

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 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, 2015

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: 000-31671

**INTELLINETICS, INC.**

(Exact name of registrant as specified in its charter)

Nevada

(State or Other Jurisdiction of Incorporation or Organization)

87-0613716

(I.R.S. Employer Identification No.)

2190 Dividend Drive  
Columbus, Ohio

(Address of Principal Executive Offices)

43228

(Zip Code)

(614) 388-8909

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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 definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer   
Non-accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer   
Smaller reporting company

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

As of May 12, 2015 there were 7,123,074 shares of the issuer's common stock outstanding.

INTELLINETICS, INC.  
Form 10-Q  
March 31, 2015  
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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q and the documents incorporated into this report by reference contain, and we may from time to time make, forward-looking statements. From time to time in the future, we may make additional forward-looking statements in presentations, at conferences, in press releases, in other reports and filings and otherwise. Forward-looking statements are all statements other than statements of historical fact, including statements that refer to plans, intentions, objectives, goals, targets, strategies, hopes, beliefs, projections, prospects, expectations or other characterizations of future events or performance, and assumptions underlying the foregoing. The words “may”, “could”, “should”, “would”, “will”, “project”, “intend”, “continue”, “believe”, “anticipate”, “estimate”, “fore cast”, “expect”, “plan”, “potential”, “opportunity”, “scheduled”, “goal”, “target” and “future”, variations of such words, and other comparable terminology and similar expressions and references to future periods are often, but not always, used to identify forward-looking statements. Examples of forward-looking statements include, but are not limited to, statements about the following:

- our prospects, including our future business, revenues, expenses, net income, earnings per share, margins, profitability, cash flow, cash position, liquidity, financial condition and results of operations, backlog of orders and revenue, our targeted growth rate, our goals for future revenues and earnings, and our expectations about realizing the revenues in our backlog and in our sales pipeline;
- the effects on our business, financial condition and results of operations of current and future economic, business, market and regulatory conditions, including the current economic and market conditions and their effects on our customers and their capital spending and ability to finance purchases of our products, services, technologies and systems;
- the effects of fluctuations in sales on our business, revenues, expenses, net income, earnings per share, margins, profitability, cash flow, capital expenditures, liquidity, financial condition and results of operations;
- our products, services, technologies and systems , including their quality and performance in absolute terms and as compared to competitive alternatives, their benefits to our customers and their ability to meet our customers’ requirements, and our ability to successfully develop and market new products, services, technologies and systems;
- our markets, including our market position and our market share;
- our ability to successfully develop, operate, grow and diversify our operations and businesses;
- our business plans, strategies, goals and objectives, and our ability to successfully achieve them;
- the sufficiency of our capital resources, including our cash and cash equivalents, funds generated from operations, availability of borrowings under our credit and financing arrangements and other capital resources, to meet our future working capital, capital expenditure, lease and debt service and business growth needs;
- the value of our assets and businesses, including the revenues, profits and cash flow they are capable of delivering in the future;
- industry trends and customer preferences and the demand for our products, services, technologies and systems;
- the nature and intensity of our competition, and our ability to successfully compete in our markets;

- business acquisitions, combinations, sales, a alliances, ventures and other similar business transactions and relationships; and
- the effects on our business, financial condition and results of operations of litigation, warranty claims and other claims and proceedings that arise from time to time.

Any forward-looking statements we make are based on our current plans, intentions, objectives, goals, targets, strategies, hopes, beliefs, projections and expectations, as well as assumptions made by and information currently available to management. Forward-looking statements are not guarantees of future performance or events, but are subject to and qualified by substantial risks, uncertainties and other factors, which are difficult to predict and are often beyond our control. Forward-looking statements will be affected by assumptions and expectations we might make that do not materialize or that prove to be incorrect and by known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those expressed, anticipated or implied by such forward-looking statements. These risks, uncertainties and other factors include, but are not limited to, those described in “Item 1A. Risk Factors” as well as other risks, uncertainties and factors discussed elsewhere in this report, in documents that we include as exhibits to or incorporate by reference in this report, and in other reports and documents we from time to time file with or furnish to the Securities and Exchange Commission. In light of these risks and uncertainties, you are cautioned not to place undue reliance on any forward-looking statements that we make.

Any forward-looking statements contained in this report speak only as of the date of this report, and any other forward-looking statements we make from time to time in the future speak only as of the date they are made. We undertake no duty or obligation to update or revise any forward-looking statement or to publicly disclose any update or revision for any reason, whether as a result of changes in our expectations or the underlying assumptions, the receipt of new information, the occurrence of future or unanticipated events, circumstances or conditions or otherwise.

**Part I Financial Information**  
Item 1. Financial Statements

**INTELLINETICS, INC. and SUBSIDIARY**  
**Condensed Consolidated Balance Sheets**

	<u>(Unaudited)</u> <u>March 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash	\$ 79,775	\$ 184,081
Accounts receivable, net	226,297	99,061
Prepaid expenses and other current assets	30,808	45,668
<b>Total current assets</b>	<b>336,880</b>	<b>328,810</b>
Property and equipment, net	25,293	28,671
Other assets	23,929	27,809
<b>Total assets</b>	<b>\$ 386,102</b>	<b>\$ 385,290</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	\$ 672,434	\$ 615,305
Deferred revenues	501,475	563,998
Deferred compensation	215,012	215,012
Notes payable - current	744,410	756,614
Notes payable - related party - current	1,789,053	1,549,965
<b>Total current liabilities</b>	<b>3,922,384</b>	<b>3,700,894</b>
<b>Long-term liabilities:</b>		
Notes payable - net of current portion	508,371	543,615
Notes payable - related party	153,714	217,479
Deferred interest expense	112,855	103,242
Other long-term liabilities - related parties	108,011	73,769
<b>Total long-term liabilities</b>	<b>882,951</b>	<b>938,105</b>
<b>Total liabilities</b>	<b>4,805,335</b>	<b>4,638,999</b>
<b>Stockholders' deficit:</b>		
Common stock, \$0.001 par value, 50,000,000 shares authorized; 7,123,074 shares issued and outstanding at March 31, 2015 and December 31, 2014	14,124	14,124
Additional paid-in capital	5,232,511	5,189,178
Accumulated deficit	(9,665,868)	(9,457,011)
<b>Total stockholders' deficit</b>	<b>(4,419,233)</b>	<b>(4,253,709)</b>
<b>Total liabilities and stockholders' deficit</b>	<b>\$ 386,102</b>	<b>\$ 385,290</b>

See Notes to these condensed consolidated financial statements

**INTELLINETICS, INC. and SUBSIDIARY**  
**Consolidated Statements of Operations**  
(Unaudited)

	<b>For the Three Months March Ended 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Revenues:</b>		
Sale of software	\$ 190,037	\$ 8,000
Software as a service	56,539	39,442
Software maintenance services	228,671	210,522
Professional services	82,238	29,424
Third Party services	26,290	11,795
	<u>583,775</u>	<u>299,183</u>
<b>Cost of revenues:</b>		
Sale of software	47,522	6,444
Software as a service	10,910	6,930
Software maintenance services	31,008	31,747
Professional services	20,518	9,710
Third Party services	3,579	8,597
	<u>113,537</u>	<u>63,428</u>
<b>Gross profit</b>	<u>470,238</u>	<u>235,755</u>
<b>Operating expenses:</b>		
General and administrative	365,840	468,469
Sales and marketing	213,977	116,174
Depreciation	3,378	6,930
	<u>583,195</u>	<u>591,573</u>
<b>Loss from operations</b>	(112,957)	(355,818)
<b>Other income (expense)</b>		
Interest expense, net	(95,900)	(48,004)
	<u>(95,900)</u>	<u>(48,004)</u>
<b>Total other income (expense)</b>	(95,900)	(48,004)
<b>Net loss</b>	<u>\$ (208,857)</u>	<u>\$ (403,822)</u>
<b>Basic and diluted net loss per share:</b>	\$ (0.03)	\$ (0.06)
<b>Weighted average number of common shares outstanding - basic and diluted</b>	<u>7,123,074</u>	<u>6,765,930</u>

See Notes to these condensed consolidated financial statements

**INTELLINETICS, INC. and SUBSIDIARY**  
**Condensed Consolidated Statement of Stockholders' Deficit**  
**For the Three Months Ended March 31 2015**  
**(Unaudited)**

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
<b>Balance, December 31, 2014</b>	7,123,074	\$ 14,124	\$ 5,189,178	\$ (9,457,011)	\$ (4,253,709)
<b>Beneficial conversion of convertible notes</b>			43,333		43,333
<b>Net loss</b>	-	-	-	(208,857)	(208,857)
<b>Balance, March 31, 2015</b>	<u>7,123,074</u>	<u>\$ 14,124</u>	<u>\$ 5,232,511</u>	<u>\$ (9,665,868)</u>	<u>\$ (4,419,233)</u>

See Notes to these condensed consolidated financial statements

**INTELLINETICS, INC. and SUBSIDIARY**  
**Condensed Consolidated Statements of Cash Flows**  
(Unaudited)

	<b>For the Three Months Ended March 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (208,857)	\$ (403,822)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>		
Depreciation and amortization	3,378	6,930
Bad debt expense	18,082	-
Amortization of deferred financing costs	3,879	2,079
Amortization of beneficial conversion option	26,767	-
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	(145,318)	(39,515)
Prepaid expenses and other current assets	14,858	(14,201)
Accounts payable and accrued expenses	57,130	77,163
Other long-term liabilities - related parties	34,242	4,357
Deferred interest expense	9,613	(2,614)
Deferred revenues	(62,523)	(4,880)
Total adjustments	(39,892)	29,319
Net cash used in operating activities	(248,749)	(374,503)
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	-	(2,084)
Net cash used in investing activities	-	(2,084)
<b>Cash flows from financing activities:</b>		
Proceeds from notes payable	-	240,000
Proceeds from notes payable - related parties	200,000	-
Repayment of notes payable	(48,000)	(99,641)
Repayment of notes payable - related parties	(7,557)	(5,000)
Net cash provided by financing activities	144,443	135,359
Net increase (decrease) in cash	(104,306)	(241,228)
Cash - beginning of period	184,081	260,560
Cash - end of period	<u>\$ 79,775</u>	<u>\$ 19,332</u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the period for interest and taxes	<u>\$ 11,479</u>	<u>\$ 30,508</u>

See Notes to these condensed consolidated financial statements



## 1. Business Organization and Nature of Operations

Intellinetics, Inc. (“Intellinetics”) is a Nevada holding company incorporated in 1997, with a single operating subsidiary, Intellinetics, Inc. (“Intellinetics”), together the (“Company”). On February 10, 2012 (the “Closing Date”), Intellinetics entered into a Securities Exchange Agreement (the “Exchange Agreement”) by and between itself and Intellinetics. Pursuant to the terms of the Exchange Agreement, all of the former shareholders of Intellinetics transferred to Intellinetics all of their shares of Intellinetics in exchange for shares of common stock (“Share Exchange”) of Intellinetics. Prior to the Share Exchange, Intellinetics was a non-operating public shell company. As a result of the Share Exchange, Intellinetics became a wholly-owned subsidiary of Intellinetics. The Share Exchange was accounted for as a reverse merger and recapitalization of Intellinetics (See Note 4 – Share Exchange). The Company is an enterprise content management (ECM) software development, sales and marketing company serving both the public and private sectors. In the public sector, the Company’s products, services and process models serve, principally, the critical needs of law enforcement and compliance agencies within the state and local government establishment. Intellinetics was formed in December 1996 as a corporation in the state of Ohio.

