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 June 30, 2023
or

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

Commission File Number 001-41092

WaveDancer, Inc.
(Exact name of registrant as specified in its charter)

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

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

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value $0.001 per share	WAVD	The NASDAQ Stock Market 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☐	Accelerated filer☐	Non-accelerated filer☑
	Smaller reporting company☑	Emerging growth company☐

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☑

Number of shares outstanding by each class of common stock, as of August 10, 2023:

Common Stock, $0.001 par value – 19,459,834, shares outstanding

This document is also available through our website at http://ir.wavedancer.com/.

WAVEDANCER, INC.
FORM 10-Q

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

WAVEDANCER, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2023	December 31, 2022
ASSETS		
Current assets		
Cash and cash equivalents	$ 338,300	$ 731,081
Accounts receivable	1,734,944	1,629,559
Prepaid expenses and other current assets	525,846	442,445
Total current assets	2,599,090	2,803,085
Intangible assets, net of accumulated amortization of $396,339, and $308,217, respectively	1,093,661	1,181,783
Goodwill	1,125,101	1,125,101
Right-of-use operating lease asset	312,066	376,104
Property and equipment, net of accumulated depreciation and amortization of $411,333, and $391,628, respectively	79,286	98,991
Contingent consideration receivable	682,000	-
Equity investment	335,475	-
Other assets	20,623	79,305
Assets held for sale	-	2,316,845
Total assets	$ 6,247,302	$ 7,981,214
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 839,711	$ 573,789
Revolving line of credit	1,000,000	425,000
Premium financing note payable	186,115	-
Accrued payroll and related liabilities	531,524	676,796
Commissions payable	20,363	125,033
Income taxes payable	3,101	3,101
Other accrued liabilities	512,012	283,497
Contract liabilities	72,003	182,756
Operating lease liabilities - current	215,018	203,342
Deferred acquisition consideration	-	1,415,098
Total current liabilities	3,379,847	3,888,412
Operating lease liabilities - non-current	190,745	303,778
Deferred tax liabilities, net	59,121	59,121
Total liabilities	3,629,713	4,251,311
Stockholders' equity		
Common stock, $0.001 par value 100,000,000 shares authorized; 20,932,885 and 20,838,599 shares issued, 19,259,834 and 19,165,548 shares outstanding as of June 30, 2023 and December 31, 2022, respectively	20,933	20,839
Additional paid-in capital	35,867,835	35,865,076
Accumulated deficit	(32,305,968)	(31,190,801)
Treasury stock, 1,673,051 shares at cost, as of June 30, 2023 and December 31, 2022	(965,211)	(965,211)
Total stockholders' equity	2,617,589	3,729,903
Total liabilities and stockholders' equity	$ 6,247,302	$ 7,981,214

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

WAVEDANCER, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30, 2023	Three Months Ended June 30, 2022
Revenues		
Professional fees	$ 1,967,957	$ 2,277,832
Software sales	56,665	1,472,688
Total revenues	2,024,622	3,750,520
Cost of revenues		
Cost of professional fees	1,263,822	1,424,689
Cost of software sales	55,787	1,421,990
Total cost of revenues excluding depreciation and amortization	1,319,609	2,846,679
Gross profit	705,013	903,841
Selling, general and administrative expenses	1,654,365	2,503,111
Gain on settlement of litigation	(1,442,468)	-
Operating income (loss) from continuing operations	493,116	(1,599,270)
Other income (expense), net	131	195
Interest expense	(36,809)	(19,818)
Income (loss) from continuing operations before income taxes and equity in net loss of affiliate	456,438	(1,618,893)
Provision for income taxes	-	303,000
Net income (loss) from continuing operations before equity in net loss of affiliate	456,438	(1,921,893)
Equity in net loss of affiliate	(221,653)	-
Net income (loss) from continuing operations	234,785	(1,921,893)
Income from discontinued operations	-	396,451
Net income (loss)	$ 234,785	$ (1,525,442)
Income (loss) per share from continuing operations		
Basic	$ 0.01	$ (0.11)
Diluted	0.01	(0.11)
Income per share from discontinued operations		
Basic	-	0.02
Diluted	-	0.02
Income (loss) per share		
Basic	0.01	(0.09)
Diluted	$ 0.01	$ (0.09)
Weighted average common shares outstanding		
Basic	19,259,834	17,294,808
Diluted	19,454,934	17,294,808

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

WAVEDANCER, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	6 Months Ended June 30, 2023	6 Months Ended June 30, 2022
Revenues		
Professional fees	$ 4,071,415	$ 4,344,522
Software sales	113,330	2,401,510
Total revenues	4,184,745	6,746,032
Cost of revenues		
Cost of professional fees	2,710,239	2,816,298
Cost of software sales	112,695	2,329,423
Total cost of revenues excluding depreciation and amortization	2,822,934	5,145,721
Gross profit	1,361,811	1,600,311
Selling, general and administrative expenses	3,265,893	4,876,643
Gain on settlement of litigation	(1,442,468)	-
Operating loss from continuing operations	(461,614)	(3,276,332)
Other income, net	222	789
Interest expense	(72,257)	(39,137)
Loss from continuing operations before income taxes and equity in net loss of affiliate	(533,649)	(3,314,680)
Provision for income taxes	-	766,573
Net loss from continuing operations before equity in net loss of affiliate	(533,649)	(4,081,253)
Equity in net loss of affiliate	(245,525)	-
Net loss from continuing operations	(779,174)	(4,081,253)
Income (loss) from discontinued operations	(335,993)	477,504
Net loss	$ (1,115,167)	$ (3,603,749)
Basic and diluted loss per share from continuing operations	$ (0.04)	$ (0.24)
Income (loss) per share from discontinued operations		
Basic	$ (0.02)	$ 0.03
Diluted	$ (0.02)	$ 0.03
Basic and diluted loss per share	$ (0.06)	$ (0.21)
Weighted average common shares outstanding		
Basic	19,236,148	17,294,808
Diluted	19,236,148	18,247,622

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

WAVEDANCER, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	6 Months Ended June 30, 2023	6 Months Ended June 30, 2022
Cash flows from operating activities		
Net loss	$ (1,115,167)	$ (3,603,749)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss (income) from discontinued operations	335,993	(477,504)
Depreciation and amortization	107,827	112,380
Stock-based compensation	376,331	588,902
Deferred income tax expense	-	766,573
Amortization of right-of-use assets	64,038	90,396
Accretion of deferred acquisition consideration	27,370	39,137
Gain on litigation settlement	(1,442,468)	-
Equity in loss of affiliate	245,525	-
Changes in operating assets and liabilities:		
Accounts receivable	(105,385)	(1,918,274)
Prepaid expenses and other current assets	(45,561)	(21,189)
Other assets	58,682	-
Accounts payable	265,922	896,446
Contract liabilities	(110,753)	(20,992)
Accrued payroll and related liabilities and other accrued liabilities	83,243	556,220
Operating lease liability	(101,357)	(93,932)
Commissions payable	(104,670)	25,977
Cash used in operating activities of continuing operations	(1,460,430)	(3,059,609)
Cash used in operating activities of discontinued operations	(693,106)	(1,296,869)
Net cash used in operating activities	(2,153,536)	(4,356,478)
Cash flows from investing activities		
Acquisition of property and equipment	-	(31,033)
Proceeds from disposal of business	935,974	-
Net cash provided by (used in) investing activities	935,974	(31,033)
Cash flows from financing activities		
Borrowing under revolving line of credit	575,000	-
Premium financing borrowings	305,759	-
Premium financing repayments	(119,644)	-
Proceeds from issuance of stock	56,266	-
Proceeds from exercise of stock options	7,400	35,191
Net cash provided by financing activities	824,781	35,191
Net decrease in cash and cash equivalents	(392,781)	(4,352,320)
Cash and cash equivalents, beginning of period	731,081	4,931,302
Cash and cash equivalents, end of period	$ 338,300	$ 578,982
Supplemental cash flow Information		
Interest paid	$ 18,356	$ 1,002
Non-cash investing and financing activities:		
Non-cash proceeds on disposal of business	$ 1,263,000	$ -

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

WAVEDANCER, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

	Shares of Common Stock Issued	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Total
Balances at December 31, 2022	20,838,599	$ 20,839	$ 35,865,076	$ (31,190,801)	$ (965,211)	$ 3,729,903
Net loss	-	-	-	(1,349,952)	-	(1,349,952)
Stock option compensation	-	-	353,658	-	-	353,658
Forfeiture of stock options on disposal of business (Note 2)	-	-	(407,322)	-	-	(407,322)
Stock issued	74,286	74	37,557	-	-	37,631
Issuance of stock from exercise of options	20,000	20	7,380	-	-	7,400
Balances at March 31, 2023	20,932,885	20,933	35,856,349	(32,540,753)	(965,211)	2,371,318
Net income	-	-	-	234,785	-	234,785
Stock option compensation	-	-	88,159	-	-	88,159
Amortization of stock issue costs	-	-	(76,673)	-	-	(76,673)
Balances at June 30, 2023	20,932,885	$ 20,933	$ 35,867,835	$ (32,305,968)	$ (965,211)	$ 2,617,589

	Shares of Common Stock Issued	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Treasury Stock	Total
Balances at December 31, 2021	18,882,313	$ 18,882	$ 31,789,464	$ (13,436,963)	$ (930,211)	$ 17,441,172
Net loss	-	-	-	(2,078,307)	-	(2,078,307)
Stock option compensation	-	-	312,176	-	-	312,176
Issuance of stock from exercise of options	105,000	105	26,694	-	-	26,799
Balances at March 31, 2022	18,987,313	18,987	32,128,334	(15,515,270)	(930,211)	15,701,840
Net loss	-	-	-	(1,525,442)	-	(1,525,442)
Stock option compensation	-	-	529,565	-	-	529,565
Issuance of stock from exercise of options	52,000	52	8,340	-	-	8,392
Balances at June 30, 2022	19,039,313	$ 19,039	$ 32,666,239	$ (17,040,712)	$ (930,211)	$ 14,714,355

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

WAVEDANCER, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Organization and Business

Founded in 1979 as Information Analysis Incorporated ("IAI"), IAI changed its name to WaveDancer, Inc. ("WaveDancer" or the "Company") and converted from a Virginia corporation to a Delaware corporation in December 2021. The Company is in the business of developing and maintaining information technology ("IT") systems, modernizing client information systems, and performing other IT-related professional services to government and commercial organizations.

On March 17, 2023, the Company sold effectively 75.1% of the equity of its Gray Matters, Inc. subsidiary ("GMI") to Gray Matters Data Corporation ("GMDC"). Subsequent to the sale, the Company discontinued consolidating GMI and the Company has reflected GMI as a discontinued operation in its consolidated statements of operations for all periods presented. Unless otherwise noted, all amounts and disclosures throughout these Notes to Condensed Consolidated Financial Statements relate to the Company's continuing operations. See Note 2 for further information about the sale transaction, the deconsolidation of GMI, and treatment of GMI as a discontinued operation.

