

**PROSPECTUS SUPPLEMENT DATED May 16, 2017  
TO  
PROSPECTUS DATED MAY 9, 2016  
INTELLINETICS, INC.**

This prospectus supplement should be read in conjunction with our prospectus dated May 9, 2016 and in particular “Risk Factors” beginning on page 6 of the prospectus.

This prospectus supplement includes the attached Quarterly Report on Form 10-Q of Intellinetics, Inc., filed with the Securities and Exchange Commission on May 16, 2017.

---

---

---

**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, 2017

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, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  (Do not check if a smaller reporting company)

Non-accelerated filer

Emerging growth company

Accelerated filer

Smaller reporting company

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

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

As of May 12, 2017 there were 17,376,012 shares of the issuer's common stock outstanding.

---

---

INTELLINETICS, INC.  
Form 10-Q  
March 31, 2017  
TABLE OF CONTENTS

	Page No.
<u>PART I</u>	
<u>FINANCIAL INFORMATION</u>	5
ITEM 1. <u>Financial Statements.</u>	5
<u>Condensed Consolidated Balance Sheets as of March 31, 2017 (Unaudited) and December 31, 2016</u>	5
<u>Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2017, and 2016 (Unaudited)</u>	6
<u>Condensed Consolidated Statement of Stockholders' Deficit for the Three Months Ended March 31, 2017 (Unaudited)</u>	7
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2017 and 2016 (Unaudited)</u>	8
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	9
ITEM 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>	24
ITEM 3. <u>Quantitative and Qualitative Disclosures About Market Risk.</u>	32
ITEM 4. <u>Controls and Procedures.</u>	33
<u>PART II</u>	
<u>OTHER INFORMATION</u>	34
ITEM 1. <u>Legal Proceedings.</u>	34
ITEM 1A. <u>Risk Factors.</u>	34
ITEM 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds.</u>	34
ITEM 3. <u>Defaults Upon Senior Securities.</u>	34
ITEM 4. <u>Mine Safety Disclosures.</u>	34
ITEM 5. <u>Other Information.</u>	34
ITEM 6. <u>Exhibits.</u>	34
<u>SIGNATURES</u>	35

## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q 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,” “forecast,” “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, and our goals for future revenues and earnings;
- 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, and technologies;
- 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, and technologies;
- 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, and technologies;
- the nature and intensity of our competition, and our ability to successfully compete in our markets;
- business acquisitions, combinations, sales, alliances, ventures and other similar business transactions and relationships; and
- the effects on our business, financial condition and results of operations of litigation 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 (the “SEC”). 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>March 31, 2017</u> (Unaudited)	<u>December 31, 2016</u>
<b>ASSETS</b>		
Current assets:		
Cash	\$ 494,935	\$ 689,946
Accounts receivable, net	366,530	259,497
Prepaid expenses and other current assets	<u>211,954</u>	<u>150,620</u>
Total current assets	1,073,419	1,100,063
Property and equipment, net	22,206	18,783
Other assets	<u>10,284</u>	<u>10,285</u>
Total assets	<u>\$ 1,105,909</u>	<u>\$ 1,129,131</u>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 736,415	\$ 767,197
Deferred revenues	538,985	665,460
Deferred compensation	215,012	215,012
Notes payable - current	366,316	360,496
Notes payable - related party - current	<u>39,273</u>	<u>38,307</u>
Total current liabilities	1,896,001	2,046,472
Long-term liabilities:		
Notes payable - net of current portion	759,166	585,782
Notes payable - related party - net of current portion	309,841	299,447
Deferred interest expense	156,901	158,062
Other long-term liabilities - related parties	<u>6,609</u>	<u>1,125</u>
Total long-term liabilities	<u>1,232,517</u>	<u>1,044,416</u>
Total liabilities	3,128,518	3,090,888
Stockholders' deficit:		
Common stock, \$0.001 par value, 50,000,000 shares authorized; 17,376,012 and 16,815,850 shares issued and outstanding at March 31, 2017 and December 31, 2016, respectively	30,380	26,816
Additional paid-in capital	13,350,470	12,966,177
Accumulated deficit	(15,403,459)	(14,954,750)
Total stockholders' deficit	<u>(2,022,609)</u>	<u>(1,961,757)</u>
Total liabilities and stockholders' deficit	<u>\$ 1,105,909</u>	<u>\$ 1,129,131</u>

See Notes to these condensed consolidated financial statements

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

	<b>For the Three Months Ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
<b>Revenues:</b>		
Sale of software	\$ 162,984	\$ 90,874
Software as a service	132,308	110,156
Software maintenance services	249,922	246,596
Professional services	107,604	98,176
Third Party services	57,576	57,589
	710,394	603,391
<b>Cost of revenues:</b>		
Sale of software	23,704	19,518
Software as a service	94,357	48,884
Software maintenance services	26,078	46,558
Professional services	49,653	31,355
Third Party services	13,088	27,442
	206,880	173,757
Gross profit	503,514	429,634
<b>Operating expenses:</b>		
General and administrative	579,837	636,267
Sales and marketing	236,577	187,508
Depreciation	3,006	2,956
	819,420	826,731
Loss from operations	(315,906)	(397,097)
<b>Other income (expense)</b>		
Interest expense, net	(132,803)	(138,668)
	(132,803)	(138,668)
Net loss	\$ (448,709)	\$ (535,765)
Basic and diluted net loss per share:	\$ (0.03)	\$ (0.03)
Weighted average number of common shares outstanding - basic and diluted	17,354,619	16,262,800

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, 2017**  
(Unaudited)

	<u>Common Stock</u>		<u>Additional Paid- in Capital</u>	<u>Accumulated Deficit</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
Balance, December 31, 2016	16,815,850	\$ 26,816	\$ 12,966,177	\$ (14,954,750)	\$ (1,961,757)
Stock Issued to Directors	64,051	64	57,436	-	57,500
Stock Option Compensation	-	-	28,883	-	28,883
Exercise of stock warrants	496,111	3,500	(3,500)	-	0
Note Offer Warrant Expense	-	-	52,951	-	52,951
Beneficial Conversion of Convertible Notes	-	-	248,523	-	248,523
Net Loss	-	-	-	(448,709)	(448,709)
Balance, March 31, 2017	17,376,012	\$ 30,380	\$ 13,350,470	\$ (15,403,459)	\$ (2,022,609)