The Company provides its software solutions principally through (i) the direct licensing of its software installed on customer computer platforms and (ii) providing the applications as a service, accessible through the internet. The Company’s comprehensive solutions include services that range from pre-installation assessment, project scoping, implementation, consulting and ongoing software maintenance and customer support.

## 2. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (“U.S. GAAP”) for interim financial information and the instructions to Form 10-Q and Article 8.03 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP. In the opinion of management, all adjustments (consisting of normal accruals) considered for a fair presentation of the consolidated financial position of the Company as of March 31, 2015 and the consolidated results of its operations and cash flows for the three months ended March 31, 2015 and March 31, 2014, have been included. The Company has evaluated subsequent events through the issuance of this Form 10-Q. Operating results for the three months ended March 31, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015 or any other interim or future period. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended December 31, 2014 included in the Company’s Form 10-K filed with the Securities and Exchange Commission on March 31, 2015.

## 3. Liquidity and Management’s Plans

Through March 31, 2015, the Company has incurred an accumulated deficit since inception of \$ 9,665,868. At March 31, 2015, the Company had a cash balance of \$ 79,775.

From the Company’s inception, it has generated revenues from the sales and implementation of its internally generated software applications.

The Company’s plan is to increase its sales and market share by developing an expanded network of resellers through which the Company will sell its expanded software product portfolio. The Company expects that this marketing initiative will require that it hire and develop an expanded sales force and enhance its product marketing efforts, all of which will require additional capital.

Based on current quarterly revenues, our operating cash flows before working capital changes are insufficient by approximately \$ 150,000 to \$200,000 per quarter. In addition, our operating payables currently exceed our accounts receivable by approximately \$450,000. Accordingly, unless our revenues increase from current levels, our operating cash flows over the next 12 months will be insufficient by approximately \$1,050,000 to \$1,250,000 requiring additional capital or debt financing to support operations. During 2014 and the three months ended March 31, 2015, we used the proceeds from convertible note issuances to fund our operating cash flow deficits. Debt obligations due within the next 12 months approximate \$2,500,000. We intend to enter into negotiations to extend maturities, defer payments or convert obligations to equity. We also plan to continue our marketing and sales strategies to increase our revenues while controlling operating costs. There are no assurances that our plans as discussed above will materialize and/or that we will have sufficient liquidity to fund operations. These factors, among others, raise substantial doubt about our ability to continue as a going concern.

Since inception, the Company’s operations have primarily been funded through a combination of operating margins, state business development loans, bank loans, convertible loans and loans from friends and family, and the sale of securities. Although management believes that the Company has access to capital resources, there are currently no commitments in place for new financing at this time other than the issuance of convertible notes disclosed in these financial statements and there is no assurance that the Company will be able to obtain funds on commercially acceptable terms, if at all.

During the three months ended March 31, 2015, the Company raised \$ 200,000 in net new funds through the issuance of four convertible promissory notes in a maximum aggregate principal amount of \$ 200,000 to two accredited investors who are associated with each other. The proceeds from these notes were used to fund the Company’s working capital needs and debt repayment.

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

## 4. Corporate Actions

On February 10, 2012, Intellinetics Ohio was acquired by Intellinetics (formerly known as “GlobalWise Investments, Inc.”), pursuant to a reverse merger, with Intellinetics Ohio remaining as a wholly-owned subsidiary of Intellinetics.

On September 1, 2014, the Company changed its name from GlobalWise Investments, Inc., to Intellinetics, Inc. and effected a seven (7)-to-one (1) reverse stock split of the Company’s common stock . All share and per share amounts herein have been adjusted to reflect the reverse stock split.

## 5. Summary of Significant Accounting Policies

### *Use of Estimates*

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions. Such estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses. Actual results could differ from estimated amounts.

Significant estimates and assumptions include valuation allowance related to receivables, the recoverability of long-term assets, depreciable lives of property and equipment, deferred taxes and related valuation allowances. The Company's management monitors these risks and assesses its business and financial risks on a quarterly basis.

### *Concentrations of Credit Risk*

The Company maintains its cash with high credit quality financial institutions. At times, the Company's cash and cash equivalents may be uninsured or in deposit accounts that exceed the Federal Deposit Insurance Corporation insurance limit.

The number of customers that comprise the Company's customer base, along with the different industries, governmental entities and geographic regions, in which the Company's customers operate, limits concentrations of credit risk with respect to accounts receivable. The Company does not generally require collateral or other security to support customer receivables; however, the Company may require its customers to provide retainers, up-front deposits or irrevocable letters-of-credit when considered necessary to mitigate credit risk. The Company has established an allowance for doubtful accounts based upon facts surrounding the credit risk of specific customers and past collections history. Credit losses have been within management's expectations. At March 31, 2015 and December 31, 2014, the Company allowance for doubtful accounts was \$ 16,097 and \$ 2,015, respectively.

### *Property and Equipment*

Property and equipment and leasehold improvements are stated at cost less accumulated depreciation and amortization. Depreciation and amortization is computed over the estimated useful lives of the related assets on a straight-line basis. Furniture and fixtures, computer hardware and purchased software are depreciated over 3 to 7 years. Leasehold improvements are amortized over the life of the lease or the asset, whichever is shorter, generally 7 to 10 years. Upon retirement or other disposition of these assets, the cost and related accumulated depreciation and amortization of these assets are removed from the accounts and the resulting gains and losses are reflected in the results of operations.

### *Impairment of Long-Lived Assets*

The Company accounts for the impairment and disposition of long-lived assets in accordance with Accounting Standards Codification ("ASC") Topic 360, "Property, Plant, and Equipment." The Company tests long-lived assets or asset groups, such as property and equipment, for recoverability when events or changes in circumstances indicate that their carrying amount may not be recoverable.

Circumstances which could trigger a review include, but are not limited to: significant adverse changes in the business climate or legal factors; current period cash flow or operating losses combined with a history of losses or a forecast of continuing losses associated with the use of the asset; and a current expectation that the asset will more likely than not be sold or disposed of before the end of its estimated useful life.

Recoverability is assessed based on comparing the carrying amount of the asset to the aggregate pre-tax undiscounted cash flows expected to result from the use and eventual disposal of the asset or asset group. Impairment is recognized when the carrying amount is not recoverable and exceeds the fair value of the asset or asset group. The impairment loss, if any, is measured as the amount by which the carrying amount exceeds fair value, which for this purpose is based upon the discounted projected future cash flows of the asset or asset group.

#### ***Share Based Compensation***

The Company accounts for stock-based payments to employees in accordance with ASC 718, "Stock Compensation" ("ASC 718"). Stock-based payments to employees include grants of stock that are recognized in the consolidated statement of operations based on their fair values at the date of grant.

The Company accounts for stock-based payments to non-employees in accordance with ASC 718 and AC 505-50, "Equity-Based Payments to Non-Employees," which requires that such equity instruments are recorded at their fair value on the measurement date, with the measurement of such compensation being subject to periodic adjustment as the underlying equity instruments vest

Both employee and non-employee grants of stock are fully vested at their respective date of grants. For the three months ended March 31, 2015 and 2014, there was no share-based compensation.

#### ***Software Development Costs***

Software development costs for software to be sold or otherwise marketed incurred prior to the establishment of technological feasibility are expensed as incurred. The Company defines establishment of technological feasibility as the completion of a working model. Software development costs incurred subsequent to the establishment of technological feasibility through the period of general market availability of the product are capitalized, if material. To date, all software development costs for software to be sold or otherwise marketed have been expensed as incurred. In accordance with ASC 350-40, the Company capitalizes purchase and implementation costs of internal use software. No such costs were capitalized during the periods presented.

#### ***Recent Accounting Pronouncement***

In May 2014, the FASB issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers. The core principle of ASU 2014-09 is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. To accomplish this objective, ASU 2014-09 requires five basic steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, (v) recognize revenue when (or as) the entity satisfies a performance obligation. Entities will generally be required to make more estimates and use more judgment than under current guidance, which will be highlighted for users through increased disclosure requirements. ASU 2014-09 is effective for public entities for annual periods beginning after December 15, 2016, including interim periods therein. Three basic transition methods are available – full retrospective, retrospective with certain practical expedients, and a cumulative effect approach. Early adoption is prohibited. Management is in the process of evaluating the impact that adoption of ASU 2014-09 will have on the consolidated financial statements and has not yet determined the method by which the Company will adopt the standard.

#### ***Revenue Recognition***

##### ***a) Sale of Software***

The Company recognizes revenues in accordance with ASC Topic 985-605, "Software Revenue Recognition" ("ASC 985-605").

The Company records revenues from the sale of software licenses when persuasive evidence of an arrangement exists, the software product has been installed, there are no significant uncertainties surrounding product acceptance by the customer, the fees are fixed and determinable, and collection is considered probable. Revenues included in this classification typically include sales of additional software licenses to existing customers and sales of software to the Company's Resellers (See section h) – Reseller Agreements, below).

The Company assesses whether payment terms are customary or extended in accordance with normal practice relative to the market in which the sale is occurring. The Company's sales arrangements generally include standard payment terms. These terms effectively relate to all customers, products, and arrangements regardless of customer type, product mix or arrangement size.