Prior to March 17, 2023, we had two operating segments: Tellenger and Blockchain SCM. Given the classification of GMI, which comprised all of the material operations of the Blockchain SCM segment, as a discontinued operation (see Note 2), the Company now manages its business as one reportable operating segment.

Liquidity and Going Concern

During the six months ended June 30, 2023, the Company generated an operating loss from continuing operations of $461,614. As of June 30, 2023, the Company had a working capital deficit of $780,757 including cash and cash equivalents of $338,300, and excluding $1,000,000 of borrowings outstanding under its line of credit facility with Summit Bank ("Summit"). We estimate that over the twelve months from the date of these financial statements our operating activities may use as much as approximately $1.0 million to $1.5 million of cash. On August 2, 2023, the Company realized $118,655 of cash proceeds from the sale of 200,000 shares of common stock, and on August 9, 2023, the Company received $1,400,000 of cash from the sale of its remaining equity interest in GMDC and its contingent consideration receivable from GMDC. (See Note 13 for further information about these transactions). On August 9, 2023, the Company repaid $500,000 on the Summit line of credit and has no further borrowing capacity thereunder. We estimate that by the second quarter of 2024 the Company will need to raise additional capital to meet its ongoing operating cash flow requirements as well as to grow its business either organically or through acquisitions. The Company is evaluating strategic alternatives which include the potential merger or sale of the Company. There is no assurance that such activities will result in any transactions or provide additional capital, which creates substantial doubt about the Company's ability to continue as a going concern for at least one year from the date that the accompanying unaudited condensed consolidated financial statements are issued.

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

Unaudited Interim Condensed Consolidated Financial Statements

The accompanying unaudited condensed consolidated financial statements ("financial statements") have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions for Form 10-Q and Article 8-03 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial statements. 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, 2022 included in the Annual Report on Form 10-K filed by the Company with the SEC on April 17, 2023 (the "Annual Report"), as amended. The accompanying December 31, 2022 condensed consolidated balance sheet was derived from the audited financial statements included in the Annual Report but does not include all disclosures required by accounting principles generally accepted in the United States of America. 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.

The unaudited condensed consolidated financial statements as of and for the three and six months ended June 30, 2023 include the accounts of WaveDancer and its condensed consolidated subsidiaries (collectively, the “Company”, “we” or “our”). All significant intercompany transactions and balances have been eliminated in consolidation.

Other than as discussed in “Equity Method Investments” below, there have been no changes in the Company’s significant accounting policies as of June 30, 2023, as compared to the significant accounting policies disclosed in Note 1, "Summary of Significant Accounting Policies" in the Company's Annual Report.

Equity Method Investments

The Company accounts for investments in which it owns between 20% to 50% of the common stock or has the ability to exercise significant influence, but not control, over the investee using the equity method of accounting in accordance with ASC 323 - *Equity Method Investments and Joint Ventures* (“ASC 323”). Under the equity method, an investor initially records an investment in the stock of an investee at cost and adjusts the carrying amount of the investment to recognize the investor’s share of the earnings or losses of the investee after the date of acquisition. The Company reflects its share of gains and losses from the investment in equity in net loss of affiliate in the unaudited condensed consolidated statements of operations using the most recently available earnings data at the end of the period.

In connection with the sale of GMI to GMDC on March 17, 2023, (the "Sale Date"), the Company received common stock in GMDC representing approximately 24.9% of the equity of GMDC. The Company accounts for its investment in GMDC in accordance with the equity method. See Note 2 for further information about the sale transaction, the deconsolidation of GMI, and the treatment of GMI as a discontinued operation. On August 9, 2023, the Company sold its remaining equity interest in GMDC (See Note 13).

Use of Estimates

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

Concentration of Credit Risk

During the three months ended June 30, 2023, the Company’s prime contracts with U.S. government agencies represented 10.2% of revenue and subcontracts under federal procurements represented 89.7% of revenue. The terms of these contracts and subcontracts vary from single transactions to five years. Three subcontracts under federal procurements represented 30.5%, 19.3%, and 17.5% of revenue, respectively. Revenue from one prime contractor under which the Company has multiple subcontracts represented 55.1% of the Company’s revenue in aggregate.

During the three months ended June 30, 2022, the Company’s prime contracts with U.S. government agencies represented 34.7% of revenue and subcontracts under federal procurements represented 60.7% of revenue. The terms of these contracts and subcontracts vary from single transactions to five years. Two subcontracts under federal procurements represented 25.7% and 14.47% of revenue, respectively. Revenue from one prime contractor under which the Company has multiple subcontracts represented 37.1% of the Company’s revenue in aggregate.

During the six months ended June 30, 2023, the Company’s subcontracts under federal procurements represented 88.7% of revenue. The terms of these subcontracts vary from one to five years. Three subcontracts under federal procurements represented 30.8%, 21.7%, and 15.6% of revenue, respectively. Revenue from one prime contractor under which the Company has multiple subcontracts represented 52.9% of the Company’s revenue in aggregate.

During the six months ended June 30, 2022, the Company’s prime contracts with U.S. government agencies represented 28.6% of revenue and subcontracts under federal procurements represented 67.8% of revenue. The terms of these contracts and subcontracts vary from single transactions to five years. Three subcontracts under federal procurements represented 27.4%, 16.5%, and 10.5% of revenue, respectively. Revenue from one prime contractor under which the Company has multiple subcontracts represented 41.4% of the Company’s revenue in aggregate.

The Company sold third-party software and maintenance contracts under agreements with one major supplier, accounting for 39.3% and 35.4% of total revenue during the three- and six-months ended June 30, 2022, respectively.

As of June 30, 2023, the Company’s accounts receivable included receivables from two subcontracts under federal procurements that represented 49.5% and 20.7% of the Company’s outstanding accounts receivable, respectively. Receivables from one prime contractor under which the Company has multiple subcontracts represented 74.4% of the Company’s outstanding accounts receivable in aggregate.

As of June 30, 2022, the Company’s accounts receivable included receivables from two prime contracts under federal procurements that represented 29.8% and 14.0% of the Company’s outstanding accounts receivable, respectively and one subcontract under a federal procurement that represented 26.9% of the Company’s outstanding accounts receivable. Receivables from one prime contractor under which the Company has multiple subcontracts represented 32.8% of the Company’s outstanding accounts receivable in aggregate.

Note 2. Sale and Deconsolidation of GMI and Discontinued Operations

On March 17, 2023, the Company entered into and closed a Stock Purchase Agreement with GMDC, a company newly formed by StealthPoint LLC, a San Francisco based venture fund, under which the Company sold all of the shares of its subsidiary, Gray Matters, Inc. In exchange for this sale, the Company received common shares of GMDC representing on a primary share basis, assuming the conversion of the Series A preferred stock referenced below, 24.9% interest in the purchaser, cash consideration of $935,974 and contingent annual payments equal to five percent (5%) of the purchaser’s GAAP based revenue through December 31, 2029 attributable to the purchaser’s blockchain-enabled digital supply chain management platform and associated technologies. Payments will be calculated for each calendar year and are due by March 31 of the following year. GMDC also paid the Company $133,148 for certain of GMI’s operating expenses for the period beginning March 1, 2023 through March 17, 2023.

The equity interest StealthPoint and other GMDC investors received is in the form of Series A non-participating convertible preferred stock having a one-times (1x) liquidation preference and no cumulative dividends. In addition, the Company and GMDC entered into a transition services agreement whereby the Company continues to provide certain administrative services for GMI. The value of these services is estimated to be $65,000 which was paid by GMDC at closing and is not subject to adjustment. The $65,000 prepayment is included in other accrued liabilities on the unaudited condensed consolidated balance sheet as of March 31, 2023 and has been amortized as a reduction to selling, general and administrative expenses ratably over the three-month period ending June 30, 2023 after which time we anticipate that no further transition services will be provided. The total cash received at closing was $1,000,974. The Company also has the right to appoint a representative to GMDC’s board of directors and a right to co-invest in the anticipated Series B preferred stock financing round which GMDC intends to consummate in the future.

The components of the consideration received and the methods for determining their fair values are as follows:

Consideration	Amount	Description and Valuation Methodology
Cash at closing	$ 935,974	Cash received at closing less estimated value of transition services to be provided.
Cash after closing	133,148	Actual cash operating expenses of GMI from March 1 through March 17, 2023 (prior to the transfer of GMI to GMDC).
GMDC common stock	581,000	Based on Series A preferred stock issuance to other GMDC investors for $3,000,000 in cash and application of an option pricing model backsolve method and a minority interest discount to estimate the fair value of the common shares of GMDC.
Contingent payments	682,000	Estimated by applying a discount rate of 40.8% to the projected cash receipts expected over the 7-year horizon. (See Note 5).
Total consideration	$ 2,332,122	

The GMDC common stock is accounted for as an equity method investment (See Note 1). The contingent consideration receivable will be remeasured at fair value at the end of each reporting period with adjustments reported in the consolidated statement of operations until the receivable is settled.

The Company recognized a gain on the sale of GMI of $100,615, which is included in net loss on discontinued operations in the unaudited condensed consolidated statement of operations, and immediately deconsolidated GMI upon its sale. GMDC was not a related party of the Company at the time of its purchase of GMI. Subsequent to our deconsolidation of GMI, GMI and GMDC are related parties of the Company due to our equity interest in GMDC.

The following table sets forth details of net earnings from discontinued operations for the six months ended June 30, 2023 and 2022, which reflects the results of the Blockchain SCM operating segment (See Note 1).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Revenue	$ -	$ 566,862	$ -	$ 566,862
Cost of revenue	-	540,921	74,223	861,327
Gross Profit		25,941	(74,223)	(294,465)
Operating expenses -				
Salaries and benefits	-	378,431	484,249	613,278
Intangibles amortization	-	306,917	85,338	613,705
Stock based compensation, before forfeitures	-	170,629	65,487	252,839
Forfeiture of stock options	-	-	(407,322)	-
Other operating expenses	-	237,460	134,633	389,126
Change in fair value of contingent consideration	-	(942,609)	-	(930,000)
Gain on disposal of business	-	-	(100,615)	-
Loss before income tax benefit	-	(124,887)	(335,993)	(1,233,413)
Income tax benefit	-	521,338	-	1,710,917
Net income (loss) on discontinued operations	$ -	$ 396,451	$ (335,993)	$ 477,504

During the six months ended June 30, 2023, there was a total of 715,000 unvested stock options forfeited by GMI employees, including 527,500 forfeited by employees who resigned from WaveDancer, on the Sale Date, and were offered employment by GMDC. Stock-based compensation expense of $407,322, previously recognized for these forfeited options, was taken back into income in March 2023.