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>2017</b>	<b>2016</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (448,709)	\$ (535,765)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>		
Depreciation and amortization	3,006	2,956
Bad debt expense	2,976	-
Amortization of deferred financing costs	19,699	708
Amortization of beneficial conversion option	59,908	-
Stock issued for services	57,500	62,500
Stock options compensation	28,883	67,193
Note conversion warrant expense	-	137,970
Note offer warrant expense	52,951	-
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	(110,009)	(54,295)
Prepaid expenses and other current assets	(61,333)	(29,579)
Accounts payable and accrued expenses	(30,782)	(68,489)
Other long-term liabilities - related parties	5,484	(12,852)
Deferred interest expense	(1,161)	8,198
Deferred revenues	(126,475)	(127,506)
Total adjustments	<u>(99,353)</u>	<u>(13,196)</u>
Net cash used in operating activities	<u>(548,062)</u>	<u>(548,961)</u>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(6,429)	-
Net cash used in investing activities	<u>(6,429)</u>	<u>-</u>
<b>Cash flows from financing activities:</b>		
Sale of Common Stock	-	559,285
Exercise of stock options	-	3,500
Payment of deferred financing costs	(103,326)	-
Proceeds from notes payable	560,000	-
Repayment of notes payable	(87,971)	(60,000)
Repayment of notes payable - related parties	(9,223)	(66,501)
Net cash provided by financing activities	<u>359,480</u>	<u>436,284</u>
Net increase (decrease) in cash	(195,011)	(112,677)
Cash - beginning of period	689,946	1,117,118
Cash - end of period	<u>\$ 494,935</u>	<u>\$ 1,004,441</u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the period for interest and taxes	<u>\$ 36,956</u>	<u>\$ 20,294</u>
<b>Supplemental disclosure of non-cash financing activities:</b>		
Accrued interest notes payable converted to equity	\$ -	\$ 35,038
Discount on notes payable for beneficial conversion feature	248,522	-
Notes payable conversion warrant expense	-	113,762
Notes payable conversion underwriting warrant expense	-	24,207
Notes payable converted to equity	-	135,000

See Notes to these condensed consolidated financial statements

### 1. Business Organization and Nature of Operations

Intellinetics, Inc., formerly known as GlobalWise Investments, Inc., (“Intellinetics”), is a Nevada corporation incorporated in 1997, with a single operating subsidiary, Intellinetics, Inc., an Ohio corporation (“Intellinetics Ohio”), together with Intellinetics, the (“Company,” “we,” “us,” and “our”). Intellinetics Ohio was incorporated in 1996, and on February 10, 2012, Intellinetics Ohio became the sole operating subsidiary of Intellinetics as a result of a reverse merger and recapitalization.

The Company is a document solutions software development, sales and marketing company serving both the public and private sectors. The Company’s software platform allows customers to capture and manage all documents across operations such as scanned hard-copy documents and all digital documents including those from Microsoft Office 365, digital images, audio, video and emails. The Company’s solutions create value for customers by making it easy to connect business-critical documents to the processes they drive by making them easy to find, secure and compliant.

### 2. Basis of Presentation

The accompanying audited 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, 2017 and the consolidated results of its operations and cash flows for the three months ended March 31, 2017 and 2016, 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, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017 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, 2016 included in the Company’s Form 10-K filed with the Securities and Exchange Commission on March 30, 2017.

### 3. Liquidity and Management’s Plans

Through March 31, 2017, the Company had incurred an accumulated deficit since its inception of \$15,403,459. At March 31, 2017, the Company had a cash balance of \$494,935.

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

The Company’s business 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 continue its efforts towards reseller training and on-boarding, and develop additional software integration and customization capabilities, all of which will require additional capital.

The Company expects that through the next 12 months, the capital requirements to fund the Company’s growth, service existing debt obligations, and to cover the operating costs as a public company will consume substantially all of the cash flows that it intends to generate from its operations. The Company further believes that during this period, while the Company is focusing on the growth and expansion of its business, the gross profit that it expects to generate from operations will not generate sufficient funds to cover these anticipated operating costs. Our cash requirements are insufficient by approximately \$91,000 per month. During 2016 and the three months ending March 31, 2017, the Company has used the proceeds from the convertible note issuances and the sale of equity securities to sustain operations and to follow through on the execution of its business plan. There is no assurance that the Company’s has or will be able to obtain sufficient funds to fund the Company’s operations. Given these conditions, the Company’s ability to continue as a going concern is contingent upon increasing its revenues and successfully managing its cash requirements. In addition, the Company’s ability to continue as a going concern must be considered in light of the problems, expenses and complications frequently encountered by entrants into established markets, the competitive environment in which the Company operates and its cash requirements. These factors, among others, raise substantial doubt about the Company’s ability to continue as a going concern.

Since inception, the Company's operations have primarily been funded through a combination of gross 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 may have access to additional capital resources, there are currently no commitments or arrangements in effect that would provide for new financing and there is no assurance that the Company will be able to obtain additional funds on commercially acceptable terms, if at all.

During the three months ended March 31, 2017, the Company raised a net \$459,745 through the issuance of convertible notes. The proceeds from the issuance were used to fund the Company's working capital needs and debt repayment obligations.

The current level of cash and operating margins may not be enough to cover the existing fixed and variable obligations of the Company, so increased revenue performance and the addition of capital are critical to the Company's success.

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, when it was known as GlobalWise Investments, Inc., pursuant to a reverse merger, with Intellinetics Ohio surviving 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 one-for-seven (1-for-7) 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 allowances 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 risks. 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, 2017 and December 31, 2016, the Company's allowance for doubtful accounts was \$20,732 and \$19,034, respectively.

#### ***Property and Equipment***

Property, 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 three to seven years. Leasehold improvements are amortized over the life of the lease or the asset, whichever is shorter, generally seven to ten 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." 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 ASC 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.

The grant date fair value of stock option awards is recognized in earnings as share-based compensation cost over the requisite service period of the award using the straight-line attribution method. The Company estimates the fair value of the stock option awards using the Black-Scholes-Merton option pricing model. The exercise price of options is specified in the stock option agreements. The expected volatility is based on the historical volatility of the Company's stock for the previous period equal to the expected term of the options. The expected term of options granted is based on the midpoint between the vesting date and the end of the contractual term. The risk-free interest rate is based upon a U.S. Treasury instrument with a life that is similar to the expected term of the options. The expected dividend yield is based upon the yield expected on date of grant to occur over the term of the option.

On January 3 and March 17, 2017, the Company issued 61,110 and 2,941 new Shares, respectively, of restricted common stock to directors of the Company in accordance with the 2015 Intellinetics Equity Incentive Plan (the “2015 Plan”). Stock compensation of \$57,500 was recorded on the issuance of the Shares.

