UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2022

OR

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

For the transition period from _________ to _________

Commission File Number: 000-27507

CYNERGISTEK, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**37-1867101**
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification Number)
11940 Jollyville Road, Suite 300-N Austin, Texas	**78759**
(Address of Principal Executive Offices)	(Zip Code)

(949) 614-0700
(Registrant's telephone number, including area code)

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

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock, $.001 par value per share	CTEK	NYSE American

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

Indicated by check mark whether the registrant has submitted electronically every Interactive Date File required to be submitted and posted 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 and post such files). Yes ☒ No ☐.

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

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

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

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

The number of shares of the issuer's common stock, $0.001 par value, outstanding as of May 13, 2022, was 13,256,570.

CYNERGISTEK, INC.
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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

CYNERGISTEK, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2022 (unaudited)	December 31, 2021
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,208,574	$ 3,575,682
Accounts receivable, net of allowance for doubtful accounts	1,683,654	2,007,136
Unbilled services	796,363	542,952
Prepaid and other current assets	1,728,707	1,840,178
Income taxes receivable	1,470,248	1,484,851
Total current assets	6,887,546	9,450,799
Property and equipment, net	218,077	243,791
Deposits	34,310	34,310
Deferred income taxes	6,351,130	6,060,129
Intangible assets, net	4,438,461	4,701,491
Goodwill	8,394,483	8,394,483

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PART I – FINANCIAL INFORMATION

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Total current assets	6,887,546	9,450,799
Property and equipment, net	218,077	243,791
Deposits	34,310	34,310
Deferred income taxes	6,351,130	6,060,129
Intangible assets, net	4,438,461	4,701,491
Goodwill	8,394,483	8,394,483
Total assets	$ 26,324,006	$ 28,885,003
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 1,172,005	$ 1,453,454
Accrued compensation and benefits	372,773	1,189,472
Deferred revenue	1,086,631	1,663,719
Earnout liability	395,165	432,000
Promissory note to related parties	-	140,625
Operating lease liability	16,250	45,233
Total current liabilities	3,042,824	4,924,503
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value at $0.001, 33,333,333 shares authorized, 13,256,570 shares issued and outstanding at March 31, 2022, and 13,248,024 shares issued and outstanding at December 31, 2021	13,256	13,248
Additional paid-in capital	41,510,070	41,318,917
Accumulated deficit	(18,242,144)	(17,371,665)
Total stockholders' equity	23,281,182	23,960,500
Total liabilities and stockholders' equity	$ 26,324,006	$ 28,885,003

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

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CYNERGISTEK, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended March 31,

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CYNERGISTEK, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Net revenues	$ 4,660,568	$ 4,173,520
Cost of revenues	2,792,565	2,090,834
Gross profit	1,868,003	2,082,686
Operating expenses:		
Sales and marketing expenses	1,177,332	1,212,379
General and administrative expenses	1,524,079	1,676,658
Depreciation	48,222	47,696
Amortization of acquisition-related intangibles	263,030	340,528
Total operating expenses	3,012,663	3,277,261
Loss from operations	(1,144,660)	(1,194,575)
Other (expense) income:		
Interest expense	(1,819)	(20,001)
Total other expense	(1,819)	(20,001)
Loss before income tax benefit	(1,146,479)	(1,214,576)
Income tax benefit	276,000	300,099
Net loss	(870,479)	(914,477)
Net loss per share:		
Basic	$ (0.07)	$ (0.08)
Diluted	$ (0.07)	$ (0.08)
Number of weighted average shares outstanding:		
Basic	13,250,464	12,041,074
Diluted	13,250,464	12,041,074

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

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CYNERGISTEK, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
THREE MONTHS ENDED MARCH 31, 2022 and 2021
(UNAUDITED)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
Balance at December 31, 2021	13,248,024	$ 13,248	$ 41,318,917	$ (17,371,665)	$ 23,960,500
Stock compensation expense for equity awards granted to employees and directors	-	-	191,161	-	191,161
Restricted stock units exercised	8,546	8	(8)	-	-
Net loss	-	-	-	(870,479)	(870,479)
Balance at March 31, 2022	13,256,570	$ 13,256	$ 41,510,070	$ (18,242,144)	$ 23,281,182

Additional **Total**

CYNERGISTEK, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
THREE MONTHS ENDED MARCH 31, 2022 and 2021
(UNAUDITED)

	Common Stock		Additional Paid-in	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Deficit	Equity
Balance at December 31, 2021	13,248,024	$ 13,248	$ 41,318,917	$ (17,371,665)	$ 23,960,500
Stock compensation expense for equity awards granted to employees and directors	-	-	191,161	-	191,161
Restricted stock units exercised	8,546	8	(8)	-	-
Net loss	-	-	-	(870,479)	(870,479)
Balance at March 31, 2022	13,256,570	$ 13,256	$ 41,510,070	$ (18,242,144)	$ 23,281,182

	Common Stock		Additional Paid-in	Retained	Total Stockholders'
	Shares	Amount	Capital	Earnings	Equity
Balance at December 31, 2020	12,024,967	$ 12,024	$ 38,564,520	$ (15,125,086)	$ 23,451,458
Stock compensation expense for equity awards granted to employees and directors	-	-	228,437	-	228,437
Restricted stock units exercised	95,731	96	(96)	-	-
Net loss	-	-	-	(914,477)	(914,477)
Balance at March 31, 2021	12,120,698	$ 12,120	$ 38,792,861	$ (16,039,563)	$ 22,765,418

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

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

	Three Months Ended March 31,	
	2022	2021
Cash flows from operating activities:		
Net loss	$ (870,479)	$ (914,477)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation	48,222	47,696
Amortization of intangible assets	263,030	340,528
Change in net deferred tax assets	(291,000)	(36,705)
Stock compensation for equity awards granted to employees and directors	191,161	228,437
Other	-	(15,500)
Changes in operating assets and liabilities:		
Accounts receivable	323,482	113,278
Unbilled services	(253,411)	9,226
Prepaid and other current assets	111,471	226,080
Income taxes receivable	14,603	(271,666)
Accounts payable and accrued expenses	(281,449)	(395,982)
Accrued compensation and benefits	(816,699)	(283,306)
Deferred revenue	(577,088)	(57,790)
Earnout liability	(36,835)	-
Net cash used for operating activities	(2,174,992)	(1,010,181)

