

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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended September 30, 2021

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

For the transition period from _____ to _____

Commission file number: 000-31671

INTELLINETICS, INC.

(Exact name of registrant as specified in its charter)

Nevada (State or Other Jurisdiction of Incorporation or Organization)	87-0613716 (I.R.S. Employer Identification No.)
2190 Dividend Drive Columbus, Ohio (Address of Principal Executive Offices)	43228 (Zip Code)
(614) 921-8170 (Registrant's telephone number, including area code)	

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
None.	N/A	N/A

Securities registered pursuant to Section 12(g) of the Act: Common stock, \$0.001 par value.

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

Indicate by check mark whether the registrant has submitted electronically 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 No

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

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

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

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

As of November 12, 2021, there were 2,823,072 shares of the issuer's common stock outstanding, each with a par value of \$0.001 per share.

INTELLINETICS, INC.
Form 10-Q
September 30, 2021
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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 forward-looking statements. In addition, from time to time 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 facts, 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, among other things, statements about the following:

- the ongoing effect of the novel coronavirus pandemic (“COVID-19”), including its macroeconomic effects on our business, operations, and financial results; and the effect of governmental lockdowns, restrictions and new regulations on our operations and processes;
- 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 (i) 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, and (ii) inflation, labor costs, and the labor markets and their effects on our profitability and our ability to attract and retain talent;
- our expectation that the shift from an offline to online world will continue to benefit our business;
- our ability to integrate our two recent acquisitions and any future acquisitions, grow their businesses and obtain the expected financial and operational benefits from those businesses;
- 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 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;

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- the amount and timing of revenue recognition from customer contracts with commitments for performance obligations, including our estimate of the remaining amount of commitments and when we expect to recognize revenues;
- 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, strategies, 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 Part I, Item 1A, “Risk Factors,” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2020, filed on March 30, 2021, as well as other risks, uncertainties and factors discussed elsewhere in this Quarterly Report, in documents that we include as exhibits to or incorporate by reference in this report, and in other reports and documents we from time to time file with or furnish to the Securities and Exchange Commission (the “SEC”). In light of these risks and uncertainties, you are cautioned not to place undue reliance on any forward-looking statements that we make.

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

As used in this Quarterly Report, unless the context indicates otherwise:

- the terms “Intellinetics,” “Company,” “the company,” “us,” “we,” “our,” and similar terms refer to Intellinetics, Inc., a Nevada corporation, and its subsidiaries;
- “Intellinetics Ohio” refers to Intellinetics, Inc., an Ohio corporation and a wholly-owned subsidiary of Intellinetics; and
- “Graphic Sciences” refers to Graphic Sciences, Inc., a Michigan corporation and a wholly-owned subsidiary of Intellinetics.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INTELLINETICS, INC. and SUBSIDIARIES Condensed Consolidated Balance Sheets

	(unaudited)	
	September 30, 2021	December 31, 2020
ASSETS		
Current assets:		
Cash	\$ 1,829,247	\$ 1,907,882
Accounts receivable, net	948,508	792,380
Accounts receivable, unbilled	653,075	523,522
Parts and supplies, net	58,427	79,784
Other contract assets	70,412	31,283
Prepaid expenses and other current assets	190,134	130,883
Total current assets	<u>3,749,803</u>	<u>3,465,734</u>
Property and equipment, net	1,091,020	698,752
Right of use assets	4,005,709	2,641,005
Intangible assets, net	1,022,615	1,184,971
Goodwill	2,322,887	2,322,887
Other assets	14,784	31,284
Total assets	<u>\$ 12,206,818</u>	<u>\$ 10,344,633</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 121,525	\$ 141,823
Accrued compensation	525,013	271,889
Accrued expenses, other	153,643	131,685
Lease liabilities - current	596,295	518,531
Deferred revenues	1,336,863	996,131
Deferred compensation	100,828	100,828
Earnout liabilities - current	923,109	877,522
Accrued interest payable - current	-	5,941
Notes payable - current	-	580,638

Total current liabilities	3,757,276	3,624,988
Long-term liabilities:		
Notes payable - net of current portion	1,701,926	1,802,184
Lease liabilities - net of current portion	3,491,765	2,196,951
Earnout liabilities - net of current portion	643,369	1,566,478
Total long-term liabilities	5,837,060	5,565,613
Total liabilities	9,594,336	9,190,601
Stockholders' equity:		
Common stock, \$0.001 par value, 25,000,000 shares authorized; 2,823,072 and 2,810,865 shares issued and outstanding at September 30, 2021 and December 31, 2020, respectively	2,823	2,811
Additional paid-in capital	24,274,270	24,147,488
Accumulated deficit	(21,664,611)	(22,996,267)
Total stockholders' equity	2,612,482	1,154,032
Total liabilities and stockholders' equity	\$ 12,206,818	\$ 10,344,633