On March 15, 2017, the Company granted an employee stock options to purchase 100,000 Shares at an exercise price of \$0.85 per Share, in accordance with the 2015 Plan, with vesting continuing until 2020. The total fair value of \$70,872 for these stock options will be recognized by the Company over the applicable vesting period. The total stock option compensation for the three months ended March 31, 2017 was \$4,357.

For the three months ended March 31, 2017, the Company recorded Share-based compensation to employees of \$28,883 and to non-employees of \$57,500. For the three months ended March 31, 2016, the Company recorded Share-based compensation to employees of \$74,693 and to non-employees of \$55,000.

#### ***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, “Internal-Use Software,” the Company capitalizes purchase and implementation costs of internal use software. No such costs were capitalized during the periods presented.

#### ***Research and Development***

We design, develop, test, market, license, and support new software products and enhancements of current products. We continuously monitor our software products and enhancements to remain compatible with standard platforms and file formats. We expense our software development costs as incurred. For the three months ending March 31, 2017 and 2016, our research and development costs were \$50,957 and \$89,889, respectively.

#### ***Recent Accounting Pronouncements***

##### *Stock Compensation*

In March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”), which simplified certain aspects of the accounting for share-based payment transactions, including income taxes, classification of awards and classification on the statement of cash flows. ASU 2016-09 will be effective for the Company beginning in its first quarter of 2018. The Company is currently evaluating the impact of adopting ASU 2016-09 on its consolidated financial statements.

##### *Leases*

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (“ASU 2016-02”), which modified lease accounting for both lessees and lessors to increase transparency and comparability by recognizing lease assets and lease liabilities by lessees for those leases classified as operating leases under previous accounting standards and disclosing key information about leasing arrangements. ASU 2016-02 will be effective for the Company beginning in its first quarter of 2020, and early adoption is permitted. The Company is currently evaluating the timing of its adoption and the impact of adopting ASU 2016-02 on its consolidated financial statements.

## *Revenue Recognition*

In May 2014, the Financial Accounting Standards Board (“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, and (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. Subsequently, the FASB has issued the following standards related to ASU 2014-09: ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (“ASU 2016-08”); ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing (“ASU 2016-10”); and ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients (“ASU 2016-12”). The Company must adopt ASU 2016-08, ASU 2016-10 and ASU 2016-12 with ASU 2014-09 (collectively, the “new revenue standards”). In July 2015, the FASB deferred the effective date of the new revenue standards for one year beyond the originally specified effective date. The update is now effective for public entities for annual periods beginning after December 15, 2017, including interim periods therein. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. Three basic transition methods are available – full retrospective, retrospective with certain practical expedients, and a cumulative effect approach.

The Company is currently in the process of assessing the adoption methodology, which allows the amendment to be applied retrospectively to each prior period presented, or with the cumulative effect recognized as of the date of initial application. As required, the Company will adopt the new standard on January 1, 2018. The Company believes that there will be no significant changes required to our processes and systems to adopt the new standard. The Company anticipates this new standard will not have a material impact on the way the Company recognizes revenues. The Company is also evaluating the impact of the guidance in Accounting Standards Codification (ASC) 340-40, Other Assets and Deferred Costs; Contracts with Customers, under ASU 2014-09. Under ASC 340-40, the Company would be required to capitalize and amortize incremental costs of obtaining a contract. Under our current accounting policy, the Company does not capitalize incremental costs of obtaining a contract but rather recognize those costs when they are incurred.

## *Revenue Recognition*

### *a) Sale of Software*

The Company recognizes revenues in accordance with ASC Topic 985-605, “Software Revenue Recognition.”

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 on a percentage of completion basis, measured by the percentage of labor hours incurred to date to estimated total labor hours for each contract, or on a completed contract basis when dependable estimates are not available.

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 (“SaaS”) 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) Sale 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 on the sell-through method (when reseller executes sale to end customer) when all the recognition criteria have been met—in other words, persuasive evidence of an arrangement exists, delivery has occurred, 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, 2017 and 2016 amounted to approximately \$12,000 and \$0, 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, 2017 and 2016, 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. 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.

### *Reclassifications*

Certain amounts in the 2016 consolidated financial statements have been reclassified to conform to current year presentation.

## **6. Property and Equipment**

Property and equipment are comprised of the following:

	March 31, 2017	December 31, 2016
Computer hardware and purchased software	\$ 316,095	\$ 309,667
Leasehold improvements	221,666	221,666
Furniture and fixtures	88,322	88,322
	619,655	619,655
Less: accumulated depreciation and amortization	(603,877)	(600,872)
Property and equipment, net	\$ 22,206	\$ 18,783



Total depreciation expense on the Company's property and equipment for the three months ended March 31, 2017 and 2016 amounted to \$3,006 and \$2,956, respectively.

## 7. Notes Payable

On July 17, 2009, Intellinetics Ohio, now the sole operating subsidiary of 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 Authority Loan No. 1, Intellinetics Ohio was required to pay only interest through September 30, 2010 and thereafter monthly principal and interest payments of \$23,779 each through September 1, 2015. The Authority Loan No. 1 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, Intellinetics Ohio is required to 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 Authority Loan No. 1. In June 2014, Intellinetics Ohio 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. On September 25, 2015, Intellinetics Ohio and the Ohio State Development Authority entered into a Third Amendment to the Loan Agreement related to Authority Loan No. 1, deferring a portion of the principal payment until October 1, 2016 and extending the maturity date until August 1, 2018.

On June 3, 2011, Intellinetics Ohio 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 a rate of 7% per annum for the second 12 months ("Authority Loan No. 2," and together with Authority Loan No. 1, the "Authority Loans"). Intellinetics Ohio 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 Authority Loan No. 2 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, Intellinetics Ohio is required to 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 Authority Loan No. 2. The interest rate of 1% during the first 12 months of this loan was considered to be below market for that period. Intellinetics Ohio further determined that over the life of the Authority Loan No. 2, the effective interest rate was 5.6% per annum. Accordingly, during the first 12 months of the Authority Loan No. 2, Intellinetics Ohio 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 Authority Loan No. 2. On March 31, 2017 and December 31, 2016, deferred interest of \$156,901 and \$158,062, respectively, was reflected within long term liabilities on the accompanying consolidated balance sheets. In June 2014, Intellinetics Ohio 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. On September 25, 2015 Intellinetics Ohio and the Ohio State Development Authority entered into a Third Amendment to the Loan Agreement related to Authority Loan No. 2, deferring a portion of the principal payment until October 1, 2016.

