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

Form 8-K/A

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **December 10, 2021**

WaveDancer, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**000-22405**	**54-1167364**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

12015 Lee Jackson Memorial Highway, Ste 210
Fairfax, VA 22033

(Address of principal executive offices, including zip code)

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

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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	WAVD	The Nasdaq Stock Market, LLC

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☐

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

Explanatory Note

This Current Report on Form 8-K/A amends and supplements the Current Report on Form 8-K of WaveDancer, Inc., formerly known as Information Analysis, Inc. (“WAVD” or the "Company"), filed with the Securities Exchange Commission (the "SEC") on December 16, 2021 (the "Initial Form 8-K"), which reported under Item 2.01 that on December 10, 2021, the Company completed its acquisition (the "Acquisition") of Gray Matters, Inc. (“GMI"). This amendment is filed to provide the financial statements of GMI and the pro forma financial information of the Company giving effect to the Acquisition as required by Item 9.01 of Form 8-K. Except as set forth below, the Initial Form 8-K is unchanged.

The pro forma financial information included in this Current Report on Form 8-K/A has been presented for informational purposes only, as required by Form 8-K. It does not purport to represent the actual results of operations that the Company and GMI would have achieved had the companies been combined during the periods presented in the pro forma financial information and is not intended to project the future results of operations that the combined company may achieve following the Acquisition.

Item 9.01 Financial Statement and Exhibits

(a) Financial Statements of business acquired.

The audited financial statements and accompanying notes of GMI as of and for the years ended December 31, 2020 and 2019 are filed herewith as Exhibit 99.1 and are incorporated by reference herein.

The unaudited condensed financial statements and accompanying notes of GMI as of and for the nine months ended September 30, 2021 are filed herewith as Exhibit 99.2 and are incorporated reference herein.

(b) Pro Forma Financial Information.

The unaudited pro forma condensed combined balance sheet of the Company as of September 30, 2021, and the unaudited pro forma condensed combined statements of operations for the year ended December 31, 2020, and the nine months ended September 30, 2021, giving effect to the Acquisition, are filed herewith as Exhibit 99.3 and are incorporated by reference herein.

(d) Exhibits.

Exhibit No.	Description
99.1	Audited financial statements and accompanying notes of GMI as of and for the years ended December 31, 2020 and 2019 and (ii)
99.2	Unaudited condensed financial statements and accompanying notes of GMI as of and for the nine months ended September 30, 2021.
99.3	Unaudited pro forma condensed combined balance sheet of the Company as of September 30, 2021 and the unaudited pro forma condensed combined statements of operations for the year ended December 31, 2020 and the nine months ended September 30, 2021.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

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 hereunto duly authorized.

WaveDancer, Inc.

Date: February 23, 2022

By: /s/ Timothy G. Hannon

Timothy G. Hannon

Chief Financial Officer

Exhibit 99.1

Gray Matters, Inc.

Audited Financial Statements 2020 and 2019

FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2020 AND DECEMBER 31, 2019

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Independent Auditors' Report

To the Shareholder of
Gray Matters, Inc.

We have audited the accompanying financial statements of Gray Matters, Inc., which comprise the balance sheets as of December 31, 2020 and 2019, and the related statements of operations, shareholder's equity (deficit) and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gray Matters, Inc. as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

/s/ Baker Tilly US, LLP

Philadelphia, Pennsylvania
January 28, 2022

GRAY MATTERS, INC.

Balance Sheets
As of December 31, 2020 and 2019

	2020	2019
ASSETS		
Current assets		
Cash and cash equivalents	$ 997,001	$ 94,089
Accounts receivable	-	19,899
Prepaid expenses	197,647	-
Total current assets	1,194,648	113,988
Property and equipment, net	12,189	15,682
Security deposit	6,000	-
Total assets	$ 1,212,837	$ 129,670
LIABILITIES & SHAREHOLDER'S EQUITY		
Current Liabilities		
Accounts payable	$ 169,334	$ 88,141
Income taxes payable	92,752	-
Due to shareholder	37,453	16,350
Accrued liabilities	7,609	8,500
Total current liabilities	307,148	112,991
Notes payable	600,000	219,000
Deferred tax liability	4,600	-
Total liabilities	911,748	331,991
Shareholder's equity (deficit)		
Common stock, par value $0.01 per share, 1,000 shares authorized, issued and outstanding at December 31, 2020 and 2019	10	10
Additional paid-in-capital	62,264	62,264
Retained earnings (accumulated deficit)	238,815	(264,595)
Total shareholder's equity (deficit)	301,089	(202,321)
Total liabilities & shareholder's equity	$ 1,212,837	$ 129,670

The accompanying notes are an integral part of these financial statements.

GRAY MATTERS, INC.

Statements of Operations
For the years ended December 31, 2020 and 2019

	2020	2019
Revenues		
Software sales	$ 2,290,366	$ -
Professional fees	-	7,500
Reimbursable expenses	26,634	19,899
Total revenues	2,317,000	27,399
Cost of revenues	1,199,995	216,102
Gross profit	1,117,005	(188,703)
Selling, general and administrative expenses	390,919	34,076
Income (loss) from operations	726,086	(222,779)
Other income	5,000	-
Interest expense	(10,756)	(3,355)
Income (loss) before income taxes	720,330	(226,134)
Income tax expense	97,352	-
Net income (loss)	$ 622,978	$ (226,134)

The accompanying notes are an integral part of these financial statements.