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

	Three Months Ended March 31, 2022	2021
Cash flows from operating activities:		
Net loss	$ (870,479)	$ (914,477)
Adjustments to reconcile net loss to net cash used for operating activities:		
Depreciation	48,222	47,696
Amortization of intangible assets	263,030	340,528
Change in net deferred tax assets	(291,000)	(36,705)
Stock compensation for equity awards granted to employees and directors	191,161	228,437
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Accounts payable and accrued expenses	(281,449)	(395,982)
Accrued compensation and benefits	(816,699)	(283,306)
Deferred revenue	(577,088)	(57,790)
Earnout liability	(36,835)	-
Net cash used for operating activities	(2,174,992)	(1,010,181)
Cash flows from investing activities:		
Purchases of property and equipment	(51,491)	(19,708)
Net cash used for investing activities	(51,491)	(19,708)
Cash flows from financing activities:		
Payments on promissory note to related parties	(140,625)	(140,625)
Net cash used for financing activities	(140,625)	(140,625)
Net change in cash and cash equivalents	(2,367,108)	(1,170,514)
Cash and cash equivalents, beginning of period	3,575,682	5,613,654
Cash and cash equivalents, end of period	$ 1,208,574	$ 4,443,140

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

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

	Three Months Ended March 31, 2022	2021
Supplemental disclosure of cash flow information:		
Interest paid	$ 1,818	$ 12,914
Income taxes refunded	$ (3)	$ 8,272

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

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

	Three Months Ended March 31,	
	2022	2021
Supplemental disclosure of cash flow information:		
Interest paid	$ 1,818	$ 12,914
Income taxes refunded	$ (3)	$ 8,272

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2022 AND 2021
(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of CynergisTek, Inc. and its subsidiaries (the "Company," "we," "us," or "CynergisTek") have been prepared in accordance with generally accepted accounting principles of the United States of America ("GAAP") for interim financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (the "Commission" or the "SEC"). Accordingly, these financial statements do not include all of the information and notes required by GAAP for complete financial statements. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021, as filed with the SEC on March 28, 2022.

The unaudited condensed consolidated financial statements included herein reflect all adjustments (which include only normal, recurring adjustments) that are, in the opinion of management, necessary to state fairly our financial position and results of operations as of and for the periods presented. The results for such periods are not necessarily indicative of the results to be expected for the full year.

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, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. As a result, actual results could differ from those estimates.

The accompanying unaudited condensed consolidated financial statements include the accounts of CynergisTek and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated.

Based on our integration strategies, and an analysis of how our Chief Operating Decision Makers review, manage and are compensated, we have determined that the Company operates as one segment. For the periods presented, all revenues were derived from domestic operations.

We have performed an evaluation of subsequent events through the date of filing these unaudited condensed consolidated financial statements with the SEC.

Liquidity and Capital Resources

As of March 31, 2022, our cash balance was $1.2 million, current assets minus current liabilities was positive $3.8 million and we have no long-term liabilities. In April of 2022 we received our $1.4 million tax refund. The level of additional cash needed to fund operations and our ability to conduct business for the next twelve months will be influenced primarily by the following factors:

- The pace at which we choose to invest resources in growing our business, both organically and through acquisition or other transactions;
- Our ability to manage our operating expenses and maintain gross margins while attracting, recruiting and retaining cybersecurity privacy professionals;

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MARCH 31, 2022 AND 2021
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- The pace at which we choose to invest resources in growing our business, both organically and through acquisition or other transactions;
- Our ability to manage our operating expenses and maintain gross margins while attracting, recruiting and retaining cybersecurity privacy professionals;
- Demand for our services from healthcare providers; the near-term impact of the lingering economic effects of the COVID-19 pandemic on our customers' allocation of time and resources to security and privacy, and their ability to pay for existing services as well as enter into new contractual arrangements during a period of crisis; and
- General economic conditions and changes in healthcare reimbursement and regulatory environment, including effects of the COVID-19 pandemic.

We have historically funded our operating costs, acquisition activities, working capital requirements and capital expenditures with cash from operations, proceeds from the issuances of our common stock and other financing arrangements. As of the date of this Report on Form 10-Q, we are generating negative cash from operations and our overall revenue and business levels have been impacted by the COVID-19 pandemic over the past twenty-four months. Our customer base is heavily concentrated in the healthcare provider space. The healthcare industry has experienced financial and operational disruption due to the pandemic. Sales cycles are longer, cybersecurity projects have been delayed and budgets have been

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During 2020 and 2021, we took actions to reduce expenses, conserve cash, and raise additional capital. During 2021, we raised $1.4 million in additional capital through an "at-the-market" or ATM offering. In addition, we received a $2.8 million PPP Loan (as described in Note 8 to the condensed consolidated financial statements below) which was fully forgiven in August 2021. We also received approximately $0.7 million per quarter in employee retention tax credits in the first three quarters of 2021 and a $1.4 million tax refund in April 2022. With the proceeds from the tax refund, PPP Loan and the employee retention tax credits, we were able to minimize staff reductions in the areas of Sales and Delivery, our primary customer facing roles, to lessen the impact to our customers during this time of heightened security risks for the healthcare industry. If necessary, we could further reduce personnel and other variable and semi-variable costs to conserve cash and operate as a going concern. However, those actions if required, could negatively impact our ability to grow the business as well as the overall long-term outlook of the business.

We believe that our existing sources of liquidity, including cash and cash equivalents, the ability to raise equity under our effective Registration Statement on Form S-3 as well as our ability to manage the business to decrease expenses if necessary, will be sufficient to meet our projected capital needs for at least the next twelve months. As we execute our plans over the next twelve months, we intend to carefully monitor the impact of growth initiatives on our operating expenses, working capital needs and cash balances relative to the availability of cost-effective debt and equity financing. In the event that capital is not available, we may then have to scale back operations, reduce expenses, and/or curtail future plans to manage our liquidity and capital resources. However, we cannot provide assurance that we will be able to raise additional capital. The lingering impact of the COVID-19 pandemic and ongoing geopolitical tensions and related economic sanctions create uncertainty and volatility in the financial markets which may impact our operations and our ability to access capital and/or the terms under which we can do so.

The accompanying condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Recently Issued Accounting Pronouncements Not Yet Adopted

In June 2016, the Financial Accounting Standards Board ("FASB") issued an amendment to the guidance on the measurement of credit losses on financial instruments. The amendment updates the guidance for measuring and recording credit losses on financial assets measured and amortized cost by replacing the "incurred loss" model with an "expected loss" model. Accordingly, these financial assets will be presented at the net amount expected to be collected. The amendment also requires that credit losses related to available-for-sale debt securities be recorded as an allowance through net income rather than reducing the carrying amount under the current, other-than-temporary-impairment model. The guidance is effective for smaller reporting companies for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption is permitted for annual periods after December 15, 2018. Management does not expect the impact from this guidance will have a material impact on our consolidated financial statements.