The following table presents the components of the assets of our discontinued operations that were classified as held for sale as of December 31, 2022. As of March 31, 2023, GMI had been sold and its accounts deconsolidated from the condensed consolidated balance sheet.

	December 31, 2022
Customer relationship intangible asset, net of amortization	$ 1,057,722
Technology intangible asset, net of amortization	760,698
Capitalized software development costs	498,425
Total assets of discontinued operations	$ 2,316,845

Note 3. Revenue from Contracts with Customers

Nature of Products and Services

We generate revenue from the sales of information technology professional services, sales of third-party software licenses and implementation and training services, sales of third-party support and maintenance contracts based on those software products, and incentive payments received from third-party software suppliers for facilitating sales directly between that supplier and a customer introduced by the Company. We sell through our direct relationships with end customers and under subcontractor arrangements.

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

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

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

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

Disaggregation of Revenue from Contracts with Customers

	Three months ended June 30,			
	2023		2022	
Contract Type	Amount	Percentage	Amount	Percentage
Services time & materials	$ 1,719,674	84.9%	$ 2,153,537	57.4%
Services fixed price over time	102,402	5.1%	51,154	1.3%
Services combination	33,090	1.6%	21,080	0.6%
Services fixed price per unit	112,791	5.6%	52,061	1.4%
Third-party software	56,665	2.8%	1,423,770	38.0%
Software support & maintenance	-	-%	48,918	1.3%
Total revenue	$ 2,024,622	100.0%	$ 3,750,520	100.0%

Contract Type	2023 Amount	2023 Percentage	2022 Amount	2022 Percentage
	Six months ended June 30,			
Services time & materials	$ 3,600,335	86.0%	$ 4,066,533	60.3%
Services fixed price over time	204,804	4.9%	102,308	1.5%
Services combination	66,180	1.6%	30,080	0.4%
Services fixed price per unit	200,096	4.8%	145,601	2.2%
Third-party software	113,330	2.7%	2,286,808	33.9%
Software support & maintenance	-	-%	98,087	1.5%
Incentive payments	-	-%	16,615	0.2%
Total revenue	$ 4,184,745	100.0%	$ 6,746,032	100.0%

Contract Balances

Accounts Receivable

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, each 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 as of June 30, 2023 and December 31, 2022.

Accounts receivable as of June 30, 2023 and December 31, 2022, consist of the following:

	June 30, 2023	December 31, 2022
Billed federal government	$ 1,706,632	$ 1,573,407
Billed commercial	-	56,152
Unbilled receivables	28,312	-
Accounts receivable	$ 1,734,944	$ 1,629,559

Billed receivables from the federal government include amounts due from both prime contracts and subcontracts where the federal government is the end customer.

Contract Liabilities

Contract liabilities consist of amounts that have been invoiced and for which the Company has the right to bill, but that have not been recognized as revenue because the related goods or services have not been transferred. Changes in contracts liabilities balances in the three and six months ended June 30, 2023 and 2022, are as follows:

Balance as of December 31, 2022	$ 182,756
Contract liabilities added	-
Revenue recognized	(55,665)
Balance as of March 31, 2023	127,091
Contract liabilities added	-
Revenue recognized	(55,088)
Balance as of June 30, 2023	$ 72,003

Balance as of December 31, 2021	$ 186,835
Contract liabilities added	19,280
Revenue recognized	(56,423)
Balance as of March 31, 2022	149,692
Contract liabilities added	87,612
Revenue recognized	(71,461)
Balance as of June 30, 2022	$ 165,843

Revenues recognized during the three months ended June 30, 2023 and 2022, from the balances as of December 31, 2022 and 2021, were $55,088 and $55,168, respectively. Revenues recognized during the six months ended June 30, 2023 and 2022, from the balances as of December 31, 2022 and 2021, were $110,753 and $111,591, respectively.

Deferred Costs of Revenue

Deferred costs of revenue consist of the costs of third-party support and maintenance contracts for enterprise server-based software. These costs are reported under the prepaid expenses and other current assets caption on the Company's condensed consolidated balance sheets. The Company recognizes these direct costs ratably over time as it makes itself available to provide its performance obligation for software support, commensurate with its recognition of revenue. As of June 30, 2023, and December 31, 2022 the Company had $0 of deferred costs of revenue. Changes in deferred costs of revenue balances for the three and six months ended June 30, 2022, are as follows:

Balance as of December 31, 2021	$	154,218
Deferred costs added		2,800
Deferred costs expensed		(55,362)
Balance as of March 31, 2022		101,656
Deferred costs expensed		(53,434)
Balance as of June 30, 2022	$	48,222

Note 4. Leases

The Company has two significant operating leases, one for its headquarters offices in Fairfax, Virginia and one for additional office space in Annapolis, Maryland. The leases both commenced in 2021 and have original lease terms ranging from 37 to 67 months and rental rates escalate by approximately 2.5% annually under both leases. The Company determines if an arrangement is a lease at inception.

As of June 30, 2023 and December 31, 2022, the Company does not have any sales-type or direct financing leases.

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

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

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

As of June 30, 2023, our two operating leases had a weighted average remaining lease term of 29 months and a weighted average discount rate of 5.0%. Future lease payments under operating leases as of June 30, 2023, were as follows:

Remainder of 2023	$	115,438
2024		174,721
2025		74,804
2026		70,220
Total lease payments		435,183
Less: discount		(29,420)
Present value of lease liabilities	$	405,763

The total expense incurred related to its operating leases was $38,053 and $54,460 for the three months ended June 30, 2023 and 2022, respectively, and $76,106 and $110,720 for the six months ended June 30, 2023 and 2022, respectively, and is included in selling, general and administrative expenses on the condensed consolidated statements of operations.

Note 5. Fair Value Measurements

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

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

The following table presents the fair value hierarchy for the Company's financial instruments measured at fair value on a recurring basis as of June 30, 2023 and December 31, 2022:

	June 30, 2023			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	$ 3,250	$ -	$ -	$ 3,250
Contingent consideration receivable	-	-	682,000	682,000

	December 31, 2022			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	$ 58,242	$ -	$ -	$ 58,242

As discussed in Note 2 above, in connection with its sale of GMI, the Company received contingent consideration that requires to GMDC to make annual payments equal to five percent (5%) of the purchaser's GAAP based revenue through December 31, 2029, up to a cumulative maximum of $4,000,000, attributable to the purchaser's blockchain-enabled digital supply chain management platform and associated technologies. The fair value of the contingent consideration was estimated based on GMDC's forecast of revenue, the estimated after-tax payments to the Company, and the present value of the after-tax payments based on discount rate that reflects the risk of achieving the timing and amounts of forecasted payments. The significant inputs utilized in estimating the fair value of contingent consideration include the forecast of revenues, the income tax rate of 27.0 percent, and the discount rate of 40.75 percent.

The following table is a roll-forward of the Level 3 fair value measurements.

Fair value of contingent consideration:	
December 31, 2022	$ -
Additions	682,000
March 31, 2023	682,000
Additions	-
June 30, 2023	$ 682,000

There were no unrealized gains or losses recognized in income for the three- or six-month periods ended June 30, 2023.

Note 6. Intangible Assets and Goodwill

Information regarding our intangible assets is as follows:

	Useful Life (Years)	December 31, 2022	Additions	June 30, 2023
Intangible assets with estimated useful lives				
Customer relationships	8.0	$ 1,090,000	$ -	$ 1,090,000
Non-compete agreements	3.0	120,000	-	120,000
Accumulated amortization		(308,217)	(88,122)	(396,339)
Sub-total		901,783	(88,122)	813,661
Intangible assets with indefinite lives				
Trade names	Indefinite	280,000	-	280,000
Net identifiable intangible assets		$ 1,181,783	$ (88,122)	$ 1,093,661

	Useful Life (Years)	December 31, 2021	Additions	June 30, 2022
Intangible assets with estimated useful lives				
Customer relationships	8.0	$ 1,090,000	$ -	$ 1,090,000
Non-compete agreements	3.0	120,000	-	120,000
Accumulated amortization		(131,973)	(88,122)	(220,095)
Sub-total		1,078,027	(88,122)	989,905
Intangible assets with indefinite lives				
Trade names	Indefinite	280,000	-	280,000
Net identifiable intangible assets		$ 1,358,027	$ (88,122)	$ 1,269,905

As of June 30, 2023, expected amortization expense relating to purchased intangible assets for each of the next five years and thereafter is as follows:

Remainder of 2023	$ 88,122
2024	146,307
2025	136,248
2026	136,248
2027	136,248
Thereafter	170,488
Total	$ 813,661

Note 7. Stock-Based Compensation

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

The Company recognizes compensation costs on a straight-line basis over the service period of the awards. There were no option awards granted in the three and six months ended June 30, 2023 nor in the three months ended June 30, 2022. Fair values of option awards granted in the six months ended June 30, 2022, were estimated using the Black-Scholes option pricing model under the following assumptions:

	2022
Risk-free interest rate	1.91% - 2.41%
Dividend yield	0%
Expected term (years)	5.75 - 6.00
Expected volatility	45.8% - 46.1%

Determining the assumptions for the expected term and volatility requires management to exercise significant judgment. The expected term represents the weighted-average period that options granted are expected to be outstanding giving consideration to vesting schedules. Since the Company does not have an extended history of actual exercises, the Company has estimated the expected term using a simplified method which calculates the expected term as the average of the time-to-vesting and the contractual life of the awards. Given the limited public market for the Company's stock, the Company has elected to estimate its expected volatility by benchmarking its volatility to that of several public company issuers that operate within its market segment. The guideline companies' volatility was increased by a size adjustment premium of 30% to compensate for the difference in size between the guideline companies and the Company in its calculation.

There were 912,000 options with grant date fair values totaling $2,074,670 granted during the six months ended June 30, 2022. There were zero and 52,000 options exercised during the three months ended June 30, 2023, and 2022, respectively. There were 20,000 and 157,000 options exercised during the six months ended June 30, 2023 and 2022, respectively. As of June 30, 2023, there was $591,946 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the stock incentive plans; that cost is expected to be recognized over a weighted-average period of 13 months.

Total compensation expense related to these plans was $88,159 and $358,936 for the three months ended June 30, 2023 and 2022, respectively, and $376,331 and $588,902 for the six months ended June 30, 2023 and 2022, respectively, and is included in selling, general and administrative expenses on the condensed consolidated statements of operations.

Note 8. Settlement of Litigation

On April 28, 2023, the Company and Jeffrey Gerald, the individual from whom the WaveDancer purchased all the outstanding shares of GMI, executed an agreement to settle pending litigation between them (the "Settlement Agreement"). On January 25, 2023, Gerald, as the result of the termination of his employment, filed a lawsuit against the Company for one year's severance of $150,000 and benefits to which he claimed he was entitled under his employment agreement with the Company. He had also claimed an anticipatory breach of the payment of $1,500,000 of deferred consideration otherwise due him on December 10, 2023, under the Stock Purchase Agreement between him and the Company and an anticipatory breach to release from escrow 436,481 shares of the Company's common stock which are held in escrow for application against potential indemnity claims under the Stock Purchase Agreement.

