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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2018.

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 000-27507

CYNERGISTEK, INC.

(Exact name of registrant as specified in its charter)

Delaware	**37-1867101**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

11940 Jollyville Road, Suite 300N, Austin Texas, 78759
(Address of principal executive offices) (Zip Code)

(512) 402-8550
(Registrant's telephone number, including area code)

Securities registered under Section 12(b) of the Act:

Title of Class	Name of each exchange on which registered
Common Stock, $0.001 par value per share	NYSE American

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act.

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

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

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

The aggregate market value of the registrant's common stock, $0.001 par value per share ("Common Stock"), held by non-affiliates of the registrant on June 30, 2018, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $35.0 million (based on the average bid price of the Common Stock on that date). Shares of Common Stock held by each officer and director and each person known to the registrant to own 10% or more of the outstanding voting securities of the registrant were excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not a determination for other purposes. The registrant has one class of securities, its Common Stock.

As of March 26, 2019, the registrant had 9,722,053 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE.

Part III incorporates by reference certain information from the registrant's definitive proxy statement (the "Proxy Statement") for the 2019 Annual Meeting of Stockholders to be filed on or before April 19, 2019.

CYNERGISTEK, INC.
ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018

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Cautionary Note Regarding Forward-Looking Statements

From time to time, we and our representatives may provide information, whether orally or in writing, including certain statements in this Annual Report on Form 10-K (this "Annual Report"), which are deemed to be "forward-looking" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), that concern matters that involve risks and uncertainties which could cause actual results to differ materially from those projected in the forward-looking statements. These forward-looking statements are intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995 (the "Litigation Reform Act") and are based on our beliefs as well as assumptions made by us using information currently available. All statements other than statements of historical fact contained in this Annual Report, including statements regarding future events, our future financial performance, our future business strategy and the plans and objectives of management for future operations, are forward-looking statements. The words "anticipate," "believe," "estimate," "expect," "intend," "will," "should" and similar expressions, as they relate to us, are intended to identify forward-looking statements. Such statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated, expected or intended or using other similar expressions. In accordance with the provisions of the Litigation Reform Act, we are making investors aware that such forward-looking statements, because they relate to future events, are by their very nature subject to many important factors that could cause actual results to differ materially from those contemplated by the forward-looking statements contained in this Annual Report, any exhibits to this Annual Report and other public statements we make. Such factors are set forth in the "Business" section, the "Risk Factors" section, the "Legal Proceedings" section, the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section and other sections of this Annual Report, as well as in our Quarterly Reports on Form 10-Q and Current Reports on Form 8-K. We expressly disclaim any intent or obligation to update any forward-looking statements after the date hereof to conform such statements to actual results or to changes in our opinions or expectations, except as required by applicable law.

PART I

ITEM 1. BUSINESS.

Introduction

CynergisTek, Inc. (including our subsidiaries, CTEK Solutions, Inc., CTEK Security, Inc. and Delphiis, Inc.) (referred to collectively in this Annual Report, as "CynergisTek," the "Company," "we," "our" and "us") is engaged in the business of providing cybersecurity and information management consulting services dedicated primarily to the healthcare industry and those businesses that support healthcare. Our principal executive offices are located at 11940 Jollyville Road, Suite 300N, Austin, Texas, 78759.

For more information on CynergisTek and our products and services, please see the section entitled "Principal Products or Services" below or visit our website at www.cynergistek.com. The inclusion of our Internet address in this Annual Report does not include or incorporate by reference into this Annual Report any information on our website. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, amendments to those reports and other filings with the Securities and Exchange Commission (the "SEC") are generally available through the EDGAR system maintained by the SEC at www.sec.gov.

Background

CynergisTek, Inc. was originally incorporated under the laws of the State of Nevada on August 29, 1995, under the name Corporate Development Centers, Inc. On April 1, 2004, we acquired Alan Mayo and Associates, Inc. dba The Mayo Group ("TMG"), a managed print company. TMG provided outsourced print management services to healthcare facilities throughout California, which services we provide as the successor-in-interest to TMG. After we acquired TMG, we changed our name to "Auxilio, Inc." and changed the name of TMG's former subsidiary to "Auxilio Solutions, Inc." Effective July 1, 2014, we acquired Delphiis, Inc., a California corporation, which provides IT security consulting services. On April 7, 2015, we acquired certain assets of Redspin, Inc. which provides IT security consulting services. On January 13, 2017, we acquired CynergisTek, Inc., a Texas corporation, which provides IT security consulting services and solutions.

As described in more detail in our Current Report on Form 8-K filed with the Securities and Exchange Commission on September 8, 2017, Auxilio, Inc., changed its name and state of incorporation from the State of Nevada to the State of Delaware by merging (the "Reincorporation") with and into its wholly-owned subsidiary, CynergisTek, Inc., a Delaware corporation, which was established for the purpose of the Reincorporation. As a result of the Reincorporation, Auxilio ceased to exist as a separate entity. As of the date of the merger, each outstanding share of Auxilio's common stock was deemed, by operation of law, to represent the same number of shares of our Common Stock. In accordance with Rule 12g-3 under the Securities Exchange Act of 1934, as amended, the shares of our Common Stock were deemed to be registered under Section 12(b) of the Exchange Act as a successor to Auxilio. Effective as of September 8, 2017, the Company's trading symbol changed from AUXO to "CTEK."

As part of the Reincorporation, two wholly owned subsidiaries of the Company also changed their corporate names, as follows: (i) Auxilio Solutions, Inc., a California corporation, changed its name to CTEK Solutions, Inc.; and (ii) CynergisTek, Inc., a Texas corporation, changed its name to CTEK Security, Inc. ("CTEK Security").

Our Common Stock currently trades on the NYSE American under the symbol "CTEK."

Principal Products and Services

We are a top-ranked cybersecurity, privacy and compliance firm offering a suite of comprehensive services and solutions with an emphasis in healthcare and the challenges unique to the healthcare industry. Our service offerings help organizations identify ever-changing threat factors and security risks, provide resources to remediate or fill a gap in skilled and experienced talent, and offer a partner with experts in cybersecurity and privacy to manage and advise on their programs.

Our services include our Compliance Assist Partner Program (CAPP), which provides on-going risk assessments and remediation tracking to ensure organizations are compliant with HIPAA. Our Virtual Chief Information Security Officer (CISO) helps organizations with program development and prioritizes projects. The use of the CISO often reveals gaps in an organization's security. We can then provide additional resources through our Staffing service to execute a remediation plan or work on other IT security projects. Our Vendor Security Management oversees third-party risk and Incident Response services to help address the growing ransomware and malware attacks that plague organizations today.

To address growing market needs, we recently expanded our consulting and managed services offerings to include Medical Device Security Risk Assessment and Managed Security Services. The Medical Device Security Risk Assessment service helps organizations inventory the increasing number of medical devices connected to the network, identify hard to find vulnerabilities to overall security and the patient, and categorize these risks into a clearly defined remediation plan. The Managed Security Services provide on-going monitoring and analysis of an organization's security posture in regard to its network, endpoint devices, cloud infrastructure and SaaS applications.

As of March 20, 2019 the Company is focused exclusively on cybersecurity and privacy. As reported in our prior public filings, beginning March 20, 2019, we no longer provide Managed Print Services (MPS) directly but will continue to refer our customers to our partners for these services. MPS optimizes high-volume print environments while reducing costs, improving efficiency and securing the print environment through industry best practices.

Competition

The competition in the healthcare industry market for cybersecurity and privacy services generally come from large or niche consulting and technology firms and regional companies that offer multiple approaches but within a much smaller geographic footprint. Examples include companies like Deloitte, Dell Secureworks, Fire Eye, Coal Fire, Fortified Health Security, Mediology and Clearwater Consulting.

We believe our analysis of the competitive landscape shows a very strong opportunity for fully-outsourced and managed services to the healthcare industry, and we believe that we have a strong competitive position in the marketplace due to several important factors:

- We are focused on the healthcare industry. We are not aware of any other vendor or service provider which has the majority of its business dedicated to addressing HIPAA compliance, including printed and stored documents and improving efficiency for the healthcare industry. Our expertise and knowledge base are unmatched in the market.
- By focusing on healthcare, we believe we enjoy lower turn-around times for service, greater up-sell opportunities, and a deeper service relationship with the customer.
- We believe our offering provides a unique approach to managed security services. To address workforce and expertise shortages, we can deploy knowledgeable resources to perform a predefined security role on-site or virtually for a defined amount of time, which results in our customers receiving staff with expertise they need while controlling their costs.
- We are not restricted to any single supplier, which allows us to bring the best hardware and software solutions to our customers. Our approach is to use the most appropriate technology to provide a superior solution without any prejudice as to manufacturer or developer.
- We believe our relationship with healthcare providers gives us an advantage when targeting the larger pool of potential clients in the business associate category.
- We have a strong referral base within healthcare as a result of serving more than a thousand hospitals and other healthcare clients under managed services agreements.
- Many of our employees have worked in the healthcare provider setting, as well as for the Office for Civil Rights.

Customers

Most of our customers are hospitals, their related off-site facilities and third parties who provide services to healthcare entities. The loss of any key customer could have a material adverse effect upon our financial condition, business, prospects and results of operation. During the year ended December 31, 2018, our two largest customers represented approximately 57% of our revenues.

Intellectual Property

We maintain databases that contain the results of our managed services and consulting efforts. This allows us to anticipate our customers' future needs and to meet those needs. These databases provide us with exclusive insight into the state of cybersecurity and information management of our customers and the healthcare industry. We consider our proprietary RiskSonar application suite an important tool in assessing and organizing the information technology control structure of our customers. We consider our intellectual property an important and valuable asset that enhances our competitive position.

We have filed a trademark application for the name "CynergisTek" and for the Company's logo.

Employees

As of December 31, 2018, we had 292 full-time employees and five part-time employees, including 247 employees engaged in providing services, 22 employees engaged in sales and marketing, and 28 employees engaged in general and administrative activities. Our employees are not represented by any collective bargaining agreement, and we have never experienced a work stoppage. We believe our employee relations are good.

ITEM 1A. RISK FACTORS

Before deciding to purchase, hold or sell our Common Stock, you should carefully consider the risks described below in addition to the other information contained in this Annual Report and in our other filings with the SEC, including subsequent reports on Forms 10-Q and 8-K. The risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business. If any of these known or unknown risks or uncertainties actually occurs with material adverse effects on CynergisTek, our business, financial condition, results of operations and/or liquidity could be seriously harmed. In that event, the market price of our Common Stock will likely decline, and you may lose all or part of your investment.

Risks Related to Our Industry

We face substantial competition from better established companies that may offer similar products and services at a lower cost to our customers, resulting in a reduction in the sale of our products and services.

The market for our products and services is competitive and is likely to become even more competitive in the future. Increased competition could result in pricing pressures, reduced sales, reduced margins or the failure of our products and services to achieve or maintain market acceptance, any of which would have a material adverse effect on our business, results of operations and financial condition. Many of our current and potential competitors enjoy substantial competitive advantages, such as:

- greater name recognition and larger marketing budgets and resources;
- established marketing relationships and access to larger customer bases;
- substantially greater financial, technical and other resources; and
- larger technical and support staffs.

As a result, our competitors may be able to respond more quickly than we can to new or changing opportunities, technologies, standards or customer requirements. For all of the foregoing reasons, we may not be able to compete successfully against our current and future competitors.

Risks Related to Our Business

A substantial portion of our business is dependent on our largest customers.

The loss of any key customer could have a material adverse effect upon our financial condition, business, prospects, and results of operation. Our two largest customers represented approximately 57% of our revenues for the year ended December 31, 2018. As a result of the sale of our MPS business in March of 2019, we anticipate that these customers will represent less than 25% of revenue for 2019 and even less in subsequent years; although this is a significant reduction, a loss of any large customer could have a material impact on our operations that may require us to obtain equity funding or debt financing to continue our operations. We cannot be certain that we will be able to obtain such financing on commercially reasonable terms, or at all.

Fluctuations in demand for our products and services are driven by many factors, and a decrease in demand for our products could adversely affect our financial results.

We are subject to fluctuations in demand for our products and services due to a variety of factors, including market transitions, general economic conditions, competition, product obsolescence, technological change, shifts in buying patterns, financial difficulties and budget constraints of our current and potential customers, awareness of security threats to information systems and other factors. While such factors may, in some periods, increase product sales and services, fluctuations in demand can also negatively impact our product sales and services. If demand for our products and solutions declines, whether due to general economic conditions or a shift in buying patterns, our revenues and margins would likely be adversely affected.

We may be subject to data breaches and cyber-attacks which could materially adversely affect our financial condition, our competitive position and operating results.

Data breaches and cyber-attacks could compromise our trade secrets and other sensitive information, be costly to remediate and cause significant damage to our business and reputation. The secure maintenance of this information is critical to our business and reputation. We believe that companies have been increasingly subject to a wide variety of security incidents, cyber-attacks, hacking and phishing attacks, and other attempts to gain unauthorized access. These threats can come from a variety of sources, all ranging in sophistication from an individual hacker to a state-sponsored attack. Cyber threats may be generic, or they may be custom-crafted against our information systems.

Cyber-attacks have become increasingly more prevalent and much harder to detect and defend against. Our network and storage applications, as well as those of our customers, business partners, and third-party providers, may be subject to unauthorized access by hackers or breached due to operator error, malfeasance or other system disruptions. It is often difficult to anticipate or immediately detect such incidents and the damage caused by such incidents. These data breaches and any unauthorized access, misuse or disclosure of our information or intellectual property could compromise our intellectual property and expose sensitive business information. Cyber-attacks on us or our customers, business partners or third-party providers could also cause us to incur significant remediation costs, result in product development delays, disrupt key business operations and divert attention of management and key information technology resources. These incidents could also subject us to liability, expose us to significant expense and cause significant harm to our reputation and business.

In addition, we could be subject to claims for damages resulting from loss of data from alleged vulnerabilities in the security of our processors. We also maintain confidential and personally identifiable information about our workers. The integrity and protection of our worker data is critical to our business and our workers have a high expectation that we will adequately protect their personal information.

A breach of data privacy is likely to cause significant disruption of our business operations. Failure to adequately maintain and update our security systems could materially adversely affect our operations and our ability to maintain worker confidence. Failure to prevent unauthorized access to electronic and other confidential information and data breaches could materially adversely affect our financial condition, our competitive position and operating results.

If our customers experience data losses, our brand, reputation and business could be harmed.

A breach of our customers' network security and systems or other events that cause the loss or public disclosure of, or access by third parties to, our customers' files or data could have serious negative consequences for our business, including reduced demand for our services, an unwillingness of our customers to use our services, harm to our brand and reputation. The techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently, often are not recognized until launched against a target, and may originate from less regulated or remote areas around the world. As a result, our customers may be unable to proactively prevent these techniques, implement adequate preventative or reactionary measures, or enforce the laws and regulations that govern such activities. If our customers experience any data loss, or any data corruption or inaccuracies, whether caused by security breaches or otherwise, our brand, reputation and business could be harmed. We believe our risk here is mitigated by the security we employ and the fact that we do not take possession or control of customer sensitive information.

Our insurance may be inadequate or may not be available in the future on acceptable terms, or at all. In addition, our policy may not cover any claim against us for loss of data or other indirect or consequential damages. Defending a suit based on any data loss or system disruption, regardless of its merit, could be costly and divert management's attention.

Healthcare legislation and regulation.

We are a cybersecurity and information management consulting firm dedicated to serving the healthcare industry. The healthcare industry is highly regulated. U.S. government agencies continue to implement the extensive requirements of the Patient Protection and Affordable Care Act (the "ACA"). These have both positive and negative impacts on the U.S. healthcare industry with much remaining uncertain as to how various provisions of the ACA will ultimately affect the industry, including our business.

New legislation or regulation.

As to prospective legislation and regulation, we cannot determine what effect additional state or federal governmental legislation, regulations, or administrative orders would have on our business in the future. New legislation or regulation may require the reformulation of our business to meet new standards, require us to cease operations, impose stricter qualification and/or registration standards, impose additional record keeping, or require expanded consumer protection measures. Congressional leaders and the current administration have attempted to repeal or modify the ACA. At this time the Company is not certain as to the impact of federal health care legislation on its business.

We may be unable to recruit and maintain our senior management and other key personnel on whom we are dependent.

We are highly dependent upon senior management and key personnel, and we do not carry any life insurance policies on such persons. The loss of any of our senior management, or our inability to attract, retain and motivate the additional highly-skilled employees and consultants that our business requires, could substantially hurt our business, prospects, financial condition and results of operations. In addition, we rely on the ability of our management team to work together effectively. If our management team fails to work together effectively, our business could be harmed.

The market may not accept our products and services and we may not be able to continue our business operations; or if the market is receptive to our products but not our services, our revenues and profitability will be harmed.

Our products and services are targeted to the healthcare market, a market in which there are many competing service providers. Accordingly, the demand for our products and services is very uncertain. The market may not accept our products and services. Even if our products and services achieve market acceptance, our products and services may fail to adequately address the market's requirements.

In addition, if we are able to sell our products but are unable to provide ongoing services, our revenues and profitability will be harmed. Our services are integral to the successful deployment of our solutions. If we do not effectively service and support our customers, our revenues and operating results would be harmed.

Our business depends on generating and maintaining ongoing, profitable customer demand for our services and solutions, including through the adaptation and expansion of our services and solutions in response to ongoing changes in technology and offerings. A significant reduction in such demand or an inability to respond to the evolving technological environment could materially affect our results of operations.