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3. DEFERRED COMMISSIONS

Our incremental costs of obtaining a contract, which consist of sales commissions, are deferred and amortized over the period of contract performance. Deferred commissions are included in prepaid and other current assets in our consolidated balance sheets. We had $632,000 and $760,000 of unamortized deferred commissions as of March 31, 2022 and December 31, 2021, respectively. We had $241,000 and $183,000 of commissions expense for the three months ended March 31, 2022 and 2021, respectively.

4. PROPERTY AND EQUIPMENT

A summary of property and equipment follows:

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3. DEFERRED COMMISSIONS

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4. PROPERTY AND EQUIPMENT

A summary of property and equipment follows:

	March 31, 2022	December 31, 2021
Furniture and fixtures	$ 235,245	$ 235,245
Computers and office equipment	955,347	903,856
Right of use assets	214,446	214,446
Property and equipment at cost	1,405,038	1,353,547
Less accumulated depreciation and amortization	(1,186,961)	(1,109,756)
	$ 218,077	$ 243,791

5. LEASES

We previously leased approximately 9,600 square feet of office space in Austin, Texas. In March 2020, we amended this lease reducing the office space to 5,000 square feet and extended the lease term to May 31, 2022. We extended the lease term to May 31, 2023. We leased approximately 3,700 square feet of office space in Minneapolis, Minnesota. This lease term expired on January 31, 2022 and we no longer use this office space since the employees who worked from this location are now working remote. We leased approximately 18,000 square feet of office space in Mission Viejo, California. This lease expired in April 2021. During the first quarter of 2019, we subleased this space to two subtenants. The terms of these subleases ended concurrently with the end of our lease obligation in April 2021.

We used a discount rate of 5.5% in determining our operating lease liabilities, which represented our incremental borrowing rate. Short-term leases with initial terms of twelve months or less are not capitalized.

We determine if a contract is or contains a lease at inception or modification of a contract. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration. Control over the use of the identified asset means the lessee has both (a) the right to obtain substantially all of the economic benefits from the use of the asset and (b) the right to direct the use of the asset.

Right-of-use assets and liabilities are recognized based on the present value of future minimum lease payments over the expected lease term at commencement date. Certain lease agreements contain extension options; however, we have not included such options as part of right-of-use assets and lease liabilities because we originally did not expect to extend the leases. We measure and record a right-of-use asset and lease liability based on the discount rate implicit in the lease, if known. In cases where the discount rate implicit in the lease is not known, we measure the right-of-use assets and lease liabilities using a discount rate equal to our estimated incremental borrowing rate for loans with similar collateral and duration.

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For all asset classes, we elected to (i) not recognize a right-of-use asset and lease liability for leases with a term of 12 months or less and (ii) not separate non-lease components from lease components, and we have accounted for combined lease and non-lease components as a single lease component.
Operating lease expense was comprised of the following:

	Three Months Ended March 31,	
	2022	2021
Operating lease cost	$ 40,147	$ 183,795
Sublet income	-	(128,537)

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For all asset classes, we elected to (i) not recognize a right-of-use asset and lease liability for leases with a term of 12 months or less and (ii) not separate non-lease components from lease components, and we have accounted for combined lease and non-lease components as a single lease component.
Operating lease expense was comprised of the following:

	Three Months Ended March 31,	
	2022	2021
Operating lease cost	$ 40,147	$ 183,795
Sublet income	-	(128,537)
Net operating lease cost	$ 40,147	$ 55,258

Maturities of lease liabilities are as follows:

	Operating Leases
2022 (remaining fiscal year)	$ 16,676
Less imputed interest	(426)
Total current lease liabilities	$ 16,250

6. INTANGIBLE ASSETS

Intangible assets are amortized over expected useful lives ranging from 1.5 to 10 years and consist of the following:

	March 31, 2022			December 31, 2021		
	Carrying Amount	Accumulated Amortization and Impairment	Net Book Value	Carrying Amount	Accumulated Amortization and Impairment	Net Book Value
Acquired technology	$10,100,000	$ (6,034,429)	$4,065,571	$10,100,000	$ (5,814,486)	$4,285,514
Customer relationships	4,650,000	(4,535,441)	114,559	4,650,000	(4,517,353)	132,647
Trademarks	2,300,000	(2,041,669)	258,331	2,300,000	(2,016,670)	283,330
Total	$17,050,000	$ (12,611,539)	$4,438,461	$17,050,000	$ (12,348,509)	$4,701,491

7. DEFERRED REVENUE

We record deferred revenues when amounts are billed to customers, or cash is received from customers, in advance of our performance. During the three months ended March 31, 2022 and 2021, $737,000 and $738,000, respectively, of managed services revenues were recognized, that were included in deferred revenue at the beginning of the respective periods. During the three months ended March 31, 2022 and 2021, $615,000 and $225,000, respectively, of consulting and professional services revenues were recognized, that were included in deferred revenue at the beginning of the respective periods.

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8. PAYCHECK PROTECTION PROGRAM LOAN

On April 20, 2020, we received $2.8 million in loan funding from the Small Business Administration (“SBA”) Paycheck Protection Program (“PPP”), established pursuant to the Coronavirus Aid, Relief and Economic Security Act (the “CARES Act”). The unsecured loan (the “PPP Loan”) was evidenced by a promissory note issued by the Company (the “Note”) in favor of BMO Harris Bank N.A.

The Company used the PPP Loan proceeds to cover payroll costs, rent and utilities in accordance with the relevant terms and conditions of the CARES Act.

Under the terms of the Note and the PPP Loan, interest accrued on the outstanding principal at the rate of 1.0% per annum. The term of the Note

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The Company used the PPP Loan proceeds to cover payroll costs, rent and utilities in accordance with the relevant terms and conditions of the CARES Act.

Under the terms of the Note and the PPP Loan, interest accrued on the outstanding principal at the rate of 1.0% per annum. The term of the Note was two years, unless sooner provided in connection with an event of default under the Note. To the extent the PPP Loan amount was not forgiven, the Company would have been obligated to make equal monthly payments of principal and interest, beginning seven months from the date of the Note, until the maturity date. The Company had not started making interest payments prior to its notice of forgiveness decision received from the SBA in August 2021. Details regarding the Note can be found in our Current Report on Form 8-K filed with the SEC on April 20, 2020.

The Company recognized interest charges associated with the PPP Loan of approximately $7,000 for the three months ended March 31, 2021. The Company received notice from the SBA in August 2021 that the full principal balance and related interest were forgiven.