The Company filed an answer denying Gerald's claims. In addition, the Company filed a counterclaim seeking damages from Gerald associated with the acquisition transaction and arising under the Stock Purchase Agreement.

The principal terms of the Settlement Agreement were:

(a) All amounts due to Gerald related to the GMI acquisition, including the $1,500,000 of deferred consideration, were deemed satisfied and such obligations were extinguished;

(b) The Company removed restrictions from 436,481 shares of the Company's common stock;

(c) The Company paid Gerald $25,000 as reimbursement for legal costs; and,

(d) Gerald and the Company agreed to mutual general releases of one another.

As a result of the settlement, the Company recognized a gain, net of expenses, of $1,442,468.

Note 9. Revolving Line of Credit and Notes Payable

On September 30, 2022, the Company entered a revolving line of credit with Summit Community Bank ("Summit") that provided for on-demand or short-term borrowings of up to $1,000,000 at a variable interest rate equal to the prime rate as published in *The Wall Street Journal*, with a minimum rate of 3.99% and a maximum rate of 20.00%, and subject to a borrowing base calculated using outstanding accounts receivable. Borrowings under the line of credit are secured by the assets of the Company. As of June 30, 2023, there was $1,000,000 outstanding under this line of credit. There we no borrowings or repayments during the three months ended June 30, 2023, and there were $575,000 of borrowings and no repayments during the six months ended June 30, 2023. As of June 30, 2023, there is no borrowing availability under this line of credit. On August 9, 2023 the Company repaid $500,000 on the line of credit. (See Note 13.) The line of credit expires on August 16, 2023.

Premium Financing Note Payable

The Company entered into a Premium Finance Agreement (“Premium Agreement”) on March 7, 2023, to purchase a one-year term directors and officers insurance policy. The Premium Agreement is for $305,759 at a fixed rate of 8.75% per annum, amortized over ten months. The Premium Agreement requires ten fixed monthly principal and interest payments of $31,815 from March 24, 2023 to December 24, 2023.

Note 10. Sales of Shares Under Common Stock Purchase Agreement

On July 8, 2022, we entered into a Common Stock Purchase Agreement (the “Purchase Agreement” or "ELOC") and a Registration Rights Agreement (the “Registration Rights Agreement”) with B. Riley Principal Capital II, LLC (“B. Riley”). Pursuant to the Purchase Agreement, subject to certain limitations and conditions, the Company has the right, but not the obligation, to sell to B. Riley up to $15,000,000 of shares of the Company’s common stock, par value $0.001 per share (“Common Stock”), from time to time. Sales of Common Stock to B. Riley under the Purchase Agreement, and the timing of any such sales, are solely at the Company’s option, and the Company is under no obligation to sell any securities to B. Riley under the Purchase Agreement. Pursuant to the Registration Rights Agreement, the Company agreed to file a registration statement with the Securities Exchange Commission (the “SEC”) to register under the Securities Act of 1933, as amended (the “Securities Act”) the resale by B. Riley of up to 4,500,000 shares of Common Stock that the Company may issue or elect, in the Company’s sole discretion, to issue and sell to B. Riley, from time to time under the Purchase Agreement.

On August 11, 2022 and November 10, 2022, the Company issued to B. Riley 89,835 and 29,945 shares, respectively, as a commitment fee in accordance with the Purchase Agreement. The total value of the commitment fee shares was $150,000 and is included in prepaid expenses and other current assets on the unaudited consolidated condensed balance sheet as of December 31, 2022. The commitment fee represents prepaid stock issuance cost and is being amortized to additional paid in capital as shares are sold under the Purchase Agreement. For the three- and six-month periods ended June 30, 2023, the Company amortized $76,673 and $92,495 of the commitment fee, respectively.

During the three months ended June 30, 2023, there were no shares of common stock sold under the Purchase Agreement. During the six months ended June 30, 2023, the Company sold 74,286 shares of common stock to B. Riley at an average price of $0.72 per share, net of fees of approximately $0.04 per share. The net proceeds from these sales were $53,453. There were no sales under the Purchase Agreement during the three and six months ended June 30, 2022.

Note 11. Income Taxes

For the three- and six-month periods ended June 30, 2023 and 2022, the Company’s effective tax rate was 0%. The difference between the statutory tax rate and the effective tax rate is primarily driven by the presence of a full valuation allowance in all taxing jurisdictions.

Note 12. Earnings Per Share

Basic earnings (loss) per share excludes dilution and is computed by dividing the loss available to common shareholders by the weighted-average number of shares outstanding for the period. Diluted earnings (loss) per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock, except for periods when the Company reports a net loss because the inclusion of such items would be antidilutive. The antidilutive effect of 195,100 shares from stock options were excluded from diluted shares for the six-month period ended June 30, 2023. The antidilutive effect of 711,537 shares from stock options and 146,269 shares from warrants were excluded from diluted shares for the three months ended June 30, 2022, and the antidilutive effect of 713,035 shares from stock options and 239,779 shares from warrants were excluded from diluted shares for the six months ended June 30, 2022.

Note 13. Subsequent Events

On August 2, 2023, the Company sold 200,000 shares of common stock under the ELOC at a price of $0.59 per share, net of fees of $0.03 per share. The net proceeds from this sale were $118,655.

On August 9, 2023, the Company and GMDC closed a rollover stock purchase agreement and an amendment agreement to the Stock Purchase agreement dated March 17, 2023, wherein the Company had sold effectively 75.1% of the equity of GMI to GMDC (the "Agreement"). The rollover stock purchase agreement and the amendment agreement together provide for the following:

- The termination of the rights and obligations under the Agreement with respect to the calculation and payment of future contingent payments from GMDC to the Company, in exchange for the payment of $1,000,000 cash by GMDC to the Company;
- The sale by the Company, to certain of GMDC's investors, of all of its common stock of GMDC, in exchange for cash of $400,000; and,
- The termination of various ongoing rights and obligations of the Company and GMDC established in the Agreement and ancillary agreements entered into in connection with the Agreement.

As a result of this transaction, the Company will recognize a gain of approximately $382,525. As of August 9, 2023 the Company has no remaining investment or financial interest in GMDC or GMI.

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

Cautionary Statement Regarding Forward-Looking Statements

This Form 10-Q contains forward-looking statements regarding our business, customer prospects, or other factors that may affect future earnings or financial results that are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. Such statements involve risks and uncertainties which could cause actual results to vary materially from those expressed in the forward-looking statements. Investors should read and understand the risk factors detailed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2022 ("Annual Report") and in other filings with the Securities and Exchange Commission.

We operate in a rapidly changing environment that involves a number of risks, some of which are beyond our control. This list highlights some of the risks which may affect future operating results. These are the risks and uncertainties we believe are most important for you to consider. Additional risks and uncertainties, not presently known to us, which we currently deem immaterial, or which are similar to those faced by other companies in our industry or business in general, may also impair our business operations. If any of the following risks or uncertainties actually occur, our business, financial condition and operating results would likely suffer. These risks include, among others, the following:

- We have had operating losses in three of each of the last four years and may not achieve or maintain profitability in the future.
- A portion of our revenue is expected to be generated by sales to government entities, which are subject to a number of challenges and risks.
- We face intense competition and could lose market share to our competitors, which could adversely affect our business, financial condition, and results of operations.
- We rely on our management team and other key employees and will need additional personnel to grow our business, and the loss of one or more key employees or our inability to hire, integrate, train and retain qualified personnel, including members for our board of directors, could harm our business.
- We are dependent on a few key customer contracts for a significant portion of our future revenue, and a significant reduction in services to one or more of these contracts would reduce our future revenue and harm our anticipated operating results.
- We are dependent on information technology, and disruptions, failures or security breaches of our information technology infrastructure could have a material adverse effect on our operations.
- We depend on computing infrastructure operated by Microsoft and other third parties to support some of our solutions and customers, and any errors, disruption, performance problems, or failure in their or our operational infrastructure could adversely affect our business, financial condition, and results of operations.
- Failure to comply with governmental laws and regulations could harm our business.
- We are subject to risks associated with our strategic investments, and impairments in the value of our investments could negatively impact our financial results.
- Our failure to raise additional capital or generate the significant capital necessary to expand our operations and invest in new products and subscriptions could reduce our ability to compete and could harm our business.
- The requirements of being a public company may strain our resources, divert management's attention, and affect our ability to attract and retain qualified board members.
- If we are not able to maintain and enhance our brand and our reputation as a provider of high-quality security solutions and services, our business and results of operations may be adversely affected.

In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "could," "would," "expect," "plans," "anticipates," "believes," "estimates," "projects," "predicts," "intends," "potential" and similar expressions intended to identify forward-looking statements. These statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties. Given these uncertainties, you should not place undue reliance on these forward-looking statements. We discuss many of these risks in greater detail under the heading "Risk Factors" in Item 1A of our 2022 10-K. Also, these forward-looking statements represent our estimates and assumptions only as of the date of this report. Except as required by law, we assume no obligation to update any forward-looking statements after the date of this report.

Our Business

Founded in 1979 as Information Analysis Incorporated, the Company changed its name to WaveDancer, Inc. and converted from a Virginia corporation to a Delaware corporation in December 2021. The Company is in the business of developing and maintaining information technology ("IT") systems, modernizing client information systems, and performing other IT-related professional services to government and commercial organizations.

On March 17, 2023, the Company sold effectively 75.1% of the equity of its Gray Matters, Inc. subsidiary ("GMI") to Gray Matters Data Corporation ("GMDC"). The Company's retained interest in GMI of 24.9% is accounted for as an equity method investment. Subsequent to the sale the Company discontinued consolidating GMI and the Company has reflected GMI as a discontinued operation in its consolidated statements of operations for all periods presented. Unless otherwise noted, all amounts and disclosures throughout this Item 2 relate to the Company's continuing operations. See Note 2 to the unaudited condensed consolidated financial statements for further information about the sale transaction, the deconsolidation of GMI, and treatment of GMI as a discontinued operation.

The Company is an IT provider primarily for the benefit of federal government agencies. At present, we primarily apply our technology, services and experience to legacy software migration and modernization, developing web-based and mobile device solutions, including dynamic electronic forms development and conversion, data analytics, and we are in the process of acquiring talent and expertise in developing cybersecurity and cloud services practices. Our focus is on enterprise IT solutions primarily relating to system modernization, cloud-based solutions and cybersecurity protection.

Since the Company's inception, we have performed software development and conversion projects for over 100 commercial and government customers including, but not limited to, the Department of Agriculture, Department of Defense, Department of Education, Department of Homeland Security, Department of the Treasury, U.S. Small Business Administration, U.S. Army, U.S. Air Force, Department of Veterans Affairs, and General Dynamics Information Technology (formerly Computer Sciences Corporation, CSRA).