Statements of Shareholder's Equity (Deficit)
For the years ended December 31, 2020 and 2019

	Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Total
	Shares	Amount			
Balance December 31, 2018	**1,000**	**$ 10**	**$ 90**	**$ (16,164)**	**$ (16,064)**
Net loss	-	-	-	(226,134)	(226,134)
Dividend	-	-	-	(22,297)	(22,297)
Shareholder contribution	-	-	62,174		62,174
Balance December 31, 2019	**1,000**	**10**	**62,264**	**(264,595)**	**(202,321)**
Net income	-	-	-	622,978	622,978
Dividend	-	-	-	(119,568)	(119,568)
Balance December 31, 2020	**1,000**	**$ 10**	**$ 62,264**	**$ 238,815**	**$ 301,089**

The accompanying notes are an integral part of these financial statements.

GRAY MATTERS, INC.

Statements of Cash Flows
For the years ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Net income (loss)	$ 622,978	$ (226,134)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	3,493	1,144
Deferred taxes	4,600	-
Decrease (increase) in assets		
Accounts receivable	19,899	(19,899)
Prepaid expenses	(197,647)	24
Security deposit	(6,000)	-
Increase (decrease) in liabilities		
Accounts payable	81,193	88,141
Income taxes payable	92,752	-
Due to shareholder	21,103	12,198
Accrued liabilities	(891)	8,500
Net cash provided by (used in) operating activities	641,480	(136,026)
Cash flows from investing activities:		
Purchases of property and equipment	-	(13,618)
Net cash used in investing activities	-	(13,618)
Cash flows from financing actvities:		
Borrowings under note payable	481,000	219,000
Repayments under note payable	(100,000)	-
Dividends	(119,568)	(22,297)
Contributions from shareholder	-	46,936
Net cash provided by financing activities	261,432	243,639
Net increase in cash	902,912	93,995
Cash - beginning of year	94,089	94
Cash - end of year	$ 997,001	$ 94,089
Supplemental cash flow information:		
Cash paid during the year for:		
Interest	$ 12,256	$ 1,855
Income taxes paid directly by shareholder	$ -	$ 15,238

The accompanying notes are an integral part of these financial statements.

NOTE 1. NATURE OF THE BUSINESS

Gray Matters, Inc. (the Company) was incorporated on October 3, 2013, in the state of Delaware and reincorporated on April 2, 2021, in the state of Nevada. The Company's primary product is its blockchain software that is sold as an installed/on-premise license with a single U.S. government customer.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting: The financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP).

Use of Estimates: The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates include depreciable lives for property and equipment, recoverability of income taxes, accrued liabilities, and collectability of accounts receivables. Actual results could differ from those estimates.

Cash: Cash includes bank checking accounts in the United States which at times may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk with respect to cash.

Accounts Receivable: The Company provides credit in the normal course of business to its customer. Accounts for which no payments have been received for several months are considered delinquent and customary collection efforts are begun. After all collection efforts are exhausted, the account will be written-off. An allowance for doubtful accounts is based on the Company's past experience as well as a specific review of outstanding accounts. The Company has determined that no allowance for doubtful accounts is required at December 31, 2020 and 2019.

Property and Equipment: Property and equipment are stated at cost and primarily consist of computer hardware and software. The Company capitalizes all property and equipment purchases over $1,000 that have a useful life greater than one year. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which currently are all estimated at five years.

Revenue Recognition: The Company recognizes revenue under the provisions of Accounting Standards Codification (ASC) Topic 606, "Revenue from Contracts with Customers". ASC 606 requires an entity to recognize revenue to depict the transfer of control of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services.

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

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Nature of Products and Services

The Company generates revenue primarily from software sales and licensing. The Company currently sells through its direct relationship with its end customer. Software is installed and configured on the customer's premises. Direct costs that are reimbursable by the customer under the contract are recognized on a gross basis under revenue as reimbursable expenses.

The Company's only customer contract is a firm fixed price contract. The performance obligations are generally separated into separate tasks or deliverables within the contract. Within a single contract, revenue related to performance obligations may be recognized at a point in time or over time. During the years ended December 31, 2020 and 2019, the Company recognized point in time revenue of $26,634 and $27,399, respectively. The sale of a software license is not a distinct performance obligation from the other development and maintenance services, and is recognized over time. During December 31, 2020, the Company recognized $2,290,366 of revenue over time.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Customer contracts may be modified to change the scope, price, specifications, other terms within the existing arrangement. Contract modifications are evaluated by management to determine whether the modification should be accounted for as part of the original performance obligation(s) or as a separate contract. If the modification adds distinct goods or services and increases the contract value proportionate to the stand-alone selling price of the additional goods or services, it will be accounted for as a separate contract. Generally, the Company's contract modifications include services which are distinct, and therefore are accounted for as separate from the original performance obligation(s).

Customer payment terms are generally 30 days. The Company does not have any significant financing components as payment is received within one year of the transfer of control to the customer. Sales or other taxes billed and collected from the customer are excluded from revenue.

Trade accounts receivable are recorded at the billable amount where the Company has the unconditional right to bill, net of allowances for doubtful accounts. The allowance for doubtful accounts is based on the Company's assessment of the collectability of accounts. Management regularly reviews the adequacy of the allowance for doubtful accounts by considering the age of each outstanding invoice, the customer's expected ability to pay and collection history, when applicable, to determine whether a specific allowance is appropriate. Accounts receivable deemed uncollectible are charged against the allowance for doubtful accounts when identified. There were no such allowances recognized at December 31, 2020 and 2019. Accounts receivable at December 31, 2020 and 2019, do not include any unbilled amounts. Unbilled receivables occur when transfer of the performance obligation to the customer has occurred, and therefore revenue is recognized, in a period prior to invoicing for that performance obligation.

