the next 12 months and beyond.

#### *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 **May 10, 2023****August 11, 2023** was **14,670,666****11,105,992** which excludes restricted shares and those 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.

**Three Six Months Ended March 31, 2023****June 30, 2023** Compared to **Three Six Months Ended March 31, 2022****June 30, 2022**

	Three Months Ended March 31,				Change		Six Months Ended June 30, 2023				Change			
	2023	2022	Amount	%	2023	2022	Amount	%	2023	2022	Amount	%		
Net cash provided (used) by operating activities	Net cash provided (used) by operating activities	\$ (2,427,865)	\$ 84,773	\$ (2,512,638)	Net cash provided (used) by operating activities	\$ (1,865,051)	\$ (769,006)	\$ (1,096,045)	143 %	Net cash provided (used) by investing activities	\$ (427,734)	\$ (330,545)	\$ (97,189)	29 %
Net cash provided (used) by investing activities	Net cash provided (used) by investing activities	(427,734)	(67,613)	\$ (360,121)	533 %	activities	(427,734)	(330,545)	\$ (97,189)	29 %				

Net cash provided (used) by financing activities	Net cash provided (used) by financing activities	485,690	274,710	\$ 210,980	77 % activities	641,566	1,139,388	\$ (497,822)	-44 %
Change in cash	Change in cash	\$ (2,330,737)	\$ 291,870	\$ (2,622,607)	NM cash	\$ (1,651,219)	\$ 39,837	\$ (1,691,056)	NM
NM - not meaningful	NM - not meaningful				NM - not meaningful				

#### Operating activities

Net cash (used) by operating activities decreased increased to \$(2,427,865) \$(1,865,051), for the three six months ended March 31, 2023 June 30, 2023, from \$84,773 \$(769,006) for the three six months ended March 31, 2022 June 30, 2022. This decrease increase in net cash (used) by operating activities was primarily driven by an increase in accounts receivable (due to timing of collections) net loss for the six months ended June 30, 2023, offset by noncash adjustments related to stock based compensation and warrants issued for the GTMR acquisition during the three six months ended March 31, 2023 June 30, 2023.

#### Investing activities

Net cash (used) by investing activities increased to \$(427,734), for the three six months ended March 31, 2023 June 30, 2023, from \$(67,613) \$(330,545), for the three six months ended March 31, 2022 June 30, 2022. The increase in net cash (used) by investing activities was primarily due to the additional cash paid in the acquisition of GTMR during 2023.

#### Financing activities

Net cash provided by financing activities increased decreased to \$485,690, \$641,566, for three the six months ended March 31, 2023 June 30, 2023, from \$274,710, \$1,139,388, for the three six months ended March 31, 2022 June 30, 2022. The increase decrease in net cash provided by financing activities was primarily due to the reduction in proceeds from issuance of preferred and common stock, the new note entered into with Crom and reduction in proceeds from the revolving line of credit offset by the \$300,000 repayment notes payable, and an increase in payments on the Prior Crom Note, 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 Bank, 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 is at 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 ~~reducing~~ increasing our pre-tax ~~income~~ loss and net ~~income~~ 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 **March 31, 2023** **June 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 **March 31, 2023** **June 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 **March 31, 2023** **June 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 factor from those disclosed **under "Item** in Part I, Item 1A., Risk Factors" **Factors** included in our Annual Report on Form 10-K for the year ended December 31, 2022:

***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.

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 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 under "Item in Part I, Item 1A, Risk Factors" 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 March 21, 2023 May 2, 2023, the Company issued 62,500 63,000 shares of common stock in a private placement to its five independent board members as compensation for services rendered during the fourth quarter of 2022, an existing shareholder at \$2.00 per share, valued at \$75,000, and 252,100 shares of common stock for services rendered (and to be rendered) during the current fiscal year, valued at \$300,000, which vest monthly through December 31, 2023.

As consideration for, and in connection with the merger agreement with Global Technology and Management Resources, Inc. ("GTMR"), on March 31, 2023 the Company issued 4,866,570 shares of common stock to the seven former shareholders of GTMR, which we valued at \$5,304,562. \$126,000.

The issuances issuance described in this subsection were was made in reliance on the private placement exemption pursuant to Section 4(a)(2) of the Securities Act because the issuances 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.

