

**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 September 30, 2018

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 000-31671

**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) 921-8170 (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	<input type="checkbox"/>	(Do not check if a smaller reporting company)	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>		Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>			

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 November 13, 2018 there were 17,729,421 shares of the issuer's common stock outstanding.

INTELLINETICS, INC.  
Form 10-Q  
September 30, 2018  
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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q and the documents incorporated into this report by reference contain, and we may from time to time make, forward-looking statements. From time to time in the future, we may make additional forward-looking statements in presentations, at conferences, in press releases, in other reports and filings and otherwise. Forward-looking statements are all statements other than statements of historical fact, including statements that refer to plans, intentions, objectives, goals, targets, strategies, hopes, beliefs, projections, prospects, expectations or other characterizations of future events or performance, and assumptions underlying the foregoing. The words “may,” “could,” “should,” “would,” “will,” “project,” “intend,” “continue,” “believe,” “anticipate,” “estimate,” “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, our goals for future revenues and earnings, and our expectations about realizing the revenues in our backlog and in our sales pipeline;
- the effects on our business, financial condition and results of operations of current and future economic, business, market and regulatory conditions, including the current economic and market conditions and their effects on our customers and their capital spending and ability to finance purchases of our products, services, technologies and systems;
- the effects of fluctuations in sales on our business, revenues, expenses, net income, earnings per share, margins, profitability, cash flow, capital expenditures, liquidity, financial condition and results of operations;
- our products, services, technologies and systems, including their quality and performance in absolute terms and as compared to competitive alternatives, their benefits to our customers and their ability to meet our customers’ requirements, and our ability to successfully develop and market new products, services, technologies and systems;
- our markets, including our market position and our market share;
- our ability to successfully develop, operate, grow and diversify our operations and businesses;
- our business plans, strategies, goals and objectives, and our ability to successfully achieve them;
- the sufficiency of our capital resources, including our cash and cash equivalents, funds generated from operations, availability of borrowings under our credit and financing arrangements and other capital resources, to meet our future working capital, capital expenditure, lease and debt service and business growth needs;
- the value of our assets and businesses, including the revenues, profits and cash flow they are capable of delivering in the future;
- industry trends and customer preferences and the demand for our products, services, technologies and systems;
- the nature and intensity of our competition, and our ability to successfully compete in our markets;
- business acquisitions, combinations, sales, alliances, ventures and other similar business transactions and relationships; and
- the effects on our business, financial condition and results of operations of litigation, warranty claims and other claims and proceedings that arise from time to time.

Any forward-looking statements we make are based on our current plans, intentions, objectives, goals, targets, strategies, hopes, beliefs, projections and expectations, as well as assumptions made by and information currently available to management. Forward-looking statements are not guarantees of future performance or events, but are subject to and qualified by substantial risks, uncertainties and other factors, which are difficult to predict and are often beyond our control. Forward-looking statements will be affected by assumptions and expectations we might make that do not materialize or that prove to be incorrect and by known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those expressed, anticipated or implied by such forward-looking statements. These risks, uncertainties and other factors include, but are not limited to, those described in “Item 1A. Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2017, filed on April 2, 2018, 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 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

	(Unaudited) September 30, 2018	December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash	\$ 1,333,278	\$ 1,125,921
Accounts receivable, net	192,569	295,815
Prepaid expenses and other current assets	200,349	162,450
Total current assets	1,726,196	1,584,186
Property and equipment, net	11,163	14,760
Other assets	10,284	10,284
Total assets	\$ 1,747,643	\$ 1,609,230
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 649,461	\$ 475,459
Deferred revenues	693,198	708,130
Deferred compensation	178,089	213,166
Notes payable - current	-	875,000
Notes payable - related party - current	45,598	416,969
Total current liabilities	1,566,346	2,688,724
Long-term liabilities:		
Notes payable - net of current portion	3,153,827	1,221,384
Notes payable - related party - net of current portion	1,067,952	312,680
Other long-term liabilities - related parties	82,435	29,997
Total long-term liabilities	4,304,214	1,564,061
Total liabilities	5,870,560	4,252,785
Stockholders' deficit:		
Common stock, \$0.001 par value, 75,000,000 shares authorized; 17,729,421 and 17,426,792 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	30,733	30,431
Additional paid-in capital	13,956,732	13,648,519
Accumulated deficit	(18,110,382)	(16,322,505)
Total stockholders' deficit	(4,122,917)	(2,643,555)
Total liabilities and stockholders' deficit	\$ 1,747,643	\$ 1,609,230

See Notes to these condensed consolidated financial statements

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

	<u>For the Three Months Ended September 30,</u>		<u>For the Nine Months Ended September 30,</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
<b>Revenues:</b>				
Sale of software	\$ 64,986	\$ 134,731	\$ 140,138	\$ 375,006
Software as a service	173,515	177,729	527,697	456,085
Software maintenance services	251,660	241,358	740,527	732,160
Professional services	57,294	81,751	168,849	436,977
Third party services	125,656	35,884	170,950	116,110
	<u>673,111</u>	<u>671,453</u>	<u>1,748,161</u>	<u>2,116,338</u>
<b>Cost of revenues:</b>				
Sale of software	33,757	32,714	64,290	71,515
Software as a service	75,266	78,915	220,953	228,154
Software maintenance services	23,794	30,433	74,395	87,463
Professional services	22,303	36,688	58,445	183,133
Third party services	106,638	5,209	150,837	33,707
	<u>261,758</u>	<u>183,959</u>	<u>568,920</u>	<u>603,972</u>
<b>Gross profit</b>	<u>411,353</u>	<u>487,494</u>	<u>1,179,241</u>	<u>1,512,366</u>
<b>Operating expenses:</b>				
General and administrative	446,224	490,943	1,583,059	1,571,184
Sales and marketing	235,974	146,957	742,074	568,238
Depreciation	2,429	3,231	7,007	9,016
	<u>684,627</u>	<u>641,131</u>	<u>2,332,140</u>	<u>2,148,438</u>
<b>Loss from operations</b>	(273,274)	(153,637)	(1,152,899)	(636,072)
<b>Other income (expense):</b>				
Interest expense, net	(206,642)	(141,483)	(634,978)	(411,761)
	<u>(206,642)</u>	<u>(141,483)</u>	<u>(634,978)</u>	<u>(411,761)</u>
<b>Net loss</b>	<u>\$ (479,916)</u>	<u>\$ (295,120)</u>	<u>\$ (1,787,877)</u>	<u>\$ (1,047,833)</u>
<b>Basic and diluted net loss per share:</b>	\$ (0.03)	\$ (0.02)	\$ (0.10)	\$ (0.06)
<b>Weighted average number of common shares outstanding - basic and diluted</b>	<u>17,729,421</u>	<u>17,376,012</u>	<u>17,726,083</u>	<u>17,369,012</u>

See Notes to these condensed consolidated financial statements

**INTELLINETICS, INC. and SUBSIDIARY**  
**Consolidated Statement of Stockholders' Deficit**  
**For the Nine Months Ended September 30, 2018**  
**(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, 2017	17,426,792	\$ 30,431	\$ 13,648,519	\$ (16,322,505)	\$ (2,643,555)
Stock Issued to Directors	302,629	302	57,198	-	\$ 57,500
Stock Option Compensation	-	-	186,668	-	\$ 186,668
Note Offer Warrants	-	-	64,347	-	\$ 64,347
Net Loss	-	-	-	(1,787,877)	\$ (1,787,877)
Balance, September 30, 2018	17,729,421	\$ 30,733	\$ 13,956,732	\$ (18,110,382)	\$ (4,122,917)