Our revenue and profitability depend on the demand for our services and solutions with favorable margins, which could be negatively affected by numerous factors, many of which are beyond our control and unrelated to our work product. Volatile, negative or uncertain global economic conditions and lower growth in the markets we serve have adversely affected and could in the future adversely affect customer demand for our services and solutions. Our success depends, in part, on our ability to continue to develop and implement services and solutions that anticipate and respond to rapid and continuing changes in technology and offerings to serve the evolving needs of our customers. Technological developments may materially affect the cost and use of technology by our customers.

Some technologies may replace some of our services and solutions in the future. This may cause customers to delay spending under existing contracts and engagements and to delay entering into new contracts while they evaluate new technologies. Such delays can negatively impact our results of operations if the pace and level of spending on new technologies is not sufficient to make up any shortfall.

Developments in the industries we serve, which may be rapid, also could shift demand to new services and solutions. If, as a result of new technologies or changes in the industries we serve, our customers demand new services and solutions, we may be less competitive in these new areas or need to make significant investment to meet that demand. Our growth strategy focuses on responding to these types of developments by driving innovation that will enable us to expand our business into new growth areas. We must continually address the challenges of dynamic and accelerating market trends, such as the emergence of advanced persistent threats in the security space, the continued decline in the PC market and the market shift towards mobility and the increasing transition towards cloud-based solutions. If we do not sufficiently invest in new technology and adapt to industry developments, or evolve and expand our business at sufficient speed and scale, or if we do not make the right strategic investments to respond to these developments and successfully drive innovation, our services and solutions, our results of operations, and our ability to develop and maintain a competitive advantage and to execute on our growth strategy could be negatively affected. New product development and introduction involves a significant commitment of time and resources and is subject to a number of risks and challenges including:

- Managing the length of the development cycle for new products and product enhancements;
- Adapting to emerging and evolving industry standards and to technological developments by our competitors and customers;
- Extending the operation of our products and services to new and evolving platforms, operating systems and hardware products, such as mobile devices;
- Entering into new or unproven markets with which we have limited experience;
- Managing new product and service strategies for the markets in which we operate; and
- Developing or expanding efficient sales channels.

If we are not successful in managing these risks and challenges, or if our new products, product upgrades and services are not technologically competitive or do not achieve market acceptance, our business and operating results could be adversely affected. We operate in a rapidly evolving environment in which there currently are, and we expect will continue to be, new technology entrants. New services or technologies offered by competitors or new entrants may make our offerings less differentiated or less competitive when compared to other alternatives, which may adversely affect our results of operations. In addition, companies in the industries we serve sometimes seek to achieve economies of scale and other synergies by combining with or acquiring other companies. If one of our current customers merges or consolidates with a company that relies on another provider for the services and solutions we offer, we may lose work from that customer or lose the opportunity to gain additional work if we are not successful in generating new opportunities from the merger or consolidation.

Many of our contracts allow customers to terminate, delay, reduce or eliminate spending on the services and solutions we provide. Additionally, a customer could choose not to retain us for additional stages of a project, try to renegotiate the terms of its contract or cancel or delay additional planned work. When contracts are terminated or not renewed, we lose the anticipated revenues, and it may take significant time to replace the level of revenues lost. Consequently, our results of operations in subsequent periods could be materially lower than expected. The specific business or financial condition of a customer, changes in management and changes in a customer’s strategy are also all factors that can result in terminations, cancellations or delays.

Achieving the desired benefits of recent acquisitions may be subject to a number of challenges and uncertainties which make it hard to predict the future success of each entity.

We have completed several acquisitions in recent years with expected benefits including, among other things, operating efficiencies, procurement savings, innovation, sharing of best practices and increased market share that may allow for future growth. Achieving the anticipated benefits may be subject to a number of significant challenges and uncertainties, including, without limitation, whether unique corporate cultures will work collaboratively in an efficient and effective manner, the coordination of separate organizations, the possibility of imprecise assumptions underlying expectations regarding potential synergies and the integration process, unforeseen expenses and delays, and competitive factors in the marketplace. We could also encounter unforeseen transaction and integration-related costs or other circumstances such as unforeseen liabilities or other issues. Many of these potential circumstances are outside of our control and any of them could result in increased costs, decreased revenue, decreased synergies and the diversion of management time and attention. If we are unable to achieve our objectives within the anticipated time frame, or at all, the expected benefits may not be realized fully or at all, or may take longer to realize than expected, which could have an adverse effect on our business, financial condition and results of operations.

Our business and operations expose us to numerous legal and regulatory requirements, and any violation of these requirements could harm our business.

We are subject to numerous federal and state legal requirements on matters as diverse as data privacy and protection, employment and labor relations, immigration, taxation, anticorruption, import/export controls, trade restrictions, internal and disclosure control obligations, securities regulation and anti-competition. Compliance with diverse and changing legal requirements is costly, time-consuming and requires significant resources. We also conduct business in certain identified growth areas, such as health information technology, which are highly regulated and may expose us to increased compliance risk. Violations of one or more of these diverse legal requirements in the conduct of our business could result in significant fines and other damages, criminal sanctions against us or our officers, prohibitions on doing business and damage to our reputation. Violations of these regulations or contractual obligations related to regulatory compliance in connection with the performance of customer contracts could also result in liability for significant monetary damages, fines and/or criminal prosecution, unfavorable publicity and other reputational damage, restrictions on our ability to compete for certain work and allegations by our customers that we have not performed our contractual obligations.

We may need additional capital in the future and, if such capital is not available on terms acceptable to us or available to us at all, this may impact our ability to continue to grow our business operations.

We may need capital in the future to expand our business operations. If we need capital, we cannot be certain that it will be available on terms acceptable to us or available to us at all. In the event we are unable to raise capital, we may not be able to:

- develop or enhance our service offerings;
- take advantage of future opportunities; or
- respond to customers and competition.

We have a substantial amount of indebtedness which may adversely affect our financial resources and our ability to operate our business.

We are indebted to the former shareholders of CTEK Security, Inc. in the aggregate principal amount of approximately $6.1 million pursuant to promissory notes with maturity dates ranging from January 2019 to March 2023. Our resulting substantial level of indebtedness and other financial obligations increase the possibility that we may be unable to pay, when due, the principal of, interest on, or other amounts due in respect of, our indebtedness. If we are unable to pay our indebtedness under the aforementioned promissory notes when due, this could result in a default under the promissory notes. In such event, the lenders may elect (after the expiration of any applicable notice or grace periods) to declare all outstanding borrowings, together with accrued and unpaid interest and other amounts payable under the notes, to be immediately due and payable. Any such occurrence would have an immediate and materially adverse impact on our business and results of operations.

With the sale of our Managed Print Services assets, our business focus is narrower, and we are more dependent on the market's acceptance of our cybersecurity and privacy products and services. If these products and services are not accepted by the market, any such rejection or delay in acceptance could have a material adverse impact on our business.

As disclosed in our recent public filings and discussed in the Business section of this Annual Report, in March 2019, we closed a transaction to sell the assets used in our Managed Print Services business ("MPS"). Following the sale of the MPS assets, we plan to focus on expanding our cybersecurity and privacy services and product offerings. However, there can be no guarantee that this more narrow business focus will succeed or that we will be able to grow our business or implement this new and more focused business strategy. If our cybersecurity and privacy products and services are not accepted by the market, or if the acceptance of these products and services is delayed or takes longer than anticipated, any such non-acceptance or delay in acceptance of our products or services by the market could have a proportionately larger material adverse impact on our business.

Achieving the desired benefits of recent changes in our business focus may be subject to a number of challenges and uncertainties which make it hard to predict the future success of each entity.

As noted, we recently sold the assets used in our MPS business and are planning to focus more on expanding our cybersecurity and privacy services and product offerings. As we transition from the MPS business to a business more focused on cybersecurity and privacy, achieving the anticipated benefits may be subject to a number of significant challenges and uncertainties, including, without limitation, changes in corporate culture; removal of prior business synergies between the current business and the MPS business; unforeseen expenses and delays resulting from the sale of the MPS business assets; and competitive factors in the marketplace. We could also encounter unforeseen transaction and disposition-related costs or other circumstances such as unforeseen liabilities or other issues. Many of these potential circumstances are outside of our control, and any of them could result in increased costs, decreased revenue, and the diversion of management time and attention. If we are unable to achieve our objectives within our anticipated time frame, or at all, the expected benefits may not be realized fully or at all, or may take longer to realize than expected, which could have an adverse effect on our business, financial condition and results of operations.

Risks Related to the Market for Our Securities

Because the public market for shares of our Common Stock is limited, stockholders may be unable to resell their shares of Common Stock.

Currently, there is only a limited public market for our Common Stock on the NYSE American and our stockholders may be unable to resell their shares of Common Stock. Currently, the average daily trading volume of our Common Stock is not significant, and it may be more difficult for you to sell your shares in the future, if at all.

The development of an active trading market depends upon the existence of willing buyers and sellers who are able to sell shares of our Common Stock as well as market makers willing to create a market in such shares. Under these circumstances, the market bid and ask prices for the shares may be significantly influenced by the decisions of the market makers to buy or sell the shares for their own account. Such decisions of the market makers may be critical for the establishment and maintenance of a liquid public market in our Common Stock. Market makers are not required to maintain a continuous two-sided market and are free to withdraw quotations at any time. We cannot assure our stockholders that an active public trading market for our Common Stock will develop or be sustained.

The price of our Common Stock may be volatile and could decline in value, resulting in loss to our stockholders.

The market for our Common Stock is volatile, having ranged since January 1, 2018 through December 31, 2018 from a low of $3.23 to a high of $5.45. The market price for our Common Stock has been, and is likely to continue to be, volatile. The following factors may cause significant fluctuations in the market price of shares of our Common Stock:

- fluctuations in our quarterly revenues and earnings or those of our competitors;
- variations in our operating results compared to levels expected by the investment community;
- announcements concerning us, our competitors or our customers;
- announcements of technological innovations;
- sale or purchases of shares by traders or other investors;
- market conditions in the industry; and
- the conditions of the securities markets.

The factors discussed above may depress or cause volatility of our share price, regardless of our actual operating results. In addition, the highly volatile nature of our stock price may cause investment losses for our stockholders. In the past, securities class action litigation has often been brought against companies following periods of volatility in the market price of their securities. If securities class action litigation is brought against us, such litigation could result in substantial costs while diverting management's attention and resources.

There are a large number of shares of Common Stock that may be issued or sold, and if such shares are issued or sold, the market price of our Common Stock may decline.

As of December 31, 2018, we had 9,630,050 shares of our Common Stock outstanding.

If all warrants, options and restricted stock grants outstanding as of December 31, 2018 are exercised prior to their expiration, up to approximately 1.5 million additional shares of Common Stock could become freely tradable. Such sales of substantial amounts of Common Stock in the public market could adversely affect the prevailing market price of our Common Stock and could also make it more difficult for us to raise funds through future offerings of Common Stock.

Our stockholders may experience dilution.

We anticipate that we may raise substantial additional capital to achieve our business objectives. We have an effective shelf registration statement under which we have the current ability to raise up to $15 million through the issuance of equity or debt securities. We cannot assure you that we will be able to sell shares or other securities in any offering at a price per share that is equal to or greater than the price per share paid by investors in previous offerings, and investors purchasing shares or other securities in the future could have rights superior to existing stockholders. The price per share at which we sell additional shares of our Common Stock or other securities convertible into or exchangeable for our Common Stock in future transactions may be higher or lower than the price per share in previous offerings. The future issuance of the Company's equity securities will further dilute the ownership of our outstanding Common Stock. The market price of our Common Stock has been, and may continue to be, highly volatile, and such volatility could cause the market price of our Common Stock to decrease and could cause stockholders to lose some or all of their investment in our Common Stock.

We do not intend to pay dividends.

We have never declared or paid any cash dividends on our Common Stock. We do not anticipate paying dividends on our Common Stock in the foreseeable future. We may not have sufficient funds to legally pay dividends. Even if funds are legally available to pay dividends, we may nevertheless decide in our sole discretion not to pay dividends and to retain any future earnings to fund growth.

Other Risks

It may be difficult for a third party to acquire us even if doing so would be beneficial to our stockholders.

Some provisions of our Certificate of Incorporation, as amended, and Bylaws, as amended, as well as some provisions of Delaware, Texas or California law, may discourage, delay or prevent third parties from acquiring us, even if doing so would be beneficial to our stockholders.

As a public company, we are subject to complex legal and accounting requirements that will require us to incur significant expenses.

As a public company, we are subject to numerous legal and accounting requirements that do not apply to private companies. The cost of compliance with many of these requirements is material, not only in absolute terms but, more importantly, in relation to the overall scope of the operations of a small company. The cost of such compliance may prove to be a substantial competitive disadvantage vis-à-vis our privately held and larger public competitors.

The impact of any deterioration of the global credit markets, financial services industry and U.S. economy may negatively affect our business and our ability to obtain capital, if needed.

A deterioration in the global credit markets, the financial services industry and the U.S. economy could result in a period of substantial turmoil. The impact of these events on our business and the severity of an economic crisis is uncertain. It is possible that a crisis in the global credit markets, the financial services industry or the U.S. economy could adversely affect our business, vendors and prospects as well as our liquidity and financial condition. This could impact our ability to increase our customer base and generate positive cash flows. Although we have been able to raise additional working capital through convertible note agreements and private placement offerings of our Common Stock in the past, we may not be able to continue this practice in the future or we may not be able to obtain additional working capital through other debt or equity financings. In the event that sufficient capital cannot be obtained, we may be forced to minimize growth to a point that would be detrimental to our business development activities. These courses of action may be detrimental to our business prospects and result in material charges to our operations and financial position. In the event that any future financing should take the form of the sale of equity securities, the current equity holders may experience dilution of their investments.

The forward-looking statements contained in this Annual Report may prove incorrect.

This Annual Report contains certain forward-looking statements. These forward-looking statements are based largely on our current expectations and are subject to a number of risks and uncertainties. Actual results could differ materially from these forward-looking statements. In addition to the other risks described elsewhere in this "Risk Factors" discussion, important factors to consider in evaluating such forward-looking statements include: (i) changes to external competitive market factors or in our internal budgeting process which might impact trends in our results of operations; (ii) anticipated working capital or other cash requirements; (iii) changes in our business strategy or an inability to execute our strategy due to unanticipated changes in our industry; and (iv) various competitive factors that may prevent us from competing successfully in the marketplace. In light of these risks and uncertainties, many of which are described in greater detail elsewhere in this "Risk Factors" discussion, there can be no assurance that the events predicted in forward-looking statements contained in this Annual Report will, in fact, transpire. Any negative change in the factors listed above could adversely affect the financial condition and operating results of the Company and its products and services.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES.

We lease approximately 18,320 square feet of office space on the 2nd floor, referred to as Suite 200, and in a portion of the basement (the "Mission Viejo Premises"), in the building located at 27271 Las Ramblas, Mission Viejo, California 92691 (the "Mission Viejo Building"), pursuant to an Office Building Lease (the "Mission Viejo Lease") dated June 26, 2015, with MVPlaza, Inc. ("Landlord"). The term of the Mission Viejo Lease commenced on or about October 1, 2015 and terminates in April 2021. We lease approximately 3,600 square feet of office space at 11410 Jollyville Road, Suite 2201, Austin, Texas 78759. This lease terminates in September 2019. We also lease approximately 9,600 square feet of office space at 11940 Jollyville Road, Austin, Texas 78759. This lease terminates in May 31, 2020.

We sublease a portion of the Mission Viejo Premises containing approximately 4,500 square feet of space, a portion of which is located on the 2nd floor of the Mission Viejo Building, pursuant to a Standard Sublease Multi-Tenant dated January 23, 2019 (the "Total Vision Sublease") with Total Vision, LLC, a Delaware limited liability company. The term of the Total Vision Sublease commenced on February 15, 2019, and terminates on April 15, 2021.

We sublease a portion of the Mission Viejo Premises containing approximately 12,620 square feet of space, a portion of which is located on the 2nd floor of the Mission Viejo Building and the basement within the same, pursuant to a Sublease Agreement dated March 20, 2019 (the "Vereco Sublease") with Vereco, LLC. The term of the Vereco Sublease commenced on March 20, 2019, and terminates April 15, 2021.

We expect that the current leased premises will be satisfactory until the future growth of our business operations necessitates an increase in office space.

ITEM 3. LEGAL PROCEEDINGS.

We are not a party to any material legal proceedings, nor has any material proceeding been terminated during the fiscal year ended December 31, 2018.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market Information

Since February 14, 2017, our Common Stock has been listed on the NYSE American. From February 14, 2017 through September 7, 2017, our Common Stock was listed under the symbol "AUXO." Since September 8, 2017, our Common Stock has been listed under the symbol "CTEK." Prior to February 14, 2017, our Common Stock was listed on the OTCQB under the symbol "AUXO."

On January 13, 2017, the Company effectuated a reverse stock split of its issued and outstanding shares of Common Stock at a ratio of 1 for 3 (the "Reverse Stock Split"). As a result of the Reverse Stock Split, the Company's issued and outstanding stock decreased from 24,557,224 to 8,185,936 shares of Common Stock, all with a par value of $0.001. All information related to Common Stock, stock options, warrants and share price for prior periods has been retroactively adjusted in this Annual Report to give effect to the Reverse Stock Split.