Income Taxes: Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss carryforwards. A valuation allowance is provided when it is more-likely-than-not that some portion or all of a deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and the reversal of deferred tax liabilities during the period in which related temporary differences become deductible.

The Company recognizes a tax benefit if it is more-likely-than-not that a tax position taken or expected to be taken on a tax return will be sustained upon examination by taxing authorities based on the merits of the position. The tax benefit recognized in the financial statements is measured based on the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement. As such, the difference between a tax position taken or expected to be taken in a tax return in future periods and the benefit recognized and measured pursuant to this guidance in the financial statements represents an unrecognized tax benefit.

The Company recognizes interest and penalties related to unrecognized tax benefits in operating expense. As of December 31, 2020 and 2019, there were no unrecognized tax benefits or penalties accrued related to unrecognized tax benefits, nor were any interest or penalties recognized during the years ended December 31, 2020 and 2019.

Recently Issued Accounting Pronouncements: In June 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-13, "Financial Instruments - Credit Losses" (Topic 326). ASU 2016-13 provides for a new impairment model which requires measurement and recognition of expected credit losses for most financial assets and certain other instruments, including but not limited to accounts receivable. The new guidance will be effective for fiscal years beginning after December 15, 2022. Early adoption is allowed. The Company is currently assessing the impact of the new guidance.

NOTE 3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at December 31, 2020 and 2019:

	2020	2019
Computer hardware	$ 17,468	$ 17,468
Less: accumulated depreciation	(5,279)	(1,786)
Property and equipment, net	$ 12,189	$ 15,682

Depreciation expense amounted to $3,493 and $1,144 for the years ended December 31, 2020 and 2019, respectively.

NOTE 4. NOTES PAYABLE

On November 1, 2019, the Company entered into a note agreement with a company affiliated with one of its contractors for $100,000. The loan had an interest rate of 18 percent per annum and monthly interest payments of $1,500 beginning in December 2019, with the outstanding principal due at maturity. The loan was repaid in full on August 6, 2020. Interest was $8,315 and $2,985 for the years ended December 31, 2020 and 2019, respectively.

On December 9, 2019, the Company entered into an agreement with an individual investor to provide “permanent” working capital funding to the Company of up to $600,000. Advances requested and paid under the agreement do not bear interest and are only payable by the Company to the investor upon a Company liquidity event, as defined in the agreement (generally, a change in control or initial public offering). The amount contingently payable upon a liquidity event is 220 percent of the total advances. The Company received advances under the agreement totaling $481,000 in 2020 and $119,000 in 2019. On December 8, 2021, the Company and investor executed a Payoff and Termination Agreement which was effectuated upon payment of a discounted amount in connection with the sale of the Company on December 10, 2021.

During 2020, the Company applied for and received a Targeted Economic Injury Disaster Loan (EIDL) Advance through the United States Small Business Administration in the amount of $5,000. The Targeted EIDL Advance is treated as a grant and was forgiven in full in the same year and is reported as other income.

NOTE 5. INCOME TAXES

The income tax expense consisted of the following for the years ended December 31:

	2020	2019
Current:		
Federal	$ 50,466	$ -
State	42,286	-
Total	92,752	-
Deferred:		
Federal	3,450	-
State	1,150	-
Total	4,600	-
Total expense	$ 97,352	$ -

The tax effects of significant temporary differences representing deferred tax assets and liabilities at December 31, 2020 and 2019, are as follows:

	2020	2019
Deferred tax (liabilities) assets:		
Net operating loss carryforward	$ -	$ 39,600
Accruals	(2,300)	28,100
Tangible and intangible assets	(2,300)	1,100
Subtotal	(4,600)	68,800
Valuation allowance	-	(68,800)
Total	$ (4,600)	$ -

The income tax expense differs from the expected income tax expense computed by applying the U.S. federal corporate tax rate of 21% to the income (loss) before income taxes primarily as a result of non-deductible expenses, state income taxes and the change in the valuation allowance on the net deferred tax asset.

There was a full valuation allowance recorded against the net deferred tax asset at December 31, 2019, because the Company had incurred historical losses and future realization of the net deferred tax asset was not more-likely-than-not at that time.

As of December 31, 2020, the Company had no remaining federal and state net operating loss carryforwards after utilizing federal and state operating loss carryforwards of $141,496 and $142,496, respectively, that were outstanding at December 31, 2019.

The Company files income tax returns in the U.S. federal and the state of Maryland jurisdictions.

NOTE 6. RELATED PARTY TRANSACTIONS

During 2019, the shareholder paid certain operating expenses on behalf of the Company which are included in the Company's statement of operations and paid certain income tax payables on behalf of the Company, all of which are reflected as shareholder equity contributions in the 2019 financial statements. In both 2020 and 2019, the Company paid certain personal expenses on behalf of the shareholder which are not included in the Company's statements of operations and are reflected as dividends in the 2020 and 2019 financial statements. At December 31, 2020 and 2019, the Company owed amounts to the shareholder for Company expenses incurred which are reflected as due to shareholder in the balance sheets.

NOTE 7. REVENUE CONCENTRATION

For the years ended December 31, 2020 and 2019, 100% of the Company's revenue was derived from one customer.

NOTE 8. SUBSEQUENT EVENTS

On December 10, 2021, the shareholder sold 100% of the Company's common stock to WaveDancer, Inc., a Delaware publicly traded company.

The Company has evaluated subsequent events through January 28, 2022, the date which the financial statements were available to be issued. There are no other material events that have occurred subsequent to December 31, 2020 that would require adjustment to or disclosure in these financial statements.

Exhibit 99.2

Gray Matters, Inc.