9. PROMISSORY NOTES

In connection with the acquisition of CTEK Security, Inc. (formerly CynergisTek, Inc.), we issued a promissory note totaling $4.5 million to Michael McMillan (the "Seller Note"). In March 2018, the Company repaid $2,250,000 plus accrued interest on the Seller Note and agreed to amend and restate the Seller Note in the remaining principal amount of $2,250,000. The Seller Note bore interest at a rate of 8% per annum, provided for quarterly payments of principal and interest and matured on March 31, 2022. As of March 31, 2022, and December 31, 2021, the outstanding principal balance due under the Seller Note was $0 and $0.1 million, respectively.

Interest charges associated with the Seller Note totaled approximately $2,000 and $13,000, for the three months ended March 31, 2022 and 2021, respectively.

10. REVENUES

Below is a summary of our revenues disaggregated by revenue source.

	Three Months Ended March 31,	
	2022	**2021**
Managed services	$ 2,351,029	$ 2,424,609
Consulting and professional services	2,309,539	1,748,911
Net revenues	$ 4,660,568	$ 4,173,520

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11. Common Stock

On November 12, 2020, we entered into an Equity Distribution Agreement (the "Equity Distribution Agreement") with Craig-Hallum Capital Group LLC ("Agent") under which the Company could offer and sell, from time to time at its sole discretion, shares of its common stock to or through the Agent as its sales agent, having an aggregate offering price of up to $5.0 million.

Pursuant to the Equity Distribution Agreement, sales of our common stock, could be made under the Company's effective Registration Statement on Form S-3 (File No. 333-249615), filed with the Securities and Exchange Commission on October 22, 2020, and the prospectus supplement relating to this offering, filed on November 12, 2020, by any method that is deemed to be an "at the market offering" as defined in Rule 415(a)(4) under the Securities Act of 1933, as amended, including block transactions. The Agent agreed to use commercially reasonable efforts to sell the common stock from time to time, based upon instructions from the Company (including any price, time or size limits or other customary parameters or conditions the Company may impose). The Company would pay the Agent a commission of three percent (3.0%) of the gross sales price per share of our common stock sold through the Agent under the Agreement, and also provided the Agent with customary indemnification rights. The

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During September 2021, the Company received gross proceeds under the Agreement of $1.5 million from the issuance of 762,000 shares of our common stock and paid an aggregate of $0.1 million in commissions and other offering-related expenses, yielding net proceeds of $1.4 million.

During November and December 2020, the Company received gross proceeds under the Agreement of $2.0 million from the issuance of 1,315,000 shares of our common stock and paid an aggregate of $61,000 to the Agent in commissions and $0.1 million in other offering-related expenses, yielding net proceeds of $1.8 million.

12. WARRANTS, OPTIONS AND RESTRICTED STOCK UNITS

Warrant Issued for Securities Purchase Agreement

On April 3, 2020, we entered into a Securities Purchase Agreement ("Securities Purchase Agreement") with Horton Capital Management, LLC ("Horton") which provided that Horton was committed to purchase up to an aggregate of $2.5 million of shares of the Company's common stock over the term of the agreement, at the election of the Company. The Securities Purchase Agreement expired on March 31, 2021. No purchases were made under the Securities Purchase Agreement.

Upon signing the Securities Purchase Agreement, the Company issued Horton a warrant (the "Horton Warrant") to purchase up to 500,000 shares of common stock in consideration of Horton's obligation to purchase the shares, at an exercise price of $2.50 per share, subject to certain anti-dilution adjustments as set forth in the warrant. The fair value of this warrant of $0.4 million was determined at the issuance date using the Black-Scholes option-pricing model and was expensed during the second quarter of 2020.

During 2020 and 2021, the Company issued common stock under the Equity Distribution Agreement that resulted in required anti-dilution adjustments. These adjustments increased the number of shares under the Horton Warrant to 524,170 and reduced the exercise price to $2.38. The resulting difference in fair value of the Horton Warrant was $14,000, determined using the Black-Scholes option-pricing model and recorded as a deemed dividend in our consolidated statements of stockholders' equity. As the Company has an accumulated deficit, the deemed dividends were recorded within additional paid-in capital.

The detailed terms and conditions of the Securities Purchase Agreement and the Horton Warrant can be found in the documents, which were included as Exhibits 10.1 and 10.3, respectively, to our Current Report on Form 8-K, filed with the SEC on April 7, 2020.

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Below is a summary of warrant activities during the three-month period ended March 31, 2022:

	Weighted Average Exercise	Weighted Average Remaining Term in	Aggregate Intrinsic

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Below is a summary of warrant activities during the three-month period ended March 31, 2022:

Warrants	Shares	Weighted Average Exercise Price	Weighted Average Remaining Term in Years	Aggregate Intrinsic Value
Outstanding at December 31, 2021	601,949	$ 2.39	7.29	$ -
Granted	-	-	-	-
Exercised	-	-		-
Cancelled	-	-		-
Outstanding at March 31, 2022	601,949	$ 2.46	7.08	$ -
Exercisable at March 31, 2022	601,949	$ 2.46	7.08	$ -

2020 Equity Incentive Plan

The 2020 Equity Incentive Plan provides for a total number of shares available for issuance of 3,745,621 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 of Directors and service providers. As of March 31, 2022, there were 283,000 shares available for issuance under the 2020 Plan.

Below is a summary of stock option activities during the three-month period ended March 31, 2022:

Options	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Term in Years	Aggregate Intrinsic Value
Outstanding at December 31, 2021	960,838	$ 2.11	8.51	$ -
Granted	-	-		-
Exercised	1,995	1.08		-
Cancelled	(73,340)	1.90		-
Outstanding at March 31, 2022	885,503	$ 1.87	8.48	$ -
Exercisable at March 31, 2022	228,503	$ 2.18	6.77	$ -

Below is a summary of restricted stock unit activity during the three-month period ended March 31, 2022:

Restricted Stock Units	Shares	Weighted Average Grant Date Fair Value per Share	Weighted Average Vesting Period in Years
Non-vested at December 31, 2021	492,500	$ 2.34	0.98
Granted	-	-	
Vested	(114,050)	2.78	
Cancelled and forfeited	(4,000)	2.92	
Non-vested at March 31, 2022	374,450	$ 2.15	1.01

There are 232,800 shares of restricted stock units which have vested but had not yet been issued as of March 31, 2022.