See Notes to these condensed consolidated financial statements

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

	<b>For the Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2018</b>	<b>2017</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (1,787,877)	\$ (1,047,833)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>		
Depreciation and amortization	7,007	9,016
Bad debt expense	2,398	6,646
Amortization of deferred financing costs	186,646	59,761
Amortization of beneficial conversion option	184,541	188,385
Stock issued for services	57,500	57,500
Stock options compensation	186,668	91,063
Note offer warrant expense	-	54,015
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	100,848	(204,219)
Prepaid expenses and other current assets	(37,899)	(14,338)
Accounts payable and accrued expenses	174,002	76,427
Deferred compensation	(35,077)	-
Other long-term liabilities - related parties	52,438	24,806
Deferred interest expense	-	(3,230)
Deferred revenues	(14,932)	(103,403)
Total adjustments	864,140	242,429
Net cash used in operating activities	(923,737)	(805,404)
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(3,410)	(14,202)
Net cash used in investing activities	(3,410)	(14,202)
<b>Cash flows from financing activities:</b>		
Payment of deferred financing costs	(130,841)	(103,328)
Proceeds from notes payable	900,000	560,000
Proceeds from notes payable - related parties	400,000	150,000
Repayment of notes payable	-	(268,195)
Repayment of notes payable - related parties	(34,655)	(25,114)
Net cash used/provided by financing activities	1,134,504	313,363
Net increase (decrease) in cash	207,357	(506,243)
Cash - beginning of period	1,125,921	689,946
Cash - end of period	\$ 1,333,278	\$ 183,703
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid during the period for interest and taxes	\$ 32,207	\$ 75,658
<b>Supplemental disclosure of non-cash financing activities:</b>		
Discount on notes payable for beneficial conversion feature	\$ -	\$ 248,522
Discount on notes payable for warrants	44,548	-
Discount on notes payable - related parties for warrants	19,799	38,836

See Notes to these condensed consolidated financial statements

**INTELLINETICS, INC. AND SUBSIDIARY**  
**Notes to 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 with its customers’ audit requirements.

**2. Basis of Presentation**

The accompanying unaudited condensed 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 September 30, 2018 and the consolidated results of its operations and cash flows for the three and nine months ended September 30, 2018 and 2017, have been included. The Company has evaluated subsequent events through the issuance of this Form 10-Q. Operating results for the three and nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018 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, 2017 included in the Company’s Form 10-K filed with the Securities and Exchange Commission on April 2, 2018.

**3. Liquidity and Management’s Plans**

Through September 30, 2018, the Company had incurred an accumulated deficit since its inception of \$18,110,382. At September 30, 2018, the Company had a cash balance of \$1,333,278.

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, as well as direct marketing efforts to increase direct sales. The Company expects that the marketing initiatives will require that it continue its efforts towards reseller training and on-boarding, continuously build content and direct marketing campaigns, 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 \$80,000 per month. During 2018 and 2017, the Company has used the proceeds from the convertible note issuances to sustain operations and to follow through on the execution of its business plan. There is no assurance that the Company 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 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 nine months ended September 30, 2018, the Company raised a net \$1,169,159 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 September 30, 2018 and December 31, 2017, the Company's allowance for doubtful accounts was \$18,841 and \$16,443, 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 5, 2018, the Company issued 302,629 new shares of restricted common stock to directors of the Company in accordance with the Company's director compensation policy. Stock compensation of \$57,500 was recorded on the issuance of the Shares.

For the three and nine months ended September 30, 2018, the Company recorded share-based compensation to employees of \$62,357 and \$186,668, respectively, and to non-employees of \$0 and \$57,500, respectively. For the three and nine months ended September 30, 2017, the Company recorded share-based compensation to employees of \$24,877 and \$91,063, respectively, and to non-employees of \$0 and \$57,500, respectively.

#### ***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 Accounting Standards Codification ("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 and nine months ending September 30, 2018 and 2017, research and development costs were \$84,783 and \$291,869, and \$125,411 and \$252,596, respectively.

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

##### *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**

Effective January 1, 2018, we adopted Accounting Standards Codification, Topic 606, "Revenue from Contracts with Customers" ("ASC 606"), using the full retrospective transition method. Adoption of the standard using the full retrospective method required us to restate certain previously reported results.

In accordance with ASC 606, revenue is recognized when a customer obtains control of promised goods and services. The amount of revenue recognized reflects the consideration to which we expect to be entitled to receive in exchange for these goods and services. In addition, ASC 606 requires disclosures of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers.

The core principle of the standard is that we should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which we expect to be entitled in exchange for those goods or services. To achieve that core principle, we should apply the following five step model:

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

### *1) Identify the contract with the customer*

A contract with a customer exists when (i) we enter into an enforceable contract with a customer that defines each party's rights regarding the goods or services to be transferred and identifies the related payment terms, (ii) the contract has commercial substance, and (iii) we determine that collection of substantially all consideration for goods and services that are transferred is probable based on the customer's intent and ability to pay the promised consideration. We apply judgment in determining the customer's intent and ability to pay, which is based on a variety of factors including the customer's historical payment experience, or in the case of a new customer, published credit and financial information pertaining to the customer, and other assessment measures.

We evaluate contract modifications for the impact on revenue recognition if they have been approved by both parties such that the enforceable rights and obligations under the contract have changed. Contract modifications are either accounted for using a cumulative effect adjustment or prospectively over the remaining term of the arrangement. The determination of which method is more appropriate depends on the nature of the modification, which we evaluate on a case-by-case basis.

We combine two or more contracts entered into at or near the same time with the same customer and account for them as a single contract if (i) the contracts are negotiated as a package with a common commercial objective, (ii) the amount of consideration to be paid in one contract depends on the price or performance of the other contract, or (iii) some or all of the goods or services in one contract would be combined with some or all of the goods and services in the other contract into a single performance obligation. If two or more contracts are combined, the consideration to be paid is aggregated and allocated to the individual performance obligations without regard to the consideration specified in the individual contracts.

### *2) Identify the performance obligation in the contract*

Performance obligations promised in a contract are identified based on the goods and services that will be transferred to the customer that are both capable of being distinct, whereby the customer can benefit from the good or service either on its own or together with other available resources, and are distinct in the context of the contract, whereby the transfer of the good or service is separately identifiable from other promises in the contract. To the extent a contract includes multiple promised goods and services, we apply judgment to determine whether promised goods and services are capable of being distinct and distinct in the context of the contract. If these criteria are not met, the promised goods and services are accounted for as a combined performance obligation. To identify performance obligation, we consider all of the goods or series promised in a contract regardless of whether they are explicitly stated or are implied by customer business practices.

### *3) Determine the transaction price*

The transaction price is determined based on the consideration to which we expect to be entitled in exchange for transferring promised goods and series to the customer, excluding amounts collected on behalf of third parties such as sales taxes. Determining the transaction price requires significant judgment. To the extent the transaction price includes variable consideration, we estimate the amount of variable consideration that should be included in the transaction price utilizing either the expected value method or the most likely amount method depending on the nature of the variable consideration. Variable consideration is included in the transaction price if, in our judgment, it is probable at a significant future reversal of cumulative revenue recognized under the contract will not occur. Any estimates, including the effect of the constraint on variable consideration, are evaluated at each reporting period. The amount of consideration is not adjusted for a significant financing component if the time between payment and the transfer of the related good or service is expected to be one year or less under the practical expedient in ASC 606-10-32-18. Our revenue arrangements are typically accounted for under such expedient, as payment is typically due within 30 to 60 days. As of September 30, 2018, none of our contracts included a significant financing component.