The following table presents quarterly information on the high and low sales prices of our Common Stock for the fiscal years ended December 31, 2018 and 2017, furnished by the NYSE American and the OTCQB.

	High	Low
Fiscal Year Ended December 31, 2018		
First Quarter	$ 5.45	$ 3.73
Second Quarter	$ 5.04	$ 3.60
Third Quarter	$ 4.15	$ 3.23
Fourth Quarter	$ 4.78	$ 3.66
Fiscal Year Ended December 31, 2017		
First Quarter	$ 5.85	$ 2.37
Second Quarter	$ 6.72	$ 4.20
Third Quarter	$ 5.08	$ 3.08
Fourth Quarter	$ 4.25	$ 2.70

Holders

On March 26, 2019, we had approximately 65 stockholders of record. Certain of our shares are held in "nominee" or "street" name, and the number of beneficial owners of such shares are approximately 1,800.

Dividends

We have never paid cash dividends on our Common Stock and do not anticipate paying such dividends in the foreseeable future. The future payment of dividends, if any, will be determined by our Board of Directors (the "Board") in light of conditions then existing, including our financial condition and requirements, future prospects, restrictions in financing agreements, business conditions and other factors deemed relevant by the Board.

Repurchases

During the fiscal year ended December 31, 2018, we did not repurchase any of our securities.

Securities Authorized for Issuance under Equity Compensation Plans

The following table provides certain information as of December 31, 2018 with respect to our existing equity compensation plans under which shares of our Common Stock are authorized for issuance.

Plan	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuances Under Plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plan options approved by security holders (1)	539,926	$2.97	1,208,665
Equity compensation plan restricted stock units approved by security holders (2)	880,000	-	-
Equity compensation plans not approved by security holders (3)	77,779	$2.93	-
Total	1,497,705		1,208,665

(1) These plans consist of the 2001 Stock Option Plan, the 2003 Stock Option Plan, the 2004 Stock Option Plan, the 2007 Stock Option Plan and the 2011 Stock Incentive Plan, each as amended.
(2) Represents restricted stock units issued under the 2011 Stock Incentive Plan. Since this plan includes option grants, number of securities remaining available for future issuances is combined.
(3) From time to time and at the discretion of the Board, we may issue warrants to our key individuals or officers as performance-based compensation.

ITEM 6. SELECTED FINANCIAL DATA.

As a smaller reporting company, we are not required to include this information in our Annual Report on Form 10-K.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion presents information about our consolidated results of operations, financial condition, liquidity and capital resources and should be read in conjunction with our consolidated financial statements and the notes thereto beginning on page F-1 of this Annual Report.

Overview

We are engaged in the business of providing IT and related consulting services, including cybersecurity, and IT security consulting services and managed print services to the healthcare industry. Our business is operated throughout the United States.

We provide a large selection of testing services offered on a standalone basis or customized into a package of services to fit our customers' needs or offered as an industry accepted methodology-based Risk Assessment that meets requirements outlined by the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") and Meaningful Use.

The HIPAA Risk Assessment is our flagship stand-alone service and combines several of our individual technical and physical assessment components into a single engagement aimed specifically at addressing the requirement for both a risk assessment as well as ongoing risk management processes for all organizations with a requirement to comply with HIPAA. We also offer an annual Risk Assessment as the base component of an ongoing holistic compliance management program, Compliance Assist Partner Program ("CAPP"), discussed more below.

We understand that health information privacy means more than just meeting an organization's HIPAA compliance requirements – it is a business imperative. Our team of consultants is comprised of experienced professionals who have learned their craft both in the classroom and through years of experience as policy makers and in the health care industry. This allows us to provide our customers with expert HIPAA privacy consulting services that evaluate the rigor and effectiveness of their privacy program to ensure the confidentiality of their patients' health information.

We offer a menu of services to measure and strengthen an organization's compliance with the HIPAA Privacy Rule, Health Information Technology for Economic and Clinical Health Act ("HITECH") Breach Notification Rule, Federal Trade Commission consumer protection guidelines and state privacy standards. Using state of the art assessment tools and applying industry best practices, our teams identify areas to strengthen our customers privacy program, recommend solutions, and provide tools and training materials to enhance the culture of privacy and compliance within an organization.

A variety of consulting advisory services are also offered, ranging from using cutting-edge technologies to monitor user access to patient health information to producing exercises replicating the HIPAA/HITECH audit experience that help guide organizations on how to respond to state or federal regulatory enforcement investigations. We can also customize any assessment to address specific organizational requirements. Working with us enables customers to have resources and expertise that they need to accelerate the effectiveness of their privacy program.

To help organizations prepare for audits and investigations, CynergisTek offers a series of audit solutions that help organizations verify and validate that privacy and security programs meet compliance and business objectives. CynergisTek understands the regulatory and compliance environment and can help organizations enhance their risk management efforts through various types of audits. Our Compliance and Audit Services are delivered by our industry experts and provide an overall assessment of an organization's audit readiness.

We provide a Compliance Assist Partner Program ("CAPP") that is a fully customizable managed security services support agreement. The CAPP is offered to both providers and business associates and provides the basic building blocks to help an organization build and maintain their cybersecurity program. This multi-year program provides a fully managed support environment.

We offer a Patient Privacy Monitoring Service ("PPMS") that supports multiple platforms allowing the customer to select the tool of choice and have a fully managed solution.

Our Vendor Security Management service is a fully automated solution employing our proprietary Risk Sonar application. Our program provides a cloud-based solution with a client portal that enables CynergisTek to conduct security reviews of the customers third-party supply chain vendors and provide the results back to the customer.

Our incident response service provides a proactive approach to assess, define, and prepare for a variety of cyber incidents. Our program ensures an organization has the right technologies, people and processes in place to respond to an incident in an efficient and effective manner. We expect that our services will help improve an organization's ability to respond and recover from a cyber incident ranging from an attack or breach, to a system outage. We offer them as one-time engagements or as a part of a bundled, ongoing Incident Response Managed Service.

Prior to March 20, 2019, we provided document solutions for the healthcare industry. We offered hospitals and health systems comprehensive services and solutions to support the document life cycle. We provided a vendor neutral program that enhanced security of printed, stored data and digital documents while driving out costs and inefficiencies within the patient information logistical chain. .

We have been an industry leader in document solutions for the healthcare industry for many years, offering hospitals and health systems comprehensive services and solutions to support the document life cycle. We provide a vendor neutral program that enhances security of printed, stored data and digital documents while driving out costs and inefficiencies within the patient information logistical chain. We no longer provide these types of services. Due to this change we will see a reduction in our revenues and earnings until we are able to grow our cybersecurity business

Application of Critical Accounting Policies

The SEC defines critical accounting policies as those that are, in management's view, most important to the portrayal of our financial condition and results of operations and most demanding of our judgment. The discussion and analysis of our financial condition and results of operations are based upon our financial statements, which were prepared in accordance with accounting principles generally accepted in the U.S., which is referred to as "GAAP." The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an on-going basis, we evaluate these estimates, including those related to stock-based compensation, customer programs and incentives, bad debts, supply inventories, intangible assets, income taxes, contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We consider the following accounting policies to be those most important to the portrayal of our financial condition and those that require the most subjective judgment:

Revenue Recognition and Deferred Revenue

We operate under a consolidated strategy and management structure, deriving revenue from the following sources:

- o Managed services
- o Consulting and professional services
- o Office equipment, hardware and software resales

Revenue is recognized pursuant to ASC Topic 606, "Revenue from Contracts with Customers" (ASC 606). Accordingly, revenue is recognized at an amount that reflects the consideration to which we expect to be entitled in exchange for transferring goods or services to a customer. This principle is applied using the following 5-step process:

1. Identify the contract with the customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) each performance obligation is satisfied

Managed Services

Managed services revenue is earned monthly during the term of the contract, as services and supplies are provided at a fixed fee and is recognized ratably over the contract term beginning on the commencement date of the contract. Managed services contracts are typically long-term contracts lasting 3 to 5 years.

Prior to our sale of the MPS business in March 2019, our contracts with managed print service customers included provisions that related to guaranteed savings amounts and shared savings. Such provisions were considered by management during our initial proprietary client assessment. Our historical settlement of such amounts had been within management's estimates.

Consulting and Professional Services

Consulting and professional services contracts are typically short-term, project-based services rendered on either a fixed fee or a time and materials basis. These contracts are normally for a duration of less than one year. For fixed fee arrangements, revenue is recognized ratably over the term of the project. For time and materials arrangements, revenues are recognized as the services are rendered.

Office Equipment, Hardware and Software Resales

Revenues from office equipment sales transactions are recognized upon delivery of the contracted performance obligation. For equipment that is to be installed at a customer's location at a future date, revenue is deferred until the installation of such equipment.

For hardware and software resales, we recognize revenue on a gross basis, as we are deemed to be the primary obligor in these arrangements. Revenue from the resale of hardware is recognized when delivered to the customer. For software resales, when we do not provide any services that are considered essential to the functionality of the software, revenue is recognized upon delivery of the software. All product warranties and upgrades or enhancements are provided exclusively by the manufacturer. We do not sell any internally-developed software.

For hardware and software maintenance arrangements, we recognize revenue at the time of sale on a net basis, as a third-party service provider is deemed to be the primary obligor. Under net sales recognition, the cost of the third-party service provider or vendor is recorded as a direct reduction to net revenues on the statements of operations.

Arrangements with Multiple Deliverables

We enter into contracts that include multiple deliverables, which typically consist of the sale of Multi-Function Device ("MFD") equipment and a managed services contract. We evaluate the deliverables in each contract to determine if they represent distinct performance obligations as defined in ASC 606. Revenue is allocated to each performance obligation based on its relative standalone selling price. When standalone selling prices are not readily observable, it can be estimated using an adjusted market assessment approach, an expected cost-plus margin approach, or a residual approach. We generally do not sell MFD equipment on a standalone basis, but as we purchase the equipment, we have evidence of the cost of this element. We estimate the transaction price of the contract to allocate to the managed service unit based on historical cost experience. Based on the relative costs of each performance obligation to the overall transaction price of the contract, we utilize the same relative percentage to allocate the total transaction price.

Deferred and Unbilled Revenue

We receive payments from customers based on billing schedules established in our contracts. Deferred revenue primarily consists of billings or payments received in advance of the amount of revenue recognized and such amounts are recognized as the revenue recognition criteria are met. Unbilled revenue reflects our conditional right to receive payment from customers for our completed performance under contracts.

New Customer Implementation Costs

We ordinarily incurred additional costs to implement our services for new customers. These costs are comprised primarily of additional labor and support. These costs were expensed as incurred and have a negative impact on our statements of operations and cash flows during the implementation phase.

Accounts Receivable Valuation and Related Reserves

We estimate the losses that may result from that portion of our accounts receivable that may not be collectible as a result of the inability of our customers to make required payments. Management specifically analyzes customer concentration, customer credit-worthiness, current economic trends and changes in customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. We review past due accounts on a monthly basis and record an allowance for doubtful accounts where we deem appropriate.

Impairment Review of Goodwill and Intangible Assets

We periodically evaluate our intangible assets and goodwill relating to acquisitions for impairment. Goodwill is not amortized but is evaluated at least annually at year end for any impairment in the carrying value. We review our intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Factors we consider important which could trigger an impairment review include, but are not limited to, the following: significant underperformance relative to expected historical or projected future operating results; significant changes in the manner of our use of the acquired assets or the strategy for our overall business; and a significant negative industry or economic trend for a sustained period. Goodwill and intangible asset impairment assessments are generally determined based on fair value techniques, including determining the estimated future discounted and undiscounted cash flows over the remaining useful life of the asset. Those models require estimates of future revenue, profits, capital expenditures and working capital for each reporting unit. We estimate these amounts by evaluating historical trends, the current state of the Company's industries and the economy, current budgets, and operating plans. Determining the fair value of reporting units and goodwill includes significant judgment by management and different judgments could yield different results. Any resulting impairment loss could have a material impact on our financial condition and results of operations.

Stock-Based Compensation

Under the fair value recognition provisions of the authoritative guidance, stock-based compensation cost granted to employees is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service or performance period, which is the vesting period. Stock options and warrants issued to consultants and other non-employees as compensation for services to be provided to us are accounted for based upon the fair value of the services provided or the estimated fair value of the option or warrant, whichever can be more clearly determined. We currently use the Black-Scholes option pricing model to determine the fair value of stock options. The determination of the fair value of stock-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables. These variables include our expected stock price volatility over the term of the awards, the expected term of the award, the risk-free interest rate and any expected dividends. Compensation cost associated with grants of restricted stock units are also measured at fair value on the date of the grant. We evaluate the assumptions used to value restricted stock units on a quarterly basis. When factors change, including the market price of the stock, stock-based compensation expense may differ significantly from what has been recorded in the past. If there are any modifications or cancellations of the underlying unvested securities, we may be required to accelerate, increase or cancel any remaining unearned stock-based compensation expense.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial reporting requirements and those imposed under federal and state tax laws. Deferred taxes are provided for timing differences in the recognition of revenue and expenses for income tax and financial reporting purposes and are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and liabilities. Realization of the deferred tax asset is largely dependent on generating sufficient taxable income in future years. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all the deferred tax assets will not be realized. Use of our net operating loss deferred assets may be limited by changes in our ownership.

The above listing is not intended to be a comprehensive list of all of our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP, with no need for management's judgment in its application. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result. Please see our audited financial statements and notes thereto which begin on page F-1 of this Annual Report on Form 10-K, which contain accounting policies and other disclosures required by GAAP and please refer to the disclosures in Note 1 of our financial statements for a summary of our significant accounting policies.

Results of Operations

Year Ended December 31, 2018 Compared to the Year Ended December 31, 2017

Net Revenue

Revenue decreased by $532,488 to $71,106,459 for the year ended December 31, 2018, as compared to the same period in 2017. We increased our cybersecurity consulting and professional services revenues by approximately $3,000,000 as a result of our successful sales efforts in gaining share while also benefiting from a backdrop of the industry-wide labor shortage of cyber-security professionals. Our office equipment, hardware & software resales grew by approximately $1,600,000 due to customer needs to refresh their print equipment. Offsetting these increases, managed service revenues were approximately $5,100,000 lower in 2018 due primarily to nonrenewal of long-term managed print related contracts.

Cost of Revenues

Cost of revenue consists of salaries and expenses of direct labor and indirect support staff as well as document imaging equipment, parts and supplies. Cost of revenue was $50,233,836 for the year ended December 31, 2018, as compared to $50,739,359 for the same period in 2017. We incurred approximately $800,000 less in staffing costs, including contract labor, approximately $900,000 less in supplies and third-party services, and approximately $300,000 less in travel costs, largely as a result of the net reduction in managed print related services contracts. Equipment costs increased by approximately $1,500,000 in 2018, directly as a result of the increase in equipment revenues from copier fleet refresh activities.

Gross margin dollars for 2018 remained steady at $20,872,623 compared to $20,899,588 in 2017. Gross margin percentage similarly remained steady at 29% of revenue for both 2018 and 2017 as we reacted operationally to changes in our revenue mix.

Sales and Marketing

Sales and marketing expenses include salaries, commissions and expenses for sales and marketing personnel, travel and entertainment, and other selling and marketing costs. Sales and marketing expenses were $5,720,421 for the year ended December 31, 2018, as compared to $5,747,758 for the same period in 2017. Sales staff compensation decreased by approximately $200,000 and tradeshow and program related marketing expenses were approximately $200,000 more in 2018 as we actively pursued new business.

General and Administrative

General and administrative expenses include personnel costs for finance, administration, information systems, and general management, as well as facilities expenses, professional fees, legal expenses and other administrative costs. General and administrative expenses increased by $412,067 to $8,074,553 for the year ended December 31, 2018, as compared to $7,662,486 for the same period in 2017. The increase in general and administrative expenses is attributed to 1) approximately $600,000 in severance paid to a departed executive, accounting and other administrative staff related to CTEK Security; 2) approximately $100,000 increase in administrative salaries and related costs reflective of hiring additional recruiting and IT positions; 3) approximately $300,000 increase in stock compensation expense as a result of an increase in the issuance of restricted stock units to key employees and board members; 4) approximately $300,000 decrease in professional fees in 2018, where in 2017 professional fees were incurred in connection with the acquisition of CTEK Security as well as to reincorporate in Delaware and change the Company name, and 5) approximately $300,000 less in office and travel costs in 2018 where there was an increase in 2017 as a result of the integration of the newly acquired CTEK Security Texas office.

Change in Valuation of Contingent Earn-Out

In both 2017 and 2018, we performed a valuation of the contingent earn-out to the sellers of CTEK Security, Inc. In 2017, our valuation resulted in a markdown of the previous estimate by $1,394,000. For 2018, we incurred $260,000 in earn-out charges for meeting 2018 criteria and we accrued an additional $178,269 related to the potential for payout for meeting earn-out criteria in 2019 and 2020.

Depreciation

Depreciation remained steady at $348,633 for the year ended December 31, 2018 as compared to $383,419 for the same period in 2017.

Amortization

Amortization expense decreased by $269,811 to $1,810,935 for the year ended December 31, 2018 compared to the $2,080,746 for same period in 2017. The decrease is a primarily a result of impairment charges taken in 2017 on identified intangible assets associated with the acquisitions of Delphiis, Inc. and Redspin which would otherwise be amortized in future periods.