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

The Authority Loans are subject to certain covenants and reporting requirements. Intellinetics Ohio 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. If Intellinetics has not 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, Intellinetics Ohio informed the State of Ohio that it would not meet the required employment level. As a result of this non-compliance with a covenant of Authority Loan No. 1, the Ohio State Development Authority 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 Intellinetics Ohio's balloon payment by \$6,000 on Authority Loan No. 1, which is due, as amended on August 1, 2018. Intellinetics Ohio has had past instances of non-compliance with certain of the loan covenants. Intellinetics Ohio is currently in compliance with all the other loan covenants. There can be no assurance that Intellinetics Ohio will not become non-compliant with one or more of these covenants in the future.

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. The beneficial conversion features are amortized to interest expense over the life of the respective notes, starting from the date of recognition.

Between June 24, 2014 and July 7, 2014, the Company issued convertible promissory notes in an aggregate amount of \$135,000 to two accredited investors (“Unrelated Notes due December 31, 2015”). The notes matured on December 31, 2015 and bore interest at an annual rate of interest of 10% until maturity, with interest payable quarterly. The note investors had a right, in their sole discretion, to convert the notes into Shares under certain circumstances at a conversion rate of \$0.56 per Share. Because the notes had not been fully repaid by the Company or converted into Shares prior to maturity, the notes began accruing interest at the annual rate of 12% commencing on the maturity date. The Company used the proceeds for working capital, general corporate purposes, and debt repayment. On January 6, 2016, the note investors converted \$135,000 of the notes and accrued interest thereon of \$35,038 into 303,912 Shares and 141,698 warrants to purchase Shares, as part of a private placement and note exchange commenced in December 2015. The warrants have an exercise price equal to \$0.65 per Share and contain a cashless exercise provision. All warrants are immediately exercisable and are exercisable for five years from issuance. Interest expense of \$113,762 was recorded on the issuance of these warrants.

Between December 30, 2016, and January 31, 2017, the Company issued convertible promissory notes in an aggregate amount of \$875,000 (“Unrelated Notes due December 31, 2018”) to unrelated accredited investors. The notes mature on December 31, 2018, and bear interest at an annual rate of interest of 12% until maturity, with partial interest of 6% payable quarterly. The note investors have a right, in their sole discretion, to convert the notes into Shares under certain circumstances at a conversion rate of \$0.65 per Share. If the 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 maturity, then such notes will accrue interest at the annual rate of 14% 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 8% instead of 6%. The Company used the proceeds of the notes for working capital, general corporate purposes, and debt repayment. The Company recognized a beneficial conversion feature in the amount of \$369,677. Interest expense recognized on the amortization of the beneficial conversion feature was \$41,880 for the three months ended March 31, 2017.

The table below reflects all notes payable at March 31, 2017 and December 31, 2016, respectively, with the exception of related party notes disclosed in Note 8 - Notes Payable - Related Parties.

	March 31, 2017	December 31, 2016
Authority Loan No. 1, due August 1, 2018	\$ 302,565	\$ 353,346
Authority Loan No. 2, due August 1, 2018	395,925	433,115
Unrelated Notes due December 31, 2018	547,203	193,846
Total notes payable	\$ 1,245,693	\$ 980,307
Less unamortized debt issuance costs	(120,211)	(34,029)
Less current portion	(366,316)	(360,496)
Long-term portion of notes payable	\$ 759,166	\$ 585,782

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 Months Ending March 31,	Amount
2018		\$ 366,316
2019		879,377
<b>Total</b>		<b>\$ 1,245,693</b>

As of March 31, 2017 and December 31, 2016, accrued interest for these notes payable with the exception of the related party notes in Note 8 - Notes Payable - Related Parties, was \$293,656 and \$282,147, respectively, and was reflected within accounts payable and accrued expenses on the consolidated balance sheets. As of March 31, 2017 and December 31, 2016, accrued loan participation fees were \$173,786 and \$172,659, respectively, and reflected within accounts payable and accrued expenses on the consolidated balance sheets. As of March 31, 2017 and December 31, 2016, deferred financing costs were \$120,211 and \$34,029, respectively, and were reflected within long term liabilities 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, 2017, and 2016, interest expense, including the amortization of deferred financing costs, accrued loan participation fees, original issue discounts, deferred interest and related fees, interest expense related to warrants issued for the conversion of convertible notes, and the embedded conversion feature was \$80,858 and \$134,708, respectively.

#### **8. Notes Payable - Related Parties**

On March 29, 2012, the Company issued an unsecured promissory note payable to Ramon Shealy, a then-director of the Company, who subsequently resigned from the Company's 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 another promissory 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 cancelled and replaced with a \$250,000 promissory note, under the same terms, with a maturity date of January 1, 2014. On December 24, 2013, the maturity date of the \$250,000 promissory note was extended to 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 extended payment terms for the remaining total principal and interest in the amount of \$193,453, payable in sixty (60) monthly installments beginning January 31, 2015, with a maturity date of January 1, 2020. As of March 31, 2017 and December 31, 2016, this Note had a principal balance of \$118,186 and \$127,408, respectively.

On November 30, 2016, the Company issued convertible promissory notes in a maximum aggregate principal amount of \$225,000 to Robert and Michael Taglich (each holding more than 5% beneficial interest in the Company's Shares) and Robert Schroeder (Director) ("Bridge Notes"). The notes had a maturity date of December 1, 2017, bearing interest at an annual rate of interest of 8% until maturity. Each note holder had a right, in their sole discretion, to convert the notes into securities to be issued by the Company in a private placement of equity, equity equivalent, convertible debt or debt financing. Interest expense recognized for the twelve months ended December 31, 2016 was \$1,125. On December 30, 2016, the Bridge Notes were converted by the note holders into the Related Notes due December 31, 2018, described below.

On December 30, 2016, the Company issued convertible promissory notes in an aggregate amount of \$375,000 (the “Related Notes due December 31, 2018”) to accredited investors, including Robert and Michael Taglich (each holding more than 5% beneficial interest in the Company’s Shares) and Robert Schroeder (Director), in exchange for the conversion of \$225,000 principal from the Bridge Notes and \$150,000 cash. The notes bear interest at an annual rate of interest of 12 percent until maturity, with partial interest of 6% payable quarterly, and mature on December 31, 2018. The note investors have a right, in their sole discretion, to convert the notes into Shares at a conversion rate of \$0.65 per Share. If the 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 14% 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 8% instead of 6%. The Company used the proceeds of the notes for working capital, general corporate purposes, and debt repayment. The Company recognized a beneficial conversion feature in the amount of \$144,231. Interest expense recognized on the amortization of the beneficial conversion feature was \$18,029 for the three months ended March 31, 2017.