Modernization has been a core competency of the Company for over 20 years. We have modernized over 100 million lines of COBOL code for over 35 governmental and commercial customers. We maintain a pool of skilled COBOL programmers. This provides us with a competitive advantage as the labor pool of such programmers is shrinking as aging software professionals retire. Our business has also historically relied upon the reselling of applications, primarily for forms development.

Through our acquisition in April 2021 of Tellenger, Inc. ("Tellenger"), which is now a wholly owned subsidiary of the Company, we acquired competencies in web-based solutions and cybersecurity. Tellenger is a boutique IT consulting and software development firm specializing in modernization, software development, cybersecurity, cloud solutions, and data analytics. We believe combining web-based solutions with system modernization will provide us with the skill sets that are needed to migrate legacy systems to the cloud. We foresee this as a key component of our modernization growth since there are billions of lines of code, in both the governmental and commercial sectors, that eventually must be modernized. It is also our intention to better leverage our resources, largely gained through the acquisition of Tellenger, to take advantage of the growth in the cybersecurity market.

In December 2021, we announced the reorganization of our entire professional services practice into Tellenger, and as a result, our professional services are contained in a single entity. Through Tellenger, we perform services such as business process re-engineering, cloud migrations, and Software-as-a-Service ("SaaS") implementations on behalf of clients in the private and public sector with an aim to increase productivity, gain efficiencies, and achieve key performance indicators. Tellenger is appraised at Capability Maturity Model Integration (CMMI) Level 3.

Our Strategy

Our strategy is to grow our business organically as well as through acquisitions. Through the acquisition of Tellenger, Inc. in 2021, we began to reposition our legacy professional services business by allocating resources away from third-party product reselling and toward professional services, which management viewed as higher margin. To grow organically, we have hired and plan to continue to hire, business development personnel and intend to become more proactive in bidding as a prime contractor on government proposals and in expanding our outreach to larger prime contractors for subcontract and teaming opportunities.

Results of Continuing Operations – Three Months Ended June 30, 2023 and 2022

Revenue

Total revenue was $2,024,622 for the three months ended June 30, 2023, compared with $3,750,520 in the prior year quarter, a decrease of $1,725,898, or 46.0%. The decrease in revenue was driven by our de-emphasis of third-party software sales which accounted for just 2.8% of our sales in the second quarter of 2023 as compared to 39.3% in the prior year quarter. Professional services revenue decrease by 13.6% to $1,967,957 in the second quarter of 2023 from $2,277,832 in the second quarter of 2022. The decline in professional services revenue is driven primarily by one software modernization project where we had fewer resources deployed in the second quarter of 2023 as compared to the comparable prior year quarter based on current project deliverables.

Gross Profit

Gross profit decreased by $198,828 or 22.0%, to $705,013 for the three months ended June 30, 2023 as compared to $903,841 in the prior year quarter. The decrease in gross profit includes a decrease from professional services of $149,008 and from third-party software sales of $49,820. Professional services gross profit as a percent of revenue declined from 37.5% to 35.8% due to a change in the mix of contracts generating revenue and the related billing rates resulting as well as increases in our costs of labor that outpaced billing rate increases.

Selling, General and Administrative Expenses

The following table shows the major elements of SG&A expenses for the three months ended June 30, 2023 and 2022 and the changes between periods:

	2023	2022	Increase/ (Decrease)
Salaries and benefits	$ 528,573	$ 765,710	$ (237,137)
Stock based compensation	88,159	343,492	(255,333)
Legal and professional fees	343,042	424,866	(81,824)
Depreciation & Amortization	53,669	55,824	(2,155)
Acquisition costs	336,141	356,159	(20,018)
Software, IT and office expenses	93,802	115,923	(22,121)
Governance and investor relations	72,365	117,417	(45,052)
Insurance	98,111	81,301	16,810
Marketing and promotions	(7,967)	41,138	(49,105)
All other	48,470	201,281	(152,811)
Total SG&A	$ 1,654,365	$ 2,503,111	$ (848,746)

Operating Income from Continuing Operations

Our operating income from continuing operations was $493,116 in the second quarter of 2023 as compared to a loss of $1,599,270 in the corresponding quarter in 2022, an improvement of $2,092,386. The increase in income from continuing operations is primarily the result of a gain on the settlement of litigation of $1,442,468 and the decrease in SG&A expenses of $848,746, as shown above, partially offset by the decrease in gross profit of $198,828.

Results of Discontinued Operations – Three Months Ended June 30, 2023 and 2022

The sale of GMI to GMDC occurred on March 17, 2023, and as a result, there was no activity for GMI in the second quarter of 2023. Following is the detail of discontinued operations for the second quarter of 2022:

	2022
Revenue	$ 566,862
Cost of revenue	540,921
Gross profit	25,941
Operating expenses -	
Salaries and benefits	378,431
Depreciation and amortization	306,917
Stock based compensation	170,629
Other operating expenses	237,460
Change in fair value of contingent consideration	(942,609)
Gain on disposal of business	-
Loss before income tax benefit	(124,887)
Income tax benefit	521,338
Net income on discontinued operations	$ 396,451

Results of Continuing Operations – Six Months Ended June 30, 2023 and 2022

Revenue

Total revenue was $4,184,745 for the six months ended June 30, 2023, compared with $6,746,032 in the corresponding prior year period, a decrease of $2,561,287, or 38.0%. The decrease in revenue was driven primarily by our de-emphasis of third-party software sales which accounted for just 2.7% of our sales in the six months ended June 30, 2023, as compared to 35.6% in the six months ended June 30, 2022. Professional services revenue decreased by 6.3% to $4,071,415 for the six months ended June 30, 2023, from $4,344,522 in the corresponding six months of 2022. The decline in professional services revenue arose in the second quarter and is driven primarily by one software modernization project where we had fewer resources deployed in the second quarter of 2023 as compared to the comparable prior year quarter based on current project deliverables.

Gross Profit

Gross profit decreased by $238,500 or 14.9%, to $1,361,811 for the six months ended June 30, 2023, as compared to $1,600,311 in the prior year. The decrease in gross profit includes a decrease from professional services of $167,048 and from third-party software sales of $71,452. Professional services gross profit as a percent of revenue declined from 35.2% to 33.4% due to a change in the mix of contracts generating revenue and the related billing rates resulting as well as increases in our costs of labor that outpaced billing rate increases.

Selling, General and Administrative Expenses

The following table shows the major elements of SG&A expenses for the six months ended June 30, 2023 and 2022 and the changes between periods:

	2023	2022	Increase/ (Decrease)
Salaries and benefits	$ 1,094,916	$ 1,411,200	$ (316,284)
Stock based compensation	376,330	573,458	(197,128)
Legal and professional fees	587,911	1,023,189	(435,278)
Depreciation & Amortization	107,827	112,380	(4,553)
Acquisition costs	444,518	790,861	(346,343)
Software, IT and office expenses	179,344	248,398	(69,054)
Governance and investor relations	207,538	279,104	(71,566)
Insurance	164,046	106,951	57,095
Marketing and promotions	868	73,367	(72,499)
All other	102,595	257,735	(155,140)
Total SG&A	$ 3,265,893	$ 4,876,643	$ (1,610,750)

Operating Loss from Continuing Operations

Our operating loss from continuing operations was $461,614 for the first half of 2023 as compared to $3,276,332 for the first half of 2022, a decrease in the loss of $2,814,718 or 85.9%. The decrease in the loss from operations is primarily the result of the gain on litigation settlement of $1,442,468 along with the decrease in decrease in SG&A expenses of $1,610,750, as shown above, partially offset by the decrease in gross profit of $238,500.

Results of Discontinued Operations – Six Months Ended June 30, 2023 and 2022

The sale of GMI to GMDC occurred on March 17, 2023, and as a result we had approximately two fewer weeks of costs and expenses for GMI for the first quarter of 2023 as compared to the first quarter of 2022, and no activity for the second quarter of 2023 as compared to a full second quarter in 2022, as follows:

	2023	2022	Increase/ (Decrease)
Revenue	$ -	$ 566,862	$ (566,862)
Cost revenue	74,223	861,327	(787,104)
Gross profit	(74,223)	(294,465)	220,242
Operating expenses -			
Salaries and benefits	484,249	613,278	(129,029)
Depreciation and amortization	85,338	613,705	(528,367)
Stock based compensation, before forfeitures	65,487	252,839	(187,352)
Forfeiture of stock options	(407,322)	-	(407,322)
Other operating expenses	134,633	389,126	(254,493)
Change in fair value of contingent consideration	-	(930,000)	930,000
Gain on disposal of business	(100,615)	-	(100,615)
Loss before income tax benefit	(335,993)	(1,233,413)	897,420
Income tax benefit	-	1,710,917	(1,710,917)
Net income (loss) on discontinued operations	$ (335,993)	$ 477,504	$ (813,497)

Critical Accounting Estimates

Our accounting policies are described in Note 1 of our consolidated financial statements – *Organization and Summary of Significant Accounting Policies*. Our condensed consolidated financial statements and the accompanying notes thereto included elsewhere in this Quarterly Report on Form 10-Q are prepared in accordance with U.S. GAAP. The preparation of condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses, and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ significantly from our estimates. To the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operations, and cash flows will be affected.

There have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates discussed in our Annual Report on Form 10-K for the year ended December 31, 2022 except for two new fair value measures for the first quarter of 2023:

1) the determination of the fair value of the contingent consideration receivable from GMDC, as discussed in Notes 2 and 5 to the accompanying consolidated financial statements, and

2) the determination of the initial fair value of our equity method investment in GMDC as of March 17, 2023.

The determination of the fair value of the contingent consideration is a recurring fair value measure at the end of each reporting period and includes significant judgmental inputs not observable in the market. Significant judgment was employed in determining the assumptions used in the determination of fair value as of March 31, 2023 and, accordingly, changes in assumptions could have a material impact on the increase or decrease in the fair value of contingent consideration recorded in any given period.

Equity Method Investment in GMDC

The Company received 993,768 common shares of GMDC representing 19.0 percent of the fully diluted capitalization. Prior to closing the acquisition on March 17 and through March 31, 2023, GMDC raised $3,000,000 by issuing Series A preferred shares at $1.00 per share representing 57.2 percent of the fully diluted capitalization. The Series A transaction was considered by the Company to be the most reliable indication of the fair value of total equity of GMDC. We utilized an option pricing model backsolve method (“OPM Backsolve”) to solve for the total equity value that results in a value of Series A equal to its issuance price, and to estimate the fair value of common shares. The significant inputs utilized in the OPM Backsolve include an estimated time to exit of four years, an estimated volatility of 75.0 percent, and a risk-free rate of 4.29 percent. A minority interest discount of 23.5% was also applied.

