

Long Cast

ADVISERS LLC

Robert McCashin
Chairman, Cynergistek Inc.
11940 Jollyville Road, Suite 300N
Austin, TX 78759

June 3, 2022

Dear Chairman:

The word “nonplussed” is the most misused in the English language. The side-by-side construction of “not” and “plus” leads many to think “not fazed by” but interestingly, the actual definition is the opposite: *confused to the point of speechless*. When I first learned the word as a kid, it seemed odd that it would even exist, but I was young and I did not know from the idiosyncrasies of egos.

Recently, like many investors, I was *nonplussed* by news of the sale of our company for \$1.25 per share to PE owned Clearwater Compliance. It took some time to compose my thoughts. As a shareholder since 2017, I had many, reflecting on the company’s missteps and my own as well.

The initial acquisition of Cynergistek when it was Mac’s company occurred under our prior Chairman, who paid \$30M [for supposedly \\$5M in EBITDA](#). Sadly, the private company financials disclosed by Auxilio¹ indicated levels of profitability and cash flow that were never matched as a Pubco, to a magnitude not explained by “pubco costs” or “he ran lean”. Yet somehow the seller of these mis-labelled goods kept getting hired back: Three times as CEO!

	12Mos 12/31/2014	12Mos 12/31/2015	9Mos 9/30/2016
Cynergistek PrvtCoFins			
Revs	7,993	11,789	10,606
COGS	3,497	5,685	4,069
GP	4,496	6,104	6,537
SG&A	2,455	3,368	3,230
OpInc	2,041	2,736	3,307
Pretax	2,040	2,737	3,322
Income Tax	44	43	52
Net income	1,996	2,694	3,271
add back D&A	45	56	43
EBITDA	2,086	2,792	3,350
Shareholder draw	1,023	3,352	4,186

After Auxilio’s CEO Joe Flynn left and Mac returned to the CEO role, I and others pushed for the MPS spinoff and a reverse merger with a larger company, for the sake of scale and new management. With post-spinoff financials so much worse than expected, the need for scale should have been paramount, but the Board failed to sell. Rumors exist of an offer to merge rejected by our prior Chairman over small differences in valuation but substantially higher than today’s price.

I and others tried to engage and “do right” by the company and its investors, bringing Board candidates, sales opportunities, feedback and reflection, and the Board and management consistently acted on its own agenda, and without the right tools or direction to maximize a return for a small company. You circled the wagons the wrong way, especially when you forced a proxy vote to prevent a large shareholder, the founder of RedSpin, from joining the Board.

¹ [SEC filings from 3/31/17](#) that include Cynergistek financials disclosed by Auxilio. See exhibits 99.2 and 99.4

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Ultimately, in choosing to sell Cynergistek for half of what we initially paid when it was Mac's private company, the question is: Did this Board destroy value? Did the prior Board overpay? Or was there something presented that never quite rang true? I sincerely wish to more deeply understand how this ended so poorly for our company.

I obviously made mistakes as well. Owning this company has been an expensive lesson in a number of areas, including my limits of influence as an outside shareholder. I bought too much too fast, then tried to fix the red flags instead of walk away from them. I let the ideology of buy-and-hold bias my decisions. I allowed "what I wanted to see" to exceed the value of "what I saw".

For what I've paid, I think I've earned a degree in Portfolio Management. I have already improved some processes and though I'm certain to make mistakes in the future, hopefully not these same ones. If the only value squeezed from this experience is a tax loss and lesson, then it is imperative for the sake of future Boards and future investors, that you please share your perspective as well.

Thank you / Avram Fisher
Long Cast Advisers, LLC