See Notes to these Condensed Consolidated financial statements

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
Revenues:				
Sale of software	\$ 58,779	\$ 53,767	\$ 73,971	\$ 153,999
Software as a service	352,192	281,810	1,052,072	756,497
Software maintenance services	336,732	340,129	1,012,251	915,483
Professional services	2,165,030	1,615,445	5,715,273	3,221,154
Storage and retrieval services	258,629	220,131	862,660	510,453
Total revenues	<u>3,171,362</u>	<u>2,511,282</u>	<u>8,716,227</u>	<u>5,557,586</u>
Cost of revenues:				
Sale of software	3,691	-	10,050	40,117
Software as a service	73,596	65,712	241,717	209,508
Software maintenance services	18,270	49,354	64,930	127,439
Professional services	1,042,249	841,016	2,765,241	1,637,308
Storage and retrieval services	117,835	64,906	299,597	136,283
Total cost of revenues	<u>1,255,641</u>	<u>1,020,988</u>	<u>3,381,535</u>	<u>2,150,655</u>
Gross profit	<u>1,915,721</u>	<u>1,490,294</u>	<u>5,334,692</u>	<u>3,406,931</u>
Operating expenses:				
General and administrative	1,027,932	844,186	3,125,019	2,533,046
Change in fair value of earnout liabilities	-	-	77,211	-
Significant transaction costs	-	-	-	636,440
Sales and marketing	372,399	285,462	1,004,305	759,024
Depreciation and amortization	105,923	89,475	302,239	204,317
Total operating expenses	<u>1,506,254</u>	<u>1,219,123</u>	<u>4,508,774</u>	<u>4,132,827</u>
Income (loss) from operations	409,467	271,171	825,918	(725,896)
Other income (expense)				
Gain on extinguishment of debt	-	-	845,083	287,426
Interest expense, net	(113,030)	(115,498)	(339,345)	(522,724)
Total other income (expense)	(113,030)	(115,498)	505,738	(235,298)
Income (loss) before income taxes	<u>296,437</u>	<u>155,673</u>	<u>1,331,656</u>	<u>(961,194)</u>
Income tax benefit	-	-	-	188,300
Net income (loss)	<u>\$ 296,437</u>	<u>\$ 155,673</u>	<u>\$ 1,331,656</u>	<u>\$ (772,894)</u>
Basic net income (loss) per share:	\$ 0.11	\$ 0.06	\$ 0.47	\$ (0.34)
Diluted net income (loss) per share:	\$ 0.10	\$ 0.06	\$ 0.43	\$ (0.34)
Weighted average number of common shares outstanding -				
basic	<u>2,823,072</u>	<u>2,810,865</u>	<u>2,822,938</u>	<u>2,271,169</u>
Weighted average number of common shares outstanding - diluted	<u>3,104,334</u>	<u>2,810,865</u>	<u>3,105,175</u>	<u>2,271,169</u>

See Notes to these Condensed Consolidated financial statements

INTELLINETICS, INC. and SUBSIDIARIES
Condensed Consolidated Statement of Stockholders' Equity
For the Three and Nine Months Ended September 30, 2021 and 2020
(Unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount			
Balance, June 30, 2020	2,810,865	\$ 2,811	\$ 24,107,401	\$ (21,724,633)	\$ 2,385,579
Stock Option Compensation	-	-	13,969	-	13,969
Net Income	-	-	-	155,673	155,673
Balance, September 30, 2020	<u>2,810,865</u>	<u>\$ 2,811</u>	<u>\$ 24,121,370</u>	<u>\$ (21,568,960)</u>	<u>\$ 2,555,221</u>
Balance, June 30, 2021	2,823,072	2,823	24,251,172	(21,961,048)	2,292,947
Stock Option Compensation	-	-	23,098	-	23,098
Net Income	-	-	-	296,437	296,437
Balance, September 30, 2021	<u>2,823,072</u>	<u>\$ 2,823</u>	<u>\$ 24,274,270</u>	<u>\$ (21,664,611)</u>	<u>\$ 2,612,482</u>
	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total
	Shares	Amount			
Balance, December 31, 2019	370,497	\$ 371	\$ 14,419,437	\$ (20,796,066)	\$ (6,376,258)
Stock Issued to Directors	16,429	16	57,484	-	57,500
Stock Option Compensation	-	-	32,652	-	32,652
Stock Issued	955,000	955	3,819,045	-	3,820,000
Stock Issued for Convertible Notes	1,468,939	1,469	5,728,566	-	5,730,035
Equity Issuance Costs	-	-	(307,867)	-	(307,867)
Note Offer Warrants	-	-	372,053	-	372,053
Net Loss	-	-	-	(772,894)	(772,894)
Balance, September 30, 2020	<u>2,810,865</u>	<u>\$ 2,811</u>	<u>\$ 24,121,370</u>	<u>\$ (21,568,960)</u>	<u>\$ 2,555,221</u>
Balance, December 31, 2020	2,810,865	2,811	24,147,488	(22,996,267)	1,154,032
Stock Issued to Directors	12,207	12	57,488	-	57,500
Stock Option Compensation	-	-	69,294	-	69,294
Net Income	-	-	-	1,331,656	1,331,656
Balance, September 30, 2021	<u>2,823,072</u>	<u>\$ 2,823</u>	<u>\$ 24,274,270</u>	<u>\$ (21,664,611)</u>	<u>\$ 2,612,482</u>

See Notes to these Condensed Consolidated financial statements

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

	For the Nine Months Ended September 30,	
	2021	2020
Cash flows from operating activities:		
Net income (loss)	\$ 1,331,656	\$ (772,894)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	302,239	204,317
Bad debt (recovery) expense	(10,304)	40,325
Parts and supplies reserve change	9,000	10,500