4) *Allocate the transaction price to the performance obligation in the contract*

If the contract contains a single performance obligation, the entire transaction price is allocated to the single performance obligation. Contracts that contain multiple performance obligations require an allocation of the transaction price to each performance obligation based on a relative standalone selling price (“SSP”) basis unless the transaction price is variable and meets the criteria to be allocated entirely to a performance obligation or to a distinct service that forms part of a single performance obligation. The consideration to be received is allocated among the separate performance obligations based on relative SSPs. The SSP is the price at which we would sell a promised good or service separately to a customer. The best estimate of SSP is the observable price of a good or service when we sell that good or service separately. A contractually stated price or a list price for a good or service may be the SSP of that good or service. We use a range of amounts to estimate SSP when we sell each of the goods and services separately and need to determine whether there is a discount that needs to be allocated based on the relative SSP of the various goods and services. In the instance where SSP is not directly observable, such as when we do not sell the product or service separately, we typically determine the SSP using an adjusted market assessment approach using information that may include market conditions and other observable inputs. We typically have more than one SSP for individual goods and services due to the stratification of those goods and services by customers and circumstances. In these instances, we may use information such as the nature of the customer and distribution channel in determining the SSP.

5) *Recognize revenue when or as each performance obligation is satisfied*

We satisfy performance obligation either over time or at a point in time as discussed in further detail below. Revenue is recognized over time if 1) the customer simultaneously receives and consume the benefits provided by our performance, 2) our performance creates or enhances an asset that the customer controls as the asset is created or enhanced, or 3) our performance does not create an asset with an alternative use to us and we have an enforceable right to payment for performance completed to date. If we do not satisfy a performance obligation over time, the related performance obligation is satisfied at a point in time by transferring the control of a promised good or service to a customer.

We categorize revenue as Software, Software as a Service, Software Maintenance Services, Professional Services, and Third party services. In addition to the general revenue recognition policies described above, specific revenue recognition policies apply to each category of revenue.

**a) Sale of Software**

Revenues included in this classification typically include sales of licenses with professional services to new customers, additional software licenses to existing customers, and sales of software with or without services to the Company’s Resellers (See section j) - Reseller Agreements, below. Our software licenses are functional intellectual property and typically provide customers with the right to use our software in perpetuity as it exists when made available to the customer. We recognize revenue from software licenses at a point in time upon delivery, provided all other revenue recognition criteria are met.

**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 contract period.

**c) Sale of Software Maintenance Services**

Software maintenance services revenues consist of revenues derived from arrangements that provide post-contract support (PCS), including software support and bug fixes, to the Company’s software license holders. 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. Software support and bug fixes are considered distinct services. However, these distinct services are considered a single performance obligation consisting of a series of distinct services that are substantial the same and have the same pattern of transfer to the customer. These revenues are recognized ratably over the term of the maintenance contract.

***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. We recognize professional services revenue over time as the services are delivered using an input method (i.e., labor hours incurred as a percentage of total labor hours budgeted), provided all other revenue recognition criteria are met.

***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. We recognize revenue from third party services at a point in time upon delivery, provided all other revenue recognition criteria are met.

***f) Arrangements with multiple performance obligations***

In addition to selling software licenses, software as a service, software maintenance services, professional services, and third party services on a stand-alone basis, a significant portion of our contracts include multiple performance obligations. Various combinations of multiple performance obligations and our revenue recognition for each are describes as follows:

- Software licenses and software maintenance. When software licenses and software maintenance contracts are sold together, the software licenses and software maintenance are generally considered distinct performance obligations. The transaction price is allocated to the software licenses and the software maintenance based on relative SSP. Revenue allocated to the software licenses is recognized at a point in time upon delivery, provided all other revenue recognition criteria are met. Revenue allocated to the software maintenance is recognized over time on a straight-line basis over the contract period.
- Software licenses, software maintenance, and professional services. When software licenses, software maintenance, and professional services contracts are sold together, we account for the individual performance obligations separately if they are distinct. The transaction price is allocated to the separate performance obligations based on relative SSP. Revenue allocated to the software maintenance is recognized over time on a straight-line basis over the contract period. We account for the software licenses and professional services as a combined performance obligation, as the software as a service solution is generally highly dependent on, and interrelated with, the associated professional services and therefore are not distinct performance obligation. Revenue for the combined performance obligation is recognized over time as the services are delivered using an input method (i.e., labor hours incurred as a percentage of total labor hours budgeted).
- Software as a service and professional services. When software as a service and professional services contracts are sold together, we account for the software as a service and professional services as a combined performance obligation, as the software as a service solution is generally highly dependent on, and interrelated with, the associated professional services and therefore are not distinct performance obligation. Revenue for the combined performance obligation is recognized ratably over the contract period. However, when some portion of the professional services are distinct, we account for the such individual performance obligations separately if they are distinct. The transaction price is allocated to the separate performance obligations based on relative SSP. Revenue allocated to the software as a service and the interrelated portion of the professional services is recognized ratably over the contract period. The remaining, distinct, professional services performance obligation is recognized over time using an input method (i.e., labor hours incurred as a percentage of total labor hours budgeted).
- Third party services and other performance obligations. When third party services are sold together with other performance obligations, we account for the performance obligations related to third party services separately, as they are distinct. We recognize revenue from third party services at a point in time upon delivery, provided all other revenue recognition criteria are met. Other performance obligations are recognized as noted above.

**g) Contract balances**

When the timing of our delivery of goods or services is different from the timing of payments made by customers, we recognize either a contract asset (performance precedes contractual due date) or a contract liability (customer payment precedes performance). Customers that prepay are represented by the deferred revenue below until the performance obligation is satisfied. Contract assets represent arrangements in which the good or service has been delivered but payment is not yet due. Our contract assets consisted of unbilled receivables, which are included in prepaid expenses and other assets. Our contract liabilities consisted of deferred (unearned) revenue, which is generally related to software as a service or software maintenance contracts. We classify deferred revenue as current or noncurrent based on the timing of when we expect to recognize revenue.

The following table present changes in our contract assets and liabilities during the nine months ended September 30, 2018 and 2017:

	<u>Balance at Beginning of Period</u>	<u>Revenue Recognized in Advance of Billings</u>	<u>Billings</u>	<u>Balance at End of Period</u>
Nine months ended September 30, 2018				
Contract assets: Unbilled receivables	\$ 89,847	\$ 228,520	\$ (236,973)	\$ 81,394
Nine months ended September 30, 2017				
Contract assets: Unbilled receivables	\$ 94,153	\$ 290,372	\$ (302,469)	\$ 82,056
	<u>Balance at Beginning of Period</u>	<u>Billings</u>	<u>Recognized Revenue</u>	<u>Balance at End of Period</u>
Nine months ended September 30, 2018				
Contract liabilities: Deferred revenue	\$ 708,130	\$ 1,759,664	\$ (1,774,596)	\$ 693,198
Nine months ended September 30, 2017				
Contract liabilities: Deferred revenue	\$ 666,288	\$ 2,144,419	\$ (2,242,173)	\$ 568,534

**h) Remaining performance obligations**

Remaining performance obligations represent the transaction price from contracts for which work has not been performed or goods and services have not been delivered. We expect to recognize revenue on approximately 80% of the remaining performance obligations over the next 12 months, with the remainder recognized thereafter. As of September 30, 2018, the aggregate amount of the transaction price allocated to remaining performance obligations for software as a service and software maintenance contracts with a duration greater than one year was \$135,759. This does not include revenue related to performance obligations that are part of a contract whose original expected duration is one year or less.

**i) Rights of return and customer acceptance**

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. Our contracts with customers generally do not include customer acceptance clauses.

**j) 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 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.

**k) Contract costs**

The Company recognizes an “other asset” for the incremental costs of obtaining a contract with a customer. We have determined that certain sales commissions meet the requirement to be capitalized, and we amortize these costs on a consistent basis with the pattern of transfer of the goods and services in the contract. Total capitalized costs to obtain a contract were immaterial during the periods presented and are included in other current and long-term assets on our consolidated balance sheets.