## **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	<a href="#">Stock Purchase Agreement dated May 6, 2019, by and among BioNovelus, Inc., Bayberry Acquisition Corp., and all of the stockholders of the company.</a>	S-1	<a href="#">333-267249</a>	<a href="#">2.1</a>	<a href="#">September 2, 2022</a>
2.2	<a href="#">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.</a>	S-1	<a href="#">333-267249</a>	<a href="#">2.2</a>	<a href="#">September 2, 2022</a>
2.3	<a href="#">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.</a>	S-1	<a href="#">333-267249</a>	<a href="#">2.3</a>	<a href="#">September 2, 2022</a>
2.4	<a href="#">Securities Purchase Agreement dated November 21, 2019, by and among BioNovelus, Inc., Corvus Consulting, LLC, and the Buckhout Charitable Remainder Trust</a>	S-1	<a href="#">333-267249</a>	<a href="#">2.4</a>	<a href="#">September 2, 2022</a>
2.5	<a href="#">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</a>	S-1	<a href="#">333-267249</a>	<a href="#">2.5</a>	<a href="#">September 2, 2022</a>

Exhibit Number	Exhibit Title	Incorporated by Reference			Filing Date
		Form	File Number	Exhibit	
2.1	<a href="#">Stock Purchase Agreement dated May 6, 2019, by and among BioNovelus, Inc., Bayberry Acquisition Corp., and all of the stockholders of the company.</a>	S-1	<a href="#">333-267249</a>	<a href="#">2.1</a>	<a href="#">September 2, 2022</a>
2.2	<a href="#">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.</a>	S-1	<a href="#">333-267249</a>	<a href="#">2.2</a>	<a href="#">September 2, 2022</a>
2.3	<a href="#">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.</a>	S-1	<a href="#">333-267249</a>	<a href="#">2.3</a>	<a href="#">September 2, 2022</a>
2.4	<a href="#">Securities Purchase Agreement dated November 21, 2019, by and among BioNovelus, Inc., Corvus Consulting, LLC, and the Buckhout Charitable Remainder Trust</a>	S-1	<a href="#">333-267249</a>	<a href="#">2.4</a>	<a href="#">September 2, 2022</a>
2.5	<a href="#">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</a>	S-1	<a href="#">333-267249</a>	<a href="#">2.5</a>	<a href="#">September 2, 2022</a>
2.6	<a href="#">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.</a>	8-K	<a href="#">001-41526</a>	<a href="#">2.1</a>	<a href="#">March 28, 2023</a>
3.1	<a href="#">Amended and Restated Articles of Incorporation of Registrant</a>	S-1	<a href="#">333-267249</a>	<a href="#">3.1</a>	<a href="#">September 2, 2022</a>
3.2	<a href="#">Amended and Restated Bylaws of Registrant</a>	S-1/A	<a href="#">333-267249</a>	<a href="#">3.2</a>	<a href="#">October 4, 2022</a>
3.3	<a href="#">Certificate of Amendment to the Amended and Restated Articles of Incorporation of Registrant</a>	8-K	<a href="#">001-41526</a>	<a href="#">3.1</a>	<a href="#">October 18, 2022</a>
3.4	<a href="#">Certificate of Amendment to the Amended and Restated Articles of Incorporation of Registrant</a>	8-K	<a href="#">001-41526</a>	<a href="#">3.1</a>	<a href="#">April 6, 2023</a>
4.1	<a href="#">Form of Warrant to Purchase Common Stock</a>	S-1	<a href="#">333-267249</a>	<a href="#">4.1</a>	<a href="#">September 2, 2022</a>
4.2	<a href="#">Amended Convertible Promissory Note Re-Issued as of February 1, 2021, by Corvus Consulting, LLC and Registrant to the Buckhout Charitable Remainder Trust</a>	S-1	<a href="#">333-267249</a>	<a href="#">4.2</a>	<a href="#">September 2, 2022</a>
4.3	<a href="#">Convertible Promissory Note Issued as of April 4, 2022 by Registrant to Crom Cortana Fund LLC</a>	S-1	<a href="#">333-267249</a>	<a href="#">4.3</a>	<a href="#">September 2, 2022</a>