Amortization of deferred financing costs	77,804	91,156
Amortization of beneficial conversion option	-	11,786
Amortization of debt discount	80,000	62,222
Amortization of right of use asset	472,402	278,879
Stock issued for services	57,500	57,500
Stock options compensation	69,294	32,652
Note conversion stock issue expense	-	141,000
Warrant issue expense	-	236,761
Interest on converted debt	-	176,106
Amortization of original issue discount on notes	-	18,296
Gain on extinguishment of debt	(845,083)	(287,426)
Change in fair value of earnout liabilities	77,211	-
Changes in operating assets and liabilities:		
Accounts receivable	(145,824)	333,121
Accounts receivable, unbilled	(129,553)	(204,248)
Parts and supplies	12,357	5,105
Prepaid expenses and other current assets	(81,880)	(25,790)
Accounts payable and accrued expenses	325,016	(589,461)
Lease liabilities, current and long-term	(464,528)	(269,748)
Deferred compensation	-	(16,338)
Accrued interest, current and long-term	442	4,504
Deferred revenues	270,500	69,520
Total adjustments	<u>76,593</u>	<u>380,739</u>
Net cash provided by (used in) operating activities	<u>1,408,249</u>	<u>(392,155)</u>
Cash flows from investing activities:		
Cash paid to acquire business, net of cash acquired	-	(4,019,098)
Purchases of property and equipment	(532,151)	(55,603)
Net cash used in investing activities	<u>(532,151)</u>	<u>(4,074,701)</u>
Cash flows from financing activities:		
Payment of earnout liabilities	(954,733)	-
Proceeds from issuance of common stock	-	3,167,500
Offering costs paid on issuance of common stock	-	(307,867)
Payment of deferred financing costs	-	(175,924)
Proceeds from notes payable	-	3,008,700
Repayment of notes payable	-	(70,000)
Repayment of notes payable - related parties	-	(47,728)
Net cash (used in) provided by financing activities	<u>(954,733)</u>	<u>5,574,681</u>
Net (decrease) increase in cash	(78,635)	1,107,825
Cash - beginning of period	1,907,882	404,165
Cash - end of period	<u>\$ 1,829,247</u>	<u>\$ 1,511,990</u>
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 182,198	\$ 142,018
Cash paid during the period for income taxes	<u>\$ 2,106</u>	<u>\$ 112,954</u>
Supplemental disclosure of non-cash financing activities:		
Accrued interest notes payable converted to equity	\$ -	\$ 796,074
Accrued interest notes payable related parties converted to equity	-	238,883
Discount on notes payable for beneficial conversion feature	-	320,000
Discount on notes payable for warrants	-	135,292
Notes payable converted to equity	-	3,421,063
Notes payable converted to equity - related parties	-	1,465,515
Right-of-use asset obtained in exchange for operating lease liability	1,483,962	-
Supplemental disclosure of non-cash investing activities relating to business acquisitions:		
Cash	\$ -	\$ 17,269
Accounts receivable	-	1,122,737
Accounts receivable, unbilled	-	276,023
Parts and supplies	-	91,396
Prepaid expenses	-	73,116
Other current assets	-	5,954
Right of use assets	-	2,885,618
Property and equipment	-	735,885
Intangible assets	-	1,361,000
Accounts payable	-	(168,749)
Accrued expenses	-	(162,426)
Lease liabilities	-	(2,947,684)
Federal and state taxes payable	-	(168,900)
Deferred revenues	-	(198,659)
Deferred tax liabilities, net	-	(149,900)
Net assets acquired in acquisition	-	2,772,680
Total goodwill acquired in acquisition	-	2,322,887
Total purchase price of acquisition	-	5,095,567
Purchase price of business acquisition financed with earnout liability	-	(889,200)
Purchase price of business acquisition financed with installment payments	-	(170,000)
Cash used in business acquisition	<u>\$ -</u>	<u>\$ 4,036,367</u>

See Notes to these Condensed Consolidated financial statements

INTELLINETICS, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Business Organization and Nature of Operations

Intellinetics, Inc., formerly known as GlobalWise Investments, Inc. (“Intellinetics” or the “Company” or “we” or “us”), is a Nevada corporation incorporated in 1997, with two subsidiaries: Intellinetics, Inc., an Ohio corporation that is wholly-owned by the Company (“Intellinetics Ohio”), and Graphic Sciences, Inc., a Michigan corporation that is also wholly-owned by the Company (“Graphic Sciences”). Intellinetics Ohio was incorporated in 1996, and on February 10, 2012, Intellinetics Ohio became the sole operating subsidiary of the Company as a result of a reverse merger and recapitalization. On March 2, 2020, the Company purchased all the outstanding capital stock of Graphic Sciences.

Our products and services are provided through two reporting segments: Document Management and Document Conversion. Our Document Management segment, which includes the CEO Imaging Systems, Inc. (“CEO Image”) asset acquisition in April 2020, consists primarily of solutions involving our software platform, allowing customers to capture and manage their documents across operations such as scanned hard-copy documents and digital documents including those from Microsoft Office 365, digital images, audio, video and emails. Our Document Conversion segment, which includes and primarily consists of the Graphic Sciences acquisition, provides assistance to customers as a part of their overall document strategy to convert documents from one medium to another, predominantly paper to digital, including migration to our software solutions, as well as long-term storage and retrieval services. Our solutions create value for customers by making it easy to connect business-critical documents to the people who need them by making those documents easy to find and access, while also being secure and compliant with the customers’ audit requirements. Solutions are sold both directly to end-users and through resellers.

2. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (“GAAP”).

The financial statements presented in this Quarterly Report on Form 10-Q are unaudited. However, in the opinion of management, these unaudited condensed consolidated financial statements include all adjustments, consisting solely of normal recurring adjustments, necessary to present fairly the financial position, results of operations and cash flows for the periods presented in conformity with GAAP applicable to interim periods. The financial data and other financial information disclosed in these notes to the accompanying condensed consolidated financial statements are also unaudited. As such, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to applicable rules and regulations thereunder.

Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the full fiscal year ending December 31, 2021 or any other future period.

These unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the related notes included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020 filed with the SEC filed on March 30, 2021.

3. Liquidity and Management’s Plans

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. Since 2012, we have raised a total of approximately \$18.6 million in cash through issuances of debt and equity securities. As of September 30, 2021, we had \$1,829,247 in cash and cash equivalents, net working capital deficit of \$7,473, and an accumulated deficit of approximately \$22 million. In June 2021, we paid \$954,733 in annual earnout liabilities.