Impairment of Goodwill and Intangible Assets

In 2017, we recognized an impairment charge of $180,726 related to the identified intangible assets we acquired with Delphiis, Inc. and Redspin. There was no impairment in 2018.

Other Income (Expense)

Interest expense for the year ended December 31, 2018 was $1,449,863 compared to $1,526,653 for the same period in 2017. The decrease was primarily due to a lower interest rate on the bank term loan for the comparable period.

Income Tax Benefit (Expense)

Income tax expense was $1,132,166 for the year ended December 31, 2018 as compared to $2,365,476 in 2017. Income tax expense is based on estimated annual income tax rates that we anticipate for the tax years. The lower 2018 effective tax rate is reflective of lower U.S. corporate income tax rates compared with 2017, while income tax expense in 2017 also included an approximately $1,500,000 discrete expense resulting from revaluation of deferred taxes due to the recent changes in tax law.

Liquidity and Capital Resources

At December 31, 2018, our cash and cash equivalents were $6,571,381 and our working capital was $7,815,718. Our principal cash requirements are for operating expenses, including equipment, supplies, employee costs and capital expenditures as well as debt service to our bank term loan and related party sellers' notes. Our primary sources of cash are revenues from operations and our bank line of credit.

During the year ended December 31, 2018, our cash provided by operating activities amounted to $6,290,616, as compared to $1,433,713 provided by operating activities for the same period in 2017. The increase in cash provided by operating activities in 2018 is primarily due to a significant improvement in accounts receivable collections from the previous year.

In March 2018, we restructured our debt and paid $6,750,000 of $9,000,000 in sellers' notes related to the acquisition of CTEK Security, Inc. and repaid approximately $11,200,000 remaining on a bank term loan. To fund this, we borrowed $17,250,000 under a new five-year term loan agreement with a bank where we also have in place the availability of a $5,000,000 line of credit, subject to borrowing base limits. The $17.25 million of debt under term loan with a maturity date of September 12, 2022 and the promissory notes to the former shareholders of CTEK Security, Inc. in the aggregate principal amount of approximately $6.3 million with maturity dates ranging from January 2019 to March 2023 substantially increased our level of indebtedness

On October 10, 2017, we filed a registration statement on Form S-3 to register an indeterminate number of securities. On November 22, 2017, we filed an Amendment No. 1 to such registration statement on Form S-3 to update the information in the registration statement. The registration statement covers such indeterminate principal amount or number of shares of Common Stock, debt securities, warrants and number of units of the registrant with an aggregate initial offering price not to exceed $15,000,000. The registration statement on Form S-3 was declared effective on November 22, 2017.

We may seek additional financing or equity raises; however, there can be no assurance that additional financing will be available on acceptable terms, if at all. Any financing or equity raises may result in dilution to existing stockholders and any debt financing may include restrictive covenants. Management believes that cash generated from debt and/or equity financing arrangements along with future cash flows from operations, together with cash reserves will be sufficient to sustain our business operations over at least the next twelve months.

Off-Balance Sheet Arrangements

Our off-balance sheet arrangements consist primarily of conventional operating leases and purchase and other commitments arising in the normal course of business, as further discussed below under the section "Contractual Obligations, Contingent Liabilities and Commitments." As of December 31, 2018, we did not have any other relationships with unconsolidated entities or financial partners, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.

Contractual Obligations, Contingent Liabilities and Commitments

As of December 31, 2018, expected future cash payments, including interest portions, related to contractual obligations, contingent liabilities, and commitments were as follows:

	Payments Due by Period				
	Total	**Within 1 year**	**Year 2-3**	**Year 4-5**	**More than 5 years**
Term loans and promissory notes	$25,131,063	$ 4,370,235	$ 7,447,538	$ 13,313,290	$ -
Capital leases	156,036	93,094	62,942	-	-
Operating leases	1,299,577	654,049	645,558	-	-
Total	$26,586,676	$ 5,117,348	$ 8,156,038	$ 13,313,290	$ -

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The financial statements required by this item are included in Part IV, Item 15 of this Annual Report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

We maintain disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), as appropriate, to allow timely decisions regarding required disclosure.

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Annual Report, pursuant to Rules 13a-15(b) and 15d-15(b) under the Exchange Act. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures, as of the end of the period covered by this Annual Report, were effective.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Management conducted an assessment of the effectiveness, as of December 31, 2018, of our internal control over financial reporting, based on the framework established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on their assessment under the COSO framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2018.

This Annual Report on Form 10-K does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our independent registered public accounting firm pursuant to final rules of the Securities and Exchange Commission that permit us to provide only management's report in this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

There were no changes to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) identified in connection with the evaluation of our internal controls that occurred during the last fiscal quarter of 2018 that has materially affected, or is reasonably likely to materially affect, such controls.

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information with respect to our executive officers and directors appearing in our Definitive Proxy Statement which is expected to be filed with the SEC on or prior to April 19, 2019 in connection with the 2019 Annual Meeting of Stockholders ("Proxy Statement") is hereby incorporated by reference.

ITEM 11. EXECUTIVE COMPENSATION.

The information with respect to compensation of our executive officers appearing in our Proxy Statement is hereby incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information with respect to the security ownership of certain beneficial owners and management appearing in our Proxy Statement is hereby incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE.

The information with respect to certain relationships and related transactions with management appearing in our Proxy Statement is hereby incorporated by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information with respect to the principal accounting fees and services appearing in the Proxy Statement is hereby incorporated by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

(a)

(1) Financial Statements

The following consolidated financial statements and related notes thereto, and the report of our independent registered public accounting firm are filed as part of this Annual Report:

(2) Financial Statement Schedules

All other financial statement schedules were omitted because they are not applicable, not required or the information required is shown in the financial statements or the notes thereto.

(3) Exhibits

The exhibits listed on the accompanying index to exhibits immediately following the financial statements are filed as part of, or hereby incorporated by reference into, this Annual Report.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
CynergisTek, Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of CynergisTek, Inc. (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years then ended, and the related notes (collectively, the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2018 and 2017, and the consolidated results of its operations and its cash flows for each of the years then ended, in conformity with U.S. generally accepted accounting principles.

Emphasis of a Matter

As disclosed in Note 18 to the consolidated financial statements, the Company sold its assets used in the provision of its managed print services business division in March 2019. Our opinion is not modified with respect to this matter.

Adoption of New Accounting Pronouncement

As described in Note 1 to the consolidated financial statements, the Company changed its method of accounting for revenues and certain customer contract costs effective January 1, 2018, due to the adoption of Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*.

Basis for Opinion

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

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

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

/s/ HASKELL & WHITE LLP

We have served as the Company's auditor since 2005.

Irvine, California
March 27, 2019

CYNERGISTEK, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	As of December 31,	
	2018	**2017**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 6,571,381	$ 4,252,060
Accounts receivable, net	10,696,738	13,264,323
Prepaid and other current assets	3,544,521	557,426
Supplies	1,184,474	1,156,006
Total current assets	21,997,114	19,229,815
Property and equipment, net	636,227	831,784
Deposits	87,778	87,376
Deferred income taxes	2,146,020	3,120,310
Intangible assets, net	9,089,989	10,900,924
Goodwill	18,525,206	18,525,206
Total assets	$ 52,482,334	$ 52,695,415
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 6,098,548	$ 9,631,634
Accrued compensation and benefits	2,817,823	3,711,551
Deferred revenue	1,806,632	1,425,821
Note payable	343,750	-
Current portion of long-term liabilities	3,114,643	5,494,837
Total current liabilities	14,181,396	20,263,843
Long-term liabilities:		
Term loan, less current portion	12,851,617	9,438,333
Promissory notes, less current portion	5,015,625	6,000,000
Capital lease obligations, less current portion	60,537	147,861
Total long-term liabilities	17,927,779	15,586,194
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value at $0.001, 33,333,333 shares authorized, 9,630,050 shares issued and outstanding at December 31, 2018 and 9,576,028 shares issued and outstanding at December 31, 2017	9,630	9,576
Additional paid-in capital	31,910,831	31,156,362
Accumulated deficit	(11,547,302)	(14,320,560)
Total stockholders' equity	20,373,159	16,845,378
Total liabilities and stockholders' equity	$ 52,482,334	$ 52,695,415

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

CYNERGISTEK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,	
	2018	**2017**
Net revenues	$ 71,106,459	$ 71,638,947
Cost of revenues	50,233,836	50,739,359
Gross profit	20,872,623	20,899,588
Operating expenses:		
Sales and marketing	5,720,421	5,747,758
General and administrative expenses	8,074,553	7,662,486
Change in valuation of contingent earn-out	438,269	1,394,000
Depreciation	348,633	383,419
Amortization of acquisition-related intangibles	1,810,935	2,080,746
Impairment of goodwill and intangible assets	-	180,726
Total operating expenses	16,392,811	17,449,135
Income from operations	4,479,812	3,450,453
Other income (expense):		
Interest expense	(1,449,863)	(1,526,653)
Loss on disposition of fixed assets	(4,244)	-
Other miscellaneous income (expense)	53	(675)
Total other income (expense)	(1,454,054)	(1,527,328)
Income before provision for income taxes	3,025,758	1,923,125
Income tax expense	(1,132,166)	(2,365,476)
Net income (loss)	$ 1,893,592	$ (442,351)
Net income (loss) per share:		
Basic	$ 0.20	$ (0.05)
Diluted	$ 0.19	$ (0.05)
Number of weighted average shares outstanding:		
Basic	9,608,312	9,425,281
Diluted	9,873,011	9,425,281

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

CYNERGISTEK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2018 AND 2017

	Common Stock				
	Shares	**Amount**	**Additional Paid-in Capital**	**Accumulated Deficit**	**Total Stockholders' Equity**
Balance at January 1, 2017	8,185,936	$ 8,186	$ 27,985,448	$(13,878,209)	$ 14,115,425
Stock compensation expense for options and warrants granted to employees and directors	-	-	78,652	-	78,652
Stock compensation expense for restricted stock units granted to employees	-	-	255,201	-	255,201
Stock options and warrants exercised	223,216	224	66,228	-	66,452
Common stock issued in connection with the acquisition of CTEK Security, Inc.	1,166,666	1,166	2,770,833	-	2,771,999
Reverse stock split round-up shares issued	210	-	-	-	-
Net loss	-	-	-	(442,351)	(442,351)
Balance at December 31, 2017	9,576,028	9,576	31,156,362	(14,320,560)	16,845,378
Cumulative effect of adoption of revenue recognition standard ASC 606 (Note 4)	-	-	-	879,666	879,666
Stock compensation expense for options and warrants granted to employees and directors	-	-	36,777	-	36,777
Stock compensation expense for restricted stock units granted to employees	-	-	717,746	-	717,746
Stock options exercised	54,022	54	(54)	-	-
Net income	-	-	-	1,893,592	1,893,592
Balance at December 31, 2018	9,630,050	$ 9,630	$ 31,910,831	$(11,547,302)	$ 20,373,159

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

CYNERGISTEK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2018	**2017**
Cash flows provided by operating activities:		
Net income (loss)	$ 1,893,592	$ (442,351)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	348,633	383,419
Amortization of intangible assets	1,810,935	2,080,746
Impairment of intangible assets	-	180,726
Bad debt	109,673	109,207
Stock compensation for options and warrants granted to employees and directors	36,777	78,652
Stock compensation for restricted stock units granted to employees and directors	717,746	255,201
Loss on disposition of property and equipment	4,244	-
Note payable issued in consideration of severance pay	343,750	-
Change in valuation of contingent earn-out	(438,269)	1,394,000
Change in net deferred tax assets	974,290	2,162,221
Interest expense related to loan acquisition costs	25,366	-
Changes in operating assets and liabilities:		
Accounts receivable	2,457,912	(2,032,647)
Prepaid and other current assets	(2,107,429)	227,154
Supplies	(28,468)	(68,688)
Deposits	(402)	(45,854)
Accounts payable and accrued expenses	655,183	(2,513,776)
Accrued compensation and benefits	(893,728)	180,873
Deferred revenue	380,811	(515,170)
Net cash provided by operating activities	6,290,616	1,433,713
Cash flows used for investing activities:		
Purchases of property and equipment	(156,487)	(286,189)
Amount paid to purchase CTEK Security, Inc., net of cash received	-	(13,448,522)
Net cash used for investing activities	(156,487)	(13,734,711)
Cash flows provided by (used for) financing activities:		
Proceeds from term loan	17,250,000	14,000,000
Payments on term loan	(13,666,546)	(3,431,667)
Payments on notes payable to related parties	(7,171,875)	-
Loan acquisition fees paid	(111,250)	-
Payments on capital leases	(115,137)	(172,571)
Proceeds from exercise of options and warrants	-	66,452
Net cash provided by (used for) financing activities	(3,814,808)	10,462,214
Net change in cash and cash equivalents	2,319,321	(1,838,784)
Cash and cash equivalents, beginning of year	4,252,060	6,090,844
Cash and cash equivalents, end of year	$ 6,571,381	$ 4,252,060

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

CYNERGISTEK, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

	Year Ended December 31,	
	2018	**2017**
Supplemental disclosure of cash flow information:		
Interest paid	$ 1,504,092	$ 1,285,261
Income tax paid	$ 366,104	$ 517,774
Non-cash investing and financing activities:		
Property and equipment acquired through capital leases	$ 10,920	$ 128,939
Disposition of fully depreciated property and equipment	$ 651,902	$ -
Common stock issued in connection with the acquisition of CTEK Security, Inc.	$ -	$ 2,771,999
Promissory notes issued in connection with the acquisition of CTEK Security, Inc.	$ -	$ 9,000,000
Initial fair value of earn-out liability in connection with the acquisition of CTEK Security, Inc.	$ -	$ 2,356,000

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

(1) Basis of Presentation and Summary of Significant Accounting Policies

Business Activity

We are engaged in the business of providing fully-outsourced document solution services and IT security consulting data security services primarily to the healthcare industry, and also to financial institutions, gaming and other industries. Our business is operated throughout the United States.

Basis of Presentation

The accompanying consolidated financial statements were prepared in conformity with GAAP, and include the accounts of CynergisTek, Inc. and our wholly-owned subsidiaries. All intercompany balances and transactions were eliminated.

As described in more detail in our Current Report on Form 8-K filed with the Securities and Exchange Commission on September 8, 2017, Auxilio, Inc., a Nevada corporation ("Auxilio") changed its name and state of incorporation from the State of Nevada to the State of Delaware by merging (the "Reincorporation") with and into its wholly-owned subsidiary, CynergisTek, Inc., a Delaware corporation, which was established for the purpose of the Reincorporation. As a result of the Reincorporation, Auxilio ceased to exist as a separate entity. As of the date of the merger, each outstanding share of Auxilio's Common Stock was deemed, by operation of law, to represent the same number of shares of our Common Stock. In accordance with Rule 12g-3 under the Securities Exchange Act of 1934, as amended, the shares of our Common Stock were deemed to be registered under Section 12(b) of the Exchange Act as a successor to Auxilio. Effective as of September 8, 2017, the Company's trading symbol changed to "CTEK."

As part of the Reincorporation, two wholly owned subsidiaries of the Company also changed their corporate names, as follows: (i) Auxilio Solutions, Inc., a California corporation, changed its name to CTEK Solutions, Inc.; and (ii) CynergisTek, Inc., a Texas corporation, changed its name to CTEK Security, Inc. ("CTEK Security").

Effective on January 13, 2017, the Company effected a reverse stock split of its Common Stock at a ratio of 1-for-3. No fractional shares of Common Stock were issued, and no cash or other consideration were paid as a result of the reverse stock split. Instead, the Company issued one whole share of post-reverse stock split Common Stock in lieu of each fractional share of Common Stock. As a result of the reverse stock split, the Company's Common Stock was reduced to 8,185,936 shares from 24,557,224 shares as of December 31, 2016. All per share amounts and number of shares in the consolidated financial statements and related notes have been retroactively restated to reflect the reverse stock split.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition and Deferred Revenue

We operate under a consolidated strategy and management structure, deriving revenue from the following sources:

- Managed services
- Consulting and professional services

- o Office equipment, hardware and software resales

Revenue is recognized pursuant to ASC Topic 606, “Revenue from Contracts with Customers” (ASC 606). Accordingly, revenue is recognized at an amount that reflects the consideration to which we expect to be entitled in exchange for transferring goods or services to a customer. This principle is applied using the following 5-step process:

1. Identify the contract with the customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) each performance obligation is satisfied

<u>Managed Services</u>

Managed services revenue is earned monthly during the term of the contract, as services and supplies are provided at a fixed fee and is recognized ratably over the contract term beginning on the commencement date of the contract. Managed services contracts are typically long-term contracts lasting 3 to 5 years.

Our contracts with managed print services customers may include provisions that relate to guaranteed savings amounts and shared savings. Such provisions are considered by management during our initial proprietary client assessment. Our historical settlement of such amounts has been within management’s estimates.

<u>Consulting and Professional Services</u>

Consulting and professional services contracts are typically short-term, project-based services rendered on either a fixed fee or a time and materials basis. These contracts are normally for a duration of less than one year. For fixed fee arrangements, revenue is recognized ratably over the term of the project. For time and materials arrangements, revenues are recognized as the services are rendered.

<u>Office Equipment, Hardware and Software Resales</u>

Revenues from office equipment sales transactions are recognized upon delivery of the contracted performance obligation. For equipment that is to be installed at a customer’s location at a future date, revenue is deferred until the installation of such equipment.