**l) Impact of ASC 606 adoption to reported results**

Adoption of the new revenue standard impacted our reported results as follows:

	(Unaudited)		
	For the Three Months Ended September 30, 2017		
	As Reported	New Revenue Standard Adjustment	As Adjusted
<b>Condensed Consolidated Statements of Operations:</b>			
Revenues	\$ 674,240	\$ (2,787)	\$ 671,453
Operating expenses	635,489	5,642	641,131
Net loss	(286,690)	(8,430)	(295,120)
Basic and diluted net loss per share	(0.02)	-	(0.02)

	(Unaudited)		
	For the Nine months ended September 30, 2017		
	As Reported	New Revenue Standard Adjustment	As Adjusted
<b>Condensed Consolidated Statements of Operations:</b>			
Revenues	\$ 2,121,987	\$ (5,649)	\$ 2,116,338
Operating expenses	2,140,935	7,503	2,148,438
Net loss	(1,034,681)	(13,152)	(1,047,833)
Basic and diluted net loss per share	(0.06)	-	(0.06)

	(Unaudited)		
	For the Twelve Months Ended December 31, 2017		
	As Reported	New Revenue Standard Adjustment	As Adjusted
<b>Condensed Consolidated Statements of Operations:</b>			
Revenues	\$ 2,623,441	\$ (3,334)	\$ 2,620,107
Operating expenses	3,031,555	2,694	3,034,249
Net loss	(1,359,337)	(6,028)	(1,365,365)
Basic and diluted net loss per share	(0.08)	-	(0.08)



**(Unaudited)**  
**September 30, 2017**

	<u>As Reported</u>	<u>New Revenue Standard Adjustment</u>	<u>As Adjusted</u>
<b>Condensed Consolidated Balance Sheets:</b>			
Accounts payable and accrued expenses	\$ 830,472	\$ 9,069	\$ 839,541
Deferred revenue	562,057	6,477	568,534
Accumulated deficit	(15,989,431)	(15,545)	(16,004,976)

**(Unaudited)**  
**December 31, 2017**

	<u>As Reported</u>	<u>New Revenue Standard Adjustment</u>	<u>As Adjusted</u>
<b>Condensed Consolidated Balance Sheets:</b>			
Accounts payable and accrued expenses	\$ 471,200	\$ 4,259	\$ 475,459
Deferred revenue	703,971	4,159	708,130
Accumulated deficit	(16,314,087)	(8,418)	(16,322,505)

### **Advertising**

The Company expenses the cost of advertising as incurred. Advertising expense for the three and nine months ended September 30, 2018 and 2017 amounted to approximately \$3,707 and \$17,633, and \$4,420 and \$23,675, 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 September 30, 2018 and December 31, 2017, 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.

The Tax Cuts and Jobs Act (The Act) was enacted on December 22, 2017. The Act reduces the US federal corporate tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign sourced earnings. There are other provisions of the Act that will affect the determination of income tax for the Company in future years.

The Company has remeasured certain deferred tax assets and liabilities as of the enactment date of the Act based on the rates at which they are expected to reverse in the future, which is generally 21%. The amount recorded related to the remeasurement of our deferred tax balance was approximately \$1,840,000, which was offset by a reduction in the valuation allowance.

### **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 2017 consolidated financial statements have been reclassified to conform to current year presentation.

## **6. Property and Equipment**

Property and equipment are comprised of the following:

	September 30, 2018	December 31, 2017
Computer hardware and purchased software	\$ 254,470	\$ 252,275
Leasehold improvements	221,666	221,666
Furniture and fixtures	82,056	82,722
	558,192	556,663
Less: accumulated depreciation and amortization	(547,029)	(541,903)
Property and equipment, net	\$ 11,163	\$ 14,760

Total depreciation expense on the Company's property and equipment for the three and nine months ended September 30, 2018 and 2017 amounted to \$2,429 and \$7,007, and \$3,231 and \$9,016, respectively.

## 7. Notes Payable

The Company has 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 with 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.

The Company issued convertible promissory notes on December 30, 2016 in an aggregate amount of \$315,000 and on January 6, 2017 and January 31, 2017 in an aggregate amount of \$560,000 (collectively, the "2016 Unrelated Notes") to unrelated accredited investors. Placement agent and escrow agent fees of \$100,255 were deducted from the cash proceeds. The notes bore interest at an annual rate of interest of 12 percent until maturity, with partial interest of 6% payable quarterly, and maturity on December 31, 2018. The note investors had a right, in their sole discretion, to convert the notes into shares at a conversion rate of \$0.65 per share. On September 17, 2018, the notes were amended to mature on December 31, 2020, and bear interest at an annual rate of interest of 10% until maturity, with partial interest of 5% payable quarterly. With the amendment, the note investors have a right, in their sole discretion, to convert the notes into shares at a conversion rate of \$0.40 per share. The amendment was accounted for as a troubled debt restructuring with the future undiscounted cash flows being greater than the carrying value of the debt prior to extension. No gain was recorded, and a new effective interest rate was established based on the carrying value of the debt and the revised future cash flows. 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 12% from the maturity date until the date the notes are repaid in full. Any interest not paid quarterly will also accrue interest at the annual rate of 7% instead of 5%. 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 \$40,329 and \$132,748, and \$46,210 and \$134,299 for the three and nine months ended September 30, 2018 and 2017, respectively.

On November 17 and November 30, 2017, the Company issued convertible promissory notes in an aggregate amount of \$1,760,000 ("2017 Unrelated Notes") to unrelated accredited investors. Placement agent and escrow agent fees of \$174,810 were deducted from the cash proceeds. The notes mature on November 30, 2019. On September 14, 2018, the notes were amended to mature on December 31, 2020. The amendment was accounted for as a troubled debt restructuring with the future undiscounted cash flows being greater than the carrying value of the debt prior to extension. No gain was recorded, and a new effective interest rate was established based on the carrying value of the debt and the revised future cash flows. The notes bear interest at an annual rate of interest of 8% until maturity, with interest of 8% payable quarterly beginning July 1, 2018. The note investors have a right, in their sole discretion, to convert the notes into shares under certain circumstances at a conversion rate of \$0.20 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 12% from the maturity date until the date the notes are repaid in full. The Company is using the proceeds of the notes for working capital, general corporate purposes, and debt repayment.

On September 20 and September 26, 2018, the Company issued convertible promissory notes in an aggregate amount of \$900,000 ("2018 Unrelated Notes") to unrelated accredited investors. Placement agent and escrow agent fees of \$106,740 were deducted from the cash proceeds. The notes mature on December 31, 2020, and bear interest at an annual rate of interest of 8% until maturity, with interest of 8% payable quarterly beginning January 2, 2019. The note investors have a right, in their sole discretion, to convert the notes into shares under certain circumstances at a conversion rate of \$0.13 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 12% from the maturity date until the date the notes are repaid in full. The Company is using the proceeds of the notes for working capital, general corporate purposes, and debt repayment.

The table below reflects all notes payable at September 30, 2018 and December 31, 2017, respectively, with the exception of related party notes disclosed in Note 8 - Notes Payable - Related Parties.

	September 30, 2018	December 31, 2017
2016 Unrelated Notes	\$ 818,579	\$ 685,831
2017 Unrelated Notes	1,760,000	1,760,000
2018 Unrelated Notes	900,000	-
Total notes payable	\$ 3,478,579	\$ 2,445,831
Less unamortized debt issuance costs	(324,752)	(349,447)
Less current portion	(-)	(875,000)
Long-term portion of notes payable	\$ 3,153,827	\$ 1,221,384

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 September 30,	Amount
2019		\$ -
2020		-
2021		3,478,579
Total		<u>\$ 3,478,579</u>

As of September 30, 2018 and December 31, 2017, accrued interest for these notes payable with the exception of the related party notes in Note 8 - Notes Payable - Related Parties, was \$254,500 and \$70,304, respectively, and was reflected within accounts payable and accrued expenses on the consolidated balance sheets. As of September 30, 2018 and December 31, 2017, deferred financing costs were \$324,752 and \$349,447, 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 and nine months ended September 30, 2018, and 2017, 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 \$161,892 and \$492,691, and \$105,164 and \$306,004 respectively.