The table below reflects Notes payable due to related parties at March 31, 2017 and December 31, 2016, respectively:

	<u>March 31, 2017</u>	<u>December 31, 2016</u>
The \$250,000 Shealy Note	118,185	127,408
Related Notes due December 31, 2018	248,799	230,769
Total notes payable - related party	\$ 366,984	\$ 358,177
Unamortized debt issuance costs	(17,870)	(20,423)
Less current portion	(39,273)	(38,307)
Long-term portion of notes payable-related party	<u>\$ 309,841</u>	<u>\$ 299,447</u>

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

	For the Twelve Months Ending March 31,	Amount
2018		\$ 39,273
2019		292,183
2020		35,528
TOTAL		<u>\$ 366,984</u>

As of March 31, 2017 and December 31, 2016, accrued interest for these notes payable – related parties amounted to \$6,609 and \$1,125, respectively.

For the three months ended March 31, 2017, and 2016, interest expense in connection with notes payable – related parties was \$32,246 and \$3,960, respectively.

#### 9. Deferred Compensation

Pursuant to the Company’s employment agreements with the founders, the founders have earned incentive compensation totaling \$215,012 in cash, which payment obligation has been deferred by the Company until it reasonably believes it has sufficient cash to make the payment.

#### 10. Commitments and Contingencies

##### *Employment Agreements*

The Company has entered into employment agreements with three 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. Deferred compensation for the founders of the Company, as disclosed in Note 9 above, is still outstanding as of March 31, 2017.

##### *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. The lease commenced on January 1, 2010 and, pursuant to a lease extension dated August 9, 2016, the lease expires on December 31, 2021.

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

	For the Twelve Months Ending March 31,	Amount
2018		\$ 50,724
2019		52,020
2020		53,316
2021		54,630
2022		41,742
		<u>\$ 252,432</u>

Rent expense, recorded on a straight-line basis, charged to operations for the three months ended March 31, 2017 and 2016 amounted to \$13,252, 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 (1) 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.

### ***Issuance of Restricted Common Stock to Directors***

On January 5 and March 22, 2017, and on January 2, 2016, the Company issued 61,110, 2,941, and 69,433 Shares, respectively, of restricted common stock to directors of the Company in accordance with the 2015 Plan, and as part of an annual compensation plan for directors. The grant of Shares was not subject to vesting. For the three months ended March 31, 2017 and 2016, stock compensation of \$57,500 and \$62,500, respectively, was recorded on the issuance of the common stock.

### ***Exercise of Warrants***

On February 15, 2013, the Company and Matthew Chretien, a member of the Board of Directors, entered into a return to treasury agreement dated February 15, 2013, whereby Matthew Chretien returned 500,000 Shares to the Company. As consideration for Matthew Chretien returning to the Company treasury these 500,000 Shares, the Company issued one four-year warrant to Matthew Chretien with a right to purchase 500,000 Shares at \$0.007 per Share within four years of the shareholders of the Company increasing the number of authorized Shares, with piggyback registration rights. The warrant had a right of first refusal for Matthew Chretien to exercise up to 500,000 Shares prior to the Company issuing Shares in any transaction. On January 5, 2017, Matthew Chretien exercised the warrant and purchased 496,111 Shares at \$0.007 per Share through a cashless exercise.

### ***Issuance of Warrants***

On November 30, 2016, the Company issued 56,250 warrants to purchase one Share to Robert and Michael Taglich (each holding more than 5% beneficial interest in the Company's Shares) and Robert Schroeder (Director) in connection with the convertible promissory notes issued on November 30, 2016 (the "Bridge Notes"). The warrants are exercisable to purchase one Share at an exercise price of \$0.68 per Share, contain a cashless exercise provision, and are exercisable for five years after issuance. Expense of \$32,192 was recorded for the issuance of these warrants on November 30, 2016, utilizing the Black-Scholes valuation model to value the warrants issued. The fair value of warrants issued was determined to be \$0.57.

Between December 30, 2016 and January 30, 2017, the Company issued convertible promissory notes in an aggregate amount of \$1,250,000 with certain accredited investors. The Company retained Taglich Brothers, Inc. as the exclusive placement agent for the Convertible Note Offering. In compensation, the Company paid the placement agent a cash payment of 8% of the gross proceeds of the offering, along with warrants to purchase Shares, and the reimbursement for the placement agent's reasonable out of pocket expenses, FINRA filing fees and related legal fees. Subsequent to December 31, 2016, the Company paid the placement agent cash in the amount of \$100,000 and issued the placement agent 153,846 warrants to purchase Shares at an exercise price at \$0.75 per Share, which will be exercisable for a period of five years, contain customary cashless exercise and anti-dilution protection and are entitled to registration rights. Of the warrants issued to the placement agent, 84,923 warrants were issued in conjunction with proceeds raised in December 2016, and underwriting expense of \$65,243 was recorded for the issuance of these warrants, utilizing the Black-Scholes valuation model to value the warrants issued. The remaining 68,923 warrants were issued in conjunction with proceeds raised in January 2017, and underwriting expense of \$52,951 was recorded for the issuance of these warrants, utilizing the Black-Scholes valuation model to value the warrants issued. The fair value of warrants issued was determined to be \$0.77.

The estimated values of warrants, as well as the assumptions that were used in calculating such values were based on estimates at the issuance date as follows:

	Bridge Noteholders	Placement Agent
Risk-free interest rate	1.83%	1.93%
Weighted average expected term	5 years	5 years
Expected volatility	123.94%	123.07%
Expected dividend yield	0.00%	0.00%

***Shares Issued and Outstanding and Shares Reserved for Exercise of Warrants, Convertible Notes, and the 2015 Plan***

The Company has 17,376,012 Shares issued and outstanding, 5,155,017 Shares reserved for issuance upon the exercise of outstanding warrants, 1,923,077 Shares reserved for issuance upon the conversion of convertible debt, and 1,866,506 Shares reserved for issuance under the 2015 Plan, as of March 31, 2017.

**12. Share-Based Compensation**

On April 30, 2015, the Company entered into a Non-qualified Stock Option Agreement with Sophie Pibouin, a director of the Company, in accordance with the 2015 Plan. The agreement granted options to purchase 128,000 Shares prior to the expiration date of April 29, 2025 at an exercise price of \$0.75. The options granted vested on a graded scale over a period of time through October 31, 2015. The unvested options will not be exercisable on or after the director's termination of continuous service, as defined in the agreement.