For hardware and software resales, we recognize revenue on a gross basis, as we are deemed to be the primary obligor in these arrangements. Revenue from the resale of hardware is recognized when delivered to the customer. For software resales, when we do not provide any services that are considered essential to the functionality of the software, revenue is recognized upon delivery of the software. All product warranties and upgrades or enhancements are provided exclusively by the manufacturer. We do not sell any internally-developed software.

For hardware and software maintenance arrangements, we recognize revenue at the time of sale on a net basis, as a third-party service provider is deemed to be the primary obligor. Under net sales recognition, the cost of the third-party service provider or vendor is recorded as a direct reduction to net revenues on the statements of operations.

<u>Arrangements with Multiple Deliverables</u>

We enter into contracts that include multiple deliverables, which typically consist of the sale of Multi-Function Device (“MFD”) equipment and a managed services contract. We evaluate the deliverables in each contract to determine if they represent distinct performance obligations as defined in ASC 606. Revenue is allocated to each performance obligation based on its relative standalone selling price. When standalone selling prices are not readily observable, it can be estimated using an adjusted market assessment approach, an expected cost-plus margin approach, or a residual approach. We generally do not sell MFD equipment on a standalone basis, but as we purchase the equipment, we have evidence of the cost of this element. We estimate the transaction price of the contract to allocate to the managed service unit based on historical cost experience. Based on the relative costs of each performance obligation to the overall transaction price of the contract, we utilize the same relative percentage to allocate the total transaction price.

Deferred and Unbilled Revenue

We receive payments from customers based on billing schedules established in our contracts. Deferred revenue primarily consists of billings or payments received in advance of the amount of revenue recognized and such amounts are recognized as the revenue recognition criteria are met. Unbilled revenue reflects our conditional right to receive payment from customers for our completed performance under contracts.

New Customer Implementation Costs

We ordinarily incur additional costs to implement our managed print services for new customers. These costs are comprised primarily of additional labor and support. These costs are expensed as incurred and have a negative impact on our statements of operations and cash flows during the implementation phase.

Cash and Cash Equivalents

For purposes of the statement of cash flows and balance sheet classification, cash equivalents include all highly liquid debt instruments with original maturities of three months or less which are not securing any corporate obligations.

Accounts Receivable

We provide an allowance for doubtful accounts equal to the estimated uncollectible amounts. Our estimate is based on historical collection experience and a review of the current status of trade accounts receivable. It is reasonably possible that our estimate of the allowance for doubtful accounts will change.

Supplies

Supplies consist of parts and supplies for automated office equipment, including copiers, facsimile machines and printers. Supplies are valued at the lower of cost or net realizable value on a first-in, first-out basis.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation. Depreciation of the property and equipment is provided using the straight-line method over the assets' estimated economic lives, which range from two to seven years. Expenditures for maintenance and repairs are charged to expense as incurred.

Goodwill and Intangible Assets

The Company accounts for its business combinations in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standard Codification ("ASC") 805-10 through ASC 805-50, "Business Combinations" which requires that the purchase method of accounting be applied to all business combinations and addresses the criteria for initial recognition of intangible assets and goodwill. In accordance with FASB ASC 350-10 through ASC 350-30, goodwill and other intangible assets with indefinite lives are not amortized but are tested for impairment annually, or more frequently if circumstances indicate the possibility of impairment. If the carrying value of goodwill or an indefinite lived intangible asset exceeds its fair value, an impairment loss shall be recognized. Based on management's tests and reviews, no impairment of goodwill occurred during the years ended December 31, 2017 and 2018.

To test for goodwill impairment, first we perform a qualitative assessment. If we determine, based on qualitative factors, that the fair value of goodwill is more likely than not greater than the carrying amount, a quantitative calculation would not be needed. Our methodology for a quantitative assessment of testing for goodwill impairment consists of one, and possibly two steps. In step one of the goodwill impairment test, management compares the carrying amount (including goodwill) of the reporting unit and the fair value. If the carrying value of the reporting unit exceeds the fair value of the reporting unit, then an impairment charge must be measured. The impairment loss, if any, is calculated by comparing the implied fair value of goodwill to its carrying amount. In calculating the implied fair value of a reporting unit's goodwill, the fair value of the reporting unit is allocated to the tangible and intangible assets and liabilities of that reporting unit based on their respective fair values. The excess, if any, of the reporting unit's fair value over the amount assigned to its assets and liabilities is the implied fair value of goodwill. An impairment loss is recognized when the carrying amount of goodwill exceeds its implied fair value.

Long-Lived Assets

In accordance with ASC Topic 350, long-lived assets, such as definite lived intangible assets, to be held and used are analyzed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If there are indications of impairment, we use future undiscounted cash flows of the related asset or asset grouping over the remaining life in measuring whether the assets are recoverable. In the event such cash flows are not expected to be sufficient to recover the recorded asset values, the assets are written down to their estimated fair value. Long-lived assets to be disposed of are reported at the lower of carrying amount or fair value of asset less the cost to sell. During the year ended December 31, 2017, management determined there was impairment of certain definite lived intangible assets associated with the Delphiis and Redspin acquisitions (Note 6).

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial reporting requirements and those imposed under federal and state tax laws. Deferred taxes are provided for timing differences in the recognition of revenue and expenses for income tax and financial reporting purposes and are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and liabilities. Realization of the deferred tax asset is dependent on generating sufficient taxable income in future years. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all the deferred tax assets will not be realized. The use of net operating loss deferred tax assets may be limited due to changes in the Company's ownership structure.

Fair Value of Financial Instruments

ASC Topic 820, "Fair Value Measurements," defines fair value, provides a framework for measuring fair value and expands the disclosures required for fair value measurements.

The fair value hierarchy consists of three broad levels, which are described below:

Level 1 - Quoted prices in active markets for identical assets or liabilities that the entity has the ability to access.

Level 2 - Observable inputs, other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses, line of credit and capital lease obligations approximate fair value due to the short-term nature of these financial instruments. The carrying amount of our debt to financial institutions approximates its fair value as we believe the credit markets have not materially changed since the original borrowing dates, and related interest rates are variable.

Stock-Based Compensation

We account for stock options granted to employees and directors using the accounting guidance in ASC 718 "Stock Compensation" ("ASC 718"). In accordance with ASC 718, we estimate the fair value of service-based options and performance-based options on the date of grant, using the Black-Scholes pricing model. We recognize compensation expense for stock option awards over the requisite or implied service period of the grant. With respect to performance-based awards, compensation expense is recognized when the performance target is deemed probable.

We account for stock options granted to consultants using the accounting guidance included in ASC 505-50 "Equity-Based Payments to Non-Employees." In accordance with ASC 505-50, we estimate the fair value of service-based stock options and performance-based options at each reporting period using the Black-Scholes pricing model. The measurement date of the fair value of the equity instrument issued is the earlier of the date on which the counterparty's performance is complete or the date on which it is probable that performance will occur.

For the years ended December 31, 2018 and 2017, stock-based compensation expense recognized in the consolidated statements of operations is as follows:

	Year Ended December 31,	
	2018	**2017**
Cost of revenues	$ 149,486	$ 80,771
Sales and marketing	150,937	124,099
General and administrative expenses	454,100	128,983
Total stock-based compensation expense	$ 754,523	$ 333,853

The weighted average estimated fair value of stock options granted during 2017 was $0.96 per share. There were no stock option grants in 2018. This amount was determined using the Black-Scholes option-pricing model, which values options based on the stock price at the grant date, the expected life of the option, the estimated volatility of the stock, the expected dividend payments, and the risk-free interest rate over the expected life of the option. The assumptions used in the Black-Scholes model were as follows for stock options granted:

	2018	**2017**
Risk-free interest rate	-	0.38%
Expected volatility of our Common Stock	-	46.29%
Dividend yield	-	0%
Expected life of options	-	3 years

The Black-Scholes model was developed for estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Because option valuation models require the use of subjective assumptions, changes in these assumptions can materially affect the fair value of the options.

Compensation cost associated with grants of restricted stock units are also measured at fair value. We evaluate the assumptions used to value restricted stock units on a quarterly basis. When factors change, including the market price of the stock, share-based compensation expense may differ significantly from what was recorded in the past. If there are any modifications or cancellations of the underlying unvested securities, we may be required to accelerate, increase or cancel any remaining unearned share-based compensation expense.

Basic and Diluted Net Income (Loss) Per Share

In accordance with ASC Topic 260, “Earnings Per Share,” basic net income per share is calculated using the weighted average number of shares of Common Stock issued and outstanding during a certain period and is calculated by dividing net income by the weighted average number of shares of Common Stock issued and outstanding during such period. Diluted net income per share is calculated using the weighted average number of common and potentially dilutive common shares outstanding during the period, using the as-if converted method for secured convertible notes, and the treasury stock method for options and warrants.

As of December 31, 2018, potentially dilutive securities consisted of options and warrants to purchase 586,849 shares of our Common Stock at prices ranging from $1.65 to $4.05 per share. Of these potentially dilutive securities, only 194,669 of the shares of Common Stock underlying the options and warrants were included in the computation of diluted earnings per share, because the effect of including the remaining instruments would be anti-dilutive. Also included in potentially dilutive securities are 70,000 shares of restricted stock units which vested in October 2018, but at the discretion of the holders had not been issued by year end.

As of December 31, 2017, potentially dilutive securities consisted of options and warrants to purchase 802,179 shares of our Common Stock at prices ranging from $1.65 to $6.45 per share. Of these potentially dilutive securities, none of the shares of Common Stock underlying the options and warrants were included in the computation of diluted earnings per share as their effect would be anti-dilutive.

The following table sets forth the computation of basic and diluted net (loss) income per share:

	Year Ended December 31,	
	2018	2017
Numerator:		
Net income (loss)	$ 1,893,592	$ (442,351)
Denominator:		
Denominator for basic calculation weighted averages	9,608,312	9,425,281
Dilutive Common Stock equivalents:		
Options and warrants	194,699	-
Restricted stock units vested but not issued	70,000	-
Denominator for diluted calculation weighted average	9,873,011	9,425,281
Net income (loss) per share:		
Basic net income (loss) per share	$ 0.20	$ (0.05)
Diluted net income (loss) per share	$ 0.19	$ (0.05)

Segment Reporting

Based on the Company’s recent integration with CTEK Security and an analysis of how our Chief Operating Decision Makers review, manage and are compensated, we have determined that the Company operates in three segments: services, equipment and software resale. Equipment and software resale do not satisfy the quantitative thresholds to report as a separate operating segment, and therefore not presented separately from services. For the years ended December 31, 2018 and 2017, all revenues were derived from domestic operations.

New Accounting Pronouncements

In February 2016, the FASB issued a new accounting standard on leasing. The new standard will require companies to record most leased assets and liabilities on the balance sheet, and also proposes a dual model for recognizing expense. This guidance is effective in the first quarter of 2019 with early adoption permitted. We have evaluated the impact of adopting this guidance and we are preparing for the changes to be made to our consolidated financial statements. We expect the adoption of these accounting changes will materially increase our assets and liabilities but will not have a material impact on our net income or equity.

In January 2017, the FASB issued a new accounting standard simplifying the test for goodwill impairment. Currently, the fair value of the reporting unit is compared with the carrying value of the reporting unit (identified as "Step 1"). If the fair value of the reporting unit is lower than its carrying amount, then the implied fair value of goodwill is calculated. If the implied fair value of goodwill is lower than the carrying value of goodwill an impairment is recognized (identified as "Step 2"). The new standard eliminates Step 2 from the impairment test; therefore, a goodwill impairment will be recognized as the difference of the fair value and the carrying value. The new standard becomes effective on January 1, 2020 with early adoption permitted. We are currently evaluating the impact that the new standard will have on our financial position, results of operations and cash flows.

In August 2016, the FASB issued a new accounting standard which is intended to reduce the existing diversity in practice in how certain cash receipts and cash payments are classified in the statement of cash flows. This guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years with early adoption permitted, provided that all of the amendments are adopted in the same period. We expect the adoption of these accounting changes will not have a material impact on our consolidated financial statements.

In January 2017, the FASB issued a new accounting standard which clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. This guidance will be effective for the Company for the year ending December 31, 2019 and interim reporting periods within that year. Early adoption is permitted for transactions that have not been reported in financial statements that have been issued or made available for issuance. We expect the adoption of these accounting changes will not have a material impact on our consolidated financial statements.

In May 2017, the FASB issued a new accounting standard which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in ASC Topic 718. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. This guidance will be effective for the year ending December 31, 2019 and interim reporting periods within that year. Early adoption is permitted. We expect the adoption of this guidance will not have a material effect on our consolidated financial statements.

In June 2018, the FASB issued a new accounting standard which provides guidance that expands the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. The new guidance is effective for the Company beginning in 2019, with early adoption permitted. We expect the adoption of this guidance will not have a material impact on our consolidated financial statements.

In August 2018, the FASB issued a new accounting standard which modifies the disclosure requirements on fair value measurements. This guidance will be effective for fiscal years beginning after December 15, 2019. The amendments related to the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively. All other amendments should be applied retrospectively. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this guidance and delay adoption of the additional disclosures until their effective date. We do not anticipate adoption to have a material impact on our consolidated financial statements.

(2) Revenues

On January 1, 2018, we adopted Topic 606 using a modified retrospective method applied to those customer contracts which were not completed as of January 1, 2018. There was no change in revenues reported using this method as compared to the previous guidance. Below is a summary of our revenues disaggregated by revenue source.

	Year Ended December 31,	
	2018	2017
Managed services	$ 53,744,113	$ 58,894,359
Consulting & professional services	10,497,677	7,487,218
Office equipment, hardware & software resales	6,864,669	5,257,370
Net revenues	$ 71,106,459	$ 71,638,947

(3) Accounts Receivable

A summary of accounts receivable follows:

	As of December 31,	
	2018	2017
Trade receivables	$11,484,558	$14,451,899
Unapplied advances and unbilled revenue, net	(787,821)	(1,081,025)
Allowance for doubtful accounts	-	(106,551)
	$10,696,738	$13,264,323

(4) Deferred Commissions

Our incremental costs of obtaining a contract, which consist of sales commissions on multi-year contracts, are deferred and amortized over the period of contract performance. Effective January 1, 2018, when we adopted the modified retrospective method of the new revenue recognition pronouncement, we increased deferred commissions by $879,666 with a corresponding increase in beginning retained earnings. Deferred commissions are included in prepaid and other current assets in our consolidated balance sheets. As of December 31, 2018, we had $991,175 related to unamortized deferred commissions. We had $854,234 of commissions expense for the year ended December 31, 2018. Commissions expense for the year ended December 31, 2017 was $809,753. If we had recognized commissions expense under the full retrospective approach, commission expense would have been $682,154, for the year ended December 31, 2017.

(5) Property and Equipment

A summary of property and equipment follows:

	As of December 31,	
	2018	2017
Furniture and fixtures	$ 309,428	$ 316,925
Computers and office equipment	905,545	1,009,292
Fleet equipment	274,505	668,249
Leasehold improvements	140,052	140,052
	1,629,530	2,134,518
Less accumulated depreciation and amortization	(993,303)	(1,302,734)
	$ 636,227	$ 831,784

Depreciation expense for property and equipment amounted to $348,633 and $383,419 for the years ended December 31, 2018 and 2017, respectively.

(6) Intangible Assets and Goodwill

Intangible assets are amortized over expected useful lives ranging from 1.5 to 10 years and consist of the following as of December 31, 2018 and 2017:

	December 31, 2018			December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Accumulated Impairment	Gross Carrying Amount	Accumulated Amortization	Accumulated Impairment
Delphiis, Inc.						
Acquired technology	$ 900,000	$ (259,004)	$ (547,484)	$ 900,000	$ (242,002)	$ (547,484)
Customer relationships	400,000	(233,257)	(166,743)	400,000	(233,257)	(166,743)
Trademarks	50,000	(50,000)	-	50,000	(50,000)	-
Non-compete agreements	20,000	(17,292)	(2,708)	20,000	(17,292)	(2,708)
Total Delphiis, Inc.	$ 1,370,000	$ (559,553)	$ (716,935)	$ 1,370,000	$ (542,551)	$ (716,935)
Redspin						
Acquired technology	$ 1,050,000	$ (313,287)	$ (331,908)	$ 1,050,000	$ (248,519)	$ (331,908)
Customer relationships	600,000	(550,000)	(50,000)	600,000	(550,000)	(50,000)
Trademarks	200,000	(93,978)	(106,022)	200,000	(93,978)	(106,022)
Non-compete agreements	100,000	(46,951)	(53,049)	100,000	(46,951)	(53,049)
Total Redspin	$ 1,950,000	$ (1,004,216)	$ (540,979)	$ 1,950,000	$ (939,448)	$ (540,979)
CTEK Security, Inc.						
Acquired technology	$ 8,150,000	$ (1,630,000)	$ -	$ 8,150,000	$ (815,000)	$ -
Customer relationships	2,150,000	(1,075,000)	-	2,150,000	(537,500)	-
Trademarks	1,550,000	(620,000)	-	1,550,000	(310,000)	-
Non-compete agreements	200,000	(133,328)	-	200,000	(66,663)	-
Total CTEK Security, Inc.	$ 12,050,000	$ (3,458,328)	-	$ 12,050,000	$ (1,729,163)	$ -
Total intangible assets	$ 15,370,000	$ (5,022,097)	$ (1,257,914)	$ 15,370,000	$ (3,211,162)	$ (1,257,914)

The amortization of intangible assets expected in future years is as follows:

December 31,	Amortization	
2019	$	1,810,942
2020		1,744,271
2021		1,206,771
2022		896,771
2023		896,771
Thereafter		2,534,463
Total	$	9,089,989

Goodwill

Goodwill consists of the following as of December 31, 2018 and 2017:

	December 31, 2018			December 31, 2017		
	Gross Carrying Amount	Accumulated Impairment	Net Carrying Amount	Gross Carrying Amount	Accumulated Impairment	Net Carrying Amount
CTEK Solutions, Inc	$ 1,517,017	$ -	$ 1,517,017	$ 1,517,017	$ -	$ 1,517,017
Delphiis, Inc.	956,639	(837,126)	119,513	956,639	(837,126)	119,513
Redspin	1,192,000	(719,387)	472,613	1,192,000	(719,387)	472,613
CTEK Security, Inc.	16,416,063	-	16,416,063	16,416,063	-	16,416,063
Total goodwill	$ 20,081,719	$ (1,556,513)	$18,525,206	$20,081,719	$ (1,556,513)	$18,525,206

When the Company performed its annual impairment testing as of December 31, 2018, we concluded that there was no goodwill impairment, When the Company performed its annual impairment testing for Delphiis, Inc. and Redspin as of December 31, 2017, we concluded there were indicators of potential intangible asset and goodwill impairment based on the performance of these business units and changes in the Company's short and long-term strategy and outlook for these units.