In 2020, we engaged in several actions that significantly improved our liquidity and cash flows, including:

- acquiring Graphic Sciences and CEO Image, resulting in increased cash flow from operations,
- receiving aggregate gross proceeds of \$3.5 million from the private placement of our common stock,
- converting all of the outstanding principal and accrued interest payable on our then-existing convertible debt in the approximate amount of \$6.0 million into shares of common stock at a conversion price of \$4.00 per share,

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- receiving \$2.0 million in proceeds from the issuance of 12% subordinated promissory notes due February 28, 2023, which we refer to as the 2020 Notes, and
- obtaining the loan under the Paycheck Protection Program through PNC Bank in the principal amount of \$838,700 (the “PPP loan”), the principal and interest on which was forgiven in its entirety by the U.S. Small Business Administration (the “SBA”) by notice we received on January 20, 2021.

Overall, we reduced our outstanding debt by approximately \$3 million during 2020 and have not incurred any new debt in 2021.

Our ability to meet our capital needs in the future will depend on many factors, including maintaining and enhancing our operating cash flow, successfully managing the transition of our recent acquisitions of Graphic Sciences and CEO Image, successfully retaining and growing our client base in the midst of general economic uncertainty, and managing the continuing effects of the COVID-19 pandemic on our business. We will need to successfully manage our cash flows to support potential future earnout commitments and debt service commitments.

Based on our current plans and assumptions, we believe our capital resources, including our cash and cash equivalents, along with funds expected to be generated from our operations, will be sufficient to meet our anticipated cash needs arising in the ordinary course of business for at least the next 12 months, including to satisfy our expected working capital needs, earnout obligations and capital and debt service commitments.

4. Summary of Significant Accounting Policies

Principles of Consolidation

The condensed consolidated financial statements accompanying these notes include the accounts of Intellinetics and the accounts of all its subsidiaries in which it holds a controlling interest. Under GAAP, consolidation is generally required for investments of more than 50% of the outstanding voting stock of an investee, except when control is not held by the majority owner. We have two subsidiaries: Intellinetics Ohio and Graphic Sciences. We consider the criteria established under Financial Accounting Standards Board (“FASB”) Accounting Standard Codification (“ASC”) Topic 810, “Consolidations” in the consolidation process. All significant intercompany balances and transactions

have been eliminated in consolidation.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with 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 condensed consolidated financial statements and the reported amounts of revenues and expenses. By their nature, these estimates and assumptions are subject to an inherent degree of uncertainty. The impact of COVID-19 has significantly increased economic and demand uncertainty. Because future events and their effects cannot be determined with precision, actual results could differ significantly from estimated amounts.

Significant estimates and assumptions include valuation allowances related to receivables, accounts receivable -unbilled, allowance for obsolescence or slow-moving parts and supplies inventory, the recoverability of long-term assets, depreciable lives of property and equipment, purchase price allocations for acquisitions, fair value for goodwill and intangibles, the lease liabilities, estimates of fair value deferred taxes and related valuation allowances. Our management monitors these risks and assesses our business and financial risks on a quarterly basis.

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Revenue Recognition

In accordance with ASC 606, "Revenue From Contracts With Customers," we follow 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 storage and retrieval services. We earn the majority of our revenue from the sale of professional services, followed by the sale of software maintenance services and software as a service. We apply our revenue recognition policies as required in accordance with ASC 606 based on the facts and circumstances of each category of revenue. More detail regarding each category of revenue is contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020 filed with the SEC filed on March 30, 2021

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 accounts receivable, unbilled, which are disclosed on the condensed consolidated balance sheets, as well as other contract assets which are comprised of employee sales commissions paid in advance of contract periods ending. 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 based on the timing of when we expect to recognize revenue, which are disclosed on the condensed consolidated balance sheets.

The following table presents changes in our contract assets during the nine months ended September 30, 2021 and 2020:

	Balance at Beginning of Period	Addition from acquisition (Note 5)	Revenue Recognized in Advance of Billings	Billings	Balance at End of Period
Nine months ended September 30, 2021					
Accounts receivable, unbilled	\$ 523,522	\$ -	\$ 3,281,320	\$ (3,151,767)	\$ 653,075
Other contract assets	\$ 31,283	\$ -	\$ 107,364	\$ 68,235	\$ 70,412
Nine months ended September 30, 2020					
Accounts receivable, unbilled	\$ 23,371	\$ 276,023	\$ 602,692	\$ (398,444)	\$ 503,642
Other contract assets	\$ 19,670	\$ -	\$ 39,975	\$ 28,695	\$ 30,950

Deferred revenue

Amounts that have been invoiced are recognized in accounts receivable, deferred revenue or revenue, depending on whether the revenue recognition criteria have been met. Deferred revenue represents amounts billed for which revenue has not yet be recognized. Deferred revenues typically relate to maintenance and software as a service agreements which have been paid for by customers prior to the performance of those services, and payments received for professional services and license arrangements and software as a service performance obligations that have been deferred until fulfilled under our revenue recognition policy.

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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 98% of the remaining performance obligations over the next 12 months, with the remainder recognized thereafter. As of September 30, 2021, 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 \$24,509. As of December 31, 2020, 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 \$45,323. This does not include revenue related to performance obligations that are part of a contract whose original expected duration is one year or less.