Liquidity and Capital Resources

On June 30, 2023, the Company had a net working capital deficit of $780,357, including cash and cash equivalents of $338,300 and $1,000,000 outstanding under its line of credit with Summit bank. For the six months ended June 30, 2023, we have generated a net loss from continuing operations of $779,174. As discussed below, our ability to generate sufficient cash flows to meet our obligations for the twelve months following the issuance of these financial statements is dependent upon factors which are sufficiently outside of management’s control as to cast substantial doubt about our ability to continue as a going concern.

The Company will need to raise additional capital to grow its business either organically or through acquisition. The Company is also pursuing strategic alternatives which include the potential merger or sale of the Company. There is no assurance that our efforts will result in any transactions or provide additional capital, which creates substantial doubt about the Company’s ability to continue as a going concern for at least one year from the date that the accompanying financial statements are issued. We estimate that by the first quarter of 2024, the Company will need to raise additional capital to meet its ongoing operating cash flow requirements.

We used cash for continuing operations of $389,177 during the second quarter of 2023 and anticipate that over the twelve months from the date of these financial statements our operating activities may use as much as approximately $1.0 million to $1.5 million. On August 9, 2023, the Company received $1,400,000 of cash from GMDC as proceeds from the sale of the common stock of GMDC held by the Company and in satisfaction of the contingent consideration receivable due from GMDC to the Company. On August 9, 2023, the Company repaid $500,000 on the Summit line of credit and has no further borrowing capacity thereunder. The line of credit expires on August 16, 2023, and the Company and Summit are finalizing an extension of the expiration date to December 31, 2023, by which time the the remaining balance of $500,000 is due. The Company has no commitments for capital spending nor any plans for material capital expenditures.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, and people performing similar functions, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of June 30, 2023 (the “Evaluation Date”). Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and (ii) is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

Changes in Internal Controls over Financial Reporting

There were no changes in the Company’s internal control over financial reporting during the quarter ended June 30, 2023, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Because of the inherent limitations in all control systems, no control system can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of a person, by collusion of two or more people or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and may not be detected. Notwithstanding these limitations, we believe that our disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

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

On April 28, 2023, the Company and Gerald executed an agreement to settle the litigation between them. See Note 8 to the unaudited condensed consolidated financial statements for the principal terms of the settlement.

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

Item 1A. Risk Factors

"Item 1A. Risk Factors" of our annual report on Form 10-K for the year ended December 31, 2022, as amended, includes a discussion of our risk factors. There have been no material changes from the risk factors described 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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Other Information

None.

Item 6. Exhibits

1.1	Settlement Agreement and General Release by and between Jeffrey Gerald and WaveDancer, Inc.	Incorporated by reference to the Company's Form 8-K filed on May 4, 2023
10.1	Stock Purchase Agreement dated as of March 17, 2023 by and between the Company and Gray Matters Data Corp.	Incorporated by reference to the Company's Form 8-K filed on March 21, 2023
10.2	Amendment No. 1 to Stock Purchase Agreement by and between the Company and Gray Matters Data Corp., dated August 9, 2023	Filed with this Form 10-Q
10.3	Rollover Stock Purchase Agreement by and among WaveDancer, Inc., Gray Matters Data Corporation, and StealthPoint Fund I, LP, et al. dated August 9, 2023	Filed with this Form 10-Q
31.1	Certification of Chief Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934	Filed with this Form 10-Q
31.2	Certification of Chief Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934	Filed with this Form 10-Q
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed with this Form 10-Q
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed with this Form 10-Q
101.INS	Inline XBRL Instance Document	Filed with this Form 10-Q
101.SCH	Inline XBRL Taxonomy Extension Schema	
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase	
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase	
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase	
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase	
104	Cover Page Interactive Data File (embedded within the Inline XBRL document and contained in Exhibit 101)	

SIGNATURES

In accordance with the requirements of the Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	WaveDancer, Inc. (Registrant)
Date: August 11, 2023	By: /s/ G. James Benoit, Jr. G. James Benoit, Chief Executive Officer
Date: August 11, 2023	By: /s/ Timothy G. Hannon Timothy G. Hannon, Chief Financial Officer

AMENDMENT NO. 1 TO STOCK PURCHASE AGREEMENT

This Amendment No. 1 to Stock Purchase Agreement (the "*Amendment*") is made as of August __, 2023 (the "*Effective Date*"), by and between WAVEDANCER, INC., a Delaware corporation ("*Seller*") and GRAY MATTERS DATA CORP., a Delaware corporation ("*Buyer*").

RECITALS

A. Buyer and Seller are parties to a Stock Purchase Agreement, dated as of March 17, 2023 (the "*Agreement*"), with respect to the Buyer's acquisition of Seller's operating unit responsible for the Business (Seller's blockchain supply chain management business). Unless otherwise defined herein, capitalized terms will have the meanings established in the Agreement. Buyer or Seller may be referred to in this Amendment as a "*Party*" or together as the "*Parties*".

B. The Agreement provides for Buyer's payment to Seller of certain annual Contingent Payments, over a period of seven (7) years, up to a Total Maximum Payment of Four Million Dollars (U.S.$4,000,000) (subject to adjustment as provided in the Agreement).

C**.** Seller and Buyer wish to (i) amend the Agreement to provide, in part, for an accelerated reduced Contingent Payment, (ii) to sell to certain of Buyer's investors all Rollover Stock held by Seller, and (iii) otherwise terminate various ongoing rights and obligations of the Parties established in the Agreement and ancillary agreements entered into in connection with the Agreement, to simplify the ongoing relationship between the Parties.

In consideration of these premises, and of the mutual promises and conditions in this Amendment, the parties amend the Agreement as follows:

1. Accelerated Payment in Lieu of Contingent Payments**.** The parties hereby agree that all rights and obligations under the Agreement with respect to the calculation and payment of Contingent Payments are hereby terminated, and in lieu thereof, Buyer shall pay to Seller a single payment of One Million Dollars (U.S.$1,000,000) (the "*Accelerated Payment*"). Section 2.6 (Contingent Payments) is hereby deleted. For purposes of the Agreement, the Accelerated Payment shall be the sole Contingent Payment. The Accelerated Payment shall paid to Seller concurrently with the execution and closing of the Rollover Stock SPA referenced in Section 2 hereof.

2. Sale of Rollover Stock. As an express condition to the Accelerated Payment, and in lieu of the tender offer rights established in Section 7(b) of the Rollover Agreement, Seller shall sell to StealthPoint Fund I, LP, or its general partner StealthPoint LLC, a Delaware limited liability company (together "*StealthPoint*"), and StealthPoint nominees who are also holders of the Buyer's Series A Preferred stock (collectively, "*Series A Holders*"), all of Seller's Rollover Stock, for an aggregate purchase price of Four Hundred Thousand Dollars (U.S.$400,000)) (the "*Rollover Stock Buy-Out Pric*e"), a per share purchase price of $0.4025, in accordance with a stock purchase agreement substantially in the form attached hereto as Exhibit A (the "*Rollover Stock SPA*"). Seller acknowledges and agrees that, upon the closing of the sale of Rollover Stock, Seller shall have no further rights pursuant to the Rollover Agreement.

3. Early Termination Election and Restrictive Covenant Termination Election. Subject to the sale of Rollover Stock pursuant to Section 2 above, this Amendment shall be deemed an Early Termination Election, and pursuant to Section 8.01 of the Agreement, the General Representations and Covenants and the IP and Asset Representations shall expire upon the Effective Date (which shall be the Early Termination Election Date). Further, subject to the sale of Rollover Stock pursuant to Section 2 above, this Amendment shall be deemed a Restrictive Covenant Termination Election, and pursuant to Section 5.06(e) the restrictive covenants set forth in Section 5.06 shall be terminated as of the Effective Date (which shall be the Restrictive Covenant Termination Date). The sale of Rollover Stock described in Section 2 above, shall be in lieu of the Buyer Repurchase Option set forth in Section 5.11 of the Agreement, and consequently Buyer hereby waives any rights under that section.

4. Indemnity Cap and Recourse**.** The Agreement's provisions with respect to indemnification and Buyer's recourse for indemnified claims contemplated ongoing rights and obligations with respect to both Contingent Payments and Rollover Stock, which are no longer relevant as a result of this Amendment. Accordingly, Article VIII (Indemnification) is hereby amended as follows:

   (a) Section 8.06 is hereby amended to read, in its entirety, as follows:

   Payments. *Once a Loss is agreed to by the Indemnifying Party or finally adjudicated beyond any appeal to be payable pursuant to this Article VIII, the Indemnifying Party shall satisfy its obligations by way of cash payments.*

   (b) Sections 8.08 (Right of Setoff (Reduction of Contingent Payment)) and 8.11 (Order of Recourse) are hereby deleted.

5. Termination of Side Letter. In connection with the Transaction, Seller, Buyer and Gray Matters Inc. ("*GMI*") entered into a Side Letter Agreement dated as of March 17, 2023 (the "*Side Letter*") regarding transactions between GMDC, GMI, and certain WaveDancer executive personnel defined as "WAVD Executives" in the Side Letter. Section 1 and Sections 2(a)-(e) of the Side Letter shall be terminated, ab initio, with understanding that Buyer or GMI may enter into any agreement or agreements with WAVD Executives, without limitation or restriction, and without the consent or approval of WaveDancer.

6. Authorization of Amendment. Each Party represents and warrants that it has the legal capacity and all requisite corporate power and authority to execute and deliver this Amendment and to consummate the transactions contemplated hereby. This Amendment has been duly executed and delivered by such Party and (assuming the due authorization, execution and delivery by the other Party) this Amendment constitutes the legal, valid and binding obligations of such Party, enforceable against it in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights and remedies generally, and subject, as to enforceability, to general principles of equity (regardless of whether enforcement is sought in a proceeding at law or in equity).

7. Effect of Amendment. This Amendment shall be effective as of the Effective Date. In the event of any conflict between the terms of this Amendment and the terms of the Agreement, the terms of this Amendment shall govern. Unless modified by this Amendment, all terms and conditions of the Agreement shall remain fully effective.

8. Counterparts. This Amendment may be executed in counterparts, each of which shall be deemed an original, but all of which together shall be deemed to be one and the same agreement. A signed copy of this Amendment delivered by facsimile, e-mail or other means of electronic transmission shall be deemed to have the same legal effect as delivery of an original signed copy of this Amendment.

[Signatures continue on next page]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first written above.

BUYER:
GRAY MATTERS DATA CORP.

By: /s/Gwendolyn Pal
Gwendolyn Pal, CAO and Secretary

SELLER:
WAVEDANCER, INC.