Unaudited condensed financial statements and accompanying notes of GMI as of and for the nine months ended September 30, 2021.

Gray Matters, Inc.
Unaudited Interim Financial Statements
As of and for the nine months September 30, 2021

Balance Sheet

	Unaudited 9/30/2021	12/31/2020
ASSETS		
Current assets		
Cash and cash equivalents	$ 193,686	$ 997,001
Accounts receivable	208,642	-
Prepaid expenses	23,541	197,647
Total current assets	425,869	1,194,648
Property and equipment, net	9,569	12,189
Security deposit	6,000	6,000
Total assets	$ 441,438	$ 1,212,837
LIABILITIES & SHAREHOLDER'S EQUITY		
Current liabilities		
Accounts payable	$ 259,086	$ 169,334
Income taxes payable	67,752	92,752
Due to shareholder	29,669	37,453
Accrued liabilities	7,000	7,609
Total current liabilities	363,507	307,148
Notes payable	600,000	600,000
Deferred tax liability	4,600	4,600
Total liabilities	968,107	911,748
Shareholder's equity (deficit)		
Common stock, par value $0.01 per share; 1,000 shares authorized, issued and outstanding at September 30, 2021 and December 31, 2020	10	10
Additional paid-in-capital	5,035	62,264
Accumulated deficit (retained earnings)	(531,714)	238,815
Total shareholder's equity (deficit)	(526,669)	301,089
Total liabilities & shareholder's equity	$ 441,438	$ 1,212,837

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

Gray Matters, Inc.
Unaudited Interim Financial Statements
As of and for the nine months September 30, 2021

Statement of Operations and Comprehensive Income

Revenues		
Software sales	$	698,823
Reimbursable expenses		19,819
Total revenues		718,642
Cost of revenues		996,215
Gross profit		(277,573)
Selling, general and administrative expenses		491,984
Loss from operations		(769,557)
Other income		-
Interest expense		(972)
Loss before income taxes		(770,529)
Income tax expense		-
Net loss	$	(770,529)
Comprehensive loss	$	(770,529)

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

Gray Matters, Inc.
Unaudited Interim Financial Statements
As of and for the nine months September 30, 2021

Statement of Shareholder's Equity

Unaudited

	Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Total
	Shares	Amount			
Balance December 31, 2020	**1,000**	**$ 10**	**$ 62,264**	**238,815**	**$ 301,089**
Net loss	-	-	-	(770,529)	(770,529)
Dividend	-	-	(87,229)	-	(87,229)
Shareholder contribution	-	-	30,000	-	30,000
Balance September 30, 2021	**1,000**	**$ 10**	**$ 5,035**	**$ (531,714)**	**$ (526,669)**

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

Gray Matters, Inc.
Unaudited Interim Financial Statements
As of and for the nine months September 30, 2021

Statement of Cash Flows

		Unaudited
Cash flows from operating activities:		
Net loss	$	(770,529)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation		2,620
Decrease (increase) in assets:		
Accounts receivable		(208,642)
Prepaid expenses		174,106
Increase (decrease) in liabilities:		
Accounts payable		89,752
Income taxes payable		(25,000)
Due to shareholder		(7,784)
Accrued liabilities		(609)
Net cash used in operating activities		(746,086)
Cash flows from financing actvities:		
Dividends		(87,229)
Contributions from shareholder		30,000
Net cash provided by financing activities		(57,229)
Net increase in cash		(803,315)
Cash - beginning of year		997,001
Cash - end of period	$	193,686

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

NOTE 1. NATURE OF THE BUSINESS

Gray Matters, Inc. (the Company) was incorporated on October 3, 2013, in the state of Delaware. The Company's primary product is its blockchain software that is sold as an installed/on-premise license with a single U.S. government customer.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Unaudited Interim Condensed Consolidated Financial Statements

The accompanying unaudited financial statements ("financial statements") have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") for interim financial information Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or. In the opinion of management, the financial statements include all adjustments necessary (which are of a normal and recurring nature) for the fair and not misleading presentation of the results of the interim periods presented. These unaudited interim condensed consolidated financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2020. The results of operations for any interim periods are not necessarily indicative of the results of operations for any other interim period or for a full fiscal year.

There have been no changes in the Company's significant accounting policies as of September 30, 2021, as compared to the significant accounting policies disclosed in Note 1, "Summary of Significant Accounting Policies" in the Company's audited financial statements for the year ended December 31, 2020.

Basis of Accounting: The financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP).

Use of Estimates: The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates include depreciable lives for property and equipment, recoverability of income taxes, accrued liabilities, and collectability of accounts receivables. Actual results could differ from those estimates.

Cash: Cash includes bank checking accounts in the United States which at times may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk with respect to cash.

Property and Equipment: Property and equipment are stated at cost and primarily consist of computer hardware and software. The Company capitalizes all property and equipment purchases over $1,000 that have a useful life greater than one year. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which currently are all estimated at five years.

Revenue Recognition: The Company recognizes revenue under the provisions of Accounting Standards Codification (ASC) Topic 606, "Revenue from Contracts with Customers". ASC 606 requires an entity to recognize revenue to depict the transfer of control of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services.

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

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

Nature of Products and Services

The Company generates revenue primarily from software sales and licensing. The Company currently sells through its direct relationship with its end customer. Software is installed and configured on the customer's premises. Direct costs that are reimbursable by the customer under the contract are recognized on a gross basis under revenue as reimbursable expenses.