On April 30, 2015, the Company entered into a Non-qualified Stock Option Agreement with Murray Gross, a director of the Company, in accordance with the 2015 Plan. The agreement granted options to purchase 640,000 Shares prior to the expiration date of April 29, 2025 at an exercise price of \$0.75. 400,000 of the options granted are immediately vested on the date of grant, and the remaining 240,000 options granted will vest upon the date at which the Company first reports two consecutive fiscal quarters with revenues of One Million Dollars (\$1,000,000) each. The unvested options will not be exercisable on or after the director's termination of continuous service, as defined in the agreement.

On January 1, 2016, the Company granted employees stock options to purchase 250,000 Shares at an exercise price of \$0.90 per Share in accordance with the 2015 Plan, with vesting continuing until 2019. The total fair value of \$196,250 for these stock options will be recognized by the Company over the applicable vesting period.

On February 10, 2016, the Company granted employees stock options to purchase 210,000 Shares at an exercise price of \$0.96 per Share in accordance with the 2015 Plan, with vesting continuing until 2020. The total fair value of \$174,748 for these stock options will be recognized by the Company over the applicable vesting period.

On December 6, 2016, the Company granted one employee stock options to purchase 100,000 Shares at an exercise price of \$0.76 per Share in accordance with the 2015 Plan, with vesting continuing until 2020. The total fair value of \$63,937 for these stock options will be recognized by the Company over the applicable vesting period.

On March 15, 2017, the Company granted one employee stock options to purchase 100,000 Shares at an exercise price of \$0.85 per Share in accordance with the 2015 Plan, with vesting continuing until 2020. The total fair value of \$70,872 for these stock options will be recognized by the Company over the applicable vesting period.

The weighted average estimated values of director and employee stock option grants, as well as the weighted average assumptions that were used in calculating such values during the three months ended March 31, 2017 and 2016, were based on estimates at the date of grant as follows:

	April 30, 2015 Grant	January 1, 2016 Grant	February 10, 2016 Grant	December 6, 2016 Grant	March 15, 2017 Grant
Risk-free interest rate	1.43%	1.76%	1.15%	1.84%	2.14%
Weighted average expected term	5 years	5 years	5 years	5 years	5 years
Expected volatility	143.10%	134.18%	132.97%	123.82%	121.19%
Expected dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%

A summary of stock option activity during the twelve months ended March 31, 2017 and 2016 under our stock option agreements is as follows:

	Shares Under Option	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at January 1, 2017	1,328,000	\$ 0.81	9 years	\$ 115,200
Granted	100,000	0.85		
Exercised	-			
Forfeited and expired	(50,000)	0.90		
Outstanding at March 31, 2017	1,378,000	\$ 0.81	9 years	\$ 115,200
Exercisable at March 31, 2017	680,500	\$ 0.79	8 years	\$ 79,200

The weighted-average grant date fair value of options granted during the three months ended March 31, 2017 and 2016 was \$0.71 and \$0.81, respectively.

As of March 31, 2017, and December 31, 2016, there was \$514,422 and \$492,057, respectively, of total unrecognized compensation costs related to stock options granted under our stock option agreements. \$319,422 the unrecognized compensation cost is expected to be recognized over a weighted-average period of three years. \$195,000 of the unrecognized compensation cost will be recognized upon satisfaction of the vesting contingency. The total fair value of stock options that vested during the three months ended March 31, 2017 and 2016 was \$82,937 and \$49,062, respectively.

### 13. 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, 2017, the Company's two largest customers, Tiburon, Inc. ("Tiburon") a reseller, and Laser Systems, Inc. ("Laser Systems") a reseller, accounted for 12% and 8%, respectively, of the Company's revenue for that period. For the three months ended March 31, 2016, the Company's two largest customers, Laser Systems and Tiburon, accounted for 10 % and 9 %, respectively, of the Company's revenue for that period.

For the three months ended March 31, 2017 and 2016, government contracts represented approximately 36 % and 56% of the Company's net revenues, respectively. A significant portion of the Company's sales to Tiburon represent ultimate sales to government agencies.

As of March 31, 2017, accounts receivable concentrations from the Company's four largest customers were 15%, 13%, 11% and 10% of gross accounts receivable, respectively. As of December 31, 2016, accounts receivable concentrations from the Company's three largest customers were 20%, 19% and 16% of gross accounts receivable, respectively. Accounts receivable balances from the Company's four largest customers at March 31, 2017 have since been partially collected.



## 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, 2017, and 2016 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 1A of our 2016 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, 2017.

### Company Overview

Intellinetics is a Nevada holding company incorporated in 1997, with a single operating subsidiary, Intellinetics Ohio. Intellinetics Ohio was incorporated in 1996, and on February 10, 2012, Intellinetics Ohio became the sole operating subsidiary of Intellinetics as a result of a reverse merger and recapitalization.

The Company is a document solutions software development, sales and marketing company serving both the public and private sectors. The Company's software platform allows customers to capture and manage all documents across operations such as scanned hard-copy documents and all digital documents including those from Microsoft Office 365, digital images, audio, video and emails. The Company's solutions create value for customers by making it easy to connect business-critical documents to the processes they drive by making them easy to find, secure and compliant.

Customers obtain use of the Company's software by either purchasing it for installation onto their equipment, referred to as a "premise" model, or by accessing the platform via the Internet, referred to as a "cloud-based" or "software as a service" ("SaaS") model. The Company anticipates that the provision of "cloud" application services, or SaaS cloud-based customer activation, will increase over time and become the priority in the market and the most significant strategic part of its revenue growth opportunity. Our revenues from cloud-based delivery of our software, including hosting services, as a percentage of total revenue for the period ended March 31, 2017 and 2016, were 19% and 18% respectively.

Our current sales strategy is to focus our sales efforts toward a much greater percentage of sales through intermediaries, such as software developers and 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. We continue to devote significant efforts, in both development and marketing, in bringing about this change in core strategic focus for the Company.

### ***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 effectiveness of our sales and marketing efforts and 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 recognize revenue on the percentage of completion basis, measured by the percentage of labor hours incurred to date to estimated total labor hours for each contract, or on a completed contract basis when dependable estimates are not available.

### ***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 SaaS applications, as well as certain third-party costs and hardware costs incurred. Third-party and hardware costs may vary widely from quarter to quarter.

### ***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, and we are 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.
- For direct sales, our sales cycle and implementation can be long, sometimes lasting 6-18 months. Even when a project begins, we often perform pre-installation assessment, project scoping, and implementation consulting. 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 1.A of our 2016 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 – Fiscal First Quarter 2017 Compared with Fiscal First Quarter 2016**

We recorded net losses of \$448,709 and \$535,765 for the three months ended March 31, 2017 and 2016, respectively, representing a decrease in net loss of \$87,056 or 16%. We recorded gross profit of \$503,514 and \$429,634 for the three months ended March 31, 2017 and 2016, respectively, representing an increase in gross profit of \$73,880, or 17%. We recorded operating expenses of \$819,420 and \$826,731 for the three months ended March 31, 2017 and 2016, respectively, representing a decrease in operating expenses of \$7,311 or 1%.