#### 8. Notes Payable - Related Parties

On March 29, 2012, the Company issued an unsecured promissory note in the amount of \$238,000, bearing interest at a rate of 10%, payable to Ramon Shealy, a then-director of the Company, who subsequently resigned from the Company's board of directors ("Board of Directors") on December 17, 2012, for personal reasons. 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 Mr. 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 September 30, 2018 and December 31, 2017, this Note had a principal balance of \$57,785 and \$92,439, respectively.

On November 30, 2016, the Company issued convertible promissory notes in a maximum aggregate principal amount of \$225,000 to Robert Taglich and Michael Taglich (each holding more than 5% beneficial interest in the Company's shares) and Robert Schroeder (Director) ("2016 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. On December 30, 2016, the 2016 Bridge Notes were converted by the note holders into the 2016 Related Notes, described below.

On December 30, 2016, the Company issued convertible promissory notes in an aggregate amount of \$375,000 (the “2016 Related Notes”) to accredited investors, including Robert Taglich 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 2016 Bridge Notes and \$150,000 cash. The notes bore 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 had a right, in their sole discretion, to convert the notes into shares at a conversion rate of \$0.65 per share. On September 17, 2018, the notes were amended to mature on December 31, 2020, and bear interest at an annual rate of interest of 10% until maturity, with partial interest of 5% payable quarterly. With the amendment, the note investors have a right, in their sole discretion, to convert the notes into shares at a conversion rate of \$0.40 per share. The amendment was accounted for as a troubled debt restructuring with the future undiscounted cash flows being greater than the carrying value of the debt prior to extension. No gain was recorded, and a new effective interest rate was established based on the carrying value of the debt and the revised future cash flows. 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 12% from the maturity date until the date the notes are repaid in full. Any interest not paid quarterly will also accrue interest at the annual rate of 7% instead of 5%. 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 \$15,735 and \$51,793, and \$18,029 and \$54,087, for the three and nine months ended September 30, 2018 and 2017, respectively.

On September 21, 2017, the Company issued convertible promissory notes in a maximum aggregate principal amount of \$154,640 (the “2017 Bridge Notes”) to Robert Taglich and Michael Taglich (each holding more than 5% beneficial interest in the Company’s shares). The notes included an original issue discount of \$4,640. Interest expense recognized on the amortization of the original discount was \$889, for the twelve months ended December 31, 2017. The notes bore interest at an annual rate of interest of 8% beginning March 21, 2018, until maturity on September 21, 2018. The effective interest rate was 7% for the term of the notes. Any interest not paid at maturity would accrue interest at the annual rate of 12% instead of 8%. The note investors 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. In conjunction with the issue of the 2016 Bridge Notes, 150,000 warrants were issued. The warrants have an exercise price equal to \$0.30 per share and contain a cashless exercise provision. All warrants are immediately exercisable and are exercisable for five years from issuance. The Company recognized debt issuance costs, recorded as a debt discount, on the issue of the warrants in the amount of \$38,836. Interest expense recognized on the amortization of the debt discount was \$38,836, for the twelve months ended December 31, 2017. On November 30, 2017, principal in the amount of \$150,000 of the 2017 Bridge Notes was converted by the note holders into the 2017 Related Notes, described below.

On November 17, 2017, the Company issued convertible promissory notes in an aggregate amount of \$390,000 (the “2017 Related Notes”) to accredited investors, including Robert Taglich and Michael Taglich (each holding more than 5% beneficial interest in the Company’s shares) and James DeSocio (Executive Officer and Director), in exchange for the conversion of \$150,000 principal from the 2017 Bridge Notes and \$240,000 cash. The notes mature on November 30, 2019. On September 14, 2018, the notes were amended to mature on December 31, 2020. The amendment was accounted for as a troubled debt restructuring with the future undiscounted cash flows being greater than the carrying value of the debt prior to extension. No gain was recorded, and a new effective interest rate was established based on the carrying value of the debt and the revised future cash flows. The notes bear interest at an annual rate of interest of 8% until maturity, with interest of 8% payable quarterly beginning July 1, 2018. The note investors have a right, in their sole discretion, to convert the notes into shares under certain circumstances at a conversion rate of \$0.20 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 12% from the maturity date until the date the notes are repaid in full. The Company is using the proceeds of the notes for working capital, general corporate purposes, and debt repayment.

On September 26, 2018, the Company issued convertible promissory notes in an aggregate amount of \$400,000 (the “2018 Related Notes”) to accredited investors, including Robert Taglich and Michael Taglich (each holding more than 5% beneficial interest in the Company’s shares). The notes mature on December 31, 2020, and bear interest at an annual rate of interest of 8% until maturity, with interest of 8% payable quarterly beginning January 2, 2019. The note investors have a right, in their sole discretion, to convert the notes into shares under certain circumstances at a conversion rate of \$0.13 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 12% from the maturity date until the date the notes are repaid in full. The Company is using the proceeds of the notes for working capital, general corporate purposes, and debt repayment.

The table below reflects Notes payable due to related parties at September 30, 2018 and December 31, 2017, respectively:

	September 30, 2018	December 31, 2017
The \$250,000 Shealy Note	57,785	92,439
2016 Related Notes	354,677	302,885
2017 Related Notes	390,000	390,000
2018 Related Notes	400,000	-
Total notes payable - related party	\$ 1,202,462	\$ 785,324
Unamortized debt issuance costs	(88,912)	(55,675)
Less current portion	(45,598)	(416,969)
Long-term portion of notes payable-related party	\$ 1,067,952	\$ 312,680

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

	For the Twelve Months Ending September 30,	Amount
2019		\$ 45,598
2020		12,187
2021		1,144,677
TOTAL		<u>\$ 2,202,462</u>

As of September 30, 2018 and December 31, 2017, accrued interest for these notes payable – related parties amounted to \$82,436 and \$29,997, respectively.

For the three and nine months ended September 30, 2018, and 2017, interest expense in connection with notes payable – related parties was \$44,750 and \$142,287, and \$36,319 and \$105,757, respectively.

## 9. Deferred Compensation

Pursuant to the Company's employment agreements with the founders, the founders have earned incentive compensation totaling \$178,089 and \$213,166 in cash, as of September 30, 2018 and December 31, 2017, respectively, which payment obligation has been deferred by the Company until it reasonably believes it has sufficient cash to make the payment. Following the retirement of founder A. Michael Chretien on December 8, 2017, the Company expects to make bi-weekly payments of \$1,846 until the deferred compensation has been paid, which will comprise 61 full payments and one partial payment of \$1,569. For the three and nine months ended September 30, 2018, the Company paid \$11,077 and \$35,077, which is reflected as a reduction in the deferred compensation liability.

## 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 September 30, 2018.

### *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 September 30,	Amount
2019		\$ 52,668
2020		53,964
2021		55,314
2022		13,914
		<u>\$ 175,860</u>

Rent expense, recorded on a straight-line basis, charged to operations for the three and nine months ended September 30, 2018 and 2017 amounted to \$13,252 and \$39,755, respectively.

## 11. Stockholders' Equity

### *Description of Authorized Capital*

As of September 30, 2018, the Company was authorized to issue up to 75,000,000 shares of common stock with \$0.001 par value. On June 12, 2018, the shareholders of the Company voted to approve an amendment to the Company charter to authorize an additional 25,000,000 shares for a total of 75,000,000 authorized shares of common stock. 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, 2018, and on January 5 and March 22, 2017, the Company issued 302,629, 61,110, and 2,941 shares, respectively, of restricted common stock to directors of the Company as part of an annual compensation plan for directors. The grant of shares was not subject to vesting. For the three and nine months ended September 30, 2018 and 2017, stock compensation of \$0 and \$57,500, 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 3, 2017, Matthew Chretien exercised the warrant and purchased 496,111 shares at \$0.007 per share through a cashless exercise.