The Company's only customer contract is a firm fixed price contract. The performance obligations are generally separated into separate tasks or deliverables within the contract. Within a single contract, revenue related to performance obligations may be recognized at a point in time or over time. During the nine months ended September 30, 2021, the Company recognized point in time revenue of $19,819. The sale of a software license is not a distinct performance obligation from the other development and maintenance services and is recognized over time. During the nine months ended September 30, 2021, the Company recognized $698,823 of revenue over time.

Customer contracts may be modified to change the scope, price, specifications, other terms within the existing arrangement. Contract modifications are evaluated by management to determine whether the modification should be accounted for as part of the original performance obligation(s) or as a separate contract. If the modification adds distinct goods or services and increases the contract value proportionate to the stand-alone selling price of the additional goods or services, it will be accounted for as a separate contract. Generally, the Company's contract modifications include services which are distinct, and therefore are accounted for as separate from the original performance obligation(s).

Customer payment terms are generally 30 days. The Company does not have any significant financing components as payment is received within one year of the transfer of control to the customer. Sales or other taxes billed and collected from the customer are excluded from revenue.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Trade accounts receivable are recorded at the billable amount where the Company has the unconditional right to bill, net of allowances for doubtful accounts. The allowance for doubtful accounts is based on the Company's assessment of the collectability of accounts. Management regularly reviews the adequacy of the allowance for doubtful accounts by considering the age of each outstanding invoice, the customer's expected ability to pay and collection history, when applicable, to determine whether a specific allowance is appropriate. Accounts receivable deemed uncollectible are charged against the allowance for doubtful accounts when identified. There were no such allowances recognized at September 30, 2021. Accounts receivable at September 30, 2021 do not include any unbilled amounts. Unbilled receivables occur when transfer of the performance obligation of the performance obligation to the customer has occurred, and therefore revenue is recognized, in a period prior to invoicing for that performance obligation.

Income Taxes: Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and operating loss carryforwards. A valuation allowance is provided when it is more-likely-than-not that some portion or all of a deferred tax asset will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and the reversal of deferred tax liabilities during the period in which related temporary differences become deductible.

The Company recognizes interest and penalties related to unrecognized tax benefits in operating expense. As of September 30, 2021, there were no penalties accrued related to unrecognized tax benefits, nor were any interest or penalties recognized during the nine months ended September 30, 2021.

Recently Issued Accounting Pronouncements: In June 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-13, "Financial Instruments - Credit Losses" (Topic 326). ASU 2016-13 provides for a new impairment model which requires measurement and recognition of expected credit losses for most financial assets and certain other instruments, including but not limited to accounts receivable. The new guidance will be effective for fiscal years beginning after December 15, 2022. Early adoption is allowed. The Company is currently assessing the impact of the new guidance.

NOTE 3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at September 30, 2021:

Computer hardware	$	17,468
Less: accumulated depreciation		(7,899)
Property and equipment, net	$	9,569

Depreciation expense amounted to $2,620 for the nine months ended September 30, 2021.

NOTE 4. NOTES PAYABLE

On December 9, 2019, the Company entered into an agreement with an individual investor to provide "permanent" working capital funding to the Company of up to $600,000. Advances requested and paid under the agreement do not bear interest and are only payable by the Company to the investor upon a Company liquidity event, as defined in the agreement (generally, a change in control or initial public offering). The amount contingently payable upon a liquidity event is 220 percent of the total advances. The Company received advances under the agreement totaling $481,000 in 2020 and $119,000 in 2019. On December 8, 2021, the Company and investor executed a Payoff and Termination Agreement which was effectuated upon payment of a discounted amount in connection with the sale of the Company on December 10, 2021.

NOTE 5. RELATED PARTY TRANSACTIONS

During the nine months ended September 30, 2021, the Company paid certain personal expenses on behalf of the shareholder which are not included in the Company's statements of operations and are reflected as dividends in these interim financial statements. At December 31, 2020 and September 30, 2021, the Company owed amounts to the shareholder for Company expenses incurred which are reflected as due to shareholder in the balance sheets.

NOTE 6. REVENUE CONCENTRATION

For the nine months ended September 30, 2021, 100% of the Company's revenue was derived from one customer.

NOTE 7. SUBSEQUENT EVENTS

On December 10, 2021, the shareholder sold 100% of the Company's common stock to WaveDancer, Inc., a Delaware publicly traded company. The Company paid all of its outstanding debt simultaneous with the closing of the sale.

Exhibit 99.3

Unaudited Pro Forma Condensed Combined Financial Information

WaveDancer, Inc.
Unaudited Pro Forma Condensed Combined Financial Information

On December 10, 2021, WAVD (together with its subsidiary, the "Company" or "WAVD"), acquired all issued and outstanding shares of common stock of Gray Matters, Inc. ("GMI"), for a purchase price comprising $7.5 million in cash, adjusted up or down by the difference between actual and target net working capital, $1.5 million in deferred cash, $1.5 million in WAVD stock, and up to $4 million of additional consideration contingent upon GMI's performance from the closing date through December 31, 2022 (the "Acquisition"). Also on December 10, 2021, the Company raised aggregate gross proceeds of $10,000,000 by selling 3,289,525 units in a private placement offering resulting in the issuance of a like number of shares of common stock and 651,352 Series A warrants exercisable for a like number of shares of common stock. The Company used the net proceeds from the private placement to finance the Acquisition and related transaction expenses.