If an undelivered element for the arrangement exists under the license arrangement, revenues related to the undelivered element are deferred based on Vendor Specific Objective Evidence ("VSOE") of the fair value of the undelivered element. Often, multiple-element sales arrangements include arrangements where software licenses and the associated post-contract customer support ("PCS") are sold together. The Company has established VSOE of the fair value of the undelivered PCS element based on the contracted price for renewal PCS included in the original multiple element sales arrangement, as substantiated by contractual terms and the Company's significant PCS renewal experience, from the Company's existing customer base.

The Company records the revenues for the sales of software with professional services as prescribed by ASC 985-605, in accordance with the contract accounting guidelines in ASC 605-35, "Revenue Recognition: Construction-Type and Production-Type Contracts" ("ASC 605-35"), after evaluating for separation of any non-ASC 605-35 elements in accordance with the provisions of ASC 605-25, "Revenue Recognition: Multiple-Element Arrangements," as updated. The Company accounts for these contracts under the completed contract method, as the Company believes that this method is most appropriate. The contract is considered to be complete when persuasive evidence of an arrangement exists, the software has been installed on the customer's site, there are no significant uncertainties surrounding acceptance by the customer, the fees are fixed and determinable, and collection is considered probable.

The fair value of any undelivered elements in multiple-element arrangements in connection with the sales of software licenses with professional services are deferred based upon VSOE.

***b) Sale of Software as a Service***

Sale of Software as a Service consists of revenues from arrangements that provide customers the use of the Company's software applications, as a service, typically billed on a monthly or annual basis. Advance billings of these services are not recorded to the extent that the term of the arrangement has not commenced and payment has not been received. Revenue on these services is recognized ratably over the term of the underlying arrangement.

***c) Sale of Software Maintenance Services***

. Software maintenance services revenues consist of revenues derived from arrangements that provide PCS to the Company's software license holders. These revenues are recognized ratably over the term of the contract. Advance billings of PCS are not recorded to the extent that the term of the PCS has not commenced and payment has not been received

***d) Sales of Professional Services***

Professional services consist principally of revenues from consulting, advisory services, training and customer assistance with management and uploading of data into the Company's applications. When these services are provided on a time and material basis, the Company records the revenue as the services are rendered, since the revenues from services rendered through any point in time during the performance period are not contingent upon the completion of any further services. Where the services are provided under a fixed priced arrangement, the Company records the revenue on a proportional performance method, since the revenues from services rendered through any point in time during the performance period are not contingent upon the completion of any further services.

***e) Sale of Third Party Services***

Sale of third party services consist principally of third party software and/or equipment as a pass through of software and equipment purchased from third parties at the request of customers.

#### *f) Deferred revenues*

The Company records deferred revenue primarily related to software maintenance support agreements, when the customer pays for the contract prior to the time the services are performed. Substantially all maintenance agreements have a one-year term that commences immediately following the delivery of the maintained products or on the date of the applicable renewal period.

#### *g) Rights of return and other incentives*

The Company does not generally offer rights of return or any other incentives such as concessions, product rotation, or price protection and, therefore, does not provide for or make estimates of rights of return and similar incentives. The Company, from time to time, may discount bundled software sales with PCS services. Such discounts are recorded as a component of the software sale and any revenue related to PCS is deferred over the PCS period based upon appropriate VSOE of fair value.

#### *h) Reseller agreements*

The Company executes certain sales contracts through resellers and distributors (collectively, "Resellers"). The Company recognizes revenues relating to sales through Resellers when all the recognition criteria have been met—in other words, persuasive evidence of an arrangement exists, delivery has occurred in the reporting period, the fee is fixed and determinable, and collectability is probable. In addition, the Company assesses the credit-worthiness of each Reseller, and if the Reseller is undercapitalized or in financial difficulty, any revenues expected to emanate from such Resellers are deferred and recognized only when cash is received and all other revenue recognition criteria are met.

#### *Advertising*

The Company expenses the cost of advertising as incurred. Advertising expense for the three months ended March 31, 2015 and 2014 amounted to approximately \$ 1,867 and \$ 1,889 respectively.

#### *Earnings (Loss) Per Share*

Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. The company has outstanding stock options which have not been included in the calculation of diluted net loss per share because to do so would be anti-dilutive. As such, the numerator and the denominator used in computing both basic and diluted net loss per share for each period are the same.

#### *Income Taxes*

The Company and its subsidiary file a consolidated federal income tax return. The provision for income taxes is computed by applying statutory rates to income before taxes.

Deferred income taxes are recognized for the tax consequences in future years of temporary differences between the financial reporting and tax bases of assets and liabilities as of each period-end based on enacted tax laws and statutory rates. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. A 100% valuation allowance has been established on deferred tax assets at March 31, 2015 and December 31, 14, due to the uncertainty of our ability to realize future taxable income.

The Company accounts for uncertainty in income taxes in its financial statements as required under ASC 740, *Accounting for Uncertainty in Income Taxes*. The standard prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The standard also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition accounting. The Company's tax returns prior to 2011 are closed. Management determined there were no material uncertain positions taken by the Company in its tax returns.

#### *Statement of Cash Flows*

For purposes of reporting cash flows, cash includes cash on hand and demand deposits held by banks

#### **6. Property and Equipment**

Property and equipment are comprised of the following:

	March 31, 2015	December 31, 2014
Computer hardware and purchased software	\$ 297,242	\$ 297,242
Leasehold improvements	221,666	221,666
Furniture and fixtures	88,322	88,322
	<u>607,230</u>	<u>607,230</u>
Less: accumulated depreciation and amortization	(581,937)	(578,559)
Property and equipment, net	<u>\$ 25,293</u>	<u>\$ 28,671</u>

Total depreciation expense on the Company's property and equipment for the three months ended March 31, 2015 and 2014 amounted to \$ 3,378 and \$ 6,930, respectively.

## 7. Notes Payable

On July 17, 2009, the Company issued a note payable to the Ohio State Development Authority in the amount of \$1,012,500, bearing interest at a rate of 6.00 % per annum (“Authority Loan No. 1”). Pursuant to the terms of the loan, the Company was required to pay only interest through September 30, 2010 and then monthly principal and interest payments of \$ 23,779 each through September 1, 2015. The note is secured by a senior secured interest on all business assets financed with loan proceeds, as well as a second secured interest in all business assets. Upon maturity, by acceleration or otherwise, the Company shall pay a loan participation fee of \$101,250, which is accounted for as a loan premium, accreted monthly, utilizing the interest method, over the term of the loan. In June, 2014, Intellinetics and the Ohio State Development Authority entered into a Notice and Acknowledgement of Modification to Payment Schedule relating to Authority Loan No.1, deferring a portion of the principal and interest payment until June 1, 2015. As of March 31, 2015, the principal amount outstanding under Authority Loan No. 1 was \$576,429.

On June 3, 2011, the Company issued a note payable to the Ohio State Development Authority in the amount of \$750,000, bearing interest at a rate of 1 % per annum for the first 12 months, then interest at rate of 7 % per annum for the second 12 months (“Authority Loan No. 2”). The Company was not obligated to remit payments of principal until September 1, 2013. The monthly principal and interest payments, beginning on the third anniversary of the loan origination, are \$ 14,850 and are payable on a monthly basis through August 1, 2018. The note is secured by a senior secured interest on all business assets financed with loan proceeds, as well as a second secured interest in all business assets. Upon maturity, by acceleration or otherwise, the Company shall pay a loan participation fee of \$ 75,000 , which is accounted for as a loan premium, accreted monthly utilizing the interest method, over the term of the loan. The interest rate of 1% during the first 12 months of this loan was considered to be below market for that period. The Company further determined that over the life of the loan, the effective interest rate was 5.6 % per annum. Accordingly, during the first 12 months of the loan, the Company recorded interest expense at the 5.6 % rate per annum. The difference between the interest expense accrual at 5.6% and the stated rate of 1% over the first 12 months is credited to deferred interest. The deferred interest amount that is accumulated over the first 12 months of the loan term will be amortized as a reduction to interest expense over the remaining term of the loan. At March 31, 2015 and December 31, 2014 deferred interest of \$112,855 and \$ 103,242, respectively, was reflected within long-term liabilities on the accompanying condensed consolidated balance sheets. In June, 2014, Intellinetics and the Ohio State Development Authority entered into a Notice and Acknowledgement of Modification to Payment Schedule, deferring a portion of the principal and interest payment until June 1, 2015. As of March 31, 2015, the principal amount outstanding under Authority Loan No. 2 was \$633,006.

The Authority Loans were granted to the Company in connection with the State of Ohio’s economic development programs. The proceeds from these loans were used by the Company to support its efforts in developing software solutions for its customers.

These Authority Loans are subject to certain covenants and reporting requirements. Intellinetics is required to, within three years of the respective loan origination dates of each of the Authority Loans, have created and/or retained an aggregate of 25 full time jobs in the State of Ohio. Should Intellinetics not have attained these employment levels by the respective dates, then the interest rates on the Authority Loans shall increase to 10% per annum. In July, 2014, the Company informed the State of Ohio that it would not meet the employment level of 15 new full-time employees as well as retain 10 existing full-time employees. As a result of this non-compliance with a covenant of Authority Loan No. 1, the Development Services Agency exercised its right to increase the interest rate from 6.0% to 7.0%, effective October 1, 2014. The approximate impact of this increase is to raise the Company’s balloon payment by \$6,000 on Authority Loan No. 1, which is due in September 2015. We have had past instances of non-compliance with certain of the loan covenants. We are currently in compliance with the all other loan covenants. There can be no assurance that we will not become non-compliant with one or more of these covenants in the future.

Between June 4, 2014 and July 10, 2014, the Company issued convertible promissory notes in an aggregate amount of \$45,000 (the “Notes in an Aggregate Amount of \$45,000”) to accredited investors who are associated with each other (the accredited investors collectively referred to as the (“\$45,000 Investors”). The Convertible Notes mature on December 31, 2015 (the “Maturity Date”) and bear interest at an annual rate of interest of 10 percent until maturity, with interest payable quarterly. The Note Investors have a right, in their sole discretion, to convert the Convertible Notes into shares of Common Stock, par value \$0.001 per share, of the Company under certain circumstances at a conversion rate of \$0.56 per Share. The Company recognized a beneficial conversion feature in the amount of \$3,125. Interest expense recognized on the amortization of the beneficial conversion feature was \$551 for three months ended March 31, 2015. If the Convertible Notes have not been fully repaid by the Company by the Maturity Date or converted into shares at the election of the Convertible Note Investors prior to the Maturity Date, then such Convertible Notes will accrue interest at the annual rate of 12% from the Maturity Date until the date the Convertible Notes are repaid in full. Any interest not paid quarterly will also accrue interest at the annual rate of 12%. The Company used the proceeds of the Convertible Note for working capital, general corporate purposes, and debt repayment.