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

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. In January, 2017, 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 are exercisable for a period of five years, contain customary cashless exercise and anti-dilution protection and were entitled to piggyback registration rights with respect to the Registration Statement of the Company made effective in February 2018. 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.

On September 21, 2017, the Company issued 150,000 warrants to purchase one share to Robert Taglich and Michael Taglich (each holding more than 5% beneficial interest in the Company's shares) in connection with the 2017 Bridge Notes. The warrants are exercisable to purchase one share at an exercise price of \$0.30 per share, contain a cashless exercise provision, and are exercisable for five years after issuance. A debt discount of \$38,837 was recorded for the issuance of these warrants, utilizing the Black-Scholes valuation model to value the warrants issued. The 2017 Bridge Notes were converted into the November 2017 Convertible Note Offering. The fair value of warrants issued was determined to be \$0.26.

Between November 17 and November 30, 2017, the Company issued convertible promissory notes in an aggregate amount of \$2,150,000 with certain accredited investors. The Company retained Taglich Brothers, Inc. as the exclusive placement agent for the November 2017 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. On November 17, 2017, the Company paid the placement agent cash in the amount of \$172,000 and issued the placement agent 354,000 warrants to purchase shares at an exercise price at \$0.25 per share, which are exercisable for a period of five years, contain customary cashless exercise and anti-dilution protection and were entitled to piggyback registration rights with respect to the Registration Statement of the Company made effective in February 2018. On November 30, 2017, the Company issued the placement agent 506,000 warrants to purchase shares at an exercise price at \$0.25 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. Debt issuance costs of \$126,603 was recorded for the issuance of the November 17 and November 30, 2017 warrants, utilizing the Black-Scholes valuation model to value the warrants issued. The fair value of warrants issued was determined to be \$0.17 and \$0.13 for the November 17 and November 30 warrants, respectively. For the three and nine months ended September 30, 2018, interest expense of \$42,600 and \$127,801 was recorded as amortization of the debt issuance costs.

Between September 20 and September 26, 2018, the Company issued convertible promissory notes in an aggregate amount of \$1,300,000 with certain accredited investors. The Company retained Taglich Brothers, Inc. as the exclusive placement agent for the September 2018 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 reimbursement for the placement agent's reasonable out of pocket expenses, FINRA filing fees and related legal fees. On September 20, 2018, the Company paid the placement agent cash in the amount of \$40,000 and issued the placement agent 307,692 warrants to purchase shares at an exercise price at \$0.13 per share, which are exercisable for a period of five years, contain customary cashless exercise and anti-dilution protection and are entitled to limited piggyback registration rights. On September 26, 2018, the Company paid the placement agent cash in the amount of \$64,000 and issued the placement agent 492,308 warrants to purchase shares at an exercise price at \$0.18 per share, which will be exercisable for a period of five years, contain customary cashless exercise and anti-dilution protection and are entitled to limited piggyback registration rights. Debt issuance costs of \$64,348 was recorded for the issuance of the September 20 and September 26, 2018 warrants, utilizing the Black-Scholes valuation model to value the warrants issued. The fair value of warrants issued was determined to be \$0.10 and \$0.07 for the September 20 and September 26 warrants, respectively. For the three and nine months ended September 30, 2018, no interest expense was recorded as amortization of the debt issuance costs.

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:

	Placement Agent December 30, 2016	Bridge Noteholders September 21, 2017
Risk-free interest rate	1.93%	1.89%
Weighted average expected term	5 years	5 years
Expected volatility	123.07%	130.80%
Expected dividend yield	0.00%	0.00%

  

	Placement Agent November 17, 2017	Placement Agent November 30, 2017
Risk-free interest rate	2.06%	2.14%
Weighted average expected term	5 years	5 years
Expected volatility	129.87%	129.34%
Expected dividend yield	0.00%	0.00%

  

	Placement Agent September 20, 2018	Placement Agent September 26, 2018
Risk-free interest rate	2.96%	2.96%
Weighted average expected term	5 years	5 years
Expected volatility	122.52%	122.92%
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 17,729,421 shares issued and outstanding, 6,726,625 shares reserved for issuance upon the exercise of outstanding warrants, 25,100,255 shares reserved for issuance upon the conversion of convertible debt, and 3,366,506 shares reserved for issuance under the 2015 Plan, as of September 30, 2018.

#### **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.

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 immediately vested on the date of grant, and the remaining 240,000 options granted would have vested 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 were not exercisable after the director's termination of continuous service, on September 30, 2017, 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 would have been recognized by the Company over the applicable vesting period. These options were forfeited during 2017 upon the termination of the employee and expiry of the exercise period. The total stock option compensation for the three months ended March 31, 2017 was \$4,357.

On September 25, 2017, the Company granted an employee stock options to purchase 750,000 shares at an exercise price of \$0.30 per share and 500,000 shares at an exercise price of \$0.38 per share, in accordance with the 2015 Plan, with vesting continuing until 2019. The total fair value of \$321,011 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 nine months ended September 30, 2018 and 2017, were based on estimates at the date of grant as follows:

	April 30, 2015 Grant	January 1, 2016 Grant	February 10, 2016 Grant
Risk-free interest rate	1.43%	1.76%	1.15%
Weighted average expected term	5 years	5 years	5 years
Expected volatility	143.10%	134.18%	132.97%
Expected dividend yield	0.00%	0.00%	0.00%

  

	December 6, 2016 Grant	March 15, 2017 Grant	September 25, 2017 Grant
Risk-free interest rate	1.84%	2.14%	1.85%
Weighted average expected term	5 years	5 years	5 years
Expected volatility	123.82%	121.19%	130.79%
Expected dividend yield	0.00%	0.00%	0.00%

A summary of stock option activity during the nine months ended September 30, 2018 and 2017 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, 2018	2,238,000	\$ 0.55	9 years	\$ 79,200
Granted	-			
Exercised	-			
Forfeited and expired	-			
Outstanding at September 30, 2018	2,238,000	\$ 0.55	8 years	\$ 79,200
Exercisable at September 30, 2018	1,408,000	\$ 0.59	8 years	\$ 79,200

There were no grants during the nine months ended September 30, 2018. The weighted-average grant date fair value of options granted during the nine months ended September 30, 2017 was \$0.29.

As of September 30, 2018, and December 31, 2017, there was \$248,111 and \$434,779, respectively, of total unrecognized compensation costs related to stock options granted under our stock option agreements. The unrecognized compensation cost is expected to be recognized over a weighted-average period of one year. The total fair value of stock options that vested during the nine months ended September 30, 2018 and 2017 was \$192,914 and \$100,655, 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 September 30, 2018, the Company's two largest customers, Mid Ohio Strategic Technologies ("MOST"), a Reseller, and Laser Systems ("LSI"), a Reseller, accounted for approximately 26% and 9%, respectively, of the Company's total revenue for that period. For the three months ended September 30, 2017, the Company's two largest customers, Ohio Department of Commerce ("ODC"), a direct client, and Tiburon, Inc. ("Tiburon"), a Reseller, accounted for approximately 19% and 9%, respectively, of the Company's total revenue for that period. For the nine months ended September 30, 2018, the Company's two largest customers, MOST, and LSI accounted for approximately 12% and 10%, respectively, of the Company's total revenues for that period. For the nine months ended September 30, 2017, the Company's two largest customers, ODC, a direct client, and Tiburon, a Reseller, accounted for approximately 10% and 9%, respectively, of the Company's total revenues for that period.