The following table presents changes in our contract liabilities during the nine months ended September 30, 2021 and 2020:

	Balance at Beginning of Period	Addition from acquisition (Note 5)	Billings	Recognized Revenue	Balance at End of Period
Nine months ended September 30, 2021					
Deferred revenue	\$ 996,131	\$ -	\$ 2,954,212	\$ (2,613,480)	\$ 1,336,863
Nine months ended September 30, 2020					

Deferred revenue	\$	754,073	\$	198,659	\$	2,215,742	\$	(2,146,222)	\$	1,022,252
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Parts and Supplies

Parts and supplies are valued at the lower of cost or net realizable value. Costs are determined using the first-in, first-out method. Parts and supplies are used for scanning and document conversion services. A provision for potentially obsolete or slow-moving parts and supplies inventory is made based on parts and supplies levels, future sales forecasted and management's judgment of potentially obsolete parts and supplies. We recorded an allowance of \$24,000 and \$15,000 at September 30, 2021 and December 31, 2020, 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. Construction in progress represents warehouse racking for document storage and retrieval purposes. No depreciation is provided for construction in progress until it is completed and placed into service.

Purchase Accounting Related Fair Value Measurements

We allocate the purchase price, including contingent consideration, of our acquisitions to the assets and liabilities acquired, including identifiable intangible assets, based on their respective fair values at the date of acquisition. Such fair market value assessments are primarily based on third-party valuations using assumptions developed by management that require significant judgments and estimates that can change materially as additional information becomes available. The purchase price allocated to intangibles is based on unobservable factors, including but not limited to, projected revenues, expenses, customer attrition rates, a weighted average cost of capital, among others. The weighted average cost of capital uses a market participant's cost of equity and after-tax cost of debt and reflects the risks inherent in the cash flows. The approach to valuing the initial contingent consideration associated with the purchase price also uses similar unobservable factors such as projected revenues and expenses over the term of the contingent earnout period, discounted for the period over which the initial contingent consideration is measured, and volatility rates. We finalize the purchase price allocation once certain initial accounting valuation estimates are finalized, and no later than 12 months following the acquisition date.

Software Development Costs

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. In accordance with ASC 985-20 "Costs of Software to be Sold, Leased or Otherwise Marketed," we expense software development costs, including costs to develop software products or the software component of products to be sold, leased, or marketed to external users, before technological feasibility is reached. Once technological feasibility has been established, certain software development costs incurred during the application development stage are eligible for capitalization. Based on our software development process, technical feasibility is established upon completion of a working model. Technological feasibility is typically reached shortly before the release of such products. No such costs were capitalized during the periods presented in this report.

In accordance with ASC 350-40, "Internal-Use Software," we capitalize purchase and implementation costs of internal use software. Once an application has reached development stage, internal and external costs, if direct and incremental, are capitalized until the software is substantially complete and ready for its intended use. Capitalization ceases upon completion of all substantial testing. We also capitalize costs related to specific upgrades and enhancements when it is probable that the expenditure will result in additional functionality. No such costs were capitalized during the periods presented in this report.

For the three and nine months ended September 30, 2021 and 2020, our expensed software development costs were \$7,157 and \$294,726, respectively, and \$60,085 and \$228,834, respectively.

Recently Issued Accounting Pronouncements Not Yet Effective

Financial Instruments – Credit Losses

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*, which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost. ASC 2016-16 is effective for annual reporting periods beginning after December 15, 2023, including interim reporting periods within those annual reporting periods. Early adoption is permitted. The Company is currently evaluating the impact of the new guidance on its condensed consolidated financial statements and related disclosures.

Reference Rate Reform

In March 2020, the FASB issued ASU 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting" which provides optional relief through specific exceptions and practical expedients for transitioning away from reference rates that are expected to be discontinued. The relief generally applies to eligible modifications of contractual terms that change (or have the potential to change) the amount or timing of contractual cash flows related to replacement of a reference rate. The relief allows such modifications to be accounted for as continuations of existing contracts without additional analysis. The optional relief is available from March 2020 through December 31, 2022. The Company is currently evaluating the impact of this ASU.

No other Accounting Standards Updates that have been issued but are not yet effective are expected to have a material effect on the Company's future condensed consolidated financial statements.

Advertising

We expense the cost of advertising as incurred. Advertising expense for the three and nine months ended September 30, 2021 and 2020 amounted to \$3,022 and \$4,063, respectively, and \$1,651 and \$5,331, respectively.

Earnings (Loss) Per Share

Basic income or loss per share is computed by dividing net income or loss by the weighted average number of shares of common stock outstanding during the period. Diluted income or loss per share is computed by dividing net income or loss by the diluted weighted average number of shares of common stock outstanding during the period. The diluted weighted average number of shares gives effect to all dilutive potential common shares outstanding during the period using the treasury stock method. Diluted earnings

per share exclude all diluted potential shares if their effect is anti-dilutive, including warrants or options which are out-of-the-money and for those periods with a net loss. The three and nine months ended September 30, 2021 reported net income, as did the three months ended September 30, 2020, while the nine months ended September 30, 2020 reported a net loss.

Income Taxes

We file a consolidated federal income tax return with our subsidiaries. The provision for income taxes is computed by applying statutory rates to income before taxes.

Deferred income taxes are recognized for the tax consequences in future years of temporary differences between the financial reporting and tax bases of assets and liabilities as of each period-end based on enacted tax laws and statutory rates. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. A 100% valuation allowance has been established on deferred tax assets at September 30, 2021 and December 31, 2020, due to the uncertainty of our ability to realize future taxable income.

We account for uncertainty in income taxes in our 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 us in our tax returns.