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For the three months ended March 31, 2022 and 2021, stock-based compensation and other equity instrument related expenses recognized in the consolidated statements of operations were as follows:

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For the three months ended March 31, 2022 and 2021, stock-based compensation and other equity instrument related expenses recognized in the consolidated statements of operations were as follows:

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Cost of revenues	$ 39,969	$ (42,193)
Sales and marketing	8,342	28,981
General and administrative expense	142,850	241,649
Total stock-based compensation expense	$ 191,161	$ 228,437

13. BASIC AND DILUTED NET LOSS PER SHARE

Basic net loss per share is calculated using the weighted average number of shares of our common stock issued and outstanding during a certain period and is calculated by dividing net loss by the weighted average number of shares of our common stock issued and outstanding during such period. Diluted net loss 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. Diluted net loss per share does not include potentially dilutive securities because such inclusion in the computation would be anti-dilutive.

For the three months ended March 31, 2022, potentially dilutive securities consisted of options and warrants to purchase 1,487,452 shares of common stock at prices ranging from $1.44 to $3.60 per share. Of these potentially dilutive securities, none of the shares to purchase common stock from the options and warrants are included in the computation of diluted earnings per share, because the effect of including the remaining instruments would be anti-dilutive. Also excluded from potentially dilutive securities are 232,800 shares of restricted stock units vested but had not been issued as of March 31, 2022.

For the three months ended March 31, 2021, potentially dilutive securities consisted of options and warrants to purchase 1,724,700 shares of common stock at prices ranging from $1.08 to $4.86 per share. Of these potentially dilutive securities, none of the shares to purchase common stock from the options and warrants are included in the computation of diluted earnings per share, because the effect of including the remaining instruments would be anti-dilutive. Also excluded from potentially dilutive securities are 767,850 shares of non-vested restricted stock units and 100,000 shares of restricted stock units which vested but had not been issued as of March 31, 2021.

	Three Months Ended March 31, 2022	Three Months Ended March 31, 2021
Numerators:		
Net loss attributable to common shareholders	$ (870,479)	$ (920,311)
Denominator:		
Denominator for basic calculation weighted average shares	13,250,464	12,041,074
Dilutive common stock equivalents:		
Options and warrants	-	-
Restricted stock units vested but not issued	-	-
Denominator for diluted calculation weighted average shares	13,250,464	12,041,074
Net loss per share:		
Basic net loss per share	$ (0.07)	$ (0.08)
Diluted net loss per share	$ (0.07)	$ (0.08)

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14. REMAINING PERFORMANCE OBLIGATIONS

We had remaining performance obligations of approximately $17.9 million as of March 31, 2022. Our remaining performance obligations represent

14. REMAINING PERFORMANCE OBLIGATIONS

We had remaining performance obligations of approximately $17.9 million as of March 31, 2022. Our remaining performance obligations represent the amount of transaction price for which work has not been performed and revenue has not been recognized. When applying Accounting Standards Codification ("ASC") Topic 606, with only the non-cancelable portion of these contracts included in our performance obligations we had approximately $15.5 million as of March 31, 2022. We expect to recognize revenue on approximately 93% of the remaining non-cancelable portion of these performance obligations over the next 24 months, with the balance thereafter.

15. CONCENTRATIONS

Cash Concentrations

At times, cash 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

Our largest customer accounted for approximately 16% and 13% of our revenues for the three months ended March 31, 2022 and 2021, respectively. Our largest customer had accounts receivable totaling approximately $58,000 and $95,000 as of March 31, 2022, and December 31, 2021, respectively.

16. EARNOUT LIABILITY – BACKBONE ENTERPRISES

On October 31, 2019, we entered into a Stock Purchase Agreement (the "Backbone Purchase Agreement") with Backbone Enterprises Inc., a Minnesota corporation ("Backbone"), and its stockholders, (the "Stockholders"), pursuant to which we acquired 100% of the issued and outstanding shares of common stock (the "Shares") of Backbone from the Stockholders.

Pursuant to the Backbone Purchase Agreement, the aggregate purchase price paid for the Shares consisted of (i) a cash payment of $5.5 million, less certain transaction expenses (the "Cash Consideration"), (ii) the issuance of 491,804 shares of our common stock to the Stockholders, pro rata among the Stockholders in proportion to each Stockholder's ownership of the Shares, and (iii) an earn-out, pursuant to which the Stockholders may be entitled to an additional $4.0 million based upon the post-closing financial performance of Backbone, to be calculated annually based upon revenue generated by the Backbone business during each year of the three-year earn-out period. The Cash Consideration was subject to adjustment based on closing working capital of Backbone, and $1.5 million of the Cash Consideration was placed into a third-party escrow account by us, against a portion of which we may make claims for indemnification.

There was no earnout paid for the first year of the earnout period. We performed a valuation of the contingent earn-out and marked down the fair value balance from $2.4 million to $1.3 million based on the potential of achieving a portion of the year two and three targets. This resulted in a gain from the reduction of the contingent earnout liability of $1.1 million in 2020. We performed an updated valuation of the contingent earn-out as of June 30, 2021, which resulted in a full write-off of the previous estimate of $1.3 million.

The Company renegotiated the terms of the earnout and as a result performed an updated valuation of the contingent earn-out as of September 30, 2021, which resulted in a recovery from the previous estimate of $0.3 million. As of December 31, 2021 we updated our valuation of the contingent earn-out which resulted in an additional recovery of $0.5 million. The earnout for year two of the earnout period totaled $0.3 million. Total cumulative amount earned for the year three earnout period through March 31, 2022 totaled 202,000 with payments related to year three earnout period during the three months ended March 31, 2022 were $49,000.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion of the financial condition and results of operations of the Company should be read in conjunction with the condensed consolidated financial statements and the related notes thereto included elsewhere in this Quarterly Report on Form 10-Q. This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Section 27A of the Securities Act, and is subject to the safe harbors created by those sections. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," "may," "will" and variations

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Due to possible uncertainties and risks, readers are cautioned not to place undue reliance on the forward-looking statements contained in this Quarterly Report, which speak only as of the date of this Quarterly Report, or to make predictions about future performance based solely on historical financial performance. We disclaim any obligation to update forward-looking statements contained in this Quarterly Report.

Readers should carefully review the risk factors described in other documents we file from time to time with the SEC, including our Form 10-K for the fiscal year ended December 31, 2021. You should interpret many of the risks identified in these reports as being heightened as a result of the ongoing and numerous adverse impacts of the COVID-19 pandemic and the global economic effect of ongoing geopolitical tensions and related economic sanctions. Our filings with the SEC, including our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those filings, pursuant to Sections 13(a) and 15(d) of the Exchange Act, are available free of charge at www.CynergisTek.com, when such reports are available via the EDGAR system maintained by the SEC at www.sec.gov.