The table below reflects all notes payable at March 31, 2015 and December 31, 2014, respectively, with the exception of related party notes disclosed in Note 8 - Notes Payable - Related Parties.

	March 31, 2015	December 31, 2014
Authority Loan No. 1, due September 1, 2015	\$ 576,429	\$ 600,429
Authority Loan No. 2, due August 1, 2018	633,006	657,006
Notes payable due December 31, 2015	43,346	42,794
Total notes payable	\$ 1,252,781	\$ 1,300,229
Less current portion	(744,410)	(756,614)
Long-term portion of notes payable	<u>\$ 508,371</u>	<u>\$ 543,615</u>

Future minimum principal payments of these notes payable with the exception of the related party notes in Note 8 - Notes Payable - Related Parties, as described in this Note 7 are as follows:

	For the Twelve-Month Period Ended March 31,	Amount
	2016	\$ 744,410
	2017	147,291
	2018	157,939
	2019	203,141
	Total	<u>\$ 1,252,781</u>

As of March 31, 2015 and December 31, 2014, accrued interest for these notes payable with the exception of the related party notes in Note 8 - Notes Payable - Related Parties, was \$ 203,431 and \$ 186,783, respectively, and was reflected within accounts payable and accrued expenses on the consolidated balance sheets. As of March 31, 2015 and December 31, 2014, accrued loan participation fees were \$158,572 and \$ 155,044, respectively, and reflected within accounts payable and accrued expenses on the consolidated balance sheets. As of March 31, 2015 and December 31, 2014, deferred financing costs were \$ 8,245 and \$ 10,324, respectively, and were reflected within other assets on the consolidated balance sheets.

With respect to all notes outstanding (other than the notes to related parties), for the three months ended March 31, 2015, and 2014, interest expense, including the amortization of deferred financing costs, accrued loan participation fees, original issue discounts, deferred interest and related fees and the embedded conversion feature was \$22,987 and \$42,139, respectively.

#### 8. Notes Payable - Related Parties

On March 29, 2012, the Company issued an unsecured note payable to Ramon Shealy a then -director of the Company, who subsequently resigned from the Board of Directors on December 17, 2012, for personal reasons, in the amount of \$ 238,000 , bearing interest at a rate of 10 % for the term of the note. All principal and interest was due and payable on September 27, 2012, but was later extended to November 24, 2012. On April 16, 2012, the Company issued a note payable to Mr. Shealy, in the amount of \$ 12,000, bearing interest at a rate of 10 % per quarter. All principal and interest was due on July 15, 2012, but was later extended to November 24, 2012. On November 24, 2012 the two notes were combined into a \$250,000 promissory note, under the same terms, with a maturity date of January 1, 2014. On December 24, 2013 the \$250,000 promissory note, was extended under the same terms, with a maturity date of January 1, 2015. On March 13, 2013, the Company paid \$ 100,000 of the principal amount of the \$250,000 promissory note to Mr. Shealy. On December 31, 2014, the Company and Ramon Shealy agreed to cancel the previous notes and extensions set forth above, and issue a new single promissory note with accrued interest of \$43,453, to a total principal and interest in the amount of \$193,453, payable in sixty monthly installments beginning January 31, 2015, with a maturity date of January 1, 2020. Interest will accrue at 10% on the outstanding balance until paid in full. All other provisions of the original Promissory Note shall prevail unless specifically set forth herein or otherwise agreed in writing by the parties.

On March 2, 2009, the Company issued an unsecured promissory note payable to Ms. Chretien, in the amount of \$80,000 due January 1, 2014 and bearing interest at 5% per annum, with the principal and interest to be paid at maturity. On December 27, 2013 the \$80,000 promissory note was extended under the same terms, with a maturity date of January 1, 2015. On December 31, 2014 the \$80,000 promissory note was extended under the same terms, with a maturity date of January 1, 2016. During the three months ended March 31, 2015, the Company paid no principal to Ms. Chretien related to this note. As of March 31, 2015 the note had a principal balance of \$15,000 and accrued interest of \$3,840

On December 29, 2001, the Company issued an unsecured promissory note payable to A. Michael Chretien, a Founder of the Company, in the amount of \$ 55,167, with any unpaid principal and interest due on January 1, 2014. During 2013, the Company paid \$ 11,250 in accrued interest to A. Michael Chretien. On December 27, 2013, the note was extended, under the same terms, with a maturity of January 12, 2015. On December 31, 2014, the note was extended under the same terms, with a maturity of January 1, 2016. As of March 31, 2015, the note had a principal balance of \$ 40,415 and accrued interest of \$ 5,365.

The Company evaluated the terms of its convertible notes payable in accordance with ASC 815 – 40, Derivatives and Hedging - Contracts in Entity’s Own Stock and determined that the underlying common stock is indexed to the Company’s common stock. The Company determined that the conversion feature did not meet the definition of a liability and therefore did not bifurcate the conversion feature and account for it as a separate derivative liability. The Company evaluated the conversion feature for a beneficial conversion feature. The effective conversion price was compared to the market price on the date of each note. If the conversion price was deemed to be less than the market value of the underlying common stock at the inception of the note, then the Company would recognize a beneficial conversion feature resulting in a discount on the note payable, upon satisfaction of the contingency. Under the terms of the convertible notes, the conversion feature would be contingent upon shareholder approval to increase the number of authorized shares of the Company by at least 25,000,000 shares. On August 6, 2014, the shareholders voted to effectuate a 7-to-1 reverse stock split, which effectively increased the number of available shares and resolved the contingency on the conversion features. As described below, the beneficial conversion features were recorded as of August 6, 2014. The beneficial conversion features are amortized to interest expense over the life of the respective notes, starting from the date of recognition.

On November 12, 2013, the Company issued two convertible promissory notes in an aggregate amount of \$160,000 to two accredited investors who are associated with each other and are shareholders of the Company. The Company received proceeds in the amount of \$160,000. The notes provide for maturity on July 31, 2014 and provide for 10% interest until maturity. The note holders have a right, at their sole discretion, to convert the notes into equity under certain circumstances at \$0.70 per share. The Company recognized a beneficial conversion feature in the amount of \$32,000. Interest expense recognized on the amortization of the beneficial conversion feature was \$5,647 for the three months ended March 31, 2015. If the notes are not paid off by the Company, with the consent of the investors, by the maturity date or converted in to equity at the election of the investors prior to the maturity date, the note will accrue interest in the amount of 15 % from the maturity date until the note is paid in full. These notes were exchanged on July 10, 2014. See further disclosures below.

On December 27, 2013, the Company issued two convertible promissory notes in an aggregate amount of \$160,000 to two accredited investors who are associated with each other and are shareholders of the Company. The Company received proceeds in the amount of \$160,000. The notes provide for maturity on July 31, 2014 and provide for 10% interest until maturity. The note holders have a right, at their sole discretion, to convert the notes into equity under certain circumstances at \$0.56 per share. No beneficial conversion feature was recognized. If the notes are not paid off by the Company, with the consent of the investors, by the maturity date or converted in to equity at the election of the investors prior to the maturity date, the note will accrue interest in the amount of 15 % from the maturity date until the note is paid in full. These notes were exchanged on July 10, 2014. See further disclosures below

On February 4, 2014, the Company issued two convertible promissory notes in a maximum aggregate principal amount of \$350,000 to two accredited investors who are associated with each other and are shareholders of the Company. The notes mature on September 30, 2014, and bear interest at an annual rate of interest of 10 % until maturity. Each note holder has a right, in their sole discretion, to convert the notes into shares of common stock, par value \$ 0.001 per share, of the Company under certain circumstances at a conversion rate of \$ 0.56 per share. No beneficial conversion feature was recognized. If either note has not been fully repaid by the Company by the maturity date or converted into shares at the election of the note holders prior to the maturity date, then such note will accrue interest at the annual rate of 15 % from the maturity date until the date the convertible note is repaid in full. The Company used the proceeds of the convertible notes for working capital and general corporate purposes. These notes were exchanged on July 10, 2014. See further disclosures below.

Between May 9, 2014 and June 30, 2014, the Company issued convertible promissory notes in an aggregate amount of \$415,000 (the “Notes in an Aggregate Amount of \$415,000”) to accredited investors who are associated with each other and are shareholders of the Company, (the accredited investors collectively referred to as the (“\$415,000 Investors”). The Convertible Notes mature on December 31, 2015 (the “Maturity Date”) and bear interest at an annual rate of interest of 10 percent until maturity, with interest payable quarterly. The Note Investors have a right, in their sole discretion, to convert the Convertible Notes into shares of Common Stock, par value \$0.001 per share, of the Company under certain circumstances at a conversion rate of \$0.56 per Share. For one note in the amount of \$8,000, the Company recognized a beneficial conversion feature in the amount of \$1,000. Interest expense recognized on the amortization of the beneficial conversion feature was \$177 for the three months ended March 31, 2015. If the Convertible Notes have not been fully repaid by the Company by the Maturity Date or converted into shares at the election of the Convertible Note Investors prior to the Maturity Date, then such Convertible Notes will accrue interest at the annual rate of 12% from the Maturity Date until the date the Convertible Notes are repaid in full. Any interest not paid quarterly will also accrue interest at the annual rate of 12%. The Company used the proceeds of the Convertible Note for working capital, general corporate purposes, and debt repayment. As March 31, 2015, the notes had accrued interest of \$ 34,285.



On May 12, 2014, the Company issued a convertible promissory note in an aggregate amount of \$30,000 (the "Note in an Aggregate Amount of \$30,000") to Robert Schroeder, a director of the Company. The Convertible Notes mature on December 31, 2015 (the "Maturity Date") and bear interest at an annual rate of interest of 10 percent until maturity, with interest payable quarterly. Robert Schroeder has a right, in his sole discretion, to convert the Convertible Note into shares of Common Stock, par value \$0.001 per share, of the Company under certain circumstances at a conversion rate of \$0.56 per Share. No beneficial conversion feature was recognized. If the Convertible Notes have not been fully repaid by the Company by the Maturity Date or converted into shares at the election of the Convertible Note Investors prior to the Maturity Date, then such Convertible Notes will accrue interest at the annual rate of 12% from the Maturity Date until the date the Convertible Notes are repaid in full. Any interest not paid quarterly will also accrue interest at the annual rate of 12%. The Company used the proceeds of the Convertible Note for working capital, general corporate purposes, and debt repayment. As of March 31, 2015, the note had accrued interest of \$2,679.