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
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	4.4	<u>Common Stock Purchase Warrant dated April 4, 2022, by and between Registrant and Crom Cortana Fund LLC</u>	S-1	333-267249	4.4	<u>September 2, 2022</u>	<u>Common Stock Purchase Warrant dated April 4, 2022, by and between Registrant and Crom Cortana Fund LLC</u>	S-1	333-267249	4.4	<u>September 2, 2022</u>
4.5	4.5	<u>Common Stock Purchase Warrant dated February 13, 2023 by and between Registrant and Crom Cortana Fund LLC</u>	8-K	001-41526	4.1	<u>February 16, 2023</u>	<u>Common Stock Purchase Warrant dated February 13, 2023 by and between Registrant and Crom Cortana Fund LLC</u>	8-K	001-41526	4.1	<u>February 16, 2023</u>
4.6	4.6	<u>Convertible Promissory Note dated February 13, 2023 by and between Registrant and Crom Cortana Fund LLC</u>	8-K	001-41526	10.1	<u>February 16, 2023</u>	<u>Convertible Promissory Note dated February 13, 2023 by and between Registrant and Crom Cortana Fund LLC</u>	8-K	001-41526	10.1	<u>February 16, 2023</u>
10.1	10.1	<u>Secured Promissory Note Issued on August 10, 2021 by Corvus Consulting, LLC and BioNovelus, Inc. to Robert Eisiminger</u>	S-1	333-267249	10.1	<u>September 2, 2022</u>	<u>Secured Promissory Note Issued on August 10, 2021 by Corvus Consulting, LLC and BioNovelus, Inc. to Robert Eisiminger</u>	S-1	333-267249	10.1	<u>September 2, 2022</u>
10.2	10.2	<u>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</u>	S-1	333-267249	10.2	<u>September 2, 2022</u>	<u>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</u>	S-1	333-267249	10.2	<u>September 2, 2022</u>

10.3	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	10.3	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	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	10.4	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	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	10.5	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					10.6		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

<u>10.7</u>	<u>10.7</u>	<u>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.</u>	<u>S-1</u>	<u>333-267249</u>	<u>10.7</u>	<u>September 2, 2022</u>
<u>10.8</u>	<u>10.8</u>	<u>Business Acquisition Agreement dated February 11, 2022, by and between Registrant and Lexington Solutions Group, LLC</u>	<u>S-1</u>	<u>333-267249</u>	<u>10.8</u>	<u>September 2, 2022</u>
<u>10.9+</u>	<u>10.9+</u>	<u>Registrant's Stock Incentive Plan</u>	<u>S-1</u>	<u>333-267249</u>	<u>10.9</u>	<u>September 2, 2022</u>
<u>10.10+</u>	<u>10.10+</u>	<u>Form of Stock Option Agreement</u>	<u>S-1</u>	<u>333-267249</u>	<u>10.10</u>	<u>September 2, 2022</u>
<u>10.11+</u>	<u>10.11+</u>	<u>Employment Agreement dated April 1, 2020, by and between Registrant and Mark Fuller</u>	<u>S-1</u>	<u>333-267249</u>	<u>10.11</u>	<u>September 2, 2022</u>
<u>10.12+</u>	<u>10.12+</u>	<u>Employment Agreement dated April 1, 2020, by and between Registrant and Jay Wright</u>	<u>S-1</u>	<u>333-267249</u>	<u>10.12</u>	<u>September 2, 2022</u>

<u>10.6</u>	<u>Revolving Line of Credit</u>	<u>S-1</u>	<u>333-267249</u>	<u>10.6</u>	<u>September 2, 2022</u>
	<u>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.</u>				
<u>10.7</u>	<u>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.</u>	<u>S-1</u>	<u>333-267249</u>	<u>10.7</u>	<u>September 2, 2022</u>
<u>10.8</u>	<u>Business Acquisition Agreement dated February 11, 2022, by and between Registrant and Lexington Solutions Group, LLC</u>	<u>S-1</u>	<u>333-267249</u>	<u>10.8</u>	<u>September 2, 2022</u>
<u>10.9+</u>	<u>Registrant's Stock Incentive Plan</u>	<u>S-1</u>	<u>333-267249</u>	<u>10.9</u>	<u>September 2, 2022</u>
<u>10.10+</u>	<u>Form of Stock Option Agreement</u>	<u>S-1</u>	<u>333-267249</u>	<u>10.10</u>	<u>September 2, 2022</u>
<u>10.11+</u>	<u>Employment Agreement dated April 1, 2020, by and between Registrant and Mark Fuller</u>	<u>S-1</u>	<u>333-267249</u>	<u>10.11</u>	<u>September 2, 2022</u>