OVERVIEW

We are engaged in the business of helping U.S. based companies in highly regulated industries, including healthcare, be prepared to handle unforeseen cyber threats, comply with regulations, and gain the confidence that their efforts are strengthening their security posture and building resilience. This is achieved through our cybersecurity, privacy, compliance and audit services.

CynergisTek was born in healthcare and is one of the few consulting and advisory companies focused on converging security and privacy with a methodology to validate the rigor and effectiveness of the programs as a managed service. We believe that our years of experience of understanding our clients' unique challenges allows us to provide our customers with services designed around industry best practices to improve security controls, policies and procedures and to protect sensitive information. Our team of subject matter experts and consultants are comprised of knowledgeable professionals who have learned their craft both in the classroom and through years of practical on-the-job experience, including as policy makers, attorneys and leaders in cybersecurity, privacy, compliance and audit.

Our services are grouped to facilitate and assist our clients in implementing their programs, those groups follow a cyclical approach: assess, build, manage, and validate. These services are designed to meet the client where they are in their security journey as recurring managed services under long-term contracts structured to provide a sustainable and growing program, or under shorter duration consulting or professional services engagements.

- Assess - identify, measure, and test security and privacy risk of an organization's readiness and verify and validate their programs meet compliance and business objectives through IT audits, technical testing, and risk and program assessments.

- Build - develop policies and procedures and playbooks to help build out a fully comprehensive risk management program and provide resources to help organizations prioritize, implement and execute initiatives to strengthen their security and privacy programs.

- Manage - provide on-going management and oversight of specific components of an organization's security and privacy programs to address or give alerts when an issue arises and to offer our expertise that they need to accelerate the effectiveness of their programs.

- Validate - verify the processes, people, and technology are working effectively and provide insight to the ROI of an organization's security investment through advanced services requiring highly experienced resources and/or technology to deliver.

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Impact of COVID-19 Pandemic and Recent Capital Markets Disruption

U.S. and global markets are experiencing volatility and disruption following the escalation of geopolitical tensions and the start of the military conflict between Russia and Ukraine. On February 24, 2022, a full-scale military invasion of Ukraine by Russian troops was reported. Although the length and impact of the ongoing military conflict is highly unpredictable, the conflict in Ukraine could lead to market disruptions, including significant volatility in commodity prices, credit and capital markets, as well as supply chain interruptions. We are continuing to monitor the situation in Ukraine and globally and assessing its potential impact on our business.

Additionally, Russia's prior annexation of Crimea, recent recognition of two separatist republics in the Donetsk and Luhansk regions of Ukraine and subsequent military interventions in Ukraine have led to sanctions and other penalties being levied by the United States, European Union and other countries against Russia, Belarus, the Crimea Region of Ukraine, the so-called Donetsk People's Republic, and the so-called Luhansk People's Republic, including agreement to remove certain Russian financial institutions from the Society for Worldwide Interbank Financial Telecommunication ("SWIFT") payment system. Additional potential sanctions and penalties have also been proposed and/or threatened. Russian military actions and the resulting sanctions could adversely affect the global economy and financial markets and lead to instability and lack of liquidity in capital markets, potentially making it more difficult for us to obtain additional funds.

Additionally the markets, and more specifically healthcare, have experienced an increase in pressures from rising inflation, rising interest rates. lowering bond rates and the impact to their revenues and operating margins. The resultant effect of these pressures is healthcare entities have slowed down their spend on things considered not mission critical or discretionary. Cybersecurity is discretionary as it relates to an organization's propensity for managing risk, but it has a regulatory component which assures that organizations will continue to spend on cybersecurity.

The ongoing COVID-19 pandemic and ensuing governmental responses has caused significant uncertainty in the United States and global economies as well as the markets we serve has negatively impacted and could further materially adversely affect our business, financial condition and results of operations.

COVID-19 cases (including the spread of variants and mutant strains, such as the omicron variant) continue to surge in certain parts of the world and have resulted in authorities implementing numerous measures to contain the virus, including travel bans and restrictions, quarantines, shelter-in-place orders, and business limitations and shutdowns. We remain unable to accurately predict the full impact that COVID-19 will have on our results of operations, financial condition, liquidity and cash flows due to numerous uncertainties, including the duration and severity of the pandemic and containment measures. Our compliance with containment and mitigation measures materially impacted our day-to-day operations, and there can be no guaranty that the pandemic will not disrupt our business and operations or impair our ability to implement our business plan successfully.

More generally, the pandemic raises the possibility of an extended global economic downturn and has caused volatility in financial markets, which could affect demand for our products and services and impact our results and financial condition even after the pandemic is contained. For example, we may be unable to collect receivables from those customers significantly impacted by COVID-19. Also, a decrease in bookings in a given period could negatively affect our revenues in future periods, particularly if experienced on a sustained basis. The pandemic may also have the effect of heightening many of the other risks described in these Risk Factors and the Risk Factors set forth in the Company's 2021 Form 10-K, particularly those risks associated with our customers.

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Our current and potential customers' businesses, specifically in the healthcare industry, have been directly impacted both financially and operationally in many ways by the pandemic. During this time, cybersecurity risks in healthcare have increased particularly with increased adoption of remote access and increased adoption of telehealth, as well as decreased budgets, diversion of resources and focus from all areas not directly related to patient care. In the current periods, the pandemic has led to customers delaying or deferring cybersecurity buying decisions, has limited our ability to visit customers and potential customers, and has resulted in an overall decrease in our orders, bookings and revenues in 2022 and 2021.

We took steps to reduce expenses throughout the Company over the past twenty-four months, including workforce reductions, substantially reducing Company travel, trade shows and other business meetings and decreasing expenditures. We have modified our business practices and implemented certain policies at our offices in accordance with best practices to accommodate, and at times mandate, remote work practices, including restricting employee travel, modifying employee work locations, and cancelling attendance at events and conferences. In addition, we have adapted new processes for interactions with our customers to safely manage our operations. Many of our customers have made similar modifications. If necessary, we may take further actions in the best interests of our employees, customers, partners and suppliers. There is no

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We took steps to reduce expenses throughout the Company over the past twenty-four months, including workforce reductions, substantially reducing Company travel, trade shows and other business meetings and decreasing expenditures. We have modified our business practices and implemented certain policies at our offices in accordance with best practices to accommodate, and at times mandate, remote work practices, including restricting employee travel, modifying employee work locations, and cancelling attendance at events and conferences. In addition, we have adapted new processes for interactions with our customers to safely manage our operations. Many of our customers have made similar modifications. If necessary, we may take further actions in the best interests of our employees, customers, partners and suppliers. There is no certainty that such measures will be sufficient to mitigate the risks posed by COVID-19, in which case our employees may become sick, our ability to perform critical functions could be harmed, and our business and operations could be negatively impacted.