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

Exhibit 10.3

ROLLOVER STOCK PURCHASE AGREEMENT

THIS ROLLOVER STOCK PURCHASE AGREEMENT (the "*Agreement*") is made and entered into as of August __, 2023 (the "*Effective Date*"), by and among WAVEDANCER, INC., a Delaware corporation ("*Seller*"), GRAY MATTERS DATA CORP., a Delaware corporation (the "*Company*"), and the purchasers listed on attached Exhibit A attached to this Agreement (each a "*Purchaser*" and together the "*Purchasers*"). The Purchasers include STEALTHPOINT FUND I, LP ("*StealthPoint*").

RECITALS

A. Seller owns 993,758 shares of common stock (the "Shares") of Gray Matters Data Corp. a Delaware corporation (the "*Company*"), acquired by Seller pursuant to a Rollover and Contribution Agreement, dated March 17, 2023, made in connection with the Company's acquisition of Seller's operating unit responsible for Seller's blockchain supply chain management business.

B. Seller has agreed to, among other things, amend certain agreements with the Company, and to sell to the Purchasers the Shares, upon the terms and conditions of this Agreement.

C. The Company has elected to waive its right of first refusal with respect to the Shares, provided that the Purchasers agree to the restrictions on transfer and rights of first refusal established in Section

In consideration of these premises, and of the mutual promises and conditions in this Agreement, the parties agree as follows:

1. Purchase and Sale of the Shares. Seller agrees to sell the Shares to the Purchasers, and each Purchaser agrees to purchase certain Shares from Seller, pursuant to the terms and conditions set forth below.

2. Purchase Price and Payment. The aggregate purchase price for the Shares will be Four Hundred Thousand Dollars (US $400,000.00). Each Purchaser will purchase the number of Shares, for the purchase price, indicated on attached **Exhibit A.** For convenience, the term "*Purchase Price*" refers to either the price payable by an individual Purchaser, or the aggregate price payable by all the Purchasers, as the context may dictate. The Purchase Price will be payable via wire transfer to an account specified by Seller.

3. Closing Date; Delivery.

3.1 Closing. The closing under this Agreement ("*Closing*") shall occur concurrently with the execution and closing of Amendment No. 1 to the Stock Purchase Agreement between Seller and the Company.

3.2 Delivery. At the Closing, each Purchaser will deliver, or cause to be delivered, to Seller such Purchaser's Purchase Price, and Seller will deliver to StealthPoint, as the representative of the Purchasers, an assignment separate from certificate, in the form attached to this Agreement as **Exhibit B**, assigning the Shares to the Purchasers, as their interests appear therein. The Parties acknowledge that the original Company share certificate representing the Shares is in the Company's possession.

3.3 Separate Agreement. The Company's agreement hereunder with each Purchaser is a separate agreement, the sale of Shares to each Purchaser is independent of the sale of Shares to other Purchasers and the obligations of the Purchasers under this Agreement are several.

4. Representations and Warranties of Seller. Seller hereby represents and warrants to each Purchaser as follows:

4.1 Organization and Standing. Seller is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to carry on its business as currently conducted.

4.2 Corporate Power. Seller has all requisite legal and corporate power to enter into, execute and deliver this Agreement, to transfer the Shares. This Agreement is valid and binding obligations of the Seller, enforceable in accordance with its terms, except as the same may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium, usury or other laws of general application relating to or affecting enforcement of creditors' rights and the rules or laws governing specific performance, injunctive relief or other equitable remedies.

4.3 Authorization. All corporate and legal action on the part of the Sellers, its officers, directors and stockholders necessary for the execution and delivery of this Agreement, and the performance of the Company's obligations hereunder have been taken.

4.4 Government Consent, Etc. No consent, approval, order or authorization of, or designation, registration, declaration or filing with, any federal, state, local or other governmental authority on the part of the Company is required in connection with the valid execution and delivery of this Agreement and the Shares.

4.5 Title. Seller is the owner, beneficially and of record, of the Shares, free and clear of all liens, encumbrances, security interests, options, claims, charges and restrictions.

4.6 Compliance with Laws and Other Instruments; No Conflicts. The Company is not in, and the execution and delivery of this Agreement and the Shares by the Seller and the consummation of the transactions contemplated hereby will not result in a, violation or default of any provisions of its Certificate of Incorporation or Bylaws, as amended to date or any applicable laws, regulations, judgments, decrees or orders of the United States of America and all states, foreign countries or other governmental bodies and agencies having jurisdiction over the Company's business or properties. Seller's sales of the Shares hereunder are transactions exempt from registration under the Act Securities Act of 1933, as amended, the "*Act*").

4.7 Litigation. There is no litigation, action, suit or proceeding, or governmental inquiry or investigation, pending, or, to the best of the Company's knowledge, threatened in writing against the Company which might result in a material adverse effect upon the transactions contemplated herein.

5. Representations and Warranties of Purchasers. Each Purchaser hereby represents and warrants to Seller and to the Company as follows:

5.1 Authorization. Purchaser has full power and authority to enter into this Agreement, and the Agreement, when executed and delivered by such Purchaser, will constitute valid and legally binding obligations of such Purchaser, enforceable in accordance with their terms, except (a) as limited by applicable bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and any other laws of general application affecting enforcement of creditors' rights generally, and as limited by laws relating to the availability of specific performance, injunctive relief or other equitable remedies.

5.2 Accredited Investor. Purchaser is an accredited investor as defined in Rule 501(a) of Regulation D promulgated the Act.

5.3 Residence and FOCI Compliance. If the Purchaser is an individual, then such Purchaser resides in the state, province or country identified in the address of such Purchaser set forth on Exhibit A; if such Purchaser is a partnership, corporation, limited liability company or other entity, then the office or offices of such Purchaser in which its principal place of business is identified in the address or addresses of such Purchaser set forth on Exhibit A. Purchaser is a U.S. domiciled individual or entity, and is not considered to be under foreign ownership, control or influence ("*FOCI*"), as FOCI is determined under the National Industrial Security Program Operating Manual, DOD 5220.22-M, as amended, or other similar security requirements of other federal agencies.

5.4 Investment Intent. Purchaser is acquiring the Shares solely for his/her/its own account for investment and not with a view to or for sale in connection with any distribution of the Shares or any portion thereof and not with any present intention of selling, offering to sell or otherwise disposing of or distributing the Shares or any portion thereof in any transaction other than a transaction exempt from registration under the Act. Purchaser also represents that the entire legal and beneficial interest of the Shares is being purchased, and will be held, for Purchaser's account only, and neither in whole or in part for any other person. Purchaser either (i) has a pre-existing business or personal relationship with the Company or any of its officers, directors or controlling persons, or (ii) by reason of Purchaser's business or financial experience or the business or financial experience of Purchaser's professional advisors who are unaffiliated with and who are not compensated by the Company or any affiliate or selling agent of the Company, directly or indirectly, could be reasonably assumed to have the capacity to evaluate the merits and risks of an investment in the Company and to protect Purchaser's own interests in connection with this transaction.

6. Right of First Refusal and Market Stand Off. As a condition of, and inducement to, the Company's waiver of its right of first refusal with respect to Seller's transfer of the Shares, each Purchaser agrees, solely for the benefit of the Company (and not Seller) as follows:

6.1 Right of First Refusal. Should Purchaser wish to transfer any of the Shares, or any interest in such Shares, Purchaser shall first deliver a written notice (the "*Transfer Notice*") to the Company, which shall have the option to purchase such shares as provided herein (the "*Right of First Refusal*"). As used herein, the term "*Transfer*" means any sale, assignment, gift, hypothecation, alienation or other disposition (including any involuntary transfer of the Shares (or part of them) to a creditor) to any individual, entity, government, government agency, political subdivision or unincorporated association. The Transfer Notice must specify: (i) that Purchaser has a bona fide intention to sell or transfer such Shares; (ii) the name and address of the person or firm to whom the Purchaser intends to transfer the Shares, or interest therein; (iii) the number of Shares, or interest therein, Purchaser proposes to transfer; (iv) the price or amount to be paid for the proposed transfer (including the amount of any debt to be paid, cancelled or forgiven upon foreclosure of a security interest in the Shares or upon any other transfer to the Purchaser's creditors); and (v) all other material terms and conditions of the proposed transfer.

6.2 Election to Purchase Shares. Within thirty (30) days after receipt of the Transfer Notice, the Company or its designee (as the case may be) may elect to purchase all, but not less than all, of the Shares to which the Transfer Notice refers at the per share price specified in the Transfer Notice. If no price is specified in the Transfer Notice, the purchase price shall be the fair market value of the Shares, as determined in good faith by the Board of Directors of the Company. Such Right of First Refusal shall be exercised by delivery to the Purchaser by the Company or its designee, of a written election to exercise such Right of First Refusal, specifying that Shares will be purchased by the Company or its designee (as the case may be).

6.3 Closing for Purchase of Shares. In the event the Company elects to acquire Shares of the Purchaser as specified in the Transfer Notice, the Secretary of the Company shall so notify the Purchaser and settlement thereof shall be made in cash within forty-five (45) days after the Secretary of the Company receives the Transfer Notice, provided that if the terms of payment set forth in the Transfer Notice were other than cash against delivery, the Company shall pay for said Shares on the same terms and conditions set forth in the Transfer Notice.

6.4 Transfers Free of Right of First Refusal. If the Shares referred to in the Transfer Notice are not purchased as aforesaid by the Company, or its designee(s), Purchaser, within a period of ninety (90) days from the date of delivery of the Transfer Notice to the Company, may sell any of said Shares to any person named in the Transfer Notice at the price and on the terms specified in the Transfer Notice, or at a higher price or on terms more favorable to the Purchaser, provided that such sale or transfer is consummated within ninety (90) days following the date of delivery of the Transfer Notice to the Company and, provided further, that such sale is in accordance with all the terms and conditions hereof. The transferee will hold all Shares transferred hereunder subject to the provisions of this Agreement. No transfer of the Shares shall be made after the end of such ninety (90) day period, nor shall any change in the terms of the transfer be permitted, without delivery by the Purchaser to the Company of a new Transfer Notice in compliance with the requirements of this Section 6.

6.5 Permitted Transfers. The provisions of this Section 5 shall not apply to any Transfer by Purchaser of all or any portion of his, her or its Shares to any of the following (each, a "*Permitted Transferee*" and, any such Transfer to a Permitted Transferee, a "*Permitted Transfer*"):

(a) An Affiliate. "*Affiliate*" means a business entity that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with the Purchaser. The term "control" (including the terms "controlled by" and "under common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a party, whether through the ownership of voting securities, by contract or otherwise.

(b) (i) The spouse, parent, siblings, descendants (including adoptive relationships and stepchildren) of Purchaser or an individual that controls Purchaser, and the spouses of each such natural persons (collectively, "*Family Members*"); (ii) a trust under which the distribution of Shares may be made only to Purchaser and/or any Family Member of Purchaser; (iii) a charitable remainder trust, the income from which will be paid to Purchaser during his or her life; (iv) a corporation, partnership, or limited liability company, the stockholders, partners, or members of which are only Purchaser and/or Family Members of Purchaser; or (v) by will or by the laws of intestate succession, to Purchaser's executors, administrators, testamentary trustees, legatees, distributees or beneficiaries; and

(c) Purchaser's partners, members or other equity owners, or retired partners or members, or to the estate of any of its partners, members or other equity owners or retired partners or members, or a venture capital, private equity or similar fund that is controlled by or under common control with one or more general partners or managing members of, or shares the same management company with, the Purchaser.

6.6 Assignment of Rights. The Company may assign its rights under this Section 6 to one or more persons or entities, who shall have the right to so exercise such rights in his or its own name and for his or its own account. If any such transfer of the Shares requires the consent of any agency pursuant to the securities laws of any state, the time periods specified herein shall be extended for such period as the necessary request for consent to transfer is pending before such agency. All parties agree to cooperate in making such request for transfer, and no transfer shall be executed without such consent if required by law.

6.7 Termination of Right of First Refusal. The Right of First Refusal shall terminate on (i) the effective date of a registration statement filed by the Company under the Act, with respect to an underwritten public offering of Common Stock of the Company (a "*Public Offering*") or (ii) the closing date of a sale of assets or merger of the Company pursuant to which shareholders of this Company receive securities of a buyer whose shares are publicly traded.

6.8 Transfers in Violation of Agreement. The Company shall not be required (i) to transfer on its books any shares of Stock which shall have been sold or transferred in violation of any of the provisions set forth in this Agreement, or (ii) to treat as owner of such shares or to accord the right to vote as such owner or to pay dividends to any transferee to whom such shares shall have been so transferred.

6.9 Continuation of Restrictions. Any failure by the Company to exercise any right of first refusal with respect to any Shares held by any Purchaser, shall not relieve such Shares (or any Shares held by any other Purchaser) of the restrictions and right of first refusal provisions of this Agreement and any such failure to exercise the right of first refusal upon the occurrence of one event involving a Purchaser shall not constitute waiver of such right of first refusal upon occurrence of a similar event involving any Purchaser at a later date, or any other event giving rise to the right to exercise right of first refusal.

6.10 Prior Agreement of Transferees to Hold Shares Subject to Restrictions. Notwithstanding anything in this Agreement to the contrary, no Transfer of any Shares shall be effective unless the intended transferee shall have agreed, in advance and in a writing in form and substance reasonably satisfactory to the Company, to take such Shares subject to the terms and conditions of this Agreement (or a similar agreement to be entered into by and between such transferee and the Company), including without limitation the provisions regarding the Company's right of first refusal, in the same manner and to the same extent as would have governed such Shares if still held by Purchaser.

6.11 No Obligation to Repurchase. Under no circumstances shall the Company be obligated to repurchase any Shares acquired by Purchaser under the terms of this Agreement.

6.12 No Fractional Shares. No exercise of the right of first refusal or any other Transfer as to a fractional Share shall be permitted. Any such exercise or Transfer which but for this Section 5 would involve a fractional Share shall be adjusted upward to the next higher number of Shares not involving a fractional Share.

6.13 Market Stand-Off. Purchaser, if requested by an underwriter of Shares or other securities of the Company, shall agree not to sell or otherwise transfer or dispose of any Shares held by Optionee (except Shares included in such registration) during the 180 day period following of the effective date of a registration statement of the Company filed under the Act, or such shorter period of time as the underwriter shall require. Such agreement shall be in writing in the form satisfactory to such underwriter. The Company may impose stop-transfer instructions with respect to such Stock subject to the foregoing restriction until the end of said period

6.14 Legends and Securities Law Matters.

(a) Endorsement on Certificates. The certificates representing the Shares subject to this Agreement shall be endorsed with legends substantially in the following forms:

THE SHARES REPRESENTED BY THIS CERTIFICATE MAY BE TRANSFERRED ONLY IN ACCORDANCE WITH THE TERMS OF A ROLLOVER STOCK PURCHASE AGREEMENT BETWEEN THE COMPANY AND THE REGISTERED HOLDER AND HIS/HER/ITS PREDECESSOR IN INTEREST, A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY. THE AGREEMENT MAY BE INSPECTED AT THE PRINCIPAL OFFICE OF THE COMPANY DURING NORMAL BUSINESS HOURS.

and

THE SHARES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AND HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. NO SUCH TRANSFER MAY BE EFFECTED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR AN OPINION OF COUNSEL IN A FORM SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE SECURITIES ACT OF 1933.

(b) Securities Law Legends. Any transfer or sale of the Shares is further subject to all restrictions on transfer imposed by state or Federal securities laws. Accordingly, it is understood and agreed that the certificates representing the Shares shall bear any legends required by such state or Federal securities laws.

7. Miscellaneous Provisions.

7.1 Governing Law. This Agreement will be governed by the laws of the State of Delaware (excluding its body of law controlling conflicts of laws).

7.2 Entire Agreement. This Agreement (including the Exhibits hereto, which are incorporated herein), reflects the entire understanding of the parties with respect to the subject matter of this agreement, and no term or condition hereof may be modified except by a subsequent writing executed by all parties.

7.3 Severability. Whenever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law; but if any provision of this Agreement should be prohibited or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity and the balance of this Agreement shall be interpreted as if such provision were so excluded and shall be enforceable in accordance with its terms unless such selective enforcement would destroy the basic intent and integrity of this Agreement.

7.4 Counterparts. This Agreement may be executed in two (2) or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Counterparts may be delivered via facsimile, electronic mail (including pdf or any electronic signature complying with the U.S. federal ESIGN Act of 2000, *e.g.*, www.docusign.com) or other transmission method and any counterpart so delivered shall be deemed to have been duly and validly delivered and be valid and effective for all purposes.

7.5 Attorneys Fees. If any action or proceeding is commenced to enforce this Agreement or any right arising in connection with this Agreement, the prevailing party in such action or proceeding will be entitled to recover from the other party the reasonable attorneys fees, costs and expenses incurred by such prevailing party in connection with such action or proceeding.

7.6 Amendments and Waivers. Any term of this Agreement may be amended, terminated or waived only with the written consent of the Seller, the Company, and (i) Purchasers holding of a majority of the Shares or (ii) for an amendment, termination or waiver effected prior to the Closing, Purchasers obligated to purchase a majority of the Shares at the Initial Closing (provided such Purchasers shall have previously executed and become party to this Agreement); provided however, that Section 6 may be amended without the consent of Seller. Any amendment or waiver effected in accordance with this Subsection 7.6 shall be binding upon the Seller, the Company, the Purchasers and each transferee of the Shares.

7.7 Notices. All notices and other communications under this Agreement shall be in writing and shall be deemed given (a) when delivered personally by hand (with written confirmation of receipt), (b) when sent by electronic mail or (c) one (1) Business Day following the day sent by overnight courier (with written confirmation of receipt), in each case at the following addresses (or to such other address as a party may have specified by notice given to the other party pursuant to this provision):

If to Buyers:	The addresses set forth in attached Exhibit A.
If to Company:	Gray Matters Data Corp. 900 Bestgate Road, Suite 300 Annapolis, Maryland 21401 Attn: Chief Executive Officer E-mail: jb@graymatters-inc.com
If to Seller:	WaveDancer, Inc. 12015 Lee Jackson Highway, Suite 210 Fairfax, Virginia 22033 Attn: Chief Executive Officer Email: jb@wavedancer.com

7.8 CONSENT TO ELECTRONIC NOTICE. EACH PURCHASER CONSENTS TO THE DELIVERY OF ANY STOCKHOLDER NOTICE PURSUANT TO THE DELAWARE GENERAL CORPORATION LAW (THE “**DGCL**”), AS AMENDED OR SUPERSEDED FROM TIME TO TIME, BY ELECTRONIC TRANSMISSION PURSUANT TO SECTION 232 OF THE DGCL (OR ANY SUCCESSOR THERETO) AT THE E-MAIL ADDRESS SET FORTH IN EXHIBIT A, AS UPDATED FROM TIME TO TIME BY NOTICE TO THE COMPANY. TO THE EXTENT THAT ANY NOTICE GIVEN BY MEANS OF ELECTRONIC TRANSMISSION IS RETURNED OR UNDELIVERABLE FOR ANY REASON, THE FOREGOING CONSENT SHALL BE DEEMED TO HAVE BEEN REVOKED UNTIL A NEW OR CORRECTED E-MAIL ADDRESS HAS BEEN PROVIDED, AND SUCH ATTEMPTED ELECTRONIC NOTICE SHALL BE INEFFECTIVE AND DEEMED TO NOT HAVE BEEN GIVEN. EACH PURCHASER AGREES TO PROMPTLY NOTIFY THE COMPANY OF ANY CHANGE IN ITS E-MAIL ADDRESS, AND THAT FAILURE TO DO SO SHALL NOT AFFECT THE FOREGOING.

[Signatures continue on next page]

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the day and date first written above.

SELLER:

WAVEDANCER, INC.

By /s/ G. James Benoit, Jr.

Its Chief Executive Officer

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the day and date first written above.

PURCHASER:

STEALTHPOINT LLC

By /s/ Michael Shepherd

Its President

Exhibit 31.1

CERTIFICATION of Chief Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934

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

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

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 to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

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

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

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

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

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

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

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

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

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

Date:	August 11, 2023	By:	/s/ G. James Benoit, Jr.
			G. James Benoit,
			Chief Executive Officer

A signed original of this written statement required by Section 302 has been provided to WaveDancer, Inc. and will be retained by WaveDancer, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 31.2

CERTIFICATION of Chief Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934

I, Timothy G. Hannon, certify that:

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

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 to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

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

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

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

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

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

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

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

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

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

Date: August 11, 2023

By: /s/ Timothy G. Hannon
Timothy G. Hannon,
Chief Financial Officer

A signed original of this written statement required by Section 302 has been provided to WaveDancer, Inc. and will be retained by WaveDancer, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), I, G. James Benoit, Jr., Chief Executive Officer of WaveDancer, Inc., a Delaware corporation (the “Company”), do hereby certify, to the best of my knowledge, that:

1 the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2023, as filed with the Securities and Exchange Commission on the date hereof, (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 result of operations of the Company for the periods presented therein.

Date: August 11, 2023

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

A signed original of this written statement required by Section 906 has been provided to WaveDancer, Inc. and will be retained by WaveDancer, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), I, Timothy G. Hannon, Chief Financial Officer of WaveDancer, Inc., a Delaware corporation (the “Company”), do hereby certify, to the best of my knowledge, that:

1 the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2023, as filed with the Securities and Exchange Commission on the date hereof, (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 result of operations of the Company for the periods presented therein.

Date: August 11, 2023

By: /s/ Timothy G. Hannon
Timothy G. Hannon,
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to WaveDancer, Inc. and will be retained by WaveDancer, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.