# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, D.C. 20549**

# FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended June 30, 2019

[ ] 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 | 87-0613716 |
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |
| 2190 Dividend Drive<br>Columbus, Ohio | 43228 |
| (Address of Principal Executive Offices) | (Zip Code) |

(614) 921-8170

(Registrant's telephone number, including area code)

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

Securities registered pursuant to Section 12(b) of the Act: None.

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|---|---|---|

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 [X] No [ ]

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes [X] No [ ]

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

| | | | | |
|---|---|---|---|---|
| Large accelerated filer | [ ] | (Do not check if a smaller reporting company) | Accelerated filer | [ ] |
| Non-accelerated filer | [ ] | | Smaller reporting company | [X] |
| Emerging growth company | [ ] | | | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting 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 Exchange Act): Yes [ ] No [X]

As of August 13, 2019 there were 18,524,878 shares of the issuer's common stock outstanding.

INTELLINETICS, INC.
Form 10-Q
June 30, 2019
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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; and

- the nature and intensity of our competition, and our ability to successfully compete in our markets.

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, 2018, filed on April 1, 2019, 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) June 30, 2019 | December 31, 2018 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash | $ 412,224 | $ 1,088,630 |
| Accounts receivable, net | 173,898 | 135,739 |
| Prepaid expenses and other current assets | 143,571 | 162,495 |
| Total current assets | 729,693 | 1,386,864 |
| Property and equipment, net | 10,613 | 9,131 |
| Right of use asset, net | 117,894 | - |
| Other assets | 10,284 | 10,284 |
| Total assets | $ 868,484 | $ 1,406,279 |
| **LIABILITIES AND STOCKHOLDERS' DEFICIT** | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ 292,073 | $ 308,121 |
| Lease liability - current | 21,523 | - |
| Deferred revenues | 587,970 | 723,619 |
| Deferred compensation | 141,166 | 165,166 |
| Notes payable - related party - current | 24,014 | 46,807 |
| Total current liabilities | 1,066,746 | 1,243,713 |
| Long-term liabilities: | | |
| Notes payable | 3,242,445 | 3,144,926 |
| Notes payable - related party - net of current portion | 1,075,703 | 1,045,937 |
| Lease liability - net of current portion | 100,715 | - |
| Other long-term liabilities | 844,862 | 502,295 |
| Total long-term liabilities | 5,263,725 | 4,693,158 |
| Total liabilities | 6,330,471 | 5,936,871 |
| Stockholders' deficit: | | |
| Common stock, $0.001 par value, 75,000,000 shares authorized; 18,524,878 and 17,729,421 shares issued and outstanding at June 30, 2019 and December 31, 2018, respectively | 31,528 | 30,733 |
| Additional paid-in capital | 14,312,785 | 14,101,460 |
| Accumulated deficit | (19,806,300) | (18,662,785) |
| Total stockholders' deficit | (5,461,987) | (4,530,592) |
| Total liabilities and stockholders' deficit | $ 868,484 | $ 1,406,279 |

See Notes to these condensed consolidated financial statements

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

| | For the Three Months Ended June 30, 2019 | For the Three Months Ended June 30, 2018 | For the Six Months Ended June 30, 2019 | For the Six Months Ended June 30, 2018 |
|---|---|---|---|---|
| Revenues: | | | | |
| Sale of software | $ 7,102 | $ 34,158 | $ 8,852 | $ 75,152 |
| Software as a service | 229,982 | 177,583 | 429,165 | 354,183 |
| Software maintenance services | 252,713 | 245,299 | 505,349 | 488,867 |
| Professional services | 142,738 | 52,605 | 194,405 | 111,556 |
| Third party services | 8,073 | 40,033 | 18,222 | 45,294 |
| Total revenues | 640,608 | 549,678 | 1,155,993 | 1,075,052 |
| Cost of revenues: | | | | |
| Sale of software | 1,164 | 12,672 | 3,010 | 30,533 |
| Software as a service | 60,579 | 68,594 | 128,268 | 145,687 |
| Software maintenance services | 20,541 | 25,064 | 49,919 | 50,601 |
| Professional services | 39,814 | 19,317 | 73,320 | 36,143 |
| Third party services | 8,006 | 33,954 | 18,052 | 44,199 |
| Total cost of revenues | 130,104 | 159,601 | 272,569 | 307,163 |
| Gross profit | 510,504 | 390,077 | 883,424 | 767,889 |
| Operating expenses: | | | | |
| General and administrative | 521,057 | 593,400 | 1,060,018 | 1,136,835 |
| Sales and marketing | 221,663 | 244,391 | 490,420 | 506,100 |
| Depreciation | 2,099 | 2,384 | 4,007 | 4,578 |
| Total operating expenses | 744,819 | 840,175 | 1,554,445 | 1,647,513 |
| Loss from operations | (234,315) | (450,098) | (671,021) | (879,624) |
| Other income (expense) | | | | |
| Interest expense, net | (239,347) | (219,353) | (472,494) | (428,336) |
| Total other income (expense) | (239,347) | (219,353) | (472,494) | (428,336) |
| Net loss | $ (473,662) | $ (669,451) | $ (1,143,515) | $ (1,307,960) |
| Basic and diluted net loss per share: | $ (0.03) | $ (0.04) | $ (0.06) | $ (0.07) |
| Weighted average number of common shares outstanding - basic and diluted | 18,524,878 | 17,729,421 | 18,502,782 | 17,724,377 |

See Notes to these condensed consolidated financial statements

**INTELLINETICS, INC. and SUBSIDIARY**
**Condensed Consolidated Statement of Stockholders' Deficit**
**For the Six Months Ended June 30, 2019 and 2018**
**(Unaudited)**

| | Common Stock | | Additional Paid-in | Accumulated | |
|---|---|---|---|---|---|
| | Shares | Amount | Capital | Deficit | Total |
| 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 | - | - | 124,310 | - | $ 124,310 |
| Net loss | - | - | - | (1,307,960) | $ (1,307,960) |
| Balance, June 30, 2018 | 17,729,421 | $ 30,733 | $ 13,830,027 | $ (17,630,465) | $ (3,769,705) |

| | Common Stock | | Additional Paid-in | Accumulated | |
|---|---|---|---|---|---|
| | Shares | Amount | Capital | Deficit | Total |
| Balance, December 31, 2018 | 17,729,421 | $ 30,733 | $ 14,101,460 | $ (18,662,785) | $ (4,530,592) |
| Stock issued to directors | 522,729 | 523 | 56,977 | - | $ 57,500 |
| Stock issued to employee | 272,728 | 272 | 29,728 | - | $ 30,000 |
| Stock option compensation | - | - | 124,620 | - | $ 124,620 |
| Net loss | - | - | - | (1,143,515) | $ (1,143,515) |
| Balance, June 30, 2019 | 18,524,878 | $ 31,528 | $ 14,312,785 | $ (19,806,300) | $ (5,461,987) |