The following unaudited pro forma condensed combined financial statements present the combined financial information of WAVD and GMI, adjusted to give effect to the Acquisition and related financing transaction. The following unaudited pro forma condensed combined financial statements have been prepared in accordance with Article 11 of Regulation S-X, Pro Forma Financial Information, as amended by Release No. 33-10786 "Amendments to Financial Disclosures about Acquired and Disposed Businesses," which is herein referred to as Article 11. Article 11 provides simplified requirements to depict the accounting for the transaction ("Transaction Accounting Adjustments") and the option to present the reasonably estimable synergies and other transaction effects that have occurred or are reasonably expected to occur ("Management's Adjustments"). WAVD has elected not to present Management's Adjustments and has only presented Transaction Accounting Adjustments in the following unaudited pro forma condensed combined financial statements.

The unaudited pro forma condensed combined balance sheet as of September 30, 2021 combines the historical balance sheets of WAVD and GMI on a pro forma basis as if the Acquisition and related financing transaction had been consummated on September 30, 2021. The unaudited pro forma condensed combined statements of operations for the nine months ended September 30, 2021 and the year ended December 31, 2020 combine the historical statements of operations of WAVD and GMI on a pro forma basis as if the Acquisition and related financing transaction had been consummated on January 1, 2020, the beginning of the earliest period presented.

The unaudited pro forma condensed combined financial statements have been presented for illustrative purposes only and are not necessarily indicative of the operating results and financial position that would have been achieved had the Acquisition and related financing transactions occurred on the dates indicated. Further, the unaudited pro forma condensed combined financial statements do not purport to project the future operating results or financial position of the combined company following the completion of the Acquisition and related private offering of common stock.

The unaudited pro forma adjustments represent management's estimates based on preliminary information and estimates that WAVD believes are reasonable under the circumstances. Actual results are subject to change, perhaps materially, as additional information becomes available, and analyses are performed. The assumptions and estimates underlying the pro forma adjustments set forth in the unaudited pro forma condensed combined financial statements are described in the accompanying notes.

On April 7, 2021 the Company acquired all of the outstanding shares of Tellenger, Inc. ("Tellenger") and filed a Form 8-K/A on June 24, 2021 with the required pro forma financial information for that acquisition (the "Tellenger 8-K/A"). The unaudited pro forma condensed combined statements of operations for the nine months ended September 30, 2021 and for the year ended December 31, 2020 combine the financial statements of WAVD and Tellenger giving effect to the transaction described in the Tellenger 8-K/A, as if it had occurred on January 1, 2020 in respect of the unaudited pro forma condensed combined statements of operations.

The unaudited pro forma condensed combined financial information should be read in conjunction with:

- WAVD's audited consolidated financial statements and accompanying notes as of and for the year ended December 31, 2020, as contained in the Form 10-K filed on March 31, 2021 with the United States Securities and Exchange Commission (the "SEC").
- WAVD's unaudited condensed consolidated financial statements and accompanying notes as of and for the nine months ended September 30, 2021, as contained in its Quarterly Report on Form 10-Q filed on November 2, 2021 with the SEC.
- GMI's audited financial statements as of and for the years ended December 31, 2020 and December 31, 2019, contained elsewhere herein.
- GMI's unaudited financial statements as of and for the nine months ended September 30, 2021, contained elsewhere herein.
- WAVD's Form 8-K/A filed on June 24, 2021 and containing Tellenger's audited financial statements for 2020, Tellenger's unaudited interim financial statements as of and for the three months ended March 31, 2021, and the unaudited pro forma condensed combined financial information contained therein and incorporated herein by reference.
- The other information contained in or incorporated by reference into this filing.

WaveDancer, Inc.
Unaudited Pro Forma Condensed Combined Financial Information

Pro-Forma Condensed Combined Balance Sheet as of September 30, 2021

	Historical WaveDancer	Historical Gray Matters	Pro Forma Adjustments	Note 4	Pro Forma Combined
ASSETS					
Current assets					
Cash and cash equivalents	$ 3,682,613	$ 193,686	$ 2,507,533	a.	$ 6,383,832
Accounts receivable	2,874,656	208,642	208,291	b.	3,291,589
Prepaid expenses and other current assets	289,123	23,541	(23,541)	b.	289,123
Total current assets	6,846,392	425,869	2,692,283		9,964,544
Property and equipment, net	94,965	9,569	-		104,534
Right-of-use operating lease asset	285,667	-	-		285,667
Intangible assets and goodwill, net	2,187,088	-	10,899,281	c.	13,086,369
Other assets	5,707	6,000	-		11,707
Total assets	$ 9,419,819	$ 441,438	$ 13,591,564		$ 23,452,821
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities					
Accounts payable	$ 926,643	$ 259,086	$ (15,731)	b.	$ 1,169,998
Accrued payroll and related liabilities	791,921	-	-		791,921
Income taxes payable	-	67,752	(67,752)	d.	-
Revolving line of credit	402,306	-	-		402,306
Notes payable - current	797,295	-	-		797,295
Other current liabilities	198,674	36,669	(11,872)	b.	223,471
Total current liabilities	3,116,839	363,507	(95,355)		3,384,991
Note payable - non-current	400,856	600,000	735,000	e.	1,735,856
Contingent consideration payable	-	-	925,250	f.	925,250
Operating lease liability - non-current	260,141	-	-		260,141
Deferred tax liability	-	4,600	-	d.	4,600
Total liabilities	3,777,836	968,107	1,564,895		6,310,838
Stockholders' equity					
Common stock	151,532	10	37,250	g., h.	188,792
Additional paid-in capital	18,507,731	5,035	11,457,705	g., h.	29,970,471
Accumulated deficit	(12,087,069)	(531,714)	531,714	g.	(12,087,069)
Treasury stock	(930,211)	-	-		(930,211)
Total stockholders' equity	5,641,983	(526,669)	12,026,669		17,141,983
Total liabilities and stockholders' equity	$ 9,419,819	$ 441,438	$ 13,591,564		$ 23,452,821