10.12+	<a href="#">Employment Agreement dated April 1, 2020, by and between Registrant and Jay Wright</a>	S-1	<a href="#">333-267249</a>	10.12	<a href="#">September 2, 2022</a>							
10.13+	<a href="#">Employment Agreement dated April 1, 2020, by and between Registrant and Glen Ives</a>	S-1	<a href="#">333-267249</a>	10.13	<a href="#">September 2, 2022</a>	10.13+	<a href="#">Employment Agreement dated April 1, 2020, by and between Registrant and Glen Ives</a>	S-1	<a href="#">333-267249</a>	10.13	<a href="#">September 2, 2022</a>	
10.14+	<a href="#">Employment Agreement dated April 25, 2022, by and between Registrant and David T. Bell</a>	S-1	<a href="#">333-267249</a>	10.14	<a href="#">September 2, 2022</a>	10.14+	<a href="#">Employment Agreement dated April 25, 2022, by and between Registrant and David T. Bell</a>	S-1	<a href="#">333-267249</a>	10.14	<a href="#">September 2, 2022</a>	
10.15+	<a href="#">Employment Agreement dated as of November 21, 2019 between Corvus Consulting, LLC and Laurie Buckhout</a>	10-Q	<a href="#">001-41526</a>	10.23	<a href="#">November 14, 2022</a>	10.15+	<a href="#">Employment Agreement dated as of November 21, 2019 between Corvus Consulting, LLC and Laurie Buckhout</a>	10-Q	<a href="#">001-41526</a>	10.23	<a href="#">November 14, 2022</a>	
10.16	<a href="#">Lease Agreement dated January 11, 2018, between LTD Realty, investment, IV, LP, and Specialty Systems, Inc.</a>	S-1	<a href="#">333-267249</a>	10.15	<a href="#">September 2, 2022</a>	10.16	<a href="#">Lease Agreement dated January 11, 2018, between LTD Realty, investment, IV, LP, and Specialty Systems, Inc.</a>	S-1	<a href="#">333-267249</a>	10.15	<a href="#">September 2, 2022</a>	
10.17	<a href="#">Form of Director Agreement</a>	S-1	<a href="#">333-267249</a>	10.16	<a href="#">September 2, 2022</a>	10.17	<a href="#">Form of Director Agreement</a>	S-1	<a href="#">333-267249</a>	10.16	<a href="#">September 2, 2022</a>	
10.18++	<a href="#">Labor Hour Subcontract Agreement between Corvus Consulting, LLC and CACI, Inc. - Federal</a>	S-1	<a href="#">333-267249</a>	10.17	<a href="#">September 2, 2022</a>							
10.18++				10.18++			<a href="#">Labor Hour Subcontract Agreement between Corvus Consulting, LLC and CACI, Inc. - Federal</a>	S-1	<a href="#">333-267249</a>	10.17	<a href="#">September 2, 2022</a>	

10.19++	<u>Modification</u> <u>dated April 8,</u> <u>2022</u> <u>to</u> <u>Purchase Order</u> <u>No. P000096970</u> <u>between Corvus</u> <u>Consulting, LLC</u> <u>and CACI, Inc.-</u> <u>Federal</u>	S-1	333- 267249	10.18	September 2, 2022		
10.19++		10.19++	<u>Modification</u> <u>dated April 8,</u> <u>2022</u> <u>to</u> <u>Purchase Order</u> <u>No.</u> <u>P000096970</u> <u>between</u> <u>Corvus</u> <u>Consulting, LLC</u> <u>and CACI, Inc.-</u> <u>Federal</u>	S-1	333- 267249	10.18	September 2, 2022
10.20++	<u>Contract</u> <u>No.</u> <u>N00178-14D-</u> <u>7931 effective</u> <u>February 14,</u> <u>2019 between</u> <u>Specialty</u> <u>Systems, Inc.</u> <u>and NAVAIR</u> <u>Aircraft Division</u> <u>Lakehurst</u>	S-1	333- 267249	10.19	September 2, 2022		
10.20++		10.20++	<u>Contract</u> <u>No.</u> <u>N00178-14D-</u> <u>7931 effective</u> <u>February 14,</u> <u>2019 between</u> <u>Specialty</u> <u>Systems, Inc.</u> <u>and NAVAIR</u> <u>Aircraft Division</u> <u>Lakehurst</u>	S-1	333- 267249	10.19	September 2, 2022
10.21++	<u>Modification</u> <u>No. 1 of</u> <u>Contract</u> <u>effective</u> <u>November 2,</u> <u>2021 between</u> <u>Specialty</u> <u>Systems, Inc.</u> <u>and NAVAIR</u> <u>Aircraft Division</u> <u>Lakehurst</u>	S-1	333- 267249	10.20	September 2, 2022		