With less resources allocated to cybersecurity in healthcare over the past twenty-four months, we believe risks are increasing and expect the industry will need to increase attention and spend on cybersecurity in the near future. However, the ultimate duration and impact of the COVID-19 pandemic on our business, results of operations, financial condition and cash flows is uncertain. Even after the COVID-19 pandemic has subsided, we may continue to experience an adverse impact to our business, and we anticipate that our results of operations in future periods may continue to be adversely impacted by the COVID-19 pandemic and its negative effects on global economic conditions.

As we expect the industry to begin emerging from the pandemic, we have begun to increase our sales and marketing efforts and building our sales and operational teams for growth. However, our current and potential customers' businesses could continue to be disrupted or they could seek to limit spending due to decreased budgets, reduced access to credit or various other factors, any of which could negatively impact the willingness or ability of such customers to order new, or any, services with us and ultimately adversely affect our revenues, as well as negatively impact the payment of accounts receivable and collections and potentially lead to write-downs or write-offs.

The ultimate duration and impact of the COVID-19 pandemic on our business, results of operations, financial condition and cash flows is dependent on future developments, including the duration of the pandemic and the related length of its impact on the global economy, which remain uncertain and cannot be predicted at this time. Furthermore, the extent to which our mitigation efforts are successful, if at all, is not presently ascertainable.

Our common stock currently trades on the NYSE American exchange under the stock symbol "CTEK".

Where appropriate, references to "CynergisTek," the "Company," "Redspin," "we," "us," or "our" include CynergisTek, Inc., a Delaware corporation and its wholly-owned subsidiaries, CTEK Solutions, Inc., a California corporation, CTEK Security, Inc., a Texas corporation, Delphiis, Inc., a California corporation and, Backbone Enterprises, Inc., a Minnesota corporation.

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RESULTS OF OPERATIONS

For the Three Months Ended March 31, 2022, Compared to the Three Months Ended March 31, 2021

Revenue

Revenue increased $0.5 million to $4.7 million for the three months ended March 31, 2022, as compared to the same period in 2021. Managed Services revenue decreased slightly by $0.1 million due to the impact of a slowdown in net new customers due to the COVID-19 pandemic. Consulting and professional services increased $0.6 million due to customers increasing spend as they start to get back to normal buying patterns after a period of reduced spending in response to the COVID-19 pandemic.

Cost of Revenue

Cost of revenue consists primarily of salaries and related expenses of direct labor and indirect support staff. Cost of revenue was $2.8 million for the three months ended March 31, 2022, as compared to $2.1 million for the same period in 2021. The increase was due to the prior year benefitting

RESULTS OF OPERATIONS

For the Three Months Ended March 31, 2022, Compared to the Three Months Ended March 31, 2021

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Revenue increased $0.5 million to $4.7 million for the three months ended March 31, 2022, as compared to the same period in 2021. Managed Services revenue decreased slightly by $0.1 million due to the impact of a slowdown in net new customers due to the COVID-19 pandemic. Consulting and professional services increased $0.6 million due to customers increasing spend as they start to get back to normal buying patterns after a period of reduced spending in response to the COVID-19 pandemic.

Cost of Revenue

Cost of revenue consists primarily of salaries and related expenses of direct labor and indirect support staff. Cost of revenue was $2.8 million for the three months ended March 31, 2022, as compared to $2.1 million for the same period in 2021. The increase was due to the prior year benefitting from the $0.5 million employee retention credit provided under the CARES Act, an additional $0.1 million in additional compensation due to increased cost of labor and $0.1 million in higher costs associated with third party tools required to deliver our services.

Gross margin was up 1% to 40% of revenue for the three months ended March 31, 2022. After adjusting for the prior year benefit from the employee retention tax credit, gross margin was 39% for the same period in 2021. Margins improved as a result of higher revenue allowing us to better leverage our operational overhead support.

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 flat at $1.2 million for each of the three months ended March 31, 2022 and 2021. This was due to $0.1 million in higher travel and trade show expenses as we get back on the road as part of business development and growth initiatives offsetting $0.1 million of employee retention tax credits provided under the CARES Act for 2021.

General and Administrative

General and administrative expenses include personnel costs for finance, administration, information systems, general management, facilities expenses, professional fees, legal expenses and other administrative costs including those required to be a publicly traded company. General and administrative expenses decreased $0.2 million to $1.5 million for the three months ended March 31, 2022, compared to $1.7 million for the three months ended March 31, 2021. The decrease is due to $0.1 million less in professional fees due to 2021 being higher and lower stock-based compensation offsetting $0.1 million of employee retention tax credits provided under the CARES Act for last year.

Depreciation

Depreciation expense was consistent at $48,000 for each of the three months ended March 31, 2022 and 2021.

Amortization of Acquisition-Related Intangibles

Amortization of acquisition-related intangibles was consistent at $0.3 million for each of the three months ended March 31, 2022 and 2021.

Net Interest Expense

Net interest expense for the three months ended March 31, 2022 was $2,000, compared to net interest expense of $20,000 for the same period in 2021. The decrease was due to lower interest expense from a lower outstanding debt balance from the paydown of the Seller Note.

Income Tax Benefit

Income tax benefit for the three months ended March 31, 2022 and 2021 was $0.3 million. These amounts were based on estimated annual income

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Income Tax Benefit

Income tax benefit for the three months ended March 31, 2022 and 2021 was $0.3 million. These amounts were based on estimated annual income tax rates we anticipate for the year.

Liquidity and Capital Resources

As of March 31, 2022, our cash balance was $1.2 million, current assets minus current liabilities was positive $3.8 million and we have no long-term liabilities. In April of 2022 we received our $1.4 million tax refund. The level of additional cash needed to fund operations and our ability to conduct business for the next twelve months will be influenced primarily by the following factors:

- The pace at which we choose to invest resources in growing our business, both organically and through acquisition or other transactions;
- Our ability to manage our operating expenses and maintain gross margins while attracting, recruiting and retaining cybersecurity privacy professionals;
- Demand for our services from healthcare providers; the near-term impact of the lingering economic effects of the COVID-19 pandemic on our customers' allocation of time and resources to security and privacy, and their ability to pay for existing services as well as enter into new contractual arrangements during a period of crisis; and
- General economic conditions and changes in healthcare reimbursement and regulatory environment, including effects of the COVID-19 pandemic.