### **Revenues**

We recorded total revenues of \$710,394 and \$603,391 for the three months ended March 31, 2017 and 2016, respectively, representing an increase of \$107,003 or 18%. 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 \$162,984 and \$90,874, for the three months ended March 31, 2017 and 2016, respectively, representing an increase of \$72,110, or 79%. The increase was due to strong demand for on-premise solutions, primarily from state and local governmental organizations.

#### *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 \$132,308 and \$110,156, for the three months ended March 31, 2017 and 2016, respectively, representing an increase of \$22,152, or 20%. The increase in revenue year-over-year was primarily the result of new customers.

#### *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 \$249,922 and \$246,596, for the three months ended March 31, 2017 and 2016, respectively, representing an increase of \$3,326, or 1%. The increase in revenue was primarily the result of the sale of new customer software and the continued maintenance of previous customers, for which maintenance agreements are renewed each year, partially offset by cancels.

#### *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 \$107,604 and \$98,176 for the three months ended March 31, 2017 and 2016, respectively, an increase of \$9,428, or 10%. The increase in revenue primarily results from an increase in requests from our clients for projects during the first quarter.

#### *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. Third party services revenues were \$57,576 and \$57,589, respectively, for the three months ended March 31, 2017 and 2016, respectively, representing a decrease of \$13 or 0%.

#### **Cost of Revenues**

The cost of revenues during the three months ended March 31, 2017 and 2016 were \$206,880 and \$173,757, respectively, representing an increase of \$33,123, or 19%. The increase in cost of revenue for the period ended March 31, 2017 is primarily due to additional labor costs in completing software services and professional services.

#### **Gross Margins**

Overall gross margin for the three months ended March 31, 2017 and 2016 were 71% and 71%, respectively, representing no change.

## **Operating Expenses**

### *General and Administrative Expenses*

General and administrative expenses were \$579,837 during the three months ended March 31, 2017 as compared to \$636,267 during the three months ended March 31, 2016, representing a decrease of \$56,430, or 9%. The decrease was primarily due to reduced professional fees and stock based compensation in the first quarter of 2017 as compared to 2016.

### *Sales and Marketing Expenses*

Sales and marketing expenses increased to \$236,577 during the three months ended March 31, 2017 as compared to \$187,508 during the three months ended March 31, 2016, representing an increase of \$49,069 or 26%. The increase was primarily related to our increased emphasis on market branding and marketing in the first quarter of 2017.

### *Depreciation and Amortization*

Depreciation and amortization was \$3,006 for the three months ended March 31, 2017, as compared to \$2,956 for the three months ended March 31, 2016, representing an increase of \$50 or approximately 2%. The increase was the result of depreciation on additional assets.

### *Interest Expense, Net*

Interest expense, net, was \$132,803 during the three months ended March 31, 2017 as compared to \$138,688 during the three months ended March 31, 2016, representing a decrease of \$5,865 or 4%. The decrease resulted primarily from interest expense charged for warrants on the conversion of the convertible promissory notes in 2016.

## **Liquidity and Capital Resources**

We have financed our operations primarily through a combination of cash on hand; cash generated from operations, and proceeds from issuance of convertible promissory notes. As of March 31, 2017, our major liquidity indicators are:

- Cash \$494,935
- Working Capital Deficiency \$(822,582),

From our inception, we have 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 continue our efforts towards reseller training and on-boarding, and develop additional software integration and customization capabilities, all of which will require additional capital. Although management believes that we may have access to additional 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.

On January 5 and January 30, 2017, the Company entered into note purchase agreements with certain accredited investors for a private placement of convertible notes for gross proceeds of \$560,000, which was part of a private placement in December 2016. The offering raised a total of \$1,250,000 in the sale of these unregistered securities. The proceeds from these notes were used primarily to fund our working capital needs and general corporate purposes, including without limitation, debt reduction.

The Company expects that through the next 12 months the capital requirements to fund the Company's growth and to cover the operating costs as a public company will consume substantially all the cash flows that it intends to generate from its operations, in addition to the proceeds from the issuances of debt and equity securities. The Company further believes that during this period, while the Company is focusing on the growth and expansion of its business, the gross profit that it expects to generate from operations may not generate sufficient funds to cover these anticipated operating costs. Our cash flows to meet our cash requirements are insufficient by approximately \$91,000 per month. Assuming over the next 12 months, we do not increase our cash flow generated from operations or obtain additional capital or debt financing, we will not have sufficient funds for planned operations and service for existing current debt obligations.

There is no assurance that the Company's plans as discussed above will materialize and/or that the Company will have sufficient funds to fund the Company's operations. Given these conditions, the Company ability to continue as a going concern is contingent upon successfully managing its cash requirements.

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, Stock Options, and the 2015 Plan

As of May 12, 2017, the Company has 17,376,012 shares of common stock issued and outstanding; and 8,947,540 shares reserved for issuance upon the exercise of outstanding warrants, convertible notes, outstanding stock options, and shares reserved for the 2015 Plan.

Our shares are available for quotation on the OTCQB, 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 provide working capital, expand our sales and marketing capabilities, develop ancillary software products, enhance our internal infrastructure, and support the accounting, auditing and legal costs of operating as a public company.

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

Deferral of Principal and Interest Payment Relating to Notes Payable Issued by Intellinetics 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 interest payments until June 1, 2015. On September 25, 2015, both notes payable were amended as discussed below. Both of these notes are subject to certain covenants and reporting requirements.

On September 25, 2015, a note with a principal amount of \$1,012,500 was amended and restated, setting forth the amount of principal and interest payable under the note. The interest rate was changed to six percent 6% per annum until paid, with principal and interest payments according to a new amortization schedule, which reduced principal payments and deferred interest payment until October 1, 2016. This note matures on August 1, 2018.

On September 25, 2015, a different note with a principal amount of \$750,000 was amended. This note requires the Company to create and/or maintain nineteen full-time jobs for each month beginning on October 1, 2016. Additionally, a new amortization schedule reduced the principal payments and deferred interest payments until October 1, 2016, at which time the payments will restate the monthly principal and interest payments through the maturity date of August 1, 2018.

For more information, please see Note 7 to the Consolidated Financial Statements, titled Notes Payable.