<u>10.21++</u>		<u>10.21++</u>	<u>Modification No. 1 of Contract effective November 2, 2021 between Specialty Systems, Inc. and NAVAIR Aircraft Division Lakehurst</u>	<u>S-1</u>	<u>333-267249</u>	<u>10.20</u>	<u>September 2, 2022</u>
<u>10.22++</u>	<u>Time and Material Subcontract Number PO-0018098 between Persecta Engineering, Inc. and Corvus Consulting, LLC</u>	<u>S-1</u>	<u>333-267249</u>	<u>10.21</u>	<u>September 2, 2022</u>		
<u>10.22++</u>		<u>10.22++</u>	<u>Time and Material Subcontract Number PO-0018098 between Persecta Engineering, Inc. and Corvus Consulting, LLC</u>	<u>S-1</u>	<u>333-267249</u>	<u>10.21</u>	<u>September 2, 2022</u>
<u>10.23++</u>		<u>10.23++</u>	<u>Modification 13 to Time and Material Subcontract between Persecta Engineering, Inc. and Corvus Consulting, Inc.</u>	<u>S-1</u>	<u>333-267249</u>	<u>10.22</u>	<u>September 2, 2022</u>
<u>10.24</u>		<u>10.24</u>	<u>Pay-Off Letter Agreement by and between Registrant and Crom Cortana Fund LLC dated February 13, 2023</u>	<u>8-K</u>	<u>001-41526</u>	<u>10.2</u>	<u>February 16, 2023</u>
<u>10.25+</u>		<u>10.25+</u>	<u>Employment Agreement executed on March 22, 2023 by and between James Morton and Castellum, Inc.</u>	<u>8-K</u>	<u>001-41526</u>	<u>10.1</u>	<u>March 28, 2023</u>

<u>10.23++</u>	<u>Modification_13_to_Time_and_Material_Subcontract_between_Perspecta_Engineering,Inc.and Corvus Consulting, Inc.</u>	<u>S-1</u>	<u>333-267249</u>	<u>10.22</u>	<u>September 2, 2022</u>
<u>10.24</u>	<u>Pay-Off Letter Agreement by and between Registrant and Crom Cortana Fund LLC dated February 13, 2023</u>	<u>8-K</u>	<u>001-41526</u>	<u>10.2</u>	<u>February 16, 2023</u>
<u>10.25+</u>	<u>Employment Agreement executed on March 22, 2023 by and between James Morton and Castellum, Inc.</u>	<u>8-K</u>	<u>001-41526</u>	<u>10.1</u>	<u>March 28, 2023</u>
<u>10.26+</u>	<u>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.</u>	<u>8-K</u>	<u>001-41526</u>	<u>10.2</u>	<u>March 28, 2023</u>
<u>10.26+</u>	<u>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.</u>	<u>8-K</u>	<u>001-41526</u>	<u>10.2</u>	<u>March 28, 2023</u>
<u>31.1*</u>	<u>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.</u>				
<u>31.2*</u>	<u>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.</u>				
<u>32.1**</u>	<u>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.</u>				
<u>32.2**</u>	<u>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.</u>				
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 <u>101</u> <u>101</u> .				

\* 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 Securities and Exchange Commission 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: May 15, 2023 August 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)

36 39

**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 **March 31, 2023** **June 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.

**May 15, August 14, 2023**

/s/ Mark C. Fuller

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

**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 **March 31, 2023****June 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.

**May 15, August 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 **March 31, 2023****June 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)

May 15, August 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 **March 31, 2023****June 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)

May 15, August 14, 2023

#### DISCLAIMER

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