WaveDancer, Inc.
Unaudited Pro Forma Condensed Combined Financial Information

Pro-Forma Condensed Combined Statement of Operations for the Nine Months Ended September 30, 2021

	Historical WaveDancer	Historical Tellenger	Pro Forma Adjustments	Note 5	Sub-total	Historical Gray Matters	Pro Forma Adjustments	Note 4	Pro Forma Combined
Revenues									
Software sales	$ 3,885,828	$ -	$ -		$ 3,885,828	$ 698,823	$ -		$ 4,584,651
Services	8,565,639	1,225,963	-		9,791,602	-	-		9,791,602
Reimbursable expenses	-	-	-		-	19,819	-		19,819
Total revenues	12,451,467	1,225,963	-		13,677,430	718,642	-		14,396,072
Cost of revenues	9,497,014	1,013,984	-		10,510,998	996,215	-		11,507,213
Gross profit	2,954,453	211,979	-		3,166,432	(277,573)	-		2,888,859
Selling, general and administrative expenses	2,627,958	105,945	-		2,733,903	491,984	-		3,225,887
Amortization of intangible assets	87,912	-	47,161	a.	135,073	-	953,687	i.	1,088,760
Income (loss) from operations	238,583	106,034	(47,161)		297,456	(769,557)	(953,687)		(1,425,788)
Other expense, net	20,138	-	-		20,138	-	-		20,138
Interest expense	-	-	-		-	972	-		972
Income (loss) before provision for income taxes	218,445	106,034	(47,161)		277,318	(770,529)	(953,687)		(1,446,898)
Provision for income taxes	-	-	-		-	-	-	j.	-
Net income (loss)	$ 218,445	$ 106,034	$ (47,161)		$ 277,318	$ (770,529)	$ (953,687)		$ (1,446,898)
Comprehensive income (loss)	$ 218,445	$ 106,034	$ (47,161)		$ 277,318	$ (770,529)	$ (953,687)		$ (1,446,898)
Net income (loss) per common share - basic	$ 0.02				$ 0.02				$ (0.09)
Net income (loss) per common share - diluted	$ 0.02				$ 0.02				$ (0.09)
Weighted average common shares outstanding									
Basic	11,957,878		68,267	b.	12,026,145		3,725,981	k.	15,752,126
Diluted	12,584,914		68,267		12,653,181		3,725,981	k.	15,752,126

WaveDancer, Inc.
Unaudited Pro Forma Condensed Combined Financial Information

Pro-Forma Condensed Combined Statement of Operations for the Year Ended December 31, 2020

	Historical WaveDancer	Historical Tellenger	Pro Forma Adjustments	Note 5	Sub-total	Historical Gray Matters	Pro Forma Adjustments	Note 4	Pro Forma Combined
Revenues									
Software sales	$ 8,375,932	$ -	$ -		$ 8,375,932	$ 2,290,366	$ -		$ 10,666,298
Professional fees	5,527,139	4,449,113	-		9,976,252	-	-		9,976,252
Reimbursable expenses	-	-	-		-	26,634	-		26,634
Total revenues	13,903,071	4,449,113	-		18,352,184	2,317,000	-		20,669,184
Cost of revenues	11,693,738	3,608,613	-		15,302,351	1,199,995	-		16,502,346
Gross profit	2,209,333	840,500	-		3,049,833	1,117,005	-		4,166,838
Selling, general and administrative expenses	1,797,485	669,728	-		2,467,213	390,919	-		2,858,132
Amortization of intangible assets	-	-	173,159	a.	-	-	1,271,583	i.	1,271,583
Income from operations	411,848	170,772	(173,159)		582,620	726,086	(1,271,583)		37,123
Other income, net	1,531	10,020	-		11,551	5,000	-		16,551
Interest expense	-	-	-		-	(10,756)	-		(10,756)
Income before provision for income taxes	413,379	180,792	(173,159)		594,171	720,330	(1,271,583)		42,918
Provision for income taxes	-	-	-		-	97,352	-	j.	97,352
Net income (loss)	$ 413,379	$ 180,792	$ (173,159)		$ 594,171	$ 622,978	$ (1,271,583)		$ (54,434)
Comprehensive income (loss)	$ 413,379	$ 180,792	$ (173,159)		$ 594,171	$ 622,978	$ (1,271,583)		$ (54,434)
Net income (loss) per common share - basic	$ 0.04				$ 0.05				$ 0.00
Net income (loss) per common share - diluted	$ 0.03				$ 0.05				$ 0.00
Weighted average common shares outstanding									
Basic	11,222,826		68,267		11,291,093		3,725,981	k.	15,017,074
Diluted	12,049,322		68,267	b.	12,117,589		3,725,981	k.	15,017,074

WaveDancer, Inc.
Unaudited Pro Forma Condensed Combined Financial Information

Note 1 – Basis of Presentation

The unaudited pro forma condensed combined financial statements are based on the Company's and GMI's historical consolidated financial statements as adjusted to give effect to the acquisition of GMI and the issuance of shares of WAVD common stock in a private placement that was necessary to finance the acquisition. The unaudited pro forma combined statements of operations for the nine months ended September 30, 2021 and the 12 months ended December 31, 2020 give effect to the GMI acquisition as if it had occurred on January 1, 2020. The unaudited pro forma combined balance sheet as of September 30, 2021 gives effect to the GMI acquisition as if it had occurred on September 30, 2021.

The unaudited pro forma combined statements of operations for the nine months ended September 30, 2021 and the 12 months ended December 31, 2020 separately show the effect of the Tellenger acquisition, which closed on April 7, 2021, as if it had occurred on January 1, 2020.