#### Other Promissory Note

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.

#### Issuance of Convertible Notes.

Between December 30, 2016, and January 31, 2017, the Company entered into note purchase agreements with certain accredited investors for a private placement of convertible notes for gross proceeds of \$1,250,000. The proceeds from these notes will be used primarily to fund our working capital needs and general corporate purposes, including without limitation, debt reduction. As part of this offering, \$690,000 of convertible notes were issued in 2016, with the remaining notes issued in 2017.

For more information, please see Note 7 to the Consolidated Financial Statements, titled Notes Payable, Note 8 to the Consolidated Financial Statements, titled Notes Payable – Related Parties.

#### Summary of Current Outstanding Indebtedness

The Company's outstanding indebtedness at March 31, 2017 was as follows:

- Promissory note held by Ohio State Development Authority, dated July 17, 2009, maturing on August 1, 2018, with an original principal balance of \$1,012,500, current principal balance of \$302,565, accrued interest of \$124,085, and accrued fees of \$101,251.
- Promissory note held by Ohio State Development Authority, dated July 3, 2011, maturing on August 1, 2018, with an original principal balance of \$750,000, current principal balance of \$395,926, accrued interest of \$156,901, and accrued fees of \$72,535.
- Promissory note held by Ramon Shealy, dated December 31, 2014, maturing on January 1, 2020, with a principal balance of \$193,453, current principal balance of \$118,185, and accrued interest of \$0.
- Convertible notes held by accredited investors, dated December 30, 2016, January 5, 2017, and January 30, 2017, maturing on December 31, 2018, with an aggregate original principal balance of \$1,250,000, current principal balance of \$1,250,000, and accrued interest of \$19,279.

#### ***Capital Expenditures***

We had no material commitments to make any capital expenditures at March 31, 2017.

#### ***Cash Flows***

##### Operating Activities

Net cash used in operating activities for the three months ended March 31, 2017 and 2016 was \$548,062 and \$548,961 respectively. During the three months ended March 31, 2017, the net cash used in operating activities was primarily attributable to the net loss adjusted for non-cash expenses of \$224,923 and a decrease in net operating liabilities of \$324,276. During the three months ended March 31, 2016, the net cash used in operating activities was primarily attributable to the net loss adjusted for non-cash expenses of \$271,327 and a decrease in net operating liabilities of \$284,523.

##### Investing Activities

Net cash used in investing activities for the three months ended March 31, 2017 and 2016 amounted to \$6,429 and \$0, respectively.



### Financing Activities

Net cash provided by financing activities for the three months ended March 31, 2017 amounted to \$359,480. The net cash provided by financing activities resulted from new borrowings of \$560,000, offset by \$97,194 of notes payable repayments, of which \$9,223 was repaid to related parties, and payment of deferred financing costs of \$103,326.

Net cash provided by financing activities for the three months ended March 31, 2016 amounted to \$436,284. The net cash provided by financing activities resulted from the sale of common stock of \$559,285 and the exercise of stock options of \$3,500, offset by \$126,501 of notes payable repayments, of which \$66,501 was repaid to related parties.

### **Critical Accounting Policies and Estimates**

There have been no significant changes during the three months ended March 31, 2017 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 2016 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 through 2017 we raised a total of \$9,233,494 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.

### ***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, along with the estimated useful lives of depreciable property and equipment.

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.**

##### *(a) Evaluation of disclosure controls and procedures.*

With the participation of our principal executive officer and principal financial officer, we evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act. In designing and evaluating the disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that we are required to apply our judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on our evaluation, our principal executive officer and principal financial officer concluded that as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures were not effective as required under Rules 13a-15(e) and 15d-15(e) under the Exchange Act as a result of the material weaknesses in our internal control over financial reporting.

The material weakness, which relates to internal control over financial reporting, that was identified is:

We did not maintain technical accounting knowledge, and training in the application of GAAP commensurate with our complexity and our financial accounting and reporting requirements. In connection with the audit of the December 31, 2015 consolidated financial statements a number of required adjustments were identified by our independent registered public accounting firm related to our private offering of stock and warrants and the conversion of convertible debt conducted in December 2015. Since 2015, the Company has taken the remedial action described below, but this action was not taken until late 2016. As a result, insufficient time has passed to determine that the material weakness has been resolved, and there is a reasonable possibility that material misstatements of the consolidated financial statements, including disclosures, will not be prevented or detected on a timely basis.

We are committed to continually improving our financial organization, and from time to time we adopt additional processes and procedures over financial reporting. In addition, we will continue to evaluate the need and costs to increase our personnel resources and technical accounting expertise within the accounting function. In November 2016, we hired Joseph D. Spain as Controller, and he was appointed Chief Financial Officer in December 2016 when our former Chief Financial Officer resigned. We believe Mr. Spain has the requisite skill and knowledge to facilitate the Company's effective internal control over financial reporting. As our operations are relatively small, we do not anticipate being able to hire additional internal personnel until such time as our operations are large enough to justify the hiring of additional accounting personnel. As necessary, we may engage consultants in the future in order to ensure proper accounting for our consolidated financial statements.

##### *(b) Changes in internal control over financial reporting.*

We regularly review our system of internal control over financial reporting and make changes to our processes and systems to improve controls and increase efficiency, while ensuring that we maintain an effective internal control environment. Changes may include such activities as implementing new, more efficient systems, consolidating activities, and migrating processes. There were no changes in our internal control over financial reporting that occurred during the three months ended March 31, 2017 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, 2016, 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	Form of Note Purchase Agreement, dated January 6, 2017 and January 30, 2017. (Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K, filed January 6, 2017.)
10.2	Form of 12% Subordinated Convertible Notes, dated January 6, 2017 and January 30, 2017. (Incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K, filed January 6, 2017.)
10.3	Form of Placement Agent Warrants, dated January 6, 2017 and January 30, 2017. (Incorporated by reference to Exhibit 10.3 to Registrant's Current Report on Form 8-K, filed January 6, 2017.)
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.

INTELLINETICS, INC.

Dated: May 15, 2017

By: /s/ Matthew L. Chretien  
Matthew L. Chretien  
President and Chief Executive Officer

Dated: May 15, 2017

By: /s/ Joseph D. Spain  
Joseph D. Spain  
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, 2017

By: /s/ Matthew L. Chretien

President and Chief Executive Officer

---



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

I, Joseph D. Spain, 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, 2017

By: /s/ Joseph D. Spain

Chief Financial Officer

---





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, 2017, 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, 2017

*/s/ Matthew L. Chretien*

---

President and Chief Executive Officer

---