The Company first performed a quantitative impairment analysis of the intangible assets and then a quantitative impairment analysis of goodwill as of December 31, 2017. With respect to the intangible asset analysis, management estimated future undiscounted free cash flows associated with the intangibles assets and determined that they were less than the related carrying values as of December 31, 2017. As a result, the Company recognized aggregate impairment charges of $180,726 for the year ended December 31, 2017.

(7) Deferred Revenue

We record deferred revenues when amounts are billed to customers, or cash is received from customers, in advance of our performance. $578,725 and $950,682 of managed services revenues were recognized during the years ended December 31, 2018 and 2017, respectively, that was included in deferred revenue at the beginning of the respective periods. $617,522 and $427,630 of consulting and professional services revenues were recognized during the years ended December 31, 2018 and 2017, respectively, that was included in deferred revenue at the beginning of the respective periods.

(8) Remaining Performance Obligations

Remaining performance obligations represent the amount of revenue from fixed-fee contracts, including those which have potential early cancellation provisions, for which work has not been performed. As of December 31, 2018, approximately $25,000,000 of revenue from fixed-fee contracts is expected to be recognized from these remaining performance obligations. We expect to recognize revenue on approximately 87% of these remaining performance obligations over the next 24 months, with the balance thereafter. We elected to utilize the practical expedient exemption to exclude from this disclosure the amount of revenue from contracts which are not fixed-fee and where we do not have the right to invoice until the services have been performed.

(9) Line of Credit and Term Loan

On January 13, 2017, as part of the acquisition of CTEK Security, Inc. (formerly CynergisTek, Inc.), we entered into an Amended and Restated Credit Agreement (the "A&R Credit Agreement"). The A&R Credit Agreement amended a loan and security agreement originally entered into on May 4, 2012, as amended by several amendments. Under the A&R Credit Agreement, the term of the revolving line-of-credit was available through January 13, 2019 at an interest rate of prime plus 1.0% per annum. The amount available to us at any given time was the lesser of (a) $5.0 million, or (b) the amount available under our borrowing base (80% of our eligible accounts receivable, minus (1) accrued client lease payables, and minus (2) accrued equipment pool liability). As of December 31, 2017, no amounts were outstanding under the line of credit. The A&R Credit Agreement provided a term loan facility for $14,000,000. As of December 31, 2017, outstanding borrowings under the term loan were $11,818,333 at an interest rate of 6.0%. We were in compliance with all covenants set forth in the A&R Credit Agreement as of December 31, 2017.

The foregoing descriptions of the A&R Credit Agreement is qualified in its entirety by reference to the actual terms and conditions of such agreement, which is found in our Form 8-K filed on January 17, 2017 as Exhibit 99.7 thereto.

Interest charges associated with borrowings on the line of credit were zero and $1,285 for the years ended December 31, 2018 and 2017, respectively. In addition, on January 13, 2017, we paid a $25,000 revolving loan commitment fee.

Interest charges associated with the term loans, including loan origination costs, totaled $133,914 and $706,872, respectively for the years ended December 31, 2018 and 2017, respectively. In addition, on January 13, 2017, we paid a $70,000 term loan commitment fee.

As additional consideration for the original Loan and Security Agreement, we issued a 5-year warrant to purchase up to 24,033 shares of our Common Stock at an exercise price of $4.16 per share. On April 6, 2017, we entered into a warrant repurchase agreement whereby we paid $4,743 to repurchase these warrants.

Debt Restructuring

On March 12, 2018, we entered into a Credit Agreement (together with the other related documents defined therein, the "Credit Agreement") with BMO Harris Bank N.A., a national banking association ("Bank"), as lender (the "BMO Loan").

The purposes of the BMO Loan are (1) to refinance and replace the facilities under the A&R Credit Agreement, thus terminating that agreement as of March 12, 2018, (2) to refinance $2,250,000 of a promissory note held by Michael McMillan (the "McMillan Seller Note"), (3) to finance payments to Dr. Michael Hernandez (f/k/a Dr. Michael G. Mathews), including the full repayment of a promissory note held by Hernandez (the "Hernandez Seller Note"; together with the McMillan Seller Note, the "Seller Notes") in the original principal amount of $4,500,000, also issued as part of the Original SPA (as defined below), (4) to finance working capital, (5) for general corporate purposes and (6) to fund certain fees and expenses associated with the closing of the BMO Loan.

Loan Facilities

Term Loan: Pursuant to the Credit Agreement, the Bank agreed to provide a term loan in the amount of $17,250,000 to the Company, which was paid in accordance with the purpose of the BMO Loan as described above. Pursuant to the Credit Agreement, the Company may elect that the term loan be outstanding as Base Rate Loans or Eurodollar Loans. The term loan is payable in principal payment installments on the last day of each fiscal quarter, commencing on June 30, 2018. All principal and interest not sooner paid on the term loan shall be due and payable on September 12, 2022, the final maturity thereof. As of December 31, 2018, outstanding borrowings under the term loan were $15,401,786 at an interest rate of 5.89%.

Revolving Line of Credit: Additionally, pursuant to the Credit Agreement, the Bank agreed to provide a revolving loan or loans to the Company in an aggregate amount of up to $5,000,000 with a $500,000 sublimit for the issuance of letters of credit. Pursuant to the Credit Agreement, the Company may elect that each borrowing of revolving loans be either Base Rate Loans or Eurodollar Loans. Each revolving loan, both for principal and interest then outstanding, shall mature and be due and payable on March 12, 2020, or such earlier date on which the Revolving Credit Commitment (as defined in the Credit Agreement) is terminated in whole pursuant to the Credit Agreement.

Beginning June 30, 2018, we are required to maintain certain financial covenants in connection with the Credit Agreement, including a total leverage ratio, a senior leverage ratio, and a fixed charge coverage ratio. These covenants contain ratios which change over relevant periods of the Credit Agreement and can be found in Section 7.13 of the Credit Agreement. As of December 31, 2018, we were in compliance with all of the Credit Agreement's financial covenants.

Interest Rates

Base rate loans ("Base Rate Loans") bear interest at an annual rate equal to the base rate (defined as the highest of (a) the rate of interest quoted in The Wall Street Journal, Money Rates Section as the prime rate in effect on such day, with any change in the Base Rate resulting from a change in such prime rate to be effective as of the date of the relevant change in such prime rate, (b) the sum of (i) the rate determined by the Bank to be the average of the rates per annum quoted to the Bank by two or more Federal funds brokers selected by the Bank for sale to the Bank at face value of Federal funds in the secondary market in an amount equal or comparable to the principal amount for which such rate is being determined, plus (ii) 1/2 of 1%, and (c) the overnight LIBOR rate plus 1.0%) plus an applicable margin of between 1.50% and 2.50%, depending upon the Company's leverage ratio.

Eurodollar loans ("Eurodollar Loans") bear interest at a rate per annum equal to the sum of the Adjusted LIBOR rate (defined as the quotient obtained by dividing (a) the LIBOR index rate by (b) the maximum reserve percentage, expressed as a decimal, at which reserves are imposed by the Board of Governors of the Federal Reserve System (or any successor) on "eurocurrency liabilities," as defined in such Board's Regulation D (or any successor thereto), subject to any amendments of such reserve requirement by such Board or its successor, taking into account any transitional adjustments thereto) plus an applicable margin of between 2.50% and 3.50%, depending upon the Company's leverage ratio.

There were no borrowings on the BMO line of credit for the year ended December 31, 2018. During the year ended December 31, 2018, we paid $43,375 in revolving loan commitment fees associated with the line of credit.

Interest charges associated with the BMO term loan totaled $759,454 for the year ended December 31, 2018. In addition, in March 2018, we paid a $86,250 commitment fee associated with the term loan.

Acceleration

Pursuant to the Credit Agreement, the Bank may, by written notice to the Company, declare the principal of and the accrued interest on all outstanding loans to be forthwith due and payable upon the occurrence of certain Events of Default. The Credit Agreement defines Events of Default to include, inter alia, (i) a default in payment when due of all or any part of any obligation payable by the Company under the BMO Loan, (ii) a default in the observance or performance of certain of the covenants set forth in the BMO Loan, (iii) any representation or warranty made in connection with the BMO Loan proves untrue in any respect (or in any material respect if such representation, warranty, certification or statement is not by its terms already qualified as to materiality), (iv) default on any subordinated debt, (v) any judgment or judgments, writ or writs or warrant or warrants of attachment shall be entered or filed against the Company or any of its subsidiaries, or against any of its Property, in an aggregate amount in excess of $250,000 (except to the extent fully covered by insurance as to which the insurer has been notified of such judgment and has not denied coverage) which remains undischarged, unvacated, unbonded or unstayed for a period of 30 days, (vi) any change of control of the Company shall occur, and (vii) any other specified event of default.

Security Agreement

In connection with the Credit Agreement, the Company, including its subsidiaries as guarantors ("Guarantors"), and the Bank entered into a Pledge and Security Agreement (the "Security Agreement"), pursuant to which each of the Company and the Guarantors agreed to grant to the Bank a lien on and security interest in certain collateral to secure prompt payment and performance of the secured obligations under the Credit Agreement. Pursuant to the Security Agreement, the "Collateral" was defined as including, inter alia, any and all (all such terms as defined in the Security Agreement) of the Accounts, Chattel Paper, Instruments (including Promissory Notes), Documents, General Intangibles, Letter-of-Credit Rights, Supporting Obligations, Deposit Accounts, Pledged Collateral and other Investment Property (including all certificated and uncertificated Securities, Securities Accounts, Security Entitlements, Commodity Accounts, and Commodity Contracts), Goods, Fixtures, Inventory and Equipment, Commercial Tort Claims, and Rights to merchandise and other Goods, any Monies, personal property, and interests in personal property, in each case whether now existing or hereafter acquired or created, any money or other assets of any grantor that now or hereafter come into the possession, custody, or control of Bank and any Proceeds or products of any of the foregoing, or any portion thereof. In connection with the grant of the security interest in the Collateral, each of the Company and the Guarantors made standard representations and warranties relating to ownership of the collateral, location and control of the collateral, and certain rights to payment.

The foregoing summary of the Credit Agreement and related agreements is qualified in its entirety by reference to the full context of the agreements, which are found in our Current Report on Form 8-K filed with the SEC on March 13, 2018.

Separation Agreement and Mutual Release with Hernandez

On March 12, 2018, the Company, CTEK Security and Hernandez entered into a Separation Agreement and Mutual Release (the "Separation Agreement").

Pursuant to the Separation Agreement, Hernandez's employment with the Company as the Company's Chief Operating Officer was terminated and the Company and Hernandez mutually agreed to release the other from any and all claims, disputes, demands, actions, liabilities, damages, suits (whether at law or in equity), promises, accounts, costs, expenses, setoffs, contributions, attorneys' fees and/or causes of action of whatever kind or character, whether past, present, future, known or unknown, liquidated or unliquidated, accrued or unaccrued, from the beginning of time, or which may hereinafter accrue as a result of the discovery of new and/or additional facts, which such party has had, may now have, or might claim to have, arising out of the agreements between the parties or any transaction contemplated thereby, based upon the acts or omissions of the other party prior to the date of the Separation Agreement.

Further, pursuant to the Separation Agreement, in lieu of any earn-out payments (as described in the Original SPA (as defined below)) that could be earned by Hernandez under the Original SPA, the Company agreed to pay Hernandez the amount of $3,750,000 in the form of a promissory note (the "Earn-out Note"). The Earn-out Note provides for (i) a maturity date of March 12, 2023, at which all principal and accrued and unpaid interest is due, (ii) a simple interest rate of 5% per annum commencing on January 1, 2018, and compounding annually, and (iii) the right of the Company to prepay all or any portion of the Earn-out Note without premium or penalty. As a result, the Company recorded an additional accrual of $1,394,000 at December 31, 2017 related to the earn-out contingent liability.

Also pursuant to the Separation Agreement, the Company paid off the outstanding amount due under the Hernandez Seller Note and paid Hernandez a severance payment consisting of a $250,000 payment upon execution of the Separation Agreement and the delivery of a promissory note in the original principal amount of $343,750 (the "Severance Payment Note"). The Severance Payment Note bore interest at a rate of 5% per annum, compounded annually, allowed for prepayment by the Company, matured and was paid on January 10, 2019.

Amounts due and owing under the Earn-out Note and Severance Payment Note are subordinate to the right of payment due under the BMO Loan pursuant to a Subordination Agreement among the Company, the Bank and Hernandez.

Amendment to CTEK Security, Inc. (formerly CynergisTek, Inc.) Stock Purchase Agreement; Amended and Restated Promissory Note

On March 12, 2018, the Company, CTEK Security and McMillan entered into an Amendment to Stock Purchase Agreement ("Amendment"). Pursuant to the Amendment, certain provisions of the Stock Purchase Agreement dated as of January 13, 2017 which memorialized the acquisition of CTEK Security, Inc. (formerly CynergisTek, Inc.) (the "Original SPA") related to the Earn-Out (as defined in the Original SPA and described in the Company's Form 8-K dated January 13, 2017) were amended. The earn-out provisions were amended to remove all obligations to make earn-out payments to Hernandez. As to McMillan, the Amendment modified the maximum earn-out payment which could be earned by McMillan to $1,200,000, with a maximum of $400,000 per year based on revised performance metrics (rather than the benchmarks described in the Original SPA) during the 2018, 2019 and 2020 calendar years, as determined by the Company's board of directors and/or a committee thereof. As a result of the Amendment, the Company accrued $438,269, and recorded a corresponding operating expense, for the estimated fair value of the expected earn-out.

On March 12, 2018, the Company repaid $2,250,000 plus accrued interest on the McMillan Seller Note. The Company and Mr. McMillan agreed to amend and restate the McMillan Seller Note pursuant to an Amended and Restated Promissory Note (the "A&R McMillan Seller Note"). The A&R McMillan Seller Note is in the principal amount of $2,250,000, bears interest at a rate of 8% per annum, provides for quarterly payments of principal and interest and matures on March 31, 2022. Amounts due and owing under the A&R McMillan Seller Note are subordinate to the right of payment due under the BMO Loan pursuant to a Subordination Agreement among the Company, the Bank and Mr. McMillan. Mr. McMillan is a director and the President and Chief Executive Officer of the Company.

(10) Promissory Notes

In connection with the acquisition of CTEK Security, Inc. (formerly CynergisTek, Inc.) we issued two promissory notes totaling $9,000,000 to Michael Hernandez and Michael McMillan (the "Seller Notes"), with each of the Seller Notes having an initial principal amount of $4,500,000. These Seller Notes bear interest at 8% per annum, require quarterly interest-only payments during the first 12 months, quarterly payments of principal and interest during the last 24 months, using a 36-month amortization period commencing from that point, with a balloon payment due on the maturity date.

On March 12, 2018, the Company fully repaid the $4,500,000 plus accrued interest on the Hernandez Seller Note.

As part of the debt restructuring with BMO Harris Bank N.A. (Note 10), on March 12, 2018, the Company repaid $2,250,000 plus accrued interest on the McMillan Seller Note. The Company and Mr. McMillan agreed to amend and restate the McMillan Seller Note pursuant to the A&R McMillan Seller Note. The A&R McMillan Seller Note is in the principal amount of $2,250,000, bears interest at a rate of 8% per annum, provides for quarterly payments of principal and interest and matures on March 31, 2022. Accordingly, principal payments totaling $421,875 and interest of $121,253 were made in 2018. Amounts due and owing under the A&R McMillan Seller Note are subordinate to the right of payment due under the BMO Loan pursuant to a Subordination Agreement among the Company, the Bank and Mr. McMillan.

The foregoing descriptions of the Seller Notes are qualified in their entirety by reference to such notes. The Seller Notes are found in our Form 8-K filed on January 17, 2017 as Exhibits 99.3 and 99.4. The foregoing descriptions of the A&R McMillan Seller Note are qualified in their entirety by reference such note, which is found in our Form 8-K filed on March 13, 2018 as Exhibit 10.5.