We have historically funded our operating costs, acquisition activities, working capital requirements and capital expenditures with cash from operations, proceeds from the issuances of our common stock and other financing arrangements. As of the date of this Report on Form 10-Q, we are generating negative cash from operations and our overall revenue and business levels have been impacted by the COVID-19 pandemic over the past twenty-four months. Our customer base is heavily concentrated in the healthcare provider space. The healthcare industry has experienced financial and operational disruption due to the pandemic. Sales cycles are longer, cybersecurity projects have been delayed and budgets have been constrained as healthcare providers focus on patient care and navigating the pandemic. If the pandemic continues or there are resurgences in 2022 that impact our customers' operations and resources available for cybersecurity and privacy projects, our cash flows, financial position and operating results for fiscal year 2022 and beyond could be negatively impacted.

During 2020 and 2021, we took actions to reduce expenses, conserve cash, and raise additional capital. During 2021, we raised $1.4 million in additional capital through an "at-the-market" or ATM offering. In addition, we received a $2.8 million PPP Loan (as described in Note 8 to the condensed consolidated financial statements below) which was fully forgiven in August 2021. We also received approximately $0.7 million per quarter in employee retention tax credits in the first three quarters of 2021 and a $1.4 million tax refund in April 2022. With the proceeds from the tax refund, PPP Loan and the employee retention tax credits, we were able to minimize staff reductions in the areas of Sales and Delivery, our primary customer facing roles, to lessen the impact to our customers during this time of heightened security risks for the healthcare industry. If necessary, we could further reduce personnel and other variable and semi-variable costs to conserve cash and operate as a going concern. However, those actions if required, could negatively impact our ability to grow the business as well as the overall long-term outlook of the business.

We believe that our existing sources of liquidity, including cash and cash equivalents, the ability to raise equity under our effective Registration Statement on Form S-3 as well as our ability to manage the business to decrease expenses if necessary, will be sufficient to meet our projected capital needs for at least the next twelve months. As we execute our plans over the next twelve months, we intend to carefully monitor the impact of growth initiatives on our operating expenses, working capital needs and cash balances relative to the availability of cost-effective debt and equity financing. In the event that capital is not available, we may then have to scale back operations, reduce expenses, and/or curtail future plans to manage our liquidity and capital resources. However, we cannot provide assurance that we will be able to raise additional capital. The lingering impact of the COVID-19 pandemic and ongoing geopolitical tensions and related economic sanctions create uncertainty and volatility in the financial markets which may impact our operations and our ability to access capital and/or the terms under which we can do so.

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The accompanying condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

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Application of Critical Accounting Policies and Estimates

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, 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:

- Managed services
- Consulting and professional services

Revenue is recognized pursuant to Accounting Standard Codification ("ASC") Topic 606, "Revenue from Contracts with Customers". 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 - A contract with a customer exists when (i) we enter into an enforceable contract with a customer that defines each party's rights regarding the services to be transferred and identifies the payment terms related to these services, (ii) the contract has commercial substance and the parties are committed to perform, and (iii) we determine that collection of substantially all consideration to which it will be entitled in exchange for services that will be transferred is probable based on the customer's intent and ability to pay the promised consideration.

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

3. Determine the transaction price - The transaction price is determined based on the consideration to which we will be entitled in exchange for transferring services to the customer.

4. Allocate the transaction price to the performance obligations in the contract - If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price ("SSP") basis. Determination of SSP requires judgment. We determine standalone selling price taking into account available information such as historical selling prices of the performance obligation, overall strategic pricing objective, market conditions and internally approved pricing guidelines related to the performance obligations.

5. Recognize revenue when (or as) each performance obligation is satisfied - We satisfy performance obligations over time. Revenue is recognized over the time the related performance obligation is satisfied by transferring a promised service to a customer.

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Managed Services

Managed services contracts are typically long-term contracts lasting three years. Revenue is earned monthly during the term of the contract, as services are provided at a fixed fee and is recognized ratably over the contract term beginning on the commencement date of the contract. Revenue related to managed services provided is recognized based on the customer utilization of such resources, which management estimates to occur ratably over the customer contract term.

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 normally recognized ratably over the term of the project. For time and materials arrangements, revenues are recognized as the services are rendered.

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.

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 creditworthiness, current economic trends, COVID-19 developments 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.

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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 and warrants. 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,

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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 consolidated financial statements and notes thereto which begin on page F-1 of our 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 consolidated financial statements for a summary of our significant accounting policies.

Reference is made to our Annual Report on Form 10-K for the fiscal year ended December 31, 2021, filed with the SEC on March 28, 2022, for additional discussion of our critical accounting policies and estimates.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

As a "smaller reporting company" as defined by Rule 229.10(f)(1), we are not required to provide the information required by this Item 3.

ITEM 4. CONTROLS AND PROCEDURES.

We maintain disclosure controls and procedures (as defined in Rules 13a-15(c) 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 and Chief 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 (principal executive officer) and Chief Financial Officer (principal financial officer), of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of the end of the period covered by this Quarterly Report. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Quarterly Report to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including each of such officers as appropriate to allow timely decisions regarding required disclosure.

No change in our internal control over financial reporting that occurred during our last fiscal quarter that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

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PART II - OTHER INFORMATION

ITEM 1A. RISK FACTORS.

As of the date of this filing, except as set forth herein, there have been no material changes to the Risk Factors included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021, filed with the Commission on March 28, 2022 (the "2021 Form 10-K"). The Risk Factors set forth in the 2021 Form 10-K should be read carefully in connection with evaluating our business and in connection with the forward-looking statements contained in this Quarterly Report on Form 10-Q. Any of the risks described in the 2021 Form 10-K, could materially adversely affect our business, financial condition or future results and the actual outcome of matters as to which forward-looking statements are made. These are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

ITEM 6. EXHIBITS.

No.	Item
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended. †
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended. †
32.1	Certification of the CEO and CFO pursuant to Rule 13a-14(b) and Rule 15d-14(b) of the Securities Exchange Act of 1934 and 18 U.S.C. Section 1350. +
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*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*

† Filed herewith.

\+ Furnished herewith. In accordance with Item 601(b)(32)(ii) of Regulation S-K, this exhibit shall not be deemed "filed" for the purposes of Section 18 of the Securities and Exchange Act of 1934 or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

* 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.

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SIGNATURES

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

CYNERGISTEK, INC.

Date: May 16, 2022

By: /s/ Michael McMillan
Michael McMillan
President and Chief Executive Officer
(Principal Executive Officer)

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SIGNATURES

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

CYNERGISTEK, INC.

Date: May 16, 2022

By: /s/ Michael McMillan
Michael McMillan
President and Chief Executive Officer
(Principal Executive Officer)

Date: May 16, 2022

By: /s/ Paul T. Anthony
Paul T. Anthony
Chief Financial Officer
(Principal Accounting Officer)