Note 2 – Description of Transaction

On December 10, 2021, WaveDancer, Inc. ("WAVD") entered into a Stock Purchase Agreement among WAVD, Jeffrey P. Gerald, as Seller, and Gray Matters, Inc., a Delaware corporation ("GMI"), whereby WAVD purchased all the outstanding shares of GMI. Subject to positive or negative adjustments tied to GMI's working capital at the closing as measured against a working capital target, the purchase price for the shares consists of (i) $1,500,000 in value of WAVD shares of common stock, (ii) $7,500,000 in cash consideration, (iii) deferred consideration of $1,500,000 payable 24 months after the closing of the transaction and (iv) earn-out consideration of up to $4,000,000 of which up to $2,000,000 is dependent upon GMI achieving gross revenue targets in 2022 and up to $2,000,000 is dependent upon GMI achieving gross profit targets in 2022.

Note 3—Estimated Consideration and Preliminary Purchase Price Allocation

The Company has performed a preliminary purchase price allocation. The consideration for the Acquisition has been estimated as follows:

Cash	$	7,500,000
Estimated net working capital adjustment		(201,219)
Net cash paid at closing		7,298,781
Buyer common stock		1,500,000
Fair value of deferred consideration		1,335,000
Contingent consideration		925,250
Total purchase price	$	11,059,031

The fair value of WAVD common stock is based on the volume weighted average price for the five days prior to the transaction closing date. Deferred consideration and the contingent consideration have been estimated based on their present value using an appropriate discount rate. Contingent consideration has been estimated using a probability weighted average of possible outcomes. The final estimate of contingent consideration will be recorded as a liability as of the acquisition date and the liability will be remeasured at fair value through net income at the end of each reporting period until the liability is settled.

Using the total consideration for the Acquisition, the Company has estimated the allocations to such assets and liabilities. The following table summarizes the preliminary allocation of the estimated purchase price as of the transaction's closing date, December 10, 2021:

Net working capital	$	148,781
Property and equipment		9,569
Other assets		1,400
Intangibles and goodwill		10,899,281
	$	11,059,031

This preliminary purchase price allocation has been used to prepare pro forma adjustments in the pro forma balance sheet and income statement. The final purchase price allocation will be determined when the Company has completed the detailed valuations and necessary calculations. The final allocation could differ materially from the preliminary allocation used in the pro forma adjustments. The final allocation may include (1) changes in fair values of property, plant and equipment, (2) changes in allocations to identifiable intangible assets such as trade names, technology and customer relationships as well as goodwill and (3) other changes to assets and liabilities. The pro-forma adjustments do not reflect the deferred tax liability that may need to be recorded in connection with recording intangible assets that will be subject to amortization for book purposes but not tax purposes. The offset to such an adjustment would be to increase goodwill.

Note 4—Pro forma adjustments for Gray Matters

The pro forma adjustments are based on preliminary estimates and assumptions that are subject to change.

Adjustments to the pro forma condensed combined balance sheet:

(a) Adjustment to cash comprises the net of:

Proceeeds from private placement used to fund the acquisition	$	10,000,000
Cash paid to seller at closing		(7,298,781)
Elimination of GMI cash not included in purchase		(193,686)
Net	$	2,507,533

(b) Accounts receivable, prepaid expenses and other current assets, accounts payable, and other current liabilities have been adjusted to the amounts reflected in the estimated balance sheet of GMI on December 10, 2021.

(c) Represents identifiable intangible assets and goodwill based on the preliminary purchase price allocation as discussed in Note 3.

(d) GMI's Income tax payable was settled at the closing of the transaction and has been eliminated. The Company has not completed its analysis of the effect of the transaction on its deferred tax assets and liabilities, if any, and, as such, has not included a pro forma adjustment to historical balances.

(e) Notes payable adjustment is the net of 1) $1.335 million estimated present value of deferred consideration due on the second anniversary of the acquisition, and 2) GMI $600,000 note payable balance settled at closing.

(f) Equals the estimated present value of the contingent consideration liability is as described in Note 3 above.

(g) Historical shareholder's equity accounts of GMI are eliminated in purchase accounting.

(h) Common Stock and additional paid in capital ("APIC") are increased by the value of the shares issued in connection with the private placement ($10 million), the value of the shares issued to Seller as part of the consideration ($$1.5 million), less the historical balances of GMI. Below is a recap of the adjustments to equity:

		Common Stock		APIC		Net
Eliminate historical balances	$	(10)	$	(5,035)	$	(5,045)
Private offering of common shares		32,895		9,967,105		10,000,000
Common stock consideration		4,365		1,495,635		1,500,000
Net	$	37,250	$	11,457,705	$	11,494,955

Adjustments to the pro forma condensed combined statement of operations and comprehensive income:

(i) To estimate the pro forma amortization expense, it is assumed that 70% of the total of estimated Intangibles and Goodwill will be allocable to identifiable intangible assets subject to amortization and that the average useful life of such assets is six years.

(j) The Company has not completed its analysis of the effect of the transaction on its deferred tax assets and liabilities, if any, and, as such, has not included a pro forma adjustment to historical balances.

(k) The pro forma adjustment to common shares outstanding comprises: 1) 3,289,500 shares issued to investors in the $10 million private offering required to fund the acquisition, and 2) 436,481 shares issued to the Seller as purchase consideration.

Note 5—Pro forma adjustments for Tellenger

(a) Amortization expense of the intangibles recorded in connection with acquisition.

(b) Shares issued to Seller as partial consideration.