Interest charges associated with the Seller Notes totaled $694,356 and $234,986 for the years ended December 31, 2018 and 2017, respectively.

Pursuant to the Separation Agreement (see Note 9), in lieu of any earn-out payments (as described in the Original SPA) that could be earned by Hernandez under the Original SPA, the Company agreed to pay Hernandez the amount of $3,750,000 in the form of a promissory note (the “Earn-out Note”). The Earn-out Note provides for (i) a maturity date of March 12, 2023, at which all principal and accrued and unpaid interest is due, (ii) a simple interest rate of 5% per annum commencing on January 1, 2018, and compounding annually, and (iii) the right of the Company to prepay all or any portion of the Earn-out Note without premium or penalty.

Interest charges associated with the Earn-out Note totaled $188,435 for the year ended December 31, 2018.

Pursuant to the Separation Agreement, the Company also issued a Severance Payment Note to Hernandez in the original principal amount of $343,750 (the “Severance Payment Note”). The Severance Payment Note bore interest at a rate of 5% per annum, compounded annually, allowed for prepayment by the Company, matured and was paid on January 10, 2019.

Interest charges associated with the Severance Payment Note totaled $17,140 for the year ended December 31, 2018.

Amounts due and owing under the Earn-out Note and Severance Payment Note are subordinate to the right of payment due under the BMO Loan pursuant to a Subordination Agreement among the Company, the Bank and Hernandez.

(11) Warrants

Below is a summary of warrant activity during the years ended December 31, 2017 and 2018:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Term in Years	Aggregate Intrinsic Value
Outstanding at January 1, 2017	321,259	$ 3.11		
Granted in 2017	-	$ -		
Exercised in 2017	(53,516)	$ 3.03		
Cancelled in 2017	(189,964)	$ 3.17		
Outstanding at December 31, 2017	77,779	$ 3.03	5.05	$ -
Granted in 2018	-	$ -		
Exercised in 2018	-	$ -		
Cancelled in 2018	-	$ -		
Outstanding at December 31, 2018	77,779	$ 3.03	4.05	$ -
Warrants exercisable at December 31, 2018	77,779	$ 3.03	4.05	$ -

(12) Stock Option and Stock Incentive Plans

The Board approved the 2007 Stock Option Plan, as amended (the “2007 Plan”), and it became effective on May 16, 2007 upon receipt of stockholder approval. On May 16, 2007, options to purchase 963,382 shares of Common Stock had been granted pursuant to the 2000 Plan, 2001 Plan, 2003 Plan and 2004 Plan. Under the 2007 Plan, the administrator could grant options to purchase 1,490,000 shares of Common Stock. The options granted pursuant to the 2004 Plan continue to be governed by the terms and conditions of the 2004

Plan, except to the extent the administrator elected to extend one or more features of the 2007 Plan to the outstanding stock options granted pursuant to the 2004 Plan. Under the 2007 Plan, the option exercise price was equal to the fair market value of the Common Stock at the date of grant. Options expired no later than 10 years from the grant date and generally vested within three years.

On March 17, 2011, the Board approved the 2011 Stock Incentive Plan (the "2011 Plan"), and it became effective on May 12, 2011. The 2011 Plan authorized the issuance of no more than 1,990,000 shares of our Common Stock and it provides for the granting of stock options, stock appreciation rights and restricted stock to our employees, members of the Board and service providers. On June 8, 2017, the 2011 Plan was amended in order to increase the number of shares available under the 2011 Plan by 1,000,000 to 2,990,000. On September 1, 2017, the 2011 Plan was further amended in order to permit the award of restricted stock units. As of December 31, 2018, there were 1,208,665 shares available for issuance under the 2011 Plan.

Additional information with respect to these Plans' stock option activity is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Term in Years	Aggregate Intrinsic Value
Outstanding at January 1, 2017	1,454,242	$ 2.87		
Granted in 2017	25,000	$ 3.06		
Exercised in 2017	(169,700)	$ 2.25		
Cancelled in 2017	(585,142)	$ 2.79		
Outstanding at December 31, 2017	724,400	$ 3.09	4.19	$ 747,380
Granted in 2018	-	$ -		
Exercised in 2018	(54,022)	$ 2.77		
Cancelled in 2018	(130,452)	$ 3.70		
Outstanding at December 31, 2018	539,926	$ 2.97	3.54	$ 954,182
Options exercisable at December 31, 2018	509,070	$ 2.98	3.54	$ 897,815

The following table summarizes information about stock options outstanding and exercisable at December 31, 2018:

Range of Exercise Prices	Number of Shares Outstanding	Weighted Average Remaining in Contractual Life in Years	Outstanding Options Weighted Average Exercise Price	Number of Options Exercisable	Exercisable Options Weighted Average Exercise Price
$0.90 to $2.27	25,664	2.06	$ 2.11	25,664	$ 2.11
$2.28 to $2.72	165,504	2.24	$ 2.45	156,281	$ 2.45
$2.72 to $5.54	348,758	4.26	$ 3.28	327,125	$ 3.30
$0.90 to $8.99	539,926	3.54	$ 2.97	509,070	$ 2.98

Unamortized compensation expense associated with unvested options approximates $12,288 as of December 31, 2018. The weighted average period over which these costs are expected to be recognized is approximately one year.

(13) Restricted Stock Awards

The fair value of restricted stock awards is estimated by the market price of the Company's Common Stock at the date of grant. Restricted stock activity during the years ended December 31, 2018, and 2017, respectively, are as follows:

	Number of Shares	Weighted Average Grant-Date Fair per Share	Weighted Average Vesting Period in Years
Outstanding at January 1, 2017	-	$ -	
Granted in 2017	506,500	3.35	
Vested in 2017	-	-	
Cancelled and forfeited in 2017	-	-	
Non-vested at December 31, 2017	506,500	$ 3.35	
Granted in 2018	439,000	$ 3.98	
Vested in 2018	(70,000)	3.26	
Cancelled and forfeited in 2018	(65,500)	3.68	
Non-vested at December 31, 2018	810,000	$ 3.67	2.47

During the years ended December 31, 2018 and 2017, we issued a total of 439,000 and 506,500 shares respectively, of restricted stock units to key employees and members of the Board of Directors. The shares cliff vest after three years of continuous employment or one continuous of year of service on the board. The cost recognized for these restricted stock units totaled $717,746 and $255,201 for the years ended December 31, 2018 and 2017, respectively.

(14) Income Taxes

For the years ended December 31, 2018 and 2017, the components of income tax expense are as follows:

	Year Ended December 31, 2018	2017
Current provision:		
Federal	$ 198,879	$ (62,913)
State	(356,755)	(156,000)
	(157,876)	(218,913)
Deferred:		
Federal	(1,004,169)	(1,977,963)
State	29,878	(168,600)
	(974,290)	(2,146,563)
Income tax expense	$ (1,132,166)	$ (2,365,476)

Income tax expense amounted to $1,132,166 and $2,365,476 for the years ended December 31, 2018 and 2017, respectively (an effective rate of 37% for 2018 and 124% for 2017). A reconciliation of the provision for income taxes with amounts determined by applying the statutory U.S. federal income tax rate to income before income taxes is as follows:

	Year Ended December 31, 2018	2017
Computed tax at federal statutory rate of 21%	$ (635,409)	$ (653,863)
State taxes, net of federal benefit	(376,283)	(172,176)
Non-deductible items	(16,752)	(33,305)
Other	(103,722)	5,073
Federal rate and law change effect	-	(1,511,207)
	$ (1,132,166)	$ (2,365,476)

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

	Year Ended December 31,	
	2018	2017
Deferred tax assets:		
Accrued salaries/vacation	$ 206,600	$ 454,000
Accrued other	8,500	49,900
Amortization of intangible assets	828,200	702,300
State taxes	(7,300)	(700)
Stock options	739,500	589,800
Credits	63,200	250,800
Net operating loss carryforwards	530,800	1,479,800
Total deferred tax assets	2,369,500	3,525,900
Deferred tax liabilities:		
Depreciation	17,400	203,100
Other	206,080	202,490
Total deferred tax liabilities	223,480	405,590
Net deferred tax assets	$ 2,146,020	$ 3,120,310

At December 31, 2018, we have available unused net operating loss carryforwards of approximately $2,528,000 for federal purposes and none for state purposes that may be applied against future taxable income and that, if unused, expire beginning in 2025.

Utilization of the net operating loss carryforwards may be subject to a substantial annual limitation due to ownership change limitations provided by the Internal Revenue Code under section 382. The annual limitation may result in the expiration of net operating loss carryforwards before utilization.

In December 2017, the Tax Cuts and Jobs Act (the "Act") was signed into law. The Act amends the Internal Revenue Code to reduce tax rates and modify policies, credits, and deductions for individuals and businesses. For businesses, the Act reduces the corporate federal tax rate from a maximum of 35% to a flat 21% rate. The rate reduction took effect on January 1, 2018.

As a result of the reduction in the corporate income tax rate from 34% to 21% under the Act, the Company revalued its net deferred tax asset resulting in a reduction in value of approximately $1.5 million, which is recorded as a discrete charge to income tax expense in the Company's consolidated statement of operations for the year ended December 31, 2017.

The Act contains various other rules that may apply to the Company. 100% bonus depreciation is allowable on certain qualifying assets placed in service after September 27, 2017, the Act denies a deduction for certain entertainment expenditures incurred after December 31, 2017, and net operating losses incurred after this date are subject to certain new limitations. The Company's current year income tax provision takes these new rules into account to the extent they are applicable.

We evaluate our tax positions each reporting period to determine the uncertainty of such positions based upon one of the following conditions: (1) the tax position is not ''more likely than not'' to be sustained, (2) the tax position is ''more likely than not'' to be sustained, but for a lesser amount, or (3) the tax position is ''more likely than not'' to be sustained, but not in the financial period in which the tax position was originally taken. We have evaluated our tax positions for all jurisdictions and all years for which the statute of limitations remains open. We have determined that no liability for unrecognized tax benefits and interest was necessary.

(15) Retirement Plan

We sponsor a 401(k) plan for the benefit of employees who are at least 21 years of age. Our management determines, at its discretion, the annual and matching contribution. For the years ended December 31, 2018 and 2017, we made matching contributions totaling $584,882 and $416,127, respectively.

(16) Commitments

Leases

We lease approximately 17,000 square feet of office space at 27271 Las Ramblas, Suite 200, Mission Viejo, California. This lease terminates in April of 2021. We also lease approximately 3,600 square feet of office space at 11410 Jollyville Road, Suite 2201, Austin, Texas. This lease terminates in September 2019. We also lease approximately 9,600 square feet of office space at 11940 Jollyville Road, Austin, Texas. This lease terminates in May 31, 2020. Rent expense for the years ended December 31, 2018 and 2017 totaled $676,996 and $744,866 respectively. Future minimum lease payments under non-cancelable operating leases during subsequent years are as follows:

December 31,	Payments
2019	$ 654,019
2020	512,632
2021	132,926
Total	$ 1,349,664

Employment Agreements

In January 2017, we entered into an employment agreement with Michael H. McMillan ("McMillan") (the "McMillan Employment Agreement"), pursuant to which we employed McMillan as President and Chief Strategy Officer of the Company. The initial term of the McMillan Employment Agreement is 36 months and will automatically renew for subsequent 12-month terms unless either party provides written notice to the other party of a desire to not renew the agreement.

Pursuant to the McMillan Employment Agreement, the Company has the right to terminate McMillan's employment without cause at any time on thirty (30) days' advance written notice to McMillan. Additionally, McMillan has the right to resign for "Good Reason" (as defined in the McMillan Employment Agreement) on thirty (30) days' written notice. In the event of (i) such termination without cause, or (ii) McMillan's inability to perform the essential functions of his position due to a mental or physical disability or his death, or (iii) McMillan's resignation for Good Reason, McMillan is entitled to receive the base salary then in effect and full target annual bonus, prorated to the date of termination, and a "Severance Payment" equivalent to (a) payment of compensation for an additional twelve months, payable as a lump sum, and (b) the acceleration of all unvested stock options and warrants then held by McMillan, subject to certain conditions set forth in the McMillan Employment Agreement. If McMillan resigns for other than Good Reason, he will be entitled to receive the base salary for the thirty (30) day written notice period, but no other amounts. On October 2, 2017, the Board appointed McMillan as Chief Executive Officer and his base salary was increased to $325,000.

In February 2018, the Company amended the McMillan Employment Agreement to extend the term thereof through December 31, 2020 and increased his base salary to $334,700 for 2018, $359,700 for 2019, and the 2020 base salary to be determined by the Board of Directors at the end of the 2019 calendar year. He will also be eligible for a bonus of up to $219,375 and $242,798 in 2018 and 2019, respectively, and his 2020 bonus will be up to 67.5% of his base salary. The foregoing summary of the McMillan Employment Agreement is qualified in its entirety by reference to the full context of the agreement, which is found as Exhibit 99.6 to our Current Report on Form 8-K filed with the SEC on January 17, 2017, and the amendment to the McMillan Employment Agreement, which is found as Exhibit 10.44 to our Annual Report on Form 10-K filed with the SEC on March 28, 2018.

Effective January 1, 2016, we entered into an employment agreement with Paul T. Anthony (the "Anthony Agreement"). The Anthony Agreement provides that Mr. Anthony will continue to serve as our Executive Vice President, CFO and Corporate Secretary. The Anthony Agreement has a term of two years and provided for an annual base salary of $245,000. The Anthony Agreement will automatically renew for subsequent twelve (12) month terms unless either party provides advance written notice to the other that such party does not wish to renew the agreement for a subsequent twelve (12) months. Mr. Anthony also receives the customary employee benefits available to our employees. Mr. Anthony was also entitled to receive a bonus of up to $132,000 per year, the achievement of which is based on Company performance metrics. We may terminate Mr. Anthony's employment under the Anthony Agreement without cause at any time on thirty (30) days advance written notice, at which time Mr. Anthony would receive severance pay for twelve months and be fully vested in all options and warrants granted to date. The foregoing summary of the Anthony Agreement is qualified in its entirety by reference to the full context of the employment agreement, which is found as Exhibit 10.32 to our Annual Report on Form 10-K filed with the SEC on March 30, 2016. In March 2017, the Board of Directors authorized an increase in Mr. Anthony's base salary to $250,000 and increased his potential annual bonus amount to $150,000.

In February 2018, the Company amended the Anthony Agreement to extend the term thereof through December 31, 2020 and increased his base salary to $284,700 for 2018, and $309,700 for 2019, with the 2020 base salary to be determined by the Board of Directors at the end of the 2019 calendar year. He will also be eligible for a bonus of up to $185,625 and $209,047 in 2018 and 2019, respectively, and his 2020 bonus will be up to 67.5% of his base salary. The foregoing summary of the Anthony Agreement is qualified in its entirety by reference to the full context of the agreement, which is found as Exhibit 10.32 to our Annual Report on Form 10-K filed with the SEC on March 30, 2016, and the amendment to the Anthony Agreement, which is found as Exhibit 10.45 to our Annual Report on Form 10-K filed with the SEC on March 28, 2018.

(17) Concentrations

Cash Concentrations

At times, cash and cash equivalent balances held in financial institutions are in excess of federally insured limits. Management performs periodic evaluations of the relative credit standing of financial institutions and limits the amount of risk by selecting financial institutions with a strong credit standing.

Major Customers

For the year ended December 31, 2018, there were two customers that each generated at least 10% of our revenues and these customers represented a total of 57% of revenues. As of December 31, 2018, net accounts receivable due from these customers totaled approximately $3,600,000.

For the year ended December 31, 2017, there were two customers that each generated at least 10% of our revenues and these customers represented a total of 46% of revenues. As of December 31, 2017, net accounts receivable due from these customers totaled approximately $5,600,000.

(18) Subsequent Events

Sale of Certain Assets related to the Managed Print Services Business Division

On March 20, 2019, we, along with our wholly-owned subsidiary, CTEK Solutions, Inc., entered into an Asset Purchase Agreement (together with the other related documents defined therein, the "Purchase Agreement") with Vereco, LLC, a Delaware limited liability company ("Buyer"). Pursuant to the Purchase Agreement, we sold our assets used in the provision of our managed print services business division (the "MPS Business"), which had been primarily conducted by CTEK Solutions, Inc. The Buyer also assumed certain liabilities relating to the MPS Business. The purchase price paid to us by Buyer pursuant to the Purchase Agreement was $30,000,000, $5,000,000 of which was placed in escrow by Buyer, the release of which is contingent upon certain events and conditions specified in the Purchase Agreement. The purchase price was also subject to adjustment based on closing working capital results of the MPS Business. We will continue to operate, through our subsidiary CTEK Security, Inc., our business of cybersecurity, privacy and compliance management consulting.

Termination of BMO Harris Bank N.A. Credit Agreement and Related Agreements.

Also on March 20, 2019 we terminated the Revolving Credit Facility and Term Loan made by BMO Harris Bank N.A. (the "Bank"), under the Credit Agreement dated as of March 12, 2018 (together with the other related documents defined therein, the "Credit Agreement"), by and among the Company, CTEK Security, Inc., CTEK Solutions, Inc. and Delphiis, Inc., and together with CTEK Security, Inc. and CTEK Solutions, Inc., the "Guarantors"). In conjunction with such termination, we repaid our outstanding debt to the Bank with proceeds of the sale of the MPS Business. The terms of the Credit Agreement previously were disclosed in the Company's Current Report on Form 8-K filed with the SEC on March 13, 2018. There were no material early termination penalties incurred as a result of the termination of the Credit Agreement.