On June 6, 2014, the Company issued a convertible promissory note in an aggregate amount of \$10,000 (the "Note in an Aggregate Amount of \$10,000") to Matthew L. Chretien, President, CEO and a director of the Company. The Convertible Notes mature on December 31, 2015 (the "Maturity Date") and bear interest at an annual rate of interest of 10 percent until maturity, with interest payable quarterly. Matthew L. Chretien has a right, in his sole discretion, to convert the Convertible Note into shares of Common Stock, par value \$0.001 per share, of the Company under certain circumstances at a conversion rate of \$0.56 per Share. No beneficial conversion feature was recognized. If the Convertible Notes have not been fully repaid by the Company by the Maturity Date or converted into shares at the election of the Convertible Note Investors prior to the Maturity Date, then such Convertible Notes will accrue interest at the annual rate of 12% from the Maturity Date until the date the Convertible Notes are repaid in full. Any interest not paid quarterly will also accrue interest at the annual rate of 12%. The Company used the proceeds of the Convertible Note for working capital, general corporate purposes, and debt repayment. As of March 31, 2015, the note had accrued interest of \$816.

On October 9, 2014, the Company issued three convertible promissory notes in the amounts of \$80,000, \$80,000, and \$15,000, (the "Notes in the Aggregate Amount of \$175,000") to three accredited investors. Robert C. Schroeder, a director of the Company, purchased the note in the amount of \$15,000, and Robert Taglich and Michael Taglich, each beneficial owners of 10% of the Company, each purchased notes in the amount of \$80,000. The notes mature on December 31, 2015, and bear interest at an annual rate of interest of 6 percent until maturity, with interest payable quarterly. The note investors have a right, in their sole discretion, to convert the notes into shares of Common Stock, par value \$0.001 per share, of the Company under certain circumstances at a conversion rate of \$0.30 per Share. No beneficial conversion feature was recognized. If the convertible notes have not been fully repaid by the Company by the maturity date or converted into shares at the election of the note investors prior to the maturity date, then such notes will accrue interest at the annual rate of 12% from the maturity date until the date the notes are repaid in full. Any interest not paid quarterly will also accrue interest at the annual rate of 12%. The Company used the proceeds of the notes for working capital, general corporate purposes, and debt repayment. As of March 31, 2015 the notes had accrued interest of \$4,977.

On December 17, 2014, the Company issued two convertible promissory notes in a principal amounts of \$100,000 each (the "Notes in the Aggregate Amount of \$200,000) to Robert Taglich and Michael Taglich, each beneficial owners of 10% of the Company. The notes mature on December 31, 2015, and bear interest at an annual rate of interest of 6 % until maturity. Each note holder has a right, in their sole discretion, to convert the notes into shares of common stock, par value \$ 0.001 per share, of the Company under certain circumstances at a conversion rate of \$ 0.30 per share. No beneficial conversion feature was recognized. If either note has not been fully repaid by the Company by the maturity date or converted into shares at the election of the note holders prior to the maturity date, then such note will accrue interest at the annual rate of 12 % from the maturity date until the date the convertible note is repaid in full. The Company used the proceeds of the convertible notes for working capital and general corporate purposes, and debt repayment. As of March 31, 2015 the notes had accrued interest of \$3,419.

On February 10, 2015, the Company issued two convertible promissory notes in a maximum aggregate principal amount of \$ 100,000 to Robert and Michael Taglich (10% beneficial owners). The notes mature on December 31, 2015, and bear interest at an annual rate of interest of 6 % until maturity. Each note holder has a right, in their sole discretion, to convert the notes into shares of common stock, par value \$ 0.001 per share, of the Company under certain circumstances at a conversion rate of \$ 0.30 per share. The Company recognized a beneficial conversion feature in the amount of \$26,667. Interest expense recognized on the amortization of the beneficial conversion feature was \$12,549 for the three months ended March 31, 2015. If either note has not been fully repaid by the Company by the maturity date or converted into shares at the election of the note holders prior to the maturity date, then such note will accrue interest at the annual rate of 12 % from the maturity date until the date the convertible note is repaid in full. The Company used the proceeds of the convertible notes for working capital , general corporate purposes., and debt repayment. As of March 31, 2015, the note had accrued interest of \$805.

On March 11, 2015, the Company issued two convertible promissory notes in a maximum aggregate principal amount of \$ 100,000 to Robert and Michael Taglich (10% beneficial owners). The notes mature on December 31, 2015, and bear interest at an annual rate of interest of 6 % until maturity. Each note holder has a right, in their sole discretion, to convert the notes into shares of common stock, par value \$ 0.001 per share, of the Company under certain circumstances at a conversion rate of \$ 0.30 per share. The Company recognized a beneficial conversion feature in the amount of \$16,667. Interest expense recognized on the amortization of the beneficial conversion feature was \$7,843 for the three months ended March 31, 2015. If either note has not been fully repaid by the Company by the maturity date or converted into shares at the election of the note holders prior to the maturity date, then such note will accrue interest at the annual rate of 12 % from the maturity date until the date the convertible note is repaid in full. The Company used the proceeds of the convertible notes for working capital general corporate purposes., and debt repayment. As of March 31, 2015, the note had accrued interest of \$329.

The table below reflects Notes payable due to related parties at March 31 2015 and December 31, 2014, respectively

	March 31, 2015	December 31, 2014
The \$80,000 Jackie Chretien Note	\$ 15,000	\$ 15,000
The \$55,167 A. Michael Chretien Note	40,415	40,415
The \$250,000 Shealy Note	185,896	193,453,
Notes in the Aggregate Amount of \$415,000	414,471	414,294
Notes in the Aggregate Amount of \$701,068	684,127	678,482
The \$30,000 Robert C. Schroeder Convertible Promissory Note	30,000	30,000
The \$10,000 Matthew L. Chretien Convertible Promissory Note	10,000	10,000
The \$10,800 Taglich Brothers Note	10,800	10,800
Notes in the Aggregate Amount of \$175,000	175,000	175,000
Notes in the Aggregate Amount of \$200,000	200,000	200,000
Notes in the Aggregate Amount of \$100,000	85,882	-
Notes in the Aggregate Amount of \$100,000	91,176	-
Total notes payable - related party	\$ 1,942,767	\$ 1,767,444
Less current portion	(1,789,053)	(1,549,965)
Long-term portion of notes payable-related party	\$ 153,714	\$ 217,479

Future minimum principal payments of these notes payable as described in this Note 8 are as follows:

	For the Twelve Months Ended March 31,	Amount
2016		\$ 1,789,053
2017		35,552
2018		39,275

2019

43,388

2020

35,499

TOTAL

\$ 1,942,767

## 10. Commitments and Contingencies

### *Employment Agreements*

The Company has entered into employment agreements with four of its key executives. Under their respective agreements, the executives serve at will and are bound by typical confidentiality, non-solicitation and non-competition provisions.

### *Operating Leases*

On January 1, 2010, the Company entered into an agreement to lease 6,000 rentable square feet of office space in Columbus, Ohio at a monthly rent of \$ 3,375. The lease commenced on January 1, 2010 and, pursuant to a lease extensions through August 14, 2014, the lease expires on December 31, 2016.

Future minimum lease payments under this operating lease are as follows:

	For the Twelve Months Ending March 31,	Amount
2016		\$ 40,500
2017		30,375
Total		<u>\$ 70,875</u>

Rent expense charged to operations for the three months ended March 31, 2015 and 2014 amounted to \$ 10,125 and \$ 10,125, respectively.

## 11. Stockholders' Equity

### *Description of Authorized Capital*

The Company is authorized to issue up to 50,000,000 shares of common stock with \$ 0.001 par value. The holders of the Company's common stock are entitled to one vote per share. The holders of common stock are entitled to receive ratably such dividends, if any, as may be declared by the Board of Directors out of legally available funds. However, the current policy of the Board of Directors is to retain earnings, if any, for the operation and expansion of the business. Upon liquidation, dissolution or winding-up of the Company, the holders of common stock are entitled to share ratably in all assets of the Company that are legally available for distribution.

## 12. Concentrations

Revenues from the Company's services to a limited number of customers have accounted for a substantial percentage of the Company's total revenues. For the three months ended March 31, 2015, the Company's two largest customers, Tiburon, Inc. ("Tiburon") a reseller, and Ohio State Highway Patrol ("OSHP") a direct end user, accounted for 15% and 8%, respectively, of the Company's revenue for that period. For the three months ended March 31, 2014, the Company's two largest customers, Tiburon, Inc. ("Tiburon") and CareWorks, which are both Resellers, accounted for 15% and 7%, respectively, of the Company's revenue for that period.

For the three months ended March 31, 2015 and 2014, government contracts represented approximately 45% and 44% of the Company's net revenues, respectively. A significant portion of the Company's sales to Tiburon and Lexmark represent ultimate sales to government agencies.

As of March 31, 2015, accounts receivable concentrations from the Company's four largest customers were 18%, 15%, 11% and 10% of gross accounts receivable, respectively, and as of December 31, 2014, accounts receivable concentrations from the Company's four largest customers were 23%, 21%, 13% and 10% of gross accounts receivable, respectively. Accounts receivable balances from the Company's four largest customers at March 31, 2015 have since been partially collected.

## 13. Subsequent Events

On April 30, 2015, the Company announced: 1) the appointment of Murray Gross as a Director and Chairman of the Board, 2) the resignation of A. Michael Chretien and Thomas D. Moss as Directors of the Company, 3) the adoption of the 2015 Equity Incentive Plan (the "Plan"), with a total of 2,000,000 shares of common stock of the Company authorized and reserved for issuance under the Plan, and 4) the grant of options to Murray Gross (640,000 options) and Sophie Pibouin (128,000 options), subject to certain vesting requirements. For more details, see the Company's Current Report on 8-K, dated April 30, 2015.

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

The following management's discussion and analysis of financial conditions and results of operations of the Company for the three months ended March 31, 2015, and 2014 should be read in conjunction with our financial statements and the notes to those financial statements that are included elsewhere in this Form 10-Q. References in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" to "the Company," "us," "we," "our," and similar terms refer to Intellinetics, Inc., a Nevada corporation ("Intellinetics"), and its sole operating subsidiary, Intellinetics, Inc., an Ohio corporation ("Intellinetics Ohio"), unless we state otherwise or the context indicates otherwise.