See Notes to these condensed consolidated financial statements

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

| | For the Six Months Ended June 30, 2019 | For the Six Months Ended June 30, 2018 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net loss | $ (1,143,515) | $ (1,307,960) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 4,007 | 4,578 |
| Bad debt expense | 4,121 | (3,834) |
| Amortization of deferred financing costs | 91,925 | 124,431 |
| Amortization of beneficial conversion option | 35,360 | 128,477 |
| Amortization of right of use asset | 20,655 | - |
| Stock issued for services | 87,500 | 57,500 |
| Stock options compensation | 124,620 | 124,310 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (42,280) | 100,247 |
| Prepaid expenses and other current assets | 18,924 | (61,445) |
| Right of use asset | (138,549) | - |
| Accounts payable and accrued expenses | (16,048) | (10,068) |
| Lease liability, current and long-term | 122,238 | - |
| Deferred compensation | (24,000) | (24,000) |
| Other long-term liabilities | 342,567 | 150,311 |
| Deferred revenues | (135,649) | (100,139) |
| Total adjustments | 495,391 | 490,368 |
| Net cash used in operating activities | (648,124) | (817,592) |
| | | |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (5,489) | (3,410) |
| Net cash used in investing activities | (5,489) | (3,410) |
| | | |
| Cash flows from financing activities: | | |
| Repayment of notes payable - related parties | (22,793) | (23,947) |
| Net cash used in/provided by financing activities | (22,793) | (23,947) |
| | | |
| Net decrease in cash | (676,406) | (844,949) |
| Cash - beginning of period | 1,088,630 | 1,125,921 |
| Cash - end of period | $ 412,224 | $ 280,972 |
| | | |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the period for interest and taxes | $ 4,405 | $ 28,973 |

See Notes to these condensed consolidated financial statements

**1. Business Organization and Nature of Operations**

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

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

**2. Basis of Presentation**

The accompanying 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 June 30, 2019 and the consolidated results of its operations and cash flows for the six months ended June 30, 2019 and 2018, have been included. The Company has evaluated subsequent events through the issuance of this Form 10-Q. Operating results for the three and six months ended June 30, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019 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, 2018 included in the Company's Form 10-K filed with the Securities and Exchange Commission on April 1, 2019.

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

Through June 30, 2019, the Company had incurred an accumulated deficit since its inception of $19,806,300. At June 30, 2019, the Company had a cash balance of $412,224.

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 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.

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 exceed the cash flows that it intends to generate from its operations. During 2018 and 2019, the Company has used, and been dependent upon, the proceeds from the issuance of convertible notes to sustain operations and execute its business plan. There is no assurance that the Company has, or in the future will be able to obtain, sufficient funds to continue to fund the Company's operations. Given these conditions, the Company's ability to continue as a going concern is contingent upon either sufficiently enhancing its operating cash flow, through increasing its revenues and successfully managing its cash requirements, or raising financing through the issuance of additional debt or equity, or some combination of both. 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 profits, 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 sufficient additional funds on commercially acceptable terms, if at all.

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 consolidated 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 consolidated 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 consolidated 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, estimates of fair value 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 June 30, 2019 and December 31, 2018, the Company's allowance for doubtful accounts was $11,547 and $7,427, 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") 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, "Compensation - 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, "Compensation - Stock Compensation," which requires that such equity instruments are recorded at their fair value on the grant date.

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.

For the three and six months ended June 30, 2019, the Company recorded share-based compensation to employees of $68,497 and $154,621, respectively, and to non-employees of $0 and $57,500. For the three and six months ended June 30, 2018, the Company recorded share-based compensation to employees of $66,223 and $124,310, 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 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 in this report.

***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. For the three and six months ending June 30, 2019 and 2018, our research and development costs were $131,138 and $247,226, respectively, and $100,631 and $207,086, respectively.

***Recent Accounting Pronouncements***

*Leases*

In February 2016, the FASB issued ASU No. 2016-02, Leases ("ASC 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 is effective for the Company beginning in its first quarter of 2019. On January 1, 2019, the Company recorded a lease liability of $143,761 and a net right-of-use asset of $138,549 using the required modified retroactive approach. In adopting ASC 842, the Company elected to utilize the available package of practical expedients permitted under the transition guidance within the new standard, which does not require the reassessment of the following: i) whether existing or expired arrangements are or contain a lease, ii) the lease classification of existing or expired leases, and iii) whether previous initial costs would qualify as capitalization under the new lease standard.

***Revenue Recognition***

Effective January 1, 2018, we adopted ASC 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, the Company follows a five-step model to assess each contract of a sale or service to a customer: identify the legally binding contract, identify the performance obligations, determine the transaction price, allocate the transaction price, and determine whether revenue will be recognized at a point in time or over time. Revenue is recognized when a performance obligation is satisfied and the 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.

We categorize revenue as software, software as a service, software maintenance services, professional services, and third party services. We earn the majority of our revenue from the sale of software as a service and the sale of software maintenance services. 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 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. PCS is considered distinct services. However, these distinct services are considered a single performance obligation consisting of a series of services that are substantially 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. In addition, we have considered our relationship with third party vendors as it relates to principal vs. agent considerations and have determined that we are in control of establishing the transaction price for the customer, managing all aspects of the shipments process and taking the risk of loss for delivery, collection, and returns. Based on our evaluation of the control model, we determined that we act as the principal rather than the agent within our revenue arrangements and as such, revenues are reported on a gross basis.

*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 portion of our contracts include multiple performance obligations. For contracts with multiple performance obligations, the Company allocates the transaction price of the contract to each distinct performance obligation, on a relative basis using its standalone selling price. The Company determines the standalone selling price based on the price charged for the deliverable when sold separately.

*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 deferred revenue 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 current 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 six months ended June 30, 2019 and 2018:

| | Balance at Beginning of Period | Revenue Recognized in Advance of Billings | Billings | Balance at End of Period |
|---|---|---|---|---|
| Six months ended June 30, 2019 | | | | |
| Contract assets: Unbilled receivables | $ 65,118 | $ 98,154 | $ (117,965) | $ 45,307 |
| Six months ended June 30, 2018 | | | | |
| Contract assets: Unbilled receivables | $ 89,847 | $ 147,126 | $ (168,436) | $ 68,537 |

| | Balance at Beginning of Period | Billings | Recognized Revenue | Balance at End of Period |
|---|---|---|---|---|
| Six months ended June 30, 2019 | | | | |
| Contract liabilities: Deferred revenue | $ 723,619 | $ 1,355,267 | $ (1,490,916) | $ 587,970 |
| Six months ended June 30, 2018 | | | | |
| Contract liabilities: Deferred revenue | $ 708,130 | $ 1,294,906 | $ (1,395,045) | $ 607,991 |

***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 87% of the remaining performance obligations over the next 12 months, with the remainder recognized thereafter. As of June 30, 2019, 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 $93,524. 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 variable consideration, financing components, 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. The Company recognizes revenues relating to sales through resellers on the sell-in method when all the recognition criteria have been met including passing of control. 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 capitalizes 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 contracts were immaterial during the periods presented and are included in other current and long-term assets on our consolidated balance sheets.

***l) Sales taxes***

Sales taxes charged to and collected from customers as part of the Company's sales transactions are excluded from revenues, as well as the determination of transaction price for contracts with multiple performance obligations, and recorded as a liability to the applicable governmental taxing authority.