In consideration of the payment in full of the amounts owed to the Bank under the Credit Agreement, the Bank agreed that (a) all liabilities, obligations, and indebtedness owing to the to the Bank pursuant to the Credit Agreement, and any other instrument, document, certificate or agreement entered into connection therewith were immediately and automatically deemed repaid in full, satisfied and discharged, other than (i) obligations consisting of funds transfer and deposit account liability of the Company and CTEK Security, Inc. and (ii) obligations under the Credit Agreement which by their terms survive termination of the Credit Agreement (e.g., the Company's obligation to repay all indebtedness under the Credit Agreement and to indemnify and hold the Bank harmless) (clauses (i) and (ii) are collectedly referred to herein as the "Continuing Obligations"); (b) the Credit Agreement and any other instrument, certificate, document or agreement entered into by the Company and the Guarantors in connection with the Credit Agreement, were each immediately and automatically terminated, other than any provision of any such agreement in respect of or securing the Continuing Obligations, and (c) all security interests and liens which the Bank may have on any assets of CTEK Solutions, Inc., Delphiis, Inc. and the Company related to the MPS Business were automatically and fully terminated and released.

The foregoing summaries of the terms and conditions of the Purchase Agreement is qualified in its entirety by reference to the full context of the agreement, which is found in our Current Report on Form 8-K filed with the SEC on March 26, 2019.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

No.	Item
2.1	Agreement and Plan of Reorganization dated as of November 20, 2001, by and between Auxilio and e-Perception, Inc., incorporated by reference to Exhibit 1.1 to our Form 8-K filed on January 24, 2002.
2.2	Agreement and Plan of Merger, dated April 1, 2004, by and between Auxilio, PPVW Acquisition Corporation, and Alan Mayo & Associates, Inc., incorporated by reference to Exhibit 2.1 to our Form 8-K filed on April 16, 2004.
2.3	Agreement and Plan of Merger, dated September 7, 2017, between Auxilio, Inc. and CynergisTek, Inc., incorporated by reference to Exhibit 2.1 to our Form 8-K filed on September 8, 2017.
3.1	Articles of Incorporation of Auxilio, Inc. as amended, incorporated by reference to Exhibit 3.1 to our Form 10-KSB filed on April 19, 2005.
3.2	Amended and Restated Bylaws of Auxilio, incorporated by reference to Exhibit 2 to our Form 10-SB filed on October 1, 1999.
3.3	First Amendment to Amended and Restated Bylaws of Auxilio, Inc. dated August 6, 2015, incorporated by reference to Exhibit 10.1 to our 10-Q filed on August 14, 2015.
3.4	Certificate of Incorporation of CynergisTek, Inc., incorporated by reference to Exhibit 3.1 to our Form 8-K filed on September 8, 2017.
3.5	Bylaws of CynergisTek, Inc., incorporated by reference to Exhibit 3.2 to our Form 8-K filed on September 8, 2017.
4.1	Subscription Agreement, dated January 9, 2002, by and among Auxilio and each of the stockholders of e-Perception, Inc., incorporated by reference to Exhibit 1.2 to our Form 8-K filed on January 24, 2002.
4.2	Form of Subscription Agreement entered into between April 6, 2009 and April 15, 2009 with Michael Vanderhoof and Edward B. Case, incorporated by reference to Exhibit 4.1 of our Form 8-K filed on May 14, 2009.
10.1	Auxilio's 2001 Stock Option Plan, incorporated by reference to Exhibit 4.1 to our Form S-8 filed on March 3, 2011.*
10.1.1	Form of Stock Option Agreement under Auxilio's 2001 Stock Option Plan, incorporated by reference to Exhibit 4.6 to our Form S-8 filed on March 3, 2011.*
10.2	Auxilio's 2003 Stock Option Plan, incorporated by reference to Exhibit 4.2 to our Form S-8 filed on March 3, 2011.*
10.2.1	Form of Stock Option Agreement under Auxilio's 2003 Stock Option Plan, incorporated by reference to Exhibit 4.7 to our Form S-8 filed on March 3, 2011.*
10.3	Auxilio's 2004 Stock Option Plan, incorporated by reference to Exhibit 4.3 to our Form S-8 filed on March 3, 2011.*
10.3.1	Form of Stock Option Agreement under Auxilio's 2004 Stock Option Plan, incorporated by reference to Exhibit 4.8 to our Form S-8 filed on March 3, 2011.*
10.4	Auxilio's 2007 Stock Option Plan, incorporated by reference to Exhibit 4.4 to our Form S-8 filed on March 3, 2011.*
10.5	Amendment to Auxilio 2007 Stock Option Plan, incorporated by reference to Exhibit 4.5 to our Form S-8 filed on March 3, 2011.*
10.5.1	Form of 2007 Stock Option Agreement, incorporated by reference to Exhibit 4.9 to our Form S-8 filed on March 3, 2011.*
10.6	Auxilio's 2011 Stock Incentive Plan, incorporated by reference to Exhibit 4.1 to our Form S-8 filed on August 24, 2011.*
10.6.1	Form of Auxilio's 2011 Stock Option Agreement under the 2011 Stock Incentive Plan, incorporated by reference to Exhibit 4.3 to our Form S-8 filed on August 24, 2011.*
10.6.2	Form of Restricted Stock Agreement under the Auxilio 2011 Stock Incentive Plan, incorporated by reference to Exhibit 4.4 to our Form S-8 filed on August 24, 2011.*
10.7	Amendment No. 1 to 2011 Stock Incentive Plan, incorporated by reference to Exhibit 10.1 to our Form 8-K/A filed on September 1, 2017.*

No.	Item
10.8	Amendment No. 2 to 2011 Stock Incentive Plan, incorporated by reference to Exhibit 10.1 to our Form 8-K filed on September 2, 2017.*
10.9	Asset Purchase Agreement between Workstream USA, Inc., Workstream, Inc. and PeopleView, Inc. dated March 8, 2004, incorporated by reference to Exhibit 2.1 to our Form 8-K filed on April 2, 2004.
10.10	Addendum dated as of May 27, 2004 to Asset Purchase Agreement dated March 17th, 2004 between Workstream Inc. Workstream USA, Inc. and PeopleView, Inc., incorporated by reference to Exhibit 2.1 to our Form 8-K/A filed on August 3, 2004.
10.11	Loan and Security Agreement by and among Auxilio, Inc., Auxilio Solutions, Inc. and AvidBank Corporate Finance, a division of AvidBank, dated effective April 19, 2012, incorporated by reference to Exhibit 10.1 to our Form 8-K filed on May 9, 2012.
10.12	Intellectual Property Security Agreement by and among Auxilio, Inc., Auxilio Solutions, Inc. and AvidBank Corporate Finance, a division of AvidBank, dated effective April 19, 2012, incorporated by reference to Exhibit 10.2 to our Form 8-K filed on May 9, 2012.
10.13	Form of Subordination by and among AvidBank Corporate Finance, a division of AvidBank and certain individual creditors dated effective April 19, 2012, incorporated by reference to Exhibit 10.3 to our Form 8-K filed on May 9, 2012.
10.14	Warrant to Purchase Stock issued by Auxilio, Inc. to AvidBank Holdings, Inc. dated effective April 24, 2012, incorporated by reference to Exhibit 10.4 to our Form 8-K filed on May 9, 2012.
10.15	Warrant to Purchase Common Stock issued by Auxilio, Inc. to Joseph Flynn dated January 16, 2013, incorporated by reference to Exhibit 10.1 to our Form 8-K filed on January 23, 2013.
10.16	Warrant to Purchase Common Stock issued by Auxilio, Inc. to Paul Anthony dated January 16, 2013, incorporated by reference to Exhibit 10.2 to our Form 8-K filed on January 23, 2013.
10.17	Warrant to Purchase Common Stock issued by Auxilio, Inc. to Simon Vermooten dated January 16, 2013, incorporated by reference to Exhibit 10.3 to our Form 8-K filed on January 23, 2013.
10.18	Stock Purchase Agreement between Auxilio, Inc., Delphiis, Inc., certain stockholders of Delphiis, Inc., and Mike Gentile as Seller's Representative dated effective July 1, 2014, incorporated by reference to Exhibit 99.11 to our Form 8-K filed on July 8, 2014.
10.19	Second Amendment to Loan and Security Agreement dated as of April 25, 2014, incorporated by reference to Exhibit 10.1 to our 10-Q filed on May 14, 2014.
10.20	Note Conversion Agreement between Auxilio, Inc. and Mike Gentile dated effective as of January 12, 2015, incorporated by reference to Exhibit 99.1 to our Form 8-K filed on February 27, 2015.
10.21	Asset Purchase Agreement between Auxilio, Inc. and Redspin, Inc. dated as of March 31, 2015, incorporated by reference to Exhibit 99.1 to our Form 8-K filed on April 6, 2015.
10.22	Third Amendment to the Loan and Security Agreement between Avidbank Corporate Finance and Auxilio, Inc., dated as of April 24, 2015, incorporated by reference to Exhibit 10.1 to our Form 10-Q filed on May 15, 2015.
10.23	Fourth Amendment to the Loan and Security Agreement between Avidbank and Auxilio, Inc. dated June 19, 2015, incorporated by reference to Exhibit 10.1 to our 10-Q filed on August 14, 2015.
10.24	Executive Employment Agreement, effective January 1, 2016, by and between Auxilio and Joseph J. Flynn, incorporated by reference to Exhibit 10.31 to our Form 10-K filed on March 30, 2016.
10.25	Executive Employment Agreement, effective January 1, 2016, by and between Auxilio and Paul T. Anthony, incorporated by reference to Exhibit 10.32 to our Form 10-K filed on March 30, 2016.
10.26	Stock Purchase Agreement between Auxilio, Inc., CynergisTek, Inc., a Texas corporation, Dr. Michael G. Mathews and Michael H. McMillan dated January 13, 2017, incorporated by reference to Exhibit 99.1 to our Form 8-K filed on January 17, 2017.
10.27	Registration Rights Agreement between Auxilio, Inc. and Michael G. Mathews and Michael McMillan dated January 13, 2017, incorporated by reference to Exhibit 99.2 to our Form 8-K filed on January 17, 2017.
10.28	Michael Mathews Promissory Note dated January 13, 2017, incorporated by reference to Exhibit 99.3 to our Form 8-K filed on January 17, 2017.
10.29	Michael McMillan Promissory Note dated January 13, 2017, incorporated by reference to Exhibit 99.4 to our Form 8-K filed on January 17, 2017.
10.30	Executive Employment Agreement, effective January 13, 2017, by and between Auxilio and Michael G. Mathews, incorporated by reference to Exhibit 99.5 to our Form 8-K filed on January 17, 2017.

No.	Item
10.31	Executive Employment Agreement, effective January 13, 2017, by and between Auxilio and Michael McMillan, incorporated by reference to Exhibit 99.6 to our Form 8-K filed on January 17, 2017.
10.32	Amended and Restated Credit agreement between Auxilio, its subsidiaries Auxilio Solutions, Inc., Delphiis, Inc., CynergisTek, Inc. collectively referred to as "borrowers", and ZB, N.A., dba California Bank and Trust ("CBT"), and Avidbank, a California banking corporation, collectively referred to as "lenders", dated January 13, 2017, incorporated by reference to Exhibit 99.7 to our Form 8-K filed on January 17, 2017.
10.33	Joinder No. 1 to Amended and Restated Credit Agreement dated September 7, 2017, incorporated by reference to Exhibit 10.1 to our Form 8-K filed on September 8, 2017.
10.34	Security Agreement between Auxilio, its subsidiaries Auxilio Solutions, Inc., Delphiis, Inc., CynergisTek, Inc. and AvidBank, dated January 13, 2017, incorporated by reference to Exhibit 99.8 to our Form 8-K filed on January 17, 2017.
10.35	Supplement No. 1 to Security Agreement between CynergisTek, Inc. and AvidBank, as agent, incorporated by reference to Exhibit 10.2 to our Form 8-K filed on September 8, 2017.
10.36	Subordination Agreement between Mathews, McMillan, Auxilio, and Avidbank, dated January 13, 2017, incorporated by reference to Exhibit 99.9 to our Form 8-K filed on January 17, 2017.
10.37	Credit Agreement dated March 12, 2018, by and among CynergisTek, Inc., CTEK Security, Inc., CTEK Solutions, Inc., Delphiis, Inc., and BMO Harris Bank N.A., incorporated by reference to Exhibit 10.1 to our Form 8-K filed on March 13, 2018.
10.38	Pledge and Security Agreement dated March 12, 2018, by and among CynergisTek, Inc., CTEK Security, Inc., CTEK Solutions, Inc., Delphiis, Inc., and BMO Harris Bank N.A., incorporated by reference to Exhibit 10.2 to our Form 8-K filed on March 13, 2018.
10.39	Separation Agreement and Mutual Release dated March 12, 2018, among CynergisTek, Inc., CTEK Security, Inc. and Michael Hernandez, incorporated by reference to Exhibit 10.3 to our Form 8-K filed on March 13, 2018.
10.40	Amendment to Stock Purchase Agreement dated March 12, 2018, among CynergisTek, Inc., CTEK Security, Inc. and Michael H. McMillan, incorporated by reference to Exhibit 10.4 to our Form 8-K filed on March 13, 2018.
10.41	Amended and Restated Promissory Note in favor of Michael McMillan dated March 12, 2018, incorporated by reference to Exhibit 10.5 to our Form 8-K filed on March 13, 2018.
10.42	Promissory Note ("Earn-out Note") in favor of Michael Hernandez dated March 12, 2018, incorporated by reference to Exhibit 10.6 to our form 8-K filed on March 13, 2018.
10.43	Promissory Note ("Severance Payment Note") in favor of Michael Hernandez dated March 12, 2018, incorporated by reference to Exhibit 10.7 to our form 8-K filed on March 13, 2018.
10.44	First Amendment to Executive Employment Agreement between CynergisTek, Inc. and Michael H. McMillan dated February 10, 2018. †
10.45	First Amendment to Executive Employment Agreement between CynergisTek, Inc. and Paul T. Anthony dated February 10, 2018. †
14	Code of Business Conduct and Ethics.
16.1	Letter regarding change in certifying accountants, dated February 14, 2002, incorporated by reference to Exhibit 16 to our Form 8-K filed on February 15, 2002.
16.2	Letter regarding change in certifying accountants dated December 22, 2005, incorporated by reference to Exhibit 16.1 to our Form 8-K/A filed on January 24, 2006.
21.1	Subsidiaries. †
23.1	Consent of Haskell & White LLP, Independent Registered Public Accounting Firm. †
24	Power of Attorney (included on the Signature Page).
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a). †
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a). †
32.1	Certification of CEO and CFO pursuant to 18 U.S.C. §1350 as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002. †
101.INS	XBRL Instance Document**
101.SCH	XBRL Taxonomy Extension Schema Document**
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document**
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document**

No.	Item
101.LAB	XBRL Taxonomy Extension Label Linkbase Document**
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document**

* Each of these Exhibits constitutes a management contract, compensatory plan or arrangement.

** Pursuant to Rule 406T of Regulation S-T, this XBRL information will not be deemed “filed” for the purpose of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liability of that section, nor will it be deemed filed or made a part of a registration statement or prospectus for purposes of Sections 11 and 12 of the Securities Act of 1933, or otherwise subject to liability under those sections.

† Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) with the Securities Exchange Act of 1934, the Registrant has duly caused this Annual Report to be signed on its behalf by the undersigned, thereunto duly authorized.

CYNERGISTEK, INC.

By: /s/ Michael H. McMillan
Michael H. McMillan
Chief Executive Officer and
Principal Executive Officer

March 27, 2019

By: /s/ Paul T. Anthony
Paul T. Anthony
Chief Financial Officer and
Principal Financial Officer

March 27, 2019

POWER OF ATTORNEY AND SIGNATURES

We, the undersigned directors and officers of CynergisTek, Inc., do hereby constitute and appoint each of Michael H. McMillan and Paul T. Anthony as our true and lawful attorneys-in-fact and agents with power of substitution, to do any and all acts and things in our name and behalf in our capacities as directors and officers and to execute any and all instruments for us and in our names in the capacities indicated below, which said attorneys-in-fact and agents, or either of them, may deem necessary or advisable to enable said corporation to comply with the Securities and Exchange Act of 1934, as amended, and any rules, regulations and requirements of the Securities and Exchange Commission, in connection with this Annual Report on Form 10-K, including specifically but without limitation, power and authority to sign for us or any of us in our names in the capacities indicated below, any and all amendments (including post-effective amendments) hereto; and we do hereby ratify and confirm all that said attorney-in-fact and agent, shall do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/ Michael H. McMillan Michael H. McMillan	Director, Chief Executive Officer (Principal Executive Officer and Director)	March 27, 2019
/s/ Paul T. Anthony Paul T. Anthony	Chief Financial Officer, Secretary (Principal Financial Officer and Accounting Officer)	March 27, 2019
/s/ John D. Abouchar John D. Abouchar	Director (Non-executive Chairman of the Board)	March 27, 2019
/s/ Drexel DeFord Drexel DeFord	Director	March 27, 2019
/s/ Judy F. Krandel Judy F. Krandel	Director	March 27, 2019
/s/ Theresa Meadows Theresa Meadows	Director	March 27, 2019
/s/ Mark Roberson Mark Roberson	Director	March 27, 2019