This discussion includes forward-looking statements, as that term is defined in the federal securities laws, based upon current expectations that involve risks and uncertainties, such as plans, objectives, expectations and intentions. Actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of a number of factors. Words such as "anticipate," "estimate," "plan," "continuing," "ongoing," "expect," "believe," "intend," "may," "will," "should," "could," and similar expressions are used to identify forward-looking statements.

We caution you that these statements are not guarantees of future performance or events and are subject to a number of uncertainties, risks and other influences, many of which are beyond our control, which may influence the accuracy of the statements and the projections upon which the statements are based. Factors that may affect our results include, but are not limited to, the risk factors that are included in Part I, Item IA of our 2014 Form 10-K. Any one or more of these uncertainties, risks and other influences could materially affect our results of operations and whether forward-looking statements made by us ultimately prove to be accurate. Our actual results, performance and achievements could differ materially from those expressed or implied in these forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether from new information, future events or otherwise.

Our Management's Discussion and Analysis of Financial Condition and Results of Operations section discusses our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, we evaluate our estimates and judgments, including those related to revenue recognition accrued expenses, financing operations, contingencies and litigation. We base our estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The most significant accounting estimates inherent in the preparation of our financial statements include estimates as to the appropriate carry value of certain assets and liabilities which are not readily apparent from other sources. These accounting policies are described at relevant sections in this discussion and analysis and in the notes to the financial statements included in this report for the three months ended March 31, 2015.

### Company Overview

The Company is an Enterprise Content Management ("ECM") software development, sales and marketing company serving both the public and private sectors. The Company provides its software solutions principally through (i) the direct licensing of its software installed on customer computer platforms and (ii) providing the applications as a service, accessible through the internet. The latter delivery model is what is referred to as a "cloud-based" or "software as a service" ("SaaS") model.

The Company's software products allow customers to manage "enterprise content" (unstructured data such as hard-copy scanned documents, Word documents, Excel spreadsheets, JPEG files, images, pictures, faxes, audio/video files, emails, and PowerPoint presentations) through the complete document life cycle for that organization. The Company's platform, Intellivue™, improves and enhances business operations for clients by making document and content management simple, accessible and affordable. Our approach to deploying templates for specific business processes is designed to empower clients to affordably manage their documents entirely within the Intellivue™ platform

To date, most of our software customers install our software onto computers at their location (premises-based). In time, the Company anticipates that the provision of "cloud" application services, or software as a service (SaaS), will become a more significant part of its software sales business. We anticipate that cloud-based services will become the principal part of our software sales business and a primary source of revenues for us, because this model allows customers to avoid significant upfront costs for hardware and installation services required for a premises-based delivery. That said, we are just beginning to see our customers migrate to such cloud-based services. Our revenues from cloud-based delivery of our software, as a percentage of total revenue for the period ended December 31, 2014 and December 31, 2013, were 13% and 9% respectively.

Our current sales strategy is to focus our sales efforts toward a much greater percentage of sales through intermediaries, such as software resellers and multi-function device resellers, rather than through direct sales. We have developed marketing programs with resellers that facilitate their selling and support of our software solutions. We refer to these resellers as our "channel partners." We believe that our channel partner strategy improvements have increased the competitive strength of our platform of products. In addition, we have established a set of business solutions templates that provide base software configurations which we believe will facilitate our delivery and installation of software to our customers. We believe that these advancements, in the aggregate, will allow us to license and sell our products to a broader customer base, shortening our sales cycle, making margins more consistent, and allowing us to expand our sales through new channel partnerships. In 2013 and 2014, we devoted significant efforts, in both development and marketing, in bringing about this change in core strategic focus for the Company.

On April 30, 2015, the Company announced: 1) the appointment of Murray Gross as a Director and Chairman of the Board, 2) the resignation of A. Michael Chretien and Thomas D. Moss as Directors of the Company, 3) the adoption of the 2015 Equity Incentive Plan (the "Plan"), with a total of 2,000,000 shares of common stock of the Company authorized and reserved for issuance under the Plan, and 4) the grant of options to Murray Gross (640,000 options) and Sophie Pibouin (128,000 options), subject to certain vesting requirements. For more details, see the Company's Current Report on 8-K, dated April 30, 2015.

### **Revenues**

Revenues are generated from the licensing, subscription and maintenance of our enterprise software products and from professional services fees in connection with the implementation and integration of software applications. Our revenues, especially our license revenues, are impacted by the competitive strength of our software products, as well as general economic and industry conditions.

For our sales of software, our customer base has traditionally been made up of customers with larger projects that can take as much as nine months to two years to complete. For these projects, our policy is to not recognize revenue until the project is complete and delivered to our customer. As such, there are spikes in our revenue when these projects are completed and the associated revenue is recognized. As a result, revenues for sales of software may vary widely from quarter to quarter.

### **Cost of Revenues**

We maintain a staff of software design engineers, developers, installers and customer support personnel, dedicated to the development and implementation of customer applications, customer support and maintenance of deployed software applications. While the total costs related to these personnel are relatively consistent from period to period, the cost of revenues categories to which these costs are charged may vary depending on the type of work performed by our staff.

Costs of revenues also include the costs of server hosting and Software as a Service applications, as well as certain third-party costs and hardware costs incurred. Third-party and hardware costs may vary widely from quarter to quarter.

In addition, while revenues are recognized upon the completion of software and consulting projects, the related costs are recognized when incurred, resulting in gross margins which may vary widely from period to period for these revenue categories.

### **Sales and Marketing Expenses**

Sales expenses consist of compensation and overhead associated with the development and support of our channel sales network, as well as our direct sales efforts. Marketing expenses consist primarily of compensation and overhead associated with the development and production of product marketing materials, as well as promotion of the Company's products through the trade and industry.

### **General and Administrative Expenses**

General and administrative expenses consist of the compensation and overhead of administrative personnel and professional services firms performing administrative functions, including management, accounting, finance and legal services, plus expenses associated with infrastructure, including depreciation, information technology, telecommunications, facilities and insurance.

### **Interest, Net**

Interest, net, consists primarily of interest expense associated with our notes payable. See Results of Operations – Interest Expense – Net, for additional information.

## **How We Evaluate our Business Performance and Opportunities**

### **Major Quantitative and Qualitative Factors we Consider in the Evaluation of our Business**

The major qualitative and quantitative factors we consider in the evaluation of our operating results include the following:

- Our current strategy is to focus upon cloud-based delivery of our software products through channel partners. Historically, our revenues have mostly resulted from premise-based software licensing revenue and professional services revenue. Our observation of industry trends leads us to anticipate that cloud-based delivery will become our principal software business and a primary source of revenues for us, but we are just beginning to see our customers migrate to cloud-based services. Accordingly, when we evaluate our results, we assess whether our cloud-based software revenues are increasing, relative to prior periods and relative to other sources of revenue. Additionally, we assess whether our sales resulting from relationships with channel partners are increasing, relative to prior periods and relative to direct sales to customers. Finally, we consider the number of channel partners with which we have a contract or other relationship to be an indicator of our performance and future results.

- Our customer engagements often involve the development and licensing of customer-specific software solutions and related consulting and software maintenance services. When analyzing whether to undertake a particular customer engagement, we often consider all of the following factors as part of our overall strategy to grow the business: (i) the profit margins the project may yield, (ii) whether the project will allow us to enter a new geographic market, (iii) whether the project would enable us to demonstrate our capabilities to large national resellers, or (iv) whether the project would help to develop new product and service features that we could integrate into our suite of products, resulting in an overall product portfolio that better aligns with the needs of our target customers. As a result of this pipeline analysis, we may take on projects with a lower project margin if we determine that the project is valuable to our business for the other reasons discussed.
- Our sales cycle is long, sometimes lasting 18-24 months. Even when a project begins, we often perform pre-installation assessment, project scoping, and implementation consulting. Our revenue and profit in any particular period is significantly influenced by sales efforts and preliminary project work conducted in prior periods but not completed and recognized until the current period. Therefore, when we plan our business and evaluate our results, we consider the revenue we expect to recognize from projects in our late-stage pipeline.
- Our research and development efforts and expenses to create new software products are critical to our success. When developing new products or product enhancements, our developers collaborate with our own employees across a wide variety of job functions. We also gather in-depth feedback from our customers and channel partners. We evaluate new products and services to determine their likelihood of market success and their potential profitability.
- We monitor our costs and capital needs to ensure efficiency as well as an adequate level of support for our business plan.

***Uncertainties, Trends, and Risks that can cause Fluctuations in our Operating Results***

Our operating results have fluctuated significantly in the past and are expected to continue to fluctuate in the future due to a variety of factors. Factors that affect our operating results include the following:

- our capital needs, and the costs at which we are able to obtain capital;
- general economic conditions that affect the amount our customers are spending on their software needs, the cost at which we can provide software products and services, and the costs at which we can obtain capital;
- the development of new products, requiring development expenses, product rollout, and market acceptance;
- the length of our sales cycle;
- the fact that many of our customers are governmental organizations, exposing us to the risk of early termination, audits, investigations, sanctions, and other penalties not typically associated with private customers;
- our relationships with our channel partners, for purposes of product delivery, introduction to new markets and customers, and for feedback on product development;
- our need to increase expenses at the beginning of a customer project, while associated revenue is recognized over the life of the project;
- the potential effect of security breaches, data center infrastructure capacity, our use of open-source software, and governmental regulation and litigation over data privacy and security;
- whether our clients renew their agreements and timely remit our accounts receivable;
- whether we can license third-party software on reasonable terms;
- our ability to protect and utilize our intellectual property; and
- the effects of litigation, warranty claims, and other claims and proceedings.

Due to all these factors and the other risks discussed in “Part I, Item 1A of our 2014 Form 10-K”, our results of operations should not be relied upon as an indication of our future performance. Comparisons of our operating results with prior periods is not necessarily meaningful or indicative of future performance.

**Results of Operations**

**Overview**

We reported net losses of \$208,857 and \$403,822 for the three months ended March 31, 2015 and 2014, respectively, representing a decrease in net loss of \$194,965 or 48%. We reported gross profit of \$470,238 and \$235,755 for the three months ended March 31, 2015 and 2014, respectively, representing an increase in gross profit of \$234,483, or 99%. We reported operating expenses of \$583,195 and \$591,573 for the three months ended March 31, 2015 and 2014, respectively, representing a decrease in operating expenses of \$8,378. The decrease in operating expenses was principally related to the reduction in general and administrative personnel, and an increase in sales and marketing personnel.