***Advertising***

The Company expenses the cost of advertising as incurred. Advertising expense for the three and six months ended June 30, 2019 and 2018 amounted to $1,028 and $2,056, and $10,425 and $13,926, 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 June 30, 2019 and December 31, 2018, 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, “Income Taxes.” The standard prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The standard also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition accounting. Management determined there were no material uncertain positions taken by the Company in its tax returns.

***Statement of Cash Flows***

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

***Reclassifications***

Certain amounts in the 2018 consolidated financial statements have been reclassified to conform to current year presentation.

## 6. Fair Value Measurements

Under U.S. GAAP, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy included in U.S. GAAP gives the highest priority to Level 1 inputs, which consist of unadjusted quoted prices for identical instruments in active markets. Level 2 inputs consist of quoted prices for similar instruments. Level 3 valuations are derived from inputs that are significant and unobservable, and these valuations have the lowest priority.

Management believes that the carrying values of cash and equivalents, accounts receivable, accounts payable, and accrued expenses approximate fair value because of their short maturity.

The table below reflects all notes payable at June 30, 2019 and December 31, 2018, respectively.

| | | June 30, 2019 Fair Value | December 31, 2018 Fair Value |
|---|---|---|---|
| 2016 Unrelated Notes | (a) | $ 1,034,841 | $ 1,000,261 |
| 2017 Unrelated Notes | (a) | 2,279,653 | 2,275,686 |
| 2018 Unrelated Notes | (b) | 1,165,732 | 900,000 |
| Total | | $ 4,480,225 | $ 4,175,947 |

| | | June 30, 2019 Fair Value | December 31, 2018 Fair Value |
|---|---|---|---|
| The $250,000 Shealy Note | (c) | $ 24,014 | $ 46,807 |
| 2016 Related Notes | (a) | 446,835 | 433,117 |
| 2017 Related Notes | (a) | 505,150 | 504,271 |
| 2018 Related Notes | (b) | 518,103 | 400,000 |
| Total | | $ 1,470,088 | $ 1,384,195 |

(a) The fair value was based upon Level 2 inputs. See Note 8 for additional information about the Company's 2016 and 2017 Unrelated Notes. See Note 9 for additional information about the Company's 2016 and 2017 Related Notes.
(b) The fair value was based upon Level 2 inputs as of June 30, 2019. The 2018 Unrelated and Related Notes were closed in September 2018 between market participants, therefore, given proximity of the transactions to year-end, fair value approximated carrying value at December 31, 2018. See Note 8 for additional information about the Company's 2018 Unrelated Notes. See Note 9 for additional information about the Company's 2018 Related Notes.
(c) The fair value was based upon Level 2 inputs. Short term maturity and interest rate approximates rate that the Company realized with issuance of new debt in September 2018; therefore, carrying value approximates fair value. See Note 9 for additional information about the Company's $250,000 Shealy Note.

## 7. Property and Equipment

Property and equipment are comprised of the following:

| | June 30, 2019 | December 31, 2018 |
|---|---|---|
| Computer hardware and purchased software | $ 259,959 | $ 254,470 |
| Leasehold improvements | 221,666 | 221,666 |
| Furniture and fixtures | 82,056 | 82,056 |
| | 563,681 | 558,192 |
| Less: accumulated depreciation and amortization | (553,068) | (549,061) |
| Property and equipment, net | $ 10,613 | $ 9,131 |

Total depreciation and amortization expense on the Company's property and equipment for the three and six months ended June 30, 2019 and 2018 amounted to $2,099 and $4,007, respectively, and $2,384 and $4,578, respectively.

## 8. 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 derivative 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 recognized 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 (the “2016 Note Investors”). Placement agent and escrow agent fees of $100,255 in the aggregate for those issuances, were paid out of the cash proceeds of those issuances. The 2016 Unrelated Notes bore interest at an annual rate of interest of 12% until maturity, with partial interest of 6% payable quarterly, and an original maturity date of December 31, 2018. The 2016 Note Investors had the right, in their sole discretion, to convert the 2016 Unrelated Notes into shares of Company common stock at a conversion rate of $0.65 per share. On September 17, 2018, the 2016 Unrelated 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 2016 Note Investors have the right, in their sole discretion, to convert the 2016 Unrelated Notes into shares of Company common stock 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 on the amendment, and a new effective interest rate on the 2016 Unrelated Notes was established based on the carrying value of the debt and the revised future cash flows. If the 2016 Unrelated Notes have not been fully repaid by the Company by the maturity date or converted into shares at the election of the 2016 Note Investors prior to maturity, then they will accrue interest at the annual rate of 12% from the maturity date until the date the 2016 Unrelated 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 2016 Unrelated Notes for working capital, general corporate purposes, and debt repayment. The Company recognized an initial beneficial conversion feature in the amount of $369,677, plus a fair value adjustment of $56,661 under the troubled debt restructuring accounting. Interest expense recognized on the amortization of the beneficial conversion feature of the 2016 Unrelated Notes was $12,675 and $25,352, and $46,209 and $92,419 for the three and six months ended June 30, 2019 and 2018, 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 (the “2017 Note Investors”). Placement agent and escrow agent fees of $174,810 were paid out of the cash proceeds. The 2017 Unrelated Notes had an original maturity date of November 30, 2019. On September 14, 2018, the 2017 Unrelated 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 on the amendment, and a new effective interest rate on the 2017 Unrelated Notes was established based on the carrying value of the debt and the revised future cash flows. The 2017 Unrelated Notes bear interest at an annual rate of interest of 8% until maturity, with interest of 8% payable quarterly beginning July 1, 2018. The 2017 Note Investors have the right, in their sole discretion, to convert the 2017 Unrelated Notes into shares of Company common stock under certain circumstances at a conversion rate of $0.20 per share. If the 2017 Unrelated Notes have not been fully repaid by the Company by the maturity date or converted into shares of Company common stock at the election of the 2017 Note Investors prior to maturity, then they will accrue interest at the annual rate of 12% from the maturity date until the date the 2017 Unrelated notes are repaid in full. The Company used the proceeds of the 2017 Unrelated 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 (the “2018 Note Investors”). Placement agent and escrow agent fees of $106,740 were paid out of the cash proceeds. The 2018 Unrelated 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 2018 Note Investors have the right, in their sole discretion, to convert the 2018 Unrelated Notes into shares of Company common stock under certain circumstances at a conversion rate of $0.13 per share. If the 2018 Unrelated notes have not been fully repaid by the Company by the maturity date or converted into shares at the election of the 2018 Note Investors prior to maturity, then they will accrue interest at the annual rate of 12% from the maturity date until the date the 2018 Unrelated Notes are repaid in full. The Company is using the proceeds of the 2018 Unrelated Notes for working capital, general corporate purposes, and debt repayment.