For the three months ended September 30, 2018 and 2017, government contracts represented approximately 24% and 42% of the Company's total revenues, respectively. For the nine months ended September 30, 2018 and 2017, government contracts represented approximately 26% and 42%, respectively, of the Company's total revenue.

As of September 30, 2018, accounts receivable concentrations from the Company's three largest customers were 27%, 14%, and 14% of gross accounts receivable, respectively, and as of September 30, 2017, accounts receivable concentrations from the Company's four largest customers were 33%, 13%, 12%, and 11% of gross accounts receivable, respectively. Accounts receivable balances from the Company's four largest customers at September 30, 2018 have 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 and nine months ended September 30, 2018, and 2017 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 item to the "Company," "us," "we," "our," and similar terms refer to Intellinetics, a Nevada corporation, and its sole operating subsidiary, Intellinetics Ohio, an Ohio corporation, 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 Annual Report on Form 10-K for the year ended December 31, 2017, filed on April 2, 2018. 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 and nine months ended September 30, 2018.

### 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 with its customers' audit requirements.

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 nine months ended September 30, 2018 and 2017, were 30% and 22% respectively.

Our current sales strategy is to direct our sales efforts toward both direct sales and sales through intermediaries, such as software developers and resellers and multi- function device resellers. 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 and direct customers. We continue to devote significant efforts, in both development and marketing, in enhancing all channels to market.

### ***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 included customers with implementations taking only a few weeks to customers with larger projects that can take as much as nine months to complete. For all projects, our policy is to recognize revenue as performance obligations are satisfied.

### ***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 Expense, net, consists primarily of interest expense and amortization of debt issuance costs and beneficial conversion feature discounts 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 and direct sales. 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.
- 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 or vertical market, (iii) whether the project would enable us to demonstrate our capabilities to large national resellers, or (iv) whether the project would help to develop new product and service features that we could integrate into our suite of products, resulting in an overall product portfolio that better aligns with the needs of our target customers. As a result of this pipeline analysis, we may take on projects with a lower project margin if we determine that the project is valuable to our business for the other reasons discussed.
- Our sales cycle averages 1-2 months; however, large projects can be longer, lasting 3-6 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 IA of our Annual Report on Form 10-K for the year ended December 31, 2017, 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**

#### **Revenues**

We recorded total revenues of \$673,111 and \$671,453 for the three months ended September 30, 2018 and 2017, respectively, representing an increase of \$1,658 or 0%. For the nine months ended September 30, 2018 and 2017, respectively, revenues were \$1,748,161 and \$2,116,338, respectively, representing a decrease of \$368,177, or 17%. The decrease 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 \$64,986 and \$134,731, for the three months ended September 30, 2018 and 2017, respectively, representing a decrease of \$69,745, or 52%. The decrease was due to increased focus on Software as a Service as well as fewer, larger on-premise solutions and expansions sold. For the nine months ended September 30, 2018 and 2017, respectively, revenues were \$140,138 and \$375,006 representing a decrease of \$234,868, or 63%. The decrease was due to lesser demand for on-premise solutions, and no individually large installations in 2018.

### *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 of one year or greater. 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 \$173,515 and \$177,729, for the three months ended September 30, 2018 and 2017, respectively, representing a decrease of \$4,214, or 2%. Our software as a service revenues were \$527,697 and \$456,085, for the nine months ended September 30, 2018 and 2017, respectively, representing an increase of \$71,612, or 16%. 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 \$251,660 and \$241,358, for the three months ended September 30, 2018 and 2017, respectively, representing an increase of \$10,302, or 4%. Our software maintenance support revenue was \$740,527 and \$732,160 for the nine months ended September 30, 2018 and 2017, respectively, representing an increase of \$8,367, or 1%. The increase in revenue year-over-year was the result of new growth and price increases offsetting attrition of existing maintenance agreement renewals.

### *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 \$57,294 and \$81,751 for the three months ended September 30, 2018 and 2017, respectively, a decrease of \$24,457, or 30%. For the nine months ended September 30, 2018 and 2017, respectively, professional services revenues were \$168,849 and \$436,977, respectively, representing a decrease of \$268,128, or 61%. The decrease in revenue was primarily timing of consulting contracts for customers seeking additional customization, project management, and training, as well as overall lower revenue in sales of software.

### *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 conjunction with Intellinetics core software or services. Third party services revenues were \$125,656 and \$35,884, respectively, for the three months ended September 30, 2018 and 2017, respectively, representing an increase of \$89,772 or 250%, which was primarily due to timing of projects that are typically attached to new Software or new Software as a Service sales. For the nine months ended September 30, 2018 and 2017, respectively, third party services were \$170,950 and \$116,110, representing an increase of \$54,840, or 47%. The increase in revenue was primarily timing of project composition, with unusually high third-party services components in the third quarter.

### **Cost of Revenues**

The cost of revenues during the three months ended September 30, 2018 and 2017 were \$261,758 and \$183,959, respectively, representing an increase of \$77,799, or 42%, driven by the higher costs associated with the increased sales of Third party software and services. For the nine months ended September 30, 2018 and 2017, respectively, the cost of revenues was \$568,920 and \$603,972, representing a decrease of \$35,052, or 6%. The decrease in cost of revenue for the period ended September 30, 2018 is primarily due to the corresponding lower sales volume, with contribution from an unfavorable mix toward Third party sales in the third quarter.

### **Gross Margins**

Overall gross margin for the three months ended September 30, 2018 and 2017 were 61% and 73%, respectively, representing weaker margins in Third party Services more than offsetting the stronger margins in Maintenance Services. For the nine months ended September 30, 2018 and 2017, the gross margins were 67% and 71%, respectively. The slight erosion in gross margin year-over-year is primarily a result of product mix in the third quarter.

## **Operating Expenses**

### *General and Administrative Expenses*

General and administrative expenses were \$446,224 during the three months ended September 30, 2018 as compared to \$490,943 during the three months ended September 30, 2017, representing a decrease of \$44,719 or 9%, driven by decreased research and development for the period. For the nine months ended September 30, 2018 and 2017, general and administrative expenses were \$1,583,059 and \$1,571,184, representing an increase of \$11,875, or 1%. The slight increase for the period ended September 30, 2018 was the result of offsetting factors, primarily increased stock-based compensation costs and increased research and development for the period as compared to 2017, partially offset by reduced underwriting fees and the receipt of a net \$52,500 training grant from the state of Ohio in the first quarter.

### *Sales and Marketing Expenses*

Sales and marketing expenses were \$235,974 during the three months ended September 30, 2018 as compared to \$146,957 during the three months ended September 30, 2017, representing an increase of \$89,017 or 61%. The increase was primarily due to open positions and minimal marketing spend in 2017. For the nine months ended September 30, 2018 and 2017, respectively, sales and marketing expenses were \$742,074 and \$568,238, representing an increase of \$173,836, or 31%. The increase was primarily related to our increased emphasis on market branding and marketing, including increased payroll, sales and marketing tools, and modernization of our web site's message and functionality.

### *Depreciation and Amortization*

Depreciation and amortization was \$2,429 for the three months ended September 30, 2018, as compared to \$3,231 for the three months ended September 30, 2017, representing a decrease of \$802 or 25%. For the nine months ended September 30, 2018 and 2017, respectively, depreciation and amortization was \$7,007 and \$9,016, representing a decrease of \$2,009 or 22%. The decrease was the result of assets becoming fully depreciated.

### *Interest Expense, Net*

Interest expense, net, was \$206,642 during the three months ended September 30, 2018 as compared to \$141,483 during the three months ended September 30, 2017, representing an increase of \$65,159 or 46%. For the nine months ended September 30, 2018 and 2017, respectively, interest expense was \$634,978 and \$411,761, an increase of \$223,217, or 54%. The increase resulted primarily from interest expense and amortization of prepaid financing charges related to the convertible promissory notes issued in November 2017.