## **Revenues**

We reported total revenues of \$583,775 and \$299,183 for the three months ended March 31, 2015 and 2014, respectively, representing an increase of \$284,592 or 95%. The increase in total revenues is attributable to several factors as described below.

### *Sale of Software*

Revenues from the sale of software principally consist of sales of additional or upgraded software licenses and applications to existing customers and sales of software to our resellers. These software revenues were \$190,037 and \$8,000, for the three months ended March 31, 2015 and 2014, respectively, representing an increase of \$182,037, or 2,275%. The increase was due to our efforts to close new customers in our direct sales and an increase in our sales of software to our resellers.

### *Sale of Software as a Service*

For those customers that wish to avoid the upfront costs of typical premises-based software installations, we provide access to our software as a service, accessible through the internet. Our customers typically enter into our software as a service agreement for periods in excess of one year. Under these agreements, we generally provide access to the applicable software, data storage and related customer assistance and support. Our software as a service revenues were \$56,539 and \$39,442, for the three months ended March 31, 2015 and 2014, respectively, representing an increase of \$17,097, or 43%. The increase in revenue year-over-year was primarily the result of new customers and relationships with channel partners.

### *Sale of Software Maintenance Services*

Software maintenance services revenues consist of fees for post contract customer support services provided to license holders. These agreements allow our customers to receive technical support, enhancements and upgrades to new versions of our software products when and if available. A substantial portion of these revenues were generated from customers to whom we sold software in prior years who have continued to renew their maintenance agreements. The support and maintenance agreements typically have a term of 12 months. Our software maintenance support revenue was \$228,671 and \$210,522, for the three months ended March 31, 2015 and 2014, respectively, representing an increase of \$18,149, or 9%. The increase in revenue was primarily the result of new accounts from the sale of software.

### *Sale of Professional Services*

Professional services revenues consist of revenues from consulting, discovery, training, and advisory services to assist customers with document management needs. These revenues include those arrangements where we do not sell software license as an element of the overall arrangement. Professional services revenues were \$82,238 and \$29,424 for the three months ended March 31, 2015 and 2014, respectively, an increase of \$52,814, or 179%. The increase in revenue primarily resulted from partner fees received from new channel partners.

### *Sale of Third Party Services*

Third party services consist of third party vendor software, hardware and/or services purchases as requested by our customers in as need in conjunction with Intellinetics core software or services. We separated these revenues from our other revenues, because we do not charge a mark-up on the procurement of these third-party products and services for our customers. By classifying these revenues under a separate revenue category, we are attempting to reduce the extent to which fluctuations in this revenue category impact the other categories of revenue.

## **Cost of Revenues**

The cost of revenues during the three months ended March 31, 2015 and 2014 were \$113,537 and \$63,428, respectively, representing an increase of \$50,109, or 79%. The increase in cost of revenue for the period ended March 31, 2015 is primarily due to the increase in revenues as compared with the three month period ending March 31, 2014.

## **Gross Margins**

Overall gross margin for the three months ended March 31, 2015 and 2014 were 81% and 79%, respectively, representing an increase of 2%. The increase in gross margin year-over-year is primarily as result of the mix in revenues, primarily the sale of software.

## **Operating Expenses**

### *General and Administrative Expenses*

General and administrative expenses were \$365,840 during the three months ended March 31, 2015 as compared to \$468,469 during the three months ended March 31, 2014, representing a decrease of \$102,629, or 22%. The decrease was primarily due to the decrease in administrative personnel in 2014 and a decrease in expenses operating as a public company.

### *Sales and Marketing Expenses*

Sales and marketing expenses increased to \$213,977 during the three months ended March 31, 2015 as compared to \$116,174 during the three months ended March 31, 2014, representing an increase of \$97,803 or 84%. The increase was primarily related to the hiring of additional sales personnel in obtaining new channel partners in selling activities, which increased our sales and marketing team and increased our travel expenses.

### *Depreciation and Amortization*

Depreciation and amortization was \$3,378 for the three months ended March 31, 2015, as compared to \$6,930 for the three months ended March 31, 2014, representing a decrease of \$3,552 or approximately 51%. The decrease was the result of no assets being acquired and assets that are becoming fully depreciated.

### *Interest Expense, Net*

Interest expense, net, was \$95,900 during the three months ended March 31, 2015 as compared to \$48,004 during the three months ended March 31, 2014, representing an increase of \$47,896 or 100%. The increase resulted primarily from an increase in the average debt balance outstanding during the three months ended March 31, 2015.

### **Liquidity and Capital Resources**

We have financed our operations primarily through a combination of cash on hand; cash generated from operations, borrowings from third parties and related parties, and proceeds from private sales of equity. As of March 31, 2015, our major liquidity indicators are:

- Cash \$ 79,775,
- Working Capital Deficiency \$ (3,585,504),
- Through March 31, 2015 we have incurred cumulative net losses since inception of \$9,665,868.

From the Company's inception, it has generated revenues from the sales and implementation of our internally generated software applications. Our plan is to increase our sales and market share by developing an expanded network of resellers through which we expect to sell our expanded software product portfolio. We expect that this marketing initiative will require us to develop an expanded sales force and enhance our product marketing efforts, all of which will require additional capital.

Based on current quarterly revenues, our operating cash flows before working capital changes are insufficient by approximately \$ 150,000 to \$200,000 per quarter. In addition, our operating payables currently exceed our accounts receivable by approximately \$450,000. Accordingly, unless our revenues increase from current levels, our operating cash flows over the next 12 months will be insufficient by approximately \$1,050,000 to \$1,250,000 requiring additional capital or debt financing to support operations. During 2014 and the three months ended March 31, 2015, we used the proceeds from convertible note issuances to fund our operating cash flow deficits. Debt obligations due within the next 12 months approximate \$2,500,000. We intend to enter into negotiations to extend maturities, defer payments or convert obligations to equity. We also plan to continue our marketing and sales strategies to increase our revenues while controlling operating costs. There are no assurances that our plans as discussed above will materialize and/or that we will have sufficient liquidity to fund operations. These factors, among others, raise substantial doubt about our ability to continue as a going concern.

Since inception, our operations have primarily been funded through a combination of operating margins, state business development loans, bank loans and loans from friends and family. Although management believes that we may have access to capital resources, there are currently no commitments in place for new financing, and there is no assurance that we will be able to obtain funds on commercially acceptable terms, if at all.

During the three months ended March 31, 2015, we raised \$200,000 in net new funds through the issuance of contingently convertible notes. The proceeds from these notes were used to fund our working capital needs and debt repayment.



Assuming that we are successful in our growth plans and development efforts, we believe that we will be able to raise additional funds through sales of our common stock, issuance of debt or some other financing source. There is no guarantee that we will be able to raise these additional funds or do so on acceptable terms.

Our financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should we be unable to continue as a going concern.

#### ***Liquidity and Capital Resource - Equity Capital Resources***

##### **Shares Issued and Outstanding and Shares Reserved for Exercise of Warrants**

As of March 31, 2015 the Company has 7,123,074 shares of common stock issued and outstanding; and approximately 4,700,000 shares reserved for issuance upon the exercise of outstanding warrants.

Our shares are available for quotation on the Over-the-Counter Bulletin Board, and we believe this is important for raising capital to finance our growth plan. We intend to deploy any future capital we may raise to expand our sales and marketing capabilities, develop ancillary software products, enhance our internal infrastructure, support the accounting, auditing and legal costs of operating as a public company, and provide working capital.

#### ***Liquidity and Capital Resource - Debt Capital Resources***

##### **Deferral of Principal and Interest Payment Relating to Notes Payable Issued by Intellinetics Ohio to the Ohio State Development Authority**

Intellinetics Ohio has issued two notes payable to the Ohio State Development Authority. In June 2014, Intellinetics Ohio and the Ohio State Development Authority entered into a Notice and Acknowledgement of Modification to Payment Schedule on both of the loans, deferring a portion of the principal and interest payments until June 1, 2015.

Both of these notes are subject to certain covenants and reporting requirements, with the Company. In July, 2014 the Company informed the Ohio State Development Authority that the employment requirement was not in compliance in relation to the Authority Loan No. 1. As a result of this noncompliance, the Company's interest rate effective October 1, 2014 went from 6.00% to 7.00 %. The impact of this increase is to raise the Company's balloon payment by \$6,000, which is due in September 2015, and will be waived if the Company fulfills all of its other loan commitments, including satisfying the balloon payment.

On August 14, 2014, the Company entered into a Second Amendment to Loan Agreement to the \$750,000 note payable in which the Company is to provide employment of 19 full-time jobs and create an estimated twelve new full-time jobs and employment opportunities by December 31, 2015. If the Company fails, for reasons other than market conditions, to retain and create an aggregate of at least 25 such jobs and employment opportunities, the interest rate on the outstanding balance of the loan could increase to 10%.

##### **Promissory Notes**

On December 31, 2014, the Company and Ramon M. Shealy converted their previous promissory notes, whose total principal balance and unpaid interest was \$193,453 to a new single promissory note, with a maturity date of January 1, 2020. For more information, please see Note 7 to the Consolidated Financial Statements, titled Notes Payable.

On December 31, 2014, Intellinetics Ohio and Jackie M. Chretien, who is related to the Chairman and Secretary of the Company, and who is also related to the President, CEO, and director of the Company extended their original promissory note, with a maturity of January 1, 2015, by a Promissory Note Extension Agreement, with the maturity date of January 1, 2016 without changing any other terms of that promissory note.

On December 31, 2014, Intellinetics Ohio and A. Michael Chretien, who is the Secretary and Chairman of the Company, extended a promissory note with a maturity date of January 1, 2015, into a promissory note maturity of January 1, 2016. Without changing any other terms of that promissory note.

### Issuance of Convertible Notes.

Throughout 2014 and through the three months ending March 31, 2015, the Company issued new convertible promissory notes as a source of debt liquidity. The total principal balance of such notes issued was \$1,425,000. The note investors have a right, in their sole discretion, to convert the convertible notes into shares of common stock, par value \$0.001 per share, of the Company at various conversion rates ranging from \$0.30 to \$0.56 per share. The annual rate of interest on such notes ranges from 6% to 10%, with all notes maturing on December 31, 2015. For more information, please see Note 8 to the Consolidated Financial Statements, titled Notes Payable.