The table below reflects all notes payable at June 30, 2019 and December 31, 2018, respectively, with the exception of related party notes disclosed in Note 9 - Notes Payable - Related Parties.

| | June 30, 2019 | December 31, 2018 |
|---|---|---|
| 2016 Unrelated Notes, net of beneficial conversion feature of $76,054 and $101,405, respectively | $ 798,946 | $ 773,595 |
| 2017 Unrelated Notes | 1,760,000 | 1,760,000 |
| 2018 Unrelated Notes | 900,000 | 900,000 |
| Total notes payable | $ 3,458,946 | $ 3,433,595 |
| Less unamortized debt issuance costs | (216,501) | (288,669) |
| Long-term portion of notes payable | $ 3,242,445 | $ 3,144,926 |

Future minimum principal payments of these notes payable as described in this Note 8, with the exception of the related party notes in Note 9 - Notes Payable - Related Parties, are as follows:

| For the Twelve Months Ending June 30, | | Amount |
|---|---|---|
| 2021 | $ | 3,535,000 |
| Total | $ | 3,535,000 |

As of June 30, 2019 and December 31, 2018, accrued interest for these notes payable, with the exception of the related party notes in Note 9 - Notes Payable - Related Parties, was $639,487 and $379,339, respectively, and is reflected within other long-term liabilities on the consolidated balance sheets. As of June 30, 2019 and December 31, 2018, deferred financing costs were $216,502 and $288,669, respectively, and are 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 six months ended June 30, 2019, and 2018, interest expense, including the amortization of deferred financing costs, 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 $181,720 and $358,441, respectively, and $169,407 and $330,798, respectively.

**9. Notes Payable - Related Parties**

On March 29, 2012, the Company issued an unsecured promissory note in the amount of $238,000, bearing interest at an annual 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 initially 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%. All principal and interest was initially 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 an initial maturity date of January 1, 2014 (the "Shealy Note"). On December 24, 2013, the maturity date of the $250,000 Shealy Note was extended to January 1, 2015. On March 13, 2013, the Company paid $100,000 of the principal amount of the $250,000 Shealy Note. On December 31, 2014, the Company and Mr. Shealy agreed to extend the repayment terms of the Shealy Note for the remaining total principal and interest in the amount of $193,453 so that the outstanding balance of the Shealy Note became payable in 60 monthly installments beginning January 31, 2015, with a maturity date of January 1, 2020. As of June 30, 2019 and December 31, 2018, the Shealy Note had a principal balance of $24,014 and $46,807, respectively.

On December 30, 2016, the Company issued convertible promissory notes in an aggregate amount of $375,000 (the “2016 Related Notes”) to accredited investors (the “2016 Related Note Investors”), including Robert Taglich and Michael Taglich (each holding more than 5% beneficial interest in the Company’s shares) and Robert Schroeder (a director of the Company). The 2016 Related Notes bore interest at an annual rate of interest of 12% until maturity, with partial interest of 6% payable quarterly, and an initial maturity date of December 31, 2018. The 2016 Related Note Investors had a right, in their sole discretion, to convert the 2016 Related Notes into shares of Company common stock at a conversion rate of $0.65 per share. On September 17, 2018, the 2016 Related Notes were amended to mature on December 31, 2020, and to bear interest at an annual rate of interest of 10% until maturity, with partial interest of 5% payable quarterly. With the amendment, the 2016 Related Note Investors have the right, in their sole discretion, to convert the 2016 Related 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 on the amendment, and a new effective interest rate on the 2016 Related Notes was established based on the carrying value of the debt and the revised future cash flows. If the 2016 Related Notes have not been fully repaid by the Company by the maturity date or converted into shares at the election of the 2016 Related Note Investors prior to the maturity date, then they will accrue interest at the annual rate of 12% from the maturity date until the date the 2016 Related 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 2016 Related Notes for working capital, general corporate purposes, and debt repayment. The Company recognized an initial beneficial conversion feature in the amount of $144,231, plus a fair value adjustment of $24,710 under the troubled debt restructuring accounting. Interest expense recognized on the amortization of the beneficial conversion feature of the 2016 Related Notes was $5,004 and $10,008, and $18,029 and $36,058, for the three and six months ended June 30, 2019 and 2018, respectively.

On September 21, 2017, the Company issued convertible promissory notes in an aggregate principal amount of $154,640 (the “2017 Bridge Notes”) to Robert Taglich and Michael Taglich (each holding more than a 5% beneficial interest in the Company’s shares). The 2017 Bridge 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 2017 Bridge Notes bore interest at an annual rate of 8% beginning March 21, 2018 until maturity on September 21, 2018. The effective interest rate was 7% for the term of the 2017 Bridge Notes. Any interest not paid at maturity would accrue interest at the annual rate of 12% instead of 8%. The 2017 Bridge Note investors had the right, in their sole discretion, to convert the 2017 Bridge Notes into securities to be issued by the Company in a private placement of equity, equity equivalents, convertible debt or debt financing. In conjunction with the issue of the 2016 Bridge Notes, 150,000 warrants were issued to the 2017 Bridge Note investors. 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 2017 Bridge Note investors 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 a 5% beneficial interest in the Company’s shares) and James DeSocio (President, Chief Executive Officer and Director), in exchange for the conversion of $150,000 principal amount under the 2017 Bridge Notes and the receipt of $240,000 cash. The 2017 Related Notes were initially scheduled to mature on November 30, 2019. On September 14, 2018, the 2017 Related 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 2017 Related Notes bear interest at an annual rate of 8% until maturity, with interest payable quarterly beginning July 1, 2018. The 2017 Related Note investors have the right, in their sole discretion, to convert the 2017 Related Notes into shares of Company common stock under certain circumstances at a conversion rate of $0.20 per share. If the 2017 Related Notes have not been either fully repaid by the Company or converted into shares by the maturity date, then the 2017 Related Notes will accrue interest at the annual rate of 12% from the maturity date until the date they are repaid in full. The Company used the proceeds of the 2017 Related 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 a 5% beneficial interest in the Company’s shares). The 2018 Related Notes mature on December 31, 2020, and bear interest at an annual rate of 8% until maturity, with interest payable quarterly beginning January 2, 2019. The 2018 Related Note investors have the right, in their sole discretion, to convert the 2018 Related Notes into shares of Company common stock under certain circumstances at a conversion rate of $0.13 per share. If the 2018 Related Notes have not been either fully repaid by the Company or converted into shares by the maturity date, then the 2018 Related Notes will accrue interest at the annual rate of 12% from the maturity date until the date they are repaid in full. The Company is using the proceeds of the 2018 Related Notes for working capital, general corporate purposes, and debt repayment.

The table below reflects the notes payable to related parties at June 30, 2019 and December 31, 2018, respectively:

| | June 30, 2019 | December 31, 2018 |
|---|---|---|
| The $250,000 Shealy Note | 24,014 | 46,807 |
| 2016 Related Notes, net of beneficial conversion feature of $30,022 and $40,030, respectively | 344,978 | 334,970 |
| 2017 Related Notes | 390,000 | 390,000 |
| 2018 Related Notes | 400,000 | 400,000 |
| Total notes payable - related party | $ 1,158,992 | $ 1,171,777 |
| Unamortized debt issuance costs | (59,275) | (79,033) |
| Less current portion | (24,014) | (46,807) |
| Long-term portion of notes payable-related party | $ 1,075,703 | $ 1,045,937 |

Future minimum principal payments of these notes payable as described in this Note 9 are as follows:

| For the Twelve Months Ending June 30, | | Amount |
|---|---|---|
| 2020 | $ | 24,014 |
| 2021 | | 1,165,000 |
| TOTAL | $ | 1,189,014 |

As of June 30, 2019 and December 31, 2018, accrued interest for these notes payable – related parties amounted to $205,375 and $122,956, respectively, and is reflected within other long-term liabilities on the consolidated balance sheets.

For the three and six months ended June 30, 2019 and 2018, interest expense in connection with notes payable – related parties was $57,627 and $114,053, respectively, and $49,946 and $97,537, respectively.

**10. Deferred Compensation**

Pursuant to the Company's employment agreements with the founders, the founders have earned incentive compensation totaling $141,166 and $165,166 payable in cash, as of June 30, 2019 and December 31, 2018, 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 commenced making bi-weekly payments to A. Michael Chretien of $1,846 which will continue until the deferred compensation has been paid in full, which will comprise 61 full payments and one partial payment of $1,569. For the three and six months ended June 30, 2019 and 2018, the Company paid $12,923 and $24,000, respectively, and $11,077 and $24,000, respectively, which is reflected as a reduction in the deferred compensation liability.

**11. 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 10 above, is still outstanding as of June 30, 2019.

***Operating Leases***

On January 1, 2010, the Company entered into an operating lease with a third party for 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 June 30, | | Amount |
|---|---|---|
| 2020 | $ | 53,640 |
| 2021 | | 54,972 |
| 2022 | | 27,828 |
| | $ | 136,440 |

Lease costs charged to operations for the three and six months ended June 30, 2019 and 2018 amounted to $12,814 and $25,628, respectively. Additional information pertaining to the Company's lease are as follows:

| For the Six Months Ending June 30, 2019: | | |
|---|---|---|
| Operating cash flows from operating leases | $ | 20,420 |
| Weighted average remaining lease term – operating leases | | 2.5 years |
| Weighted average discount rate – operating leases | | 8.0% |

**12. Stockholders' Equity**

***Description of Authorized Capital***

The Company is authorized to issue up to 75,000,000 shares of common stock with $0.001 par value. The holders of the Company's common stock are entitled to one vote per share. The holders of common stock are entitled to receive ratably such dividends, if any, as may be declared by the Board of Directors out of legally available funds. However, the current policy of the Board of Directors is to retain earnings, if any, for the operation and expansion of the business. Upon liquidation, dissolution or winding-up of the Company, the holders of common stock are entitled to share ratably in all assets of the Company that are legally available for distribution.

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

On January 7, 2019 and January 5, 2018, the Company issued 522,729 and 302,629 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 fully vested upon issuance. For the three and six months ended June 30, 2019 and 2018, stock compensation of $0 and $57,500 was recorded on the issuance of the common stock.

***Issuance of Restricted Common Stock to Employee***

On January 7, 2019, the Company issued 272,728 shares of restricted common stock to an employee of the Company. Stock compensation expense of $30,000 was recorded upon the issuance of the common stock.

***Issuance of Warrants***

Between December 30, 2016 and January 31, 2017, the Company issued convertible promissory notes, the 2016 Unrelated Notes and the 2016 Related Notes (collectively, the "2016 Notes"), in an aggregate amount of $1,250,000 to certain accredited investors, including related parties, in private placements. The Company retained Taglich Brothers, Inc. as the exclusive placement agent for the private placement offering of the 2016 Notes. In January 2017, in compensation for the placement agent's services in the private placement offering of the 2016 Notes, the Company paid the placement agent a cash payment of $100,000, equal to 8% of the gross proceeds of the offering, along with warrants to purchase 153,846 shares of Company common stock, and the reimbursement for the placement agent's reasonable out of pocket expenses, FINRA filing fees and related legal fees. The warrants issued to the placement agent contained an exercise price at $0.75 per share, are exercisable for a period of five years after issuance, contain customary cashless exercise provisions and anti-dilution protection and, pursuant to piggyback registration rights, the underlying shares were registered in the Company's a Registration Statement on Form S-1 declared 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. The fair value of warrants issued was determined to be $0.77.

On September 21, 2017, the Company issued warrants to purchase 150,000 shares of Company common stock to Robert Taglich and Michael Taglich (each holding more than a 5% beneficial interest in the Company's shares) in connection with the 2017 Bridge Notes. The warrants are exercisable at an exercise price of $0.30 per share, contain a cashless exercise provision, antidilution protection 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. The 2017 Bridge Notes were converted into the 2017 Related Notes in November 2017. The fair value of warrants issued was determined to be $0.26 utilizing the Black-Scholes valuation model.

Between November 17 and November 30, 2017, the Company issued convertible promissory notes, the 2017 Unrelated Notes and the 2017 Related Notes (collectively, the "2017 Notes"), in an aggregate amount of $2,150,000 to certain accredited investors, including related parties, in private placements. The Company retained Taglich Brothers, Inc. as the exclusive placement agent for the private placement offering of the 2017 Notes. In compensation for the placement agent's services in the private placement offering of the 2017 Notes, the Company paid the placement agent a cash payment of 8% of the gross proceeds of the offering, along with warrants to purchase shares of Company common stock, 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 warrants to purchase 354,000 shares at an exercise price at $0.25 per share, which are exercisable for a period of five years after issuance, contain customary cashless exercise provisions and anti-dilution protection and were entitled to piggyback registration rights that were exercised in connection with the Company's Registration Statement on Form S-1 declared effective in February 2018. On November 30, 2017, the Company issued the placement agent warrants to purchase 506,000 shares at an exercise price at $0.25 per share, which are exercisable for a period of five years after issuance, contain customary cashless exercise provisions and anti-dilution protection and are entitled to registration rights that were exercised in connection with the Company's Registration Statement on Form S-1 declared effective in February 2018. 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. 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 six months ended June 30, 2019 and 2018, interest expense of $22,089 and $44,178, and $42,600 and $85,200, respectively, was recorded as amortization of the debt issuance costs.

Between September 20 and September 26, 2018, the Company issued convertible promissory notes, the 2018 Unrelated Notes and the 2018 Related Notes (collectively, the "2018 Notes"), in an aggregate amount of $1,300,000 to certain accredited investors, including related parties, in private placements. The Company retained Taglich Brothers, Inc. as the exclusive placement agent for the private placement offering of the 2018 Notes. 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 of Company common stock, 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 warrants to purchase 307,692 shares at an exercise price at $0.13 per share, which are exercisable for a period of five years after issuance, contain customary cashless exercise provisions 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 warrants to purchase 492,308 shares at an exercise price at $0.18 per share, which are exercisable for a period of five years after issuance, contain customary cashless exercise provisions 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. 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 six months ended June 30, 2019, interest expense of $21,688 and $43,375, respectively, 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 18,524,878 shares issued and outstanding, 6,726,625 shares reserved for issuance upon the exercise of outstanding warrants, 26,850,670 shares reserved for issuance upon the conversion of convertible debt, and 3,366,506 shares reserved for issuance under the Intellinetics Inc. 2015 Equity Incentive Plan (the "2015 Plan"), as of June 30, 2019.

**13. *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, which occurred on September 30, 2017.

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 was 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 is being 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 is being 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.

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 September 2019. The total fair value of $321,011 for these stock options is being recognized by the Company over the applicable vesting period.

On January 30, 2019, the Company entered into a Non-qualified Stock Option Agreement with an individual consultant to the Company, in accordance with the 2015 Plan. The agreement granted options to purchase 12,500 shares prior to the expiration date of December 31, 2025 at an exercise price of $0.90. The options granted were 100% vested as of the grant date.

On March 11, 2019, the Company canceled previously granted stock options to employees in the following amounts: 150,000 shares at an exercise price of $0.90 per share; 160,000 shares at an exercise price of $0.96 per share; 100,000 shares at an exercise price of $0.76 per share; 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. On March 11, 2019, the Company replaced those canceled stock options exercisable for a total of 1,660,000 shares with virtually identical stock options at an exercise price of $0.13 per share in accordance with the 2015 Plan. The incremental fair value of $24,898 for these stock options is being recognized by the Company over the applicable vesting periods, from September 2019 through December 2020.

On March 11, 2019, the Company granted employees stock options to purchase 505,000 shares at an exercise price of $0.13 per share in accordance with the 2015 Plan, with vesting continuing until 2023. The total fair value of $44,591 for these stock options is being 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 six months ended June 30, 2019 and 2018, 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% |

| | January 30, 2019 Grant | March 11, 2019 Grant |
|---|---|---|
| Risk-free interest rate | 2.54% | 2.44% |
| Weighted average expected term | 5 years | 5 years |
| Expected volatility | 115.80% | 116.46% |
| Expected dividend yield | 0.00% | 0.00% |

A summary of stock option activity during the six months ended June 30, 2019 and 2018 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 |
| Outstanding at June 30, 2018 | 2,238,000 | $ 0.55 | 8 years | $ 79,200 |
| Exercisable at June 30, 2018 | 1,251,750 | $ 0.63 | 8 years | $ 79,200 |

| | Shares Under Option | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Life | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at January 1, 2019 | 2,238,000 | $ 0.55 | 8 years | 79,200 |
| Granted | 2,177,500 | 0.13 | | |
| Forfeited and expired | (1,672,500) | 0.86 | | |
| Outstanding at June 30, 2019 | 2,743,000 | $ 0.26 | 9 years | $ 79,200 |
| Exercisable at June 30, 2019 | 1,991,750 | $ 0.313 | 9 years | $ 79,200 |

The weighted-average grant date fair value of options granted during the six months ended June 30, 2019 was $0.09. There were no grants during the six months ended June 30, 2018.

As of June 30, 2019, and December 31, 2018, there was $131,506 and $185,754, 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 two years. The total fair value of stock options that vested during the six months ended June 30, 2019 and 2018 was $91,723 and $152,788, respectively.

**14. 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 June 30, 2019, the Company’s two largest customers, Careworks (“Careworks”), a direct client, and Tiburon, Inc. (“Tiburon”), a reseller, accounted for 10% and 9%, respectively, of the Company’s revenue for that period. For the three months ended June 30, 2018, the Company’s two largest customers, Laser Systems, Inc. (“LSI”), a reseller, and Tiburon accounted for 11% and 9%, respectively, of the Company’s revenue for that period. For the six months ended June 30, 2019, the Company’s two largest customers, Tiburon and Careworks, accounted for approximately 10% and 8%, respectively, of the Company’s revenues for that period. For the six months ended June 30, 2018, the Company’s two largest customers, Tiburon and LSI, accounted for approximately 10% and 10%, respectively, of the Company’s revenues for that period.

For the three months ended June 30, 2019 and 2018, government contracts represented approximately 36% and 30%, respectively, of the Company’s total revenues. For the six months ended June 30, 2019 and 2018, government contracts represented approximately 33% and 32%, respectively, of the Company’s net revenue. A significant portion of the Company’s sales to Tiburon represent ultimate sales to government agencies.

As of June 30, 2019, accounts receivable concentrations from the Company’s four largest customers were 17%, 11%, 11% and 10% of gross accounts receivable, respectively. As of December 31, 2018, accounts receivable concentrations from the Company’s four largest customers were 22%, 16%, 14% and 14% of gross accounts receivable, respectively.

**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 six months ended June 30, 2019 and 2018, 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, 2018, filed on April 1, 2019. 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 six months ended June 30, 2019.

**Company Overview**

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," "software as a service," or "SaaS" model. The Company anticipates that the provision of SaaS-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 SaaS products are hosted with Amazon Web Services, Expedient and Skynet Managed Technology Services, offering our customers reliable hosting services with best practices in data security. Our revenues from cloud-based delivery of our software, including hosting services, as a percentage of total revenue for the six months ended June 30, 2019 and 2018, were 37% and 32% respectively.

We operate a predominantly U.S. business with sales that are diversified by customer. We hold or compete for leading positions regionally in select markets and attribute this leadership to several factors including the strength of our brand name and reputation, our comprehensive offering of innovative solutions, and the quality of our service support. Net sales growth in sales of software as a service and software maintenance services during 2018 and year-over-year for the first six months of 2019 reflects market demand for these solutions over traditional sales of on-premise software. We expect to continue to benefit from our select niche leader positions, diversified customer base, innovative product offering, installed base, and the impact of our sales and marketing programs. Examples of these programs include identifying and investing in growth and market penetration opportunities, more effectively pricing our products and services, increasing our sales force effectiveness through improved guidance, and continuing to optimize our lead generation and lead nurturing processes.

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

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

- Our current strategy is to focus on cloud-based delivery of our software products. 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 seeing 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.

- We are focused upon sales of our software products through resellers and directly to our customers, with a further focus on select vertical markets. We assess whether our sales resulting from relationships with resellers are increasing, relative to prior periods and relative to direct sales to customers, and whether reseller or direct efforts offer the best opportunities for growth in our targeted vertical markets.

- 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 the following factors as part of our overall strategy to grow the business: (i) the profit margins the project may yield, and (ii) 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.

- 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 resellers. 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, 2018, 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.

**Executive Overview of Results**

Below are our key financial results for the six months ended June 30, 2019 (consolidated unless otherwise noted):

- Revenues were $1,155,993, representing revenue growth of 8% year over year.
- Cost of revenues was $272,569.
- Operating expenses (excluding cost of revenues) were $1,554,445.
- Loss from operations was $671,021.
- Net loss was $1,143,515 with basic and diluted net loss per share of $0.06.
- Operating cash flow was $(648,124).
- Capital expenditures were $5,489.
- Number of employees was 17 as of June 30, 2019.

**Results of Operations**

***Revenues***

We reported total revenues of $640,608 and $549,678 for the three months ended June 30, 2019 and 2018, respectively, representing an increase of $90,930 or 17%. For the six months ended June 30, 2019 and 2018, revenues were $1,155,993 and $1,075,052, respectively, representing an increase of 80,941, or 8%. The net increase in total revenues year-over-year is primarily attributable to offsetting impacts from the migration away from one-time premise software (generally recognizable upon delivery) to cloud-based software as a service (generally recognizable over time), as further described below.

<u>Sale of software</u>

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 $7,102 and $34,158, for the three months ended June 30, 2019 and 2018, respectively, representing a decrease of $27,056, or 79%. 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 six months ended June 30, 2019 and 2018, respectively, revenues were $8,852 and $75,152 representing a decrease of $66,300, or 88%. The decrease year-over-year in sales was due to a market shift toward SaaS, as well as intentional focus on selling software as a service and timing of projects.

Sale of software as a service

For customers who wish to avoid the upfront costs and ongoing internal maintenance of typical premises-based software installations, we provide access to our software solutions as a service, accessible through the internet. Our customers typically enter into our software as a service agreement for periods of one year or more. 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 $229,982 and $177,583 for the three months ended June 30, 2019 and 2018, respectively, representing an increase of $52,399, or 30%. Our software as a service revenues were $429,165 and $354,183 for the six months ended June 30, 2019 and 2018, respectively, representing an increase of $74,982, or 21%. The increase in revenue year-over-year was primarily the result of new customers choosing a cloud-based solution, as well as an incremental benefit from expanded data storage and hosting fees.

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 $252,713 and $245,299 for the three months ended June 30, 2019 and 2018, respectively, representing an increase of $7,414, or 3%. Our software maintenance support revenue was $505,349 and $488,867 for the six months ended June 30, 2019 and 2018, respectively, representing an increase of $16,482, or 3%. The increase in revenue year-over-year was the result of new growth, including expansion in existing accounts, and normal price increases exceeding attrition of existing maintenance agreement renewals.

Sales 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 $142,738 and $52,605 for the three months ended June 30, 2019 and 2018, respectively, an increase of $90,133, or 171%. The increases was driven by customization projects and growth in our document scanning services. For the six months ended June 30, 2019 and 2018, professional services revenues were $194,405 and $111,556, respectively, representing an increase of $82,849, or 74%. The increase in revenue was due to timing of consulting contracts for customers seeking additional customization, project management, and training, as well as growth in our document scanning services, which more than offset reduced implementation professional services from the shortfall in 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 as needed in conjunction with our core software or services. By classifying these revenues under a separate revenue category, we reduce the extent to which fluctuations in this revenue category impact the other categories of revenues. Third party services revenues were $8,073 and $40,033 for the three months ended June 30, 2019 and 2018, respectively, representing a decrease of $31,960 or 80%, which was primarily due to timing of projects that are typically attached to new software or new software as a service sales. For the six months ended June 30, 2019 and 2018, third party services were $18,222 and $45,294, respectively, representing a decrease of $27,072, or 60%. The decrease is primarily due to timing of projects with third party components.

***Costs of Revenue***

The cost of revenues during the three months ended June 30, 2019 and 2018 were $130,104 and $159,601, respectively, representing a decrease of $29,497, or 18%, reflecting the improved mix towards software as a service and improvements in the software as a service margins. For the six months ended June 30, 2019 and 2018, the cost of revenues was $272,569 and $307,163, respectively, representing a decrease of $34,594, or 11%. The decrease in cost of revenue year-over-year is primarily the result of improvements in margins in software as a service, driven by fewer customizations.

***Gross Margins***

Overall gross margin for the three months ended June 30, 2019 and 2018 were 80% and 71%, respectively. The gross margin percentage year-over-year was improved due to improved margins in all categories except third party software. For the six months ended June 30, 2019 and 2018, the gross margins were 76% and 71%, respectively. The improved gross margin year-over-year is primarily as a result of improved margins in software as a service, as well as favorable product mix.

***Operating Expenses***

General and Administrative Expenses

General and administrative expenses were $521,057 during the three months ended June 30, 2019 as compared to $593,400 during the three months ended June 30, 2018, representing a decrease of $72,343, or 12%. For the six months ended June 30, 2019 and 2018, general and administrative expenses were $1,060,018 and $1,136,835, respectively, representing a decrease of $76,817, or 7%. The decrease in operating expenses year-over-year was principally related to reduced professional fees for consulting and obtaining a training grant, as well as reduced payroll from headcount reduction.

Sales and Marketing Expenses

Sales and marketing expenses were $221,663 during the three months ended June 30, 2019 as compared to $244,391 during the three months ended June 30, 2018, representing a decrease of $22,728 or 9%. For the six months ended June 30, 2019 and 2018, sales and marketing expenses were $490,420 and $506,100, respectively, representing a decrease of $15,680, or 3%. The decrease year-over-year was realized from outsourcing certain marketing functions.

Depreciation

Depreciation was $2,099 for the three months ended June 30, 2019, as compared to $2,384 for the three months ended June 30, 2018, representing a decrease of $285 or 12%. For the six months ended June 30, 2019 and 2018, depreciation was $4,007 and $4,578, respectively, representing a decrease of $571 or 12%. The decrease year-over-year reflects the impact of assets becoming fully depreciated in 2019, partially offset by incremental depreciation on new purchases.

Interest Expense, Net

Interest expense, net was $239,347 during the three months ended June 30, 2019 as compared to $219,353 during the three months ended June 30, 2018, representing an increase of $19,994 or 9%. For the six months ended June 30, 2019 and 2018, interest expense was $472,494 and $428,336, respectively, an increase of $44,158, or 10%. The increase year-over-year resulted primarily from increased interest expense and amortization of debt issuance costs associated with our convertible promissory notes issued in September 2018.

**Liquidity and Capital Resources**

We have financed our operations primarily through a combination of cash on hand, cash generated from operations, borrowings from third parties and related parties, and proceeds from private sales of equity. As of June 30, 2019, we had $412,224 in cash, and a net working capital deficit of $337,053.

The Company expects that, through the next 12 months, the capital requirements to cover the Company's operating costs, service existing debt obligations, and fund growth will exceed the cash flows that it generates from operations. Currently, our cash flows to meet our cash requirements are insufficient. 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. Given these conditions, the Company's ability to continue as a going concern is contingent upon either sufficiently enhancing its operating cash flow, through increasing its revenues and successfully managing its cash requirements, or raising financing through the issuance of additional debt or equity, or some combination of both.

During the years 2012 through 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, if at all.

***Equity Capital Resources***

As of August 13, 2019, the Company had 18,524,878 shares of common stock issued and outstanding, and 37,187,116 shares of common stock reserved for issuance upon the exercise of outstanding warrants, convertible notes, and outstanding and unissued stock options under the 2015 Plan.

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

***Debt Capital Resources***

We issued convertible debt in 2018 in order to finance our operations. In September of 2018, we raised $1,300,000 through the issuance of convertible promissory notes which bear interest at an annual rate of 8% and mature on December 31, 2020.

**Summary of Outstanding Indebtedness at June 30, 2019**

The Company's outstanding indebtedness at June 30, 2019 was as follows:

- The Shealy Note, issued December 31, 2014 with an original principal balance of $193,453, a current principal balance of $24,014, and accrued interest of $0.
- The 2016 Unrelated Notes and the 2016 Related Notes issued to accredited investors on December 30, 2016 and on January 5 and January 31, 2017, with an aggregate original principal balance of $1,250,000, a current principal balance of $1,250,000, and accrued interest of $349,784.
- The 2017 Unrelated Notes and the 2017 Related Notes issued to accredited investors on November 17 and November 30, 2017, with an aggregate original principal balance of $2,150,000, a current principal balance of $2,150,000, and accrued interest of $401,800.
- The 2018 Unrelated Notes and the 2018 Related Notes issued to accredited investors on September 20 and September 26, 2018, with an aggregate original principal balance of $1,300,000, a current principal balance of $1,300,000, and accrued interest of $93,278.

For more information, please see Note 8 to the Consolidated Financial Statements, Notes Payable, and Note 9 to the Consolidated Financial Statements, Notes Payable – Related Parties.

***Cash Used In Operating Activities.***

From our inception, we have generated revenues from the sales, implementation, subscriptions, and maintenance of our internally generated software applications. Our uses of cash from operating activities include compensation and related costs, hardware costs, rent for our corporate offices, hosting fees for our cloud-based software services, other general corporate expenditures, and travel costs to client sites and industry events.

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 our operations to continue to require additional capital in order to implement direct marketing campaigns and leads management, reseller training and on-boarding, and to develop additional software integration and customization capabilities. 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.

Net cash used in operating activities for the six months ended June 30, 2019 and 2018, was $648,124 and $817,592, respectively. During the six months ended June 30, 2019, the net cash used in operating activities was primarily attributable to the net loss adjusted for non-cash expenses of $368,188, an increase in operating assets of $161,905 and an increase in operating liabilities of $289,108. During the six months ended June 30, 2018, the net cash used in operating activities was primarily attributable to the net loss, adjusted for non-cash expenses of $435,462 and a decrease in operating assets of $38,802 and an increase in operating liabilities of $16,104.

***Cash Used by Investing Activities.***

Net cash used in investing activities for the six months ended June 30, 2019 and 2018 amounted to $5,489 and $3,410, respectively, and was related to the purchase of property and equipment.

***Capital Expenditures***

There were no material commitments for capital expenditures at June 30, 2019.

***Cash Used by Financing Activities.***

Net cash used by financing activities for the six months ended June 30, 2019 amounted to $22,793. The net cash used by financing activities resulted from notes payable repayments to related parties.

Net cash used by financing activities for the six months ended June 30, 2018 amounted to $23,947. The net cash used by financing activities resulted from notes payable repayments to related parties.

**Critical Accounting Policies and Estimates**

***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 and control of the promised services is transferred to the customer. This transfer of control should be interpreted as the ability to (1) direct the use of and (2) obtain substantially all of the remaining benefits from the promised service.

***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 reseller 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.

***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. Thus, the 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.

***Use of Estimates***

The preparation of our consolidated financial statements in conformity with U.S. GAAP 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 estimates and assumptions in the preparation of our consolidated financial statements is as follows:

***Revenue Recognition***

We recognize revenues using Accounting Standards Codification, 606, "Revenue from Contracts with Customers" ("ASC 606"), which we adopted using the full retrospective transition method on January 1, 2018. 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 performance obligation is satisfied and the 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.

Our contracts with customers often contain multiple performance obligations. For these contracts, we account for individual performance obligations separately if they are distinct. The transaction price is allocated to the separate performance obligations on a relative standalone selling price ("SSP") basis. We determine the SSP based on an observable standalone selling price when it is available, as well as other factors, including, the price charged to customers, our discounting practices, and our overall pricing objectives, while maximizing observable inputs. In situations where pricing is highly variable or uncertain, we estimate the SSP using a residual approach.

Revenue from on-premises licenses is recognized upfront upon transfer of control of the software, which occurs at delivery, or when the license term commences, if later. We recognize revenue from maintenance contracts ratably over the service period. Cloud services revenue is recognized ratably over the cloud service term. Training and professional services are provided either on a time and material basis, in which revenues are recognized as services are delivered, or over a contractual term, in which revenues are recognized ratably. With respect to contracts that include customer acceptance provisions, we recognize revenue upon customer acceptance. Our policy is to record revenues net of any applicable sales, use or excise taxes.

Payment terms and conditions vary by contract type, although our terms generally include a requirement of payment within 30 to 60 days. We assess whether payment terms are customary or extended in accordance with normal practice relative to the market in which the sale is occurring. In instances where the timing of revenue recognition differs from the timing of payment, we have determined our contracts do not include a significant financing component. The primary purpose of our invoicing terms is to provide customers with simplified and predictable ways of purchasing our products and services, not to receive financing from our customers or to provide customers with financing.

We generally do not offer rights of return or any other incentives such as concessions, product rotation, or price protection and, therefore, do not provide for or make estimates of rights of return and similar incentives.

We establish allowances for doubtful accounts when available information causes us to believe that credit loss is probable.

***Deferred Revenues***

Deferred revenues relate to maintenance agreements which have been paid for by customers prior to the performance of those services, and payments received for professional services and license arrangements that have been deferred until completion under the Company's percentage of completion revenue recognition method. Generally, all revenues will be recognized within twelve months after the signing of the agreement.

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

Not applicable to smaller reporting companies.

**Item 4. Controls and Procedures.**

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

With the participation of our principal executive officer and principal financial officer, we evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934 (the "Exchange Act"). In designing and evaluating the disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that we are required to apply our judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on our evaluation, our principal executive officer and principal financial officer concluded that as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures were 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 six months ended June 30, 2019 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, 2018, 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 quarterly period covered by this Quarterly Report on Form 10-Q.

### 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.

| Exhibit No. | Description of Exhibit |
|---|---|
| 31.1* | Certification of Principal Executive Officer pursuant to Section 302 of The Sarbanes-Oxley Act of 2002. |
| 31.2* | Certification of Principal Financial Officer pursuant to Section 302 of The Sarbanes-Oxley Act of 2002. |
| 32.1* | Certification of Principal Executive Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002. |
| 32.2* | Certification of Principal Financial Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002. |

101.* INS XBRL Instance Document.

101.* SCH XBRL Taxonomy Schema.

101.* CAL XBRL Taxonomy Extension Calculation Linkbase.

101.* DEF XBRL Taxonomy Extension Definition Linkbase.

101.* LAB XBRL Taxonomy Extension Label Linkbase.

101.* PRE XBRL Taxonomy Extension Presentation Linkbase.

* filed herewith

SIGNATURES

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

INTELLINETICS, INC.

Dated: August 14, 2019

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

Dated: August 14, 2019

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

**Exhibit 31.1**

**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: August 14, 2019

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

**Exhibit 31.2**

**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: August 14, 2019

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

**Exhibit 32.1**

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 June 30, 2019, 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: August 14, 2019

*/s/ James F. DeSocio*

President and Chief Executive Officer

**Exhibit 32.2**

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 June 30, 2019, 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: August 14, 2019

*/s/ Joseph D. Spain*
Chief Financial Officer