## **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 September 30, 2018, our major liquidity indicators are:

- Cash \$1,333,278
- Net Working Capital \$159,850

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 a targeted marketing approach to select vertical markets and an expanded network of resellers through which we expect to sell our expanded software product portfolio, as well as continue to enhance our direct selling results. We expect that this marketing initiative will require us to continue our efforts towards direct marketing campaigns and leads management, reseller training and on-boarding, and to 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.

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 \$80,000 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 November 13, 2018, the Company has 17,729,421 shares of common stock issued and outstanding; and 35,465,151 shares reserved for issuance upon the exercise of outstanding warrants, convertible notes, outstanding stock options, and shares reserved for the 2015 Plan. On June 12, 2018, the shareholders approved the authorization of an additional 25,000,000 shares of common stock of the Company, resulting in 75,000,000 total authorized shares.

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 expand our sales and marketing capabilities, develop ancillary software products, enhance our internal infrastructure, support the accounting, auditing and legal costs of operating as a public company, service existing debt obligations, and provide working capital.

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

### 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 8 to the Consolidated Financial Statements, titled Notes Payable – Related Parties.

### 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 were 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.

On September 21, 2017, the Company entered into note purchase agreements with certain accredited investors for a private placement of convertible notes for net proceeds of \$150,000. The proceeds from these notes were used primarily to fund our working capital needs and general corporate purposes. The notes were exchanged for promissory notes of the same principal amount as set forth in the paragraph below on November 30, 2017.

On November 17 and November 30, 2017, the Company entered into note purchase agreements with certain accredited investors for a private placement of convertible notes with an aggregate original principal balance of \$2,150,000, for new cash proceeds of \$2,000,000. The proceeds from these notes was used to repay in full our outstanding indebtedness with the State of Ohio Development Authority, and was also used to fund working capital needs and general corporate purposes.

On September 20 and September 26, the Company entered into note purchase agreements with certain accredited investors for a private placement of convertible notes with an aggregate original principal balance of \$1,300,000. The proceeds from these notes will be used to fund our working capital needs and general corporate purposes.

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

### Summary of Current Outstanding Indebtedness

The Company's outstanding indebtedness at September 30, 2018 was as follows:

- Promissory note held by Ramon Shealy, dated December 31, 2014, with a principal balance of \$193,453, current principal balance of \$57,785, and accrued interest of \$0.
- Convertible notes held by accredited investors, dated December 30, 2016 and January 5 and January 30, 2017, with an aggregate original principal balance of \$1,250,000, current principal balance of \$1,250,000, and accrued interest of \$185,731.
- Convertible notes held by accredited investors, dated November 17 and November 30, 2017, with an aggregate original principal balance of \$2,150,000, current principal balance of \$2,150,000, and accrued interest of \$149,382.
- Convertible notes held by accredited investors, dated September 20 and September 26, 2018, with an aggregate original principal balance of \$1,300,000, current principal balance of \$1,300,000, and accrued interest of \$1,822.

### ***Capital Expenditures***

We had no material commitments to make any capital expenditures at September 30, 2018.

### ***Cash Flows***

#### Operating Activities

Net cash used in operating activities for the nine months ended September 30, 2018 and 2017 was \$923,737 and \$805,404 respectively. During the nine months ended September 30, 2018, the net cash used in operating activities was primarily attributable to the net loss, adjusted for non-cash expenses of \$624,760 and an increase in net operating liabilities of \$239,380. During the nine months ended September 30, 2017, the net cash used in operating activities was primarily attributable to the net loss, adjusted for non-cash expenses of \$466,386 and an increase in net operating assets of \$223,957.

#### Investing Activities

Net cash used in investing activities for the nine months ended September 30, 2018 and 2017 amounted to \$3,410 and \$14,202, respectively, and was related to the purchase of property and equipment.

### Financing Activities

Net cash provided by financing activities for the nine months ended September 30, 2018 amounted to \$1,134,504. The net cash provided by financing activities resulted from new borrowings of \$1,300,000, offset by \$34,655 of notes payable repayments to related parties, and payment of deferred financing costs of \$130,841.

Net cash provided by financing activities for the nine months ended September 30, 2017 amounted to \$313,363. The net cash provided by financing activities resulted from new borrowings of \$710,000, of which \$150,000 was from related parties, offset by \$293,309 of notes payable repayments, of which \$25,114 was repaid to related parties, and payment of deferred financing costs of \$103,328.

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

There have been no significant changes during the nine months ended September 30, 2018 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 Annual Report on Form 10-K for the year ended December 31, 2017, other than the implementation of ASC 606 as discussed in footnote 5.

### ***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 the first nine months of 2018 we raised a total of \$12,683,494 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.

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.

As stated in our Annual Report on Form 10-K, for the year ended December 31, 2017, our principal executive officer and principal financial officer concluded that as of the end of that period, 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 a material weakness in our internal control over financial reporting.

The material weakness, which related to internal control over financial reporting resulted from the lack of controls and segregation of duties related to technical application of GAAP. Specifically, we did not have effective controls in place to properly identify certain mistakes in financial reporting schedules related to presentation on the statement of operations and cash flows and an error in a schedule to account for a warrant transaction which resulted in a material required adjustment identified by our independent registered public accounting firm in December 2017. Management is aware of the risks associated with the lack of segregation of duties due to the small number of employees currently working with general administrative and financial reporting matters. Due to our size and nature, segregation of all conflicting duties may not always be possible. However, to the extent possible, the initiation of transactions, the custody of assets and the recording of transactions should be performed by separate individuals.

To address and remediate the material weakness in internal control over financial reporting described above, we performed a comprehensive review of our related procedures and controls and took the following actions:

- Modified and strengthened the accounting personnel structure, including the Chief Executive Officer in the internal control structure who was hired in September 2017.
- Implemented enhanced reconciliation procedures and management review controls surrounding significant/unusual transactions, including audit committee oversight.

We have assessed the effectiveness of our remediation efforts over our internal controls and disclosure controls during the first nine months of 2018. The controls have operated effectively during this time. The Company will continue to monitor the effectiveness of these remediation measures and will make any changes and take such other actions that it deems appropriate given the circumstances.

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 effective as required under Rules 13a-15(e) and 15d-15(e) under the Exchange Act.

#### *(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. Other than the remediation described above, there were no changes in our internal control over financial reporting that occurred during the nine months ended September 30, 2018 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, 2017, 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>
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31.1*	<a href="#">Certification of Principal Executive Officer pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.</a>
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31.2*	<a href="#">Certification of Principal Financial Officer pursuant to Section 302 of The Sarbanes-Oxley Act of 2002.</a>
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32.1*	<a href="#">Certification of Principal Executive Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.</a>
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32.2*	<a href="#">Certification of Principal Financial Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.</a>
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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: November 14, 2018

By: /s/ James F. DeSocio  
James F. DeSocio  
President and Chief Executive Officer

Dated: November 14, 2018

By: /s/ Joseph D. Spain  
Joseph D. Spain  
Chief Financial Officer



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

I, James F. DeSocio, 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: November 14, 2018

By: /s/ James F. DeSocio

President and Chief Executive Officer

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## 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: November 14, 2018

By: /s/ Joseph D. Spain  
Chief Financial Officer

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

In connection with the Quarterly Report of Intellinetics, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2018, as filed with the Securities and Exchange Commission (the "Report"), I, James F. DeSocio, 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: November 14, 2018

*/s/ James F. DeSocio*

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President and Chief Executive Officer

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

In connection with the Quarterly Report of Intellinetics, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2018, as filed with the Securities and Exchange Commission (the "Report"), I, Joseph D. Spain, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

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

Dated: November 14, 2018

/s/ Joseph D. Spain  
Chief Financial Officer

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