#### Summary of Current Outstanding Indebtedness

The Company's outstanding indebtedness at March 31, 2015 is as follows:

- Promissory note held by Ohio State Development Authority, dated July 17, 2009, with an original principal balance of \$1,012,500, and current principal balance of \$576,429.
- Promissory note held by Ohio State Development Authority, dated July 3, 2011, with an original principal balance of \$750,000, and current principal balance of \$633,006.
- Convertible notes held by accredited investors, dated between June 4, 2014 and July 10, 2014, with an aggregate original principal balance of \$45,000, current principal balance of \$45,000 with a current discount for the beneficial conversion feature of \$1,654, and accrued interest of \$3,567.
- Promissory note held by Jackie Chretien, dated March 2, 2009, with an original principal balance of \$80,000, current principal balance of \$15,000, and accrued interest of \$3,840.
- Promissory note held by A. Michael Chretien, dated December 29, 2001, with an original principal balance of \$55,167, current principal balance of \$40,415, and accrued interest of \$5,365.
- Promissory note held by Ramon Shealy, dated December 31, 2014, with a principal balance of \$193,453, current principal balance of \$185,896, and accrued interest of \$0.
- Convertible notes held by accredited investors, dated between May 9, 2014 to June 30, 2014, with an aggregate original principal balance of \$ 415,000, current principal balance of \$415,000, with a current discount for the beneficial conversion feature of \$588, and accrued interest of \$34,285.
- Convertible note held by Robert Schroeder, a director of the company, dated May 12, 2014, with an aggregate original principal balance of \$30,000, current principal balance of \$30,000, and accrued interest of \$2,679.
- Convertible note held by Matthew L. Chretien, dated June 6, 2014, with an aggregate original principal balance of \$10,000, current principal balance of \$10,000, and accrued interest of \$ 816.
- Convertible notes held by two accredited investors, dated July 10, 2014, with an aggregate original principal balance of \$701,068, current principal balance of \$701,068 with a current discount for the beneficial conversion feature of \$16,941, and accrued interest of \$50,708.
- Convertible note held by Taglich Brothers, dated July 8, 2014, with an original principal balance of \$10,800, current principal balance of \$10,800 and accrued interest of \$787.
- Convertible notes held by three accredited investors, dated October 9, 2014, with an aggregate original principal balance of \$175,000, current principal balance of \$175,000, and accrued interest of \$4,977.
- Convertible notes held by two accredited investors, dated December 17, 2014, with an aggregate original principal balance of \$200,000, current principal balance of \$200,000 and accrued interest of \$3,420.
- Convertible notes held by two accredited investors, dated February 10, 2015, with an aggregate original principal balance of \$100,000, current principal balance of \$100,000 and accrued interest of \$805.
- Convertible notes held by two accredited investors, dated March 11, 2015, with an aggregate original principal balance of \$100,000, current principal balance of \$100,000 and accrued interest of \$328.

There were no material commitments for capital expenditures at March 31, 2015.

## **Cash Flows**

### Operating Activities

Net cash used in operating activities for the three months ended March 31, 2015 and 2014 was \$248,749 and \$374,503, respectively. During the three months ended March 31, 2015, the net cash used in operating activities was primarily attributable to the net loss adjusted for non-cash expenses of \$52,106 and a decrease in net operating liabilities of \$91,998. During the three months ended March 31, 2014, the net cash used in operating activities was primarily attributable to the net loss adjusted for non-cash expenses of \$9,009 and an increase in net operating liabilities of \$20,310.

### Investing Activities

Net cash used in investing activities for the three months ended March 31, 2015 and 2014 amounted to \$0 and \$2,084, respectively, and was related to the purchase of property and equipment.

### Financing Activities

Net cash provided by financing activities for the three months ended March 31, 2015 amounted to \$144,443. The net cash provided by financing activities resulted from new borrowings. New borrowings of \$200,000 were partially offset by \$55,557 of notes payable repayments, of which \$7,557 was repaid to related parties.

Net cash provided by financing activities for the three months ended March 31, 2014 amounted to \$135,359. The net cash provided by financing activities resulted from new borrowings. New borrowings of \$240,000 were partially offset by \$104,641 of notes payable repayments, of which \$5,000 was repaid to related parties.

## **Critical Accounting Policies and Estimates**

There have been no significant changes during the three months ended March 31, 2015 to the items that we disclosed as our critical accounting policies and use of estimates in our "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2014 Form 10-K.

## **Liquidity, Going Concern and Management's Plans**

We have incurred substantial recurring losses since our inception. The accompanying financial statements have been prepared assuming that we will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities and commitments in the normal course of business. During the years 2012, 2013, 2014 and the three months ended March 31, 2015, we raised a total of \$4,844,077 through issuance of debt and equity securities. We are also in the process of exploring strategies to increase our existing revenues. We believe we will be successful in these efforts; however, there can be no assurance we will be successful in raising additional debt or equity financing or finding any other financing source to fund our operations on terms agreeable to us. These matters raise substantial doubt about our ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary if we were unable to continue as a going concern.

On February 10, 2015, the Company issued two convertible promissory notes in a maximum aggregate principal amount of \$100,000 to two accredited investors who are associated with each other. The notes mature on December 31, 2015 and bear interest at an annual rate of interest of 6 percent until maturity. For more information, see Note 7 to the unaudited consolidated financial statements.

On March 11, 2015, the Company issued two convertible promissory notes in a maximum aggregate principal amount of \$100,000 to two accredited investors who are associated with each other. The notes mature on December 31, 2015 and bear interest at an annual rate of interest of 6 percent until maturity. For more information, see Note 7 to the unaudited consolidated financial statements.

### *Use of Estimates*

The preparation of our consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to exercise its judgment. We exercise considerable judgment with respect to establishing sound accounting policies and in making estimates and assumptions that affect the reported amounts of our assets and liabilities, our recognition of revenues and expenses, and other financial information.

On an ongoing basis, we evaluate our estimates and judgments. Areas in which we exercise significant judgment include, but are not necessarily limited to, our valuation of accounts receivable and income taxes.

We base our estimates and judgments on a variety of factors, including our historical experience, knowledge of our business and industry, current and expected economic conditions, and the attributes of our products and services. We periodically re-evaluate our estimates and assumptions with respect to these judgments and modify our approach when circumstances indicate that modifications are necessary.

While we believe that the factors we evaluate provide us with a meaningful basis for establishing and applying sound accounting policies, we cannot guarantee that the results will always be accurate. Since the determination of these estimates requires the exercise of judgment, actual results could differ from such estimates.

A description of significant accounting policies that require us to make significant estimates and assumptions in the preparation of our consolidated financial statements is the allowance for doubtful accounts and valuation allowance for deferred tax assets.

We establish allowances for doubtful accounts based on certain percentages of accounts sixty days or more past due and when available information causes us to believe that credit loss is probable. Due to historical losses, a full valuation allowance is recognized on deferred tax assets.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Not applicable to smaller reporting companies.

### **Item 4. Controls and Procedures.**

#### *Disclosure Controls and Procedures*

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended, or 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 for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and in reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures (as defined under Exchange Act Rule 13a-15(e)), as of March 31, 2015. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2015.

#### *Changes in Internal Control Over Financial Reporting*

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS.**

None.

### **ITEM 1A. RISK FACTORS.**

Our business and operating results are subject to many risks, uncertainties and other factors. If any of these risks were to occur, our business, affairs, assets, financial condition, results of operations, cash flows and prospects could be materially and adversely affected. These risks, uncertainties and other factors include the information discussed elsewhere in this report as well as the risk factors set forth in "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, which have not materially changed as of the date of this report.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**

There have been no securities sold by the registrant during the period covered by this Quarterly Report on Form 10-Q that have not previously been included on a Form 8-K.

**ITEM 3. DEFAULT UPON SENIOR SECURITIES.**

None.

**ITEM 4. MINE SAFETY DISCLOSURES.**

Not Applicable.

**ITEM 5. OTHER INFORMATION.**

None.

**ITEM 6. EXHIBITS.**

The following is a list of exhibits filed as part of this Quarterly Report on Form 10-Q.

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
10.1	Non-Qualified Option Agreement with Sophie Pibouin, dated April 30, 2015, filed as Exhibit 10.1 of the 8-K dated April 30, 2015.
10.2	Non-Qualified Option Agreement with Murray Gross, dated April 30, 2015, filed as Exhibit 10.2 of the 8-K dated April 30, 2015.
10.3	Intellinetics, Inc. 2015 Equity Incentive Plan, filed as Exhibit 10.3 of the 8-K dated April 30, 2015.
31.1*	Certification of Principal Executive Officer pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.
31.2*	Certification of Principal Financial Officer pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.
32.1*	Certification of Principal Executive Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.
32.2*	Certification of Principal Financial Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.
101. INS XBRL Instance Document.*	
101. SCH XBRL Taxonomy Schema.*	
101. CAL XBRL Taxonomy Extension Calculation Linkbase.*	
101. DEF XBRL Taxonomy Extension Definition Linkbase.*	
101. LAB XBRL Taxonomy Extension Label Linkbase.*	
101. PRE XBRL Taxonomy Extension Presentation Linkbase.*	

\* filed herewith

SIGNATURES

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

GLOBALWISE INVESTMENTS, INC.

Dated: May 15, 2015

By: /s/ Matthew L. Chretien

Matthew L. Chretien

President and Chief Executive Officer (Principal Executive Officer)

Dated: May 15, 2015

By: /s/ Kendall D. Gill

Kendall D. Gill

Chief Financial Officer

## Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Matthew L. Chretien, certify that:

1. I have reviewed this report on Form 10-Q of Intellinetics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2015

By: /s/ Matthew L. Chretien

President and Chief Executive Officer

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## Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Kendall D. Gill, certify that:

1. I have reviewed this report on Form 10-Q of Intellinetics, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2015

By: /s/ Kendall D. Gill

Chief Financial Officer

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CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Intellinetics, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2015, as filed with the Securities and Exchange Commission (the "Report"), I, Kendall D. Gill, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 15, 2015

/s/ Kendall D. Gill

Chief Financial Officer

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CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Intellinetics, Inc. (the "Company") on Form 10-Q for the quarter ended March 31, 2015, as filed with the Securities and Exchange Commission (the "Report"), I, Matthew L. Chretien, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 15, 2015

/s/ Matthew L. Chretien

President and Chief Executive Officer

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