Segment Information

Operating segments are defined in the criteria established under the FASB ASC Topic 280 as components of public entities that engage in business activities from which they may earn revenues and incur expenses for which separate financial information is available and which is evaluated regularly by our chief operating decision maker ("CODM") in deciding how to assess performance and allocate resources. Our CODM assesses performance and allocates resources based on two operating segments: Document Management and Document Conversion. These segments contain individual business components that have been combined on the basis of common management, customers, solutions offered, service processes and other economic characteristics. We currently have no intersegment sales. We evaluate the performance of our segments based on gross profits.

The Document Management Segment provides cloud-based and premise-based content services software. Its modular suite of solutions complements existing operating and accounting systems to serve a mission-critical role for organizations to make content secure, compliant, and process-ready. This segment conducts its primary operations in the United States. Markets served include highly regulated, risk and compliance-intensive markets in healthcare, K-12 education, public safety, other public sector, risk management, financial services, and others. Solutions are sold both directly to end-users and through resellers.

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The Document Conversion Segment provides services for scanning and indexing, converting images from paper to digital, paper to microfilm, and microfiche to microfilm, as well as long-term physical document storage and retrieval. This segment conducts its primary operations in the United States. Markets served include business and federal, county, and municipal governments. Solutions are sold both directly to end-users and through a reseller distributor.

Information by operating segment is as follows:

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2020	2021	2020
Revenues				
Document Management	\$ 792,548	\$ 780,834	\$ 2,319,370	\$ 2,018,208
Document Conversion	2,378,814	1,730,448	6,396,857	3,539,378
Total revenues	\$ 3,171,362	\$ 2,511,282	\$ 8,716,227	\$ 5,557,586
Gross profit				
Document Management	\$ 673,237	\$ 605,451	\$ 1,898,799	\$ 1,526,283
Document Conversion	1,242,484	884,843	3,435,893	1,880,648
Total gross profit	\$ 1,915,721	\$ 1,490,294	\$ 5,334,692	\$ 3,406,931
Capital additions, net				
Document Management	\$ 5,935	\$ -	\$ 44,051	\$ 7,911
Document Conversion	126,578	33,676	488,100	51,205
Total capital additions, net	\$ 132,513	\$ 33,676	\$ 532,151	\$ 59,116
			As of September 30,	As of December 31,
			2021	2020
Total assets				
Document Management		\$ 2,249,183	\$ 2,295,165	
Document Conversion		9,957,635	8,049,468	
Total assets		\$ 12,206,818	\$ 10,344,633	

Statement of Cash Flows

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

Reclassifications

Certain amounts reported in prior filings of the condensed consolidated financial statements have been reclassified to conform to current period presentation.

5. Business Acquisitions – Earnout Liability

On March 2, 2020, we acquired all of the issued and outstanding stock of Graphic Sciences. The purchase price paid for Graphic Sciences was \$,906,253 in cash plus potential contingent, or earnout, payments of up \$833,000 annually over a three year period based on a gross profit level achieved by Graphic Sciences on an annual basis, for maximum total earnout payments over a three year period of \$2,500,000, and with no minimum earnout payments. At the time of this acquisition, management estimated a fair value of the contingent liability—earnout ("earnout liability") of \$686,200 based on the terms of the earnout, and accordingly, recorded this amount as our earnout liability at the acquisition date in accordance with GAAP. For the three and nine months ended September 30, 2021 we recorded a change in fair value of our earnout liabilities in the amount of \$0 and \$77,211, respectively. On June 8, 2021, we paid \$769,733 for the first annual period. At September 30, 2021, our condensed consolidated balance sheets reflected an earnout liability for Graphic Sciences in the amount of \$1,410,217. See Note 7 for the estimated fair value of the earnout liability as of September 30, 2021.

On April 21, 2020, we acquired substantially all of the assets of CEO Image. The purchase price paid for the assets of CEO Image consisted of \$28,832 in cash, \$170,000 in installment payments paid during 2020, and potential contingent, or earnout, payments of up to \$185,000 annually over a two year period based on a sales revenue level achieved by certain customers of CEO Image on an annual basis, for maximum total earnout payments over a two year period of \$370,000, and with no minimum earnout payments. At the time of this acquisition, management estimated a fair value of the contingent liability—earnout (“earnout liability”) of \$203,000 based on the terms of the earnout, and accordingly, recorded this amount as our earnout liability at the acquisition date in accordance with GAAP. For the three and nine months ended September 30, 2021 we recorded a change in fair value of our earnout liabilities in the amount of \$0 and \$7,261, respectively. On June 10, 2021, we paid \$185,000 for the first annual period. At September 30, 2021, our condensed consolidated balance sheets reflected an earnout liability for CEO Image in the amount of \$156,261. See Note 7 for the estimated fair value of the earnout liability as of September 30, 2021.

The following unaudited pro forma information presents a summary of the condensed consolidated results of operations for the Company as if the acquisitions of Graphic Sciences and CEO Image had occurred on January 1, 2020.

For the nine months ended September 30, 2020

	(unaudited) September 30, 2020
Total revenues	\$ 6,990,549
Net loss	\$ (566,082)
Basic and diluted net loss per share	\$ (0.20)

The unaudited pro forma consolidated results are based on the Company’s historical financial statements and those of Graphic Sciences and CEO Image and do not necessarily indicate the results of operations that would have resulted had the acquisition actually been completed at the beginning of the applicable period presented. The pro forma financial information assumes that the companies were combined as of January 1, 2020.

The following tables present the amounts of revenue and earnings of the acquirees since the acquisition date included in the condensed consolidated income statement for the reporting period.

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2020	2021	2020
Graphic Sciences:				
Total revenues	\$ 2,257,038	\$ 1,660,775	\$ 6,129,057	\$ 3,409,193
Net income	256,016	\$ 239,555	\$ 753,911	\$ 380,881

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2020	2021	2020
CEO Image:				
Total revenues	\$ 147,380	\$ 155,414	\$ 419,576	\$ 219,934
Net income	\$ -(a)	\$ -(a)	\$ -(a)	\$ -(a)

(a) Total earnings from the CEO Image acquisition are impracticable to disclose as they are not accounted for separately because its operations and financial reporting were merged with existing operations and financial reporting.

6. Intangible Assets, Net

At September 30, 2021, intangible assets consisted of the following:

	Estimated Useful Life	Costs	Accumulated Amortization	Net
Trade names	10 years	\$ 119,000	\$ (18,842)	\$ 100,158
Customer contracts	5-8 years	1,242,000	(319,543)	922,457
		<u>\$ 1,361,000</u>	<u>\$ (338,385)</u>	<u>\$ 1,022,615</u>

At December 31, 2020, intangible assets consisted of the following:

	Estimated Useful Life	Costs	Accumulated Amortization	Net
Trade names	10 years	\$ 119,000	\$ (9,917)	\$ 109,083
Customer contracts	5-8 years	1,242,000	(166,112)	1,075,888
		<u>\$ 1,361,000</u>	<u>\$ (176,029)</u>	<u>\$ 1,184,971</u>

Amortization expense for the three and nine months ended September 30, 2021 and September 30, 2020, amounted to \$4,119 and \$162,356, respectively, and \$54,119 and \$121,910, respectively. The following table represents future amortization expense for intangible assets subject to amortization.

For the Twelve Months Ending September 30,	Amount
2022	\$ 216,475
2023	216,475
2024	216,475
2025	205,558
2026	98,108
Thereafter	69,524
	<u>\$ 1,022,615</u>

7. Fair Value Measurements

Under 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 consists of the following three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs consist of quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable and market-corroborated inputs which are derived principally from or corroborated by observable market data. Level 3 inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable.

The carrying values of cash and equivalents, accounts receivable, accounts payable, accrued expenses, and the PPP loan (prior to forgiveness) approximate fair value because of its short maturity. Management believes that the carrying value of the 2020 Notes approximate fair value given the March 2, 2020 transaction proximity to December 31, 2020 in conjunction with the absence of significant net change in the overall economic environment with regards to availability of credit to Company.

We have earnout liabilities related to our two 2020 acquisitions which are measured on a recurring basis and recorded at fair value, measured using probability-weighted analysis and discounted using a rate that appropriately captures the risks associated with the obligation. The inputs used to calculate the fair value of the earnout liabilities are considered to be Level 3 inputs due to the lack of relevant market activity and significant management judgment. Key unobservable inputs include revenue growth rates, which ranged from 0% to 7%, and volatility rates, which were 20% for gross profits. An increase in future revenues and gross profits may result in a higher estimated fair value while a decrease in future revenues and gross profits may result in a lower estimated fair value of the earnout liabilities.

The following table provides a summary of the changes in fair value of the earnout liabilities for the three and nine months ended September 30, 2021:

	Three months ended September 30, 2021
Fair value at June 30, 2021	\$ 1,566,478
Payment	-
Change in fair value	-
Fair value at September 30, 2021	<u>\$ 1,566,478</u>
	Nine months ended September 30, 2021
Fair value at December 31, 2020	\$ 2,444,000
Payment	(954,733)
Change in fair value	77,211
Fair value at September 30, 2021	<u>\$ 1,566,478</u>

The fair values of amounts owed are recorded in the current and long-term portions of earnout liabilities in our condensed consolidated balance sheets. Changes in fair value are recorded in change in fair value of earnout liabilities in our condensed consolidated statements of operations.

8. Property and Equipment

Property and equipment are comprised of the following:

	September 30, 2021	December 31, 2020
Computer hardware and purchased software	\$ 1,538,049	\$ 1,019,259
Leasehold improvements	288,467	275,106
Furniture and fixtures	82,056	82,056
	1,908,572	1,376,421
Less: accumulated depreciation	(817,552)	(677,669)
Property and equipment, net	<u>\$ 1,091,020</u>	<u>\$ 698,752</u>

Total depreciation expense on our property and equipment for the three and nine months ended September 30, 2021 and 2020 amounted to \$1,804 and \$139,883, respectively, and \$35,357 and \$82,407, respectively.

9. Notes Payable – Unrelated Parties

Summary of Notes Payable to Unrelated Parties

The table below summarizes all notes payable at September 30, 2021 and December 31, 2020, respectively, with the exception of related party notes disclosed in Note 10 “Notes Payable - Related Parties.”

	September 30, 2021	December 31, 2020
PPP Note (a)	\$ -	\$ 838,700
2020 Notes	2,000,000	2,000,000
Total notes payable	\$ 2,000,000	\$ 2,838,700
Less unamortized debt issuance costs	(146,963)	(224,767)
Less unamortized debt discount	(151,111)	(231,111)
Less current portion	-	(580,638)
Long-term portion of notes payable	<u>\$ 1,701,926</u>	<u>\$ 1,802,184</u>

(a) The full amount of the principal and interest on the PPP Note was forgiven in its entirety in January 2021.

Future minimum principal payments of the 2020 Notes are as follows:

As of September 30,	Amount
2023	\$ 2,000,000
Total	<u>\$ 2,000,000</u>

As of September 30, 2021 and December 31, 2020, accrued interest for these notes payable with the exception of the related party notes in Note 10, “Notes Payable - Related Parties,” was \$0 and \$5,941, respectively. As of September 30, 2021 and December 31, 2020, unamortized deferred financing costs and unamortized debt discount were

reflected within long term liabilities on the condensed consolidated balance sheets.

With respect to all notes outstanding (other than the notes to related parties), interest expense, including the amortization of deferred financing costs, accrued loan participation fees, original issue discounts, deferred interest and related fees, interest expense related to warrants issued for the conversion of convertible notes, and the embedded conversion feature for the three and nine months ended September 30, 2021 was \$113,030 and \$339,345, respectively, and for the three and nine months ended September 30, 2020 was \$115,498 and \$433,783, respectively.

We have evaluated the terms of our 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 our common stock. We 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. We 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 we recognized a beneficial conversion feature resulting in a discount on the note payable, upon satisfaction of the contingency. The beneficial conversion features were amortized to interest expense over the life of the respective notes, starting from the date of recognition.

2016-18 Unrelated Party Notes and 2020 Note Conversion

In 2016 through 2018, we issued convertible promissory notes to unrelated parties in an aggregate principal amount of \$,535,000. On March 2, 2020, we entered into amendments to these convertible promissory notes, as well as amendments to convertible promissory notes with related parties (see note 10), that permitted us to convert all of the outstanding principal and accrued and unpaid interest payable on all outstanding convertible promissory notes into shares of common stock at a reduced conversion rate equal to the purchase price of our common stock issued in the contemporaneous private placement offering. Pursuant thereto, we converted all of the outstanding principal and accrued and unpaid interest payable with respect to all convertible promissory notes, with related parties and with unrelated parties, into a total of 1,433,689 shares of our common stock at a conversion rate of \$4.00 per share. Taglich Brothers, Inc. acted as the exclusive placement agent for the note conversion and received compensation (relating to the conversion of both the related and the unrelated notes) of 35,250 shares of our common stock, based on a fee valued at \$4.00 per share.

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2020 Notes

On March 2, 2020, we sold 2,000 units, at an offering price of \$1,000 per unit, to accredited investors in a private placement offering, with each unit consisting of \$1,000 in 12% Subordinated Notes (“2020 Notes”) and 40 shares of our common stock, for aggregate gross proceeds of \$2,000,000. The entire outstanding principal and accrued interest of the 2020 Notes are due and payable on February 28, 2023. Interest on the 2020 Notes accrues at the rate of 12% per annum, payable quarterly in cash, beginning on September 30, 2020. Any accrued but unpaid quarterly installment of interest will accrue interest at the rate of 14.0% per annum. Any overdue principal and accrued and unpaid interest at the maturity date will accrue a mandatory default penalty of 20% of the outstanding principal balance and an interest rate of 14% per annum from the maturity date until paid in full. We used a portion of the net proceeds from the private placement offering to finance the acquisitions of Graphic Sciences and CEO Image and the remaining net proceeds for working capital and general corporate purposes. We recognized a debt discount of \$320,000 for the 80,000 shares issued in conjunction with the units. The amortization of the debt discount, which will be recognized over the life of the 2020 Notes as interest expense, for the three and nine months ended September 30, 2021 was \$26,667 and \$80,000, respectively, and for the three and nine months ended September 30, 2020 was \$26,667 and \$62,222, respectively.

PPP Note

On April 15, 2020, we were issued an unsecured promissory note (“PPP Note”) for the PPP loan through PNC Bank with a principal amount of \$38,700. The term of the PPP Note Payable was two years, with an interest rate of 1.0% per annum deferred for the first six months. We received notice on January 20, 2021 that the SBA had forgiven the full amount of principal and interest of the PPP Note, and we have recognized a gain on extinguishment of debt of \$0 and \$845,083 for the three and nine months ended September 30, 2021, respectively.

10. Notes Payable - Related Parties

For the three and nine months ended September 30, 2021, there was no interest expense in connection with notes payable – related parties. For the three and nine months ended September 30, 2020, interest expense in connection with notes payable – related parties was \$0 and \$88,941, respectively.

2016-19 Related Party Notes and 2020 Note Conversion

In 2016 through 2019, we issued convertible promissory notes to related parties, including 5% stockholders, executive officers and directors, in an aggregate principal amount of \$1,562,728. On March 2, 2020, we entered into amendments to these convertible promissory notes with related parties, as well as to convertible promissory notes with unrelated parties (see note 9), that permitted us to convert all of the outstanding principal and accrued and unpaid interest payable thereon into shares of common stock at a reduced conversion rate equal to the purchase price of our common stock issued in the contemporaneous private placement offering. Pursuant thereto, we converted all of the outstanding principal and accrued and unpaid interest payable with respect to all convertible promissory notes (with related parties as well as with unrelated parties) into a total of 1,433,689 shares of our common stock at a conversion rate of \$4.00 per share, with the exception of the 2019 related party notes. On March 2, 2020, \$350,000 of the 2019 related party notes were converted into equity. On May 15, 2020, the remaining balance of \$47,728 was repaid by the Company in cash.

11. Deferred Compensation

Pursuant to an employment agreement, we have accrued incentive compensation totaling \$100,828 in cash as of September 30, 2021 and December 31, 2020 for one of our founders. We deferred these payment obligations until we reasonably believe we have sufficient cash to make those payments in cash. We made no deferred incentive compensation payments during the nine months ended September 30, 2021. Following the retirement of founder A. Michael Chretien on December 8, 2017, we made bi-weekly payments until his deferred compensation had been fully paid, which occurred in May 2020. During the three and nine months ended September 30, 2020, we paid \$0 and \$16,338, respectively, in deferred incentive compensation, which amounts were reflected as a reduction in our deferred compensation liability.

12. Commitments and Contingencies

From time to time we are involved in legal proceedings, claims and litigation related to employee claims, contractual disputes and taxes in the ordinary course of business. Although we cannot predict the outcome of such matters, currently we have no reason to believe the disposition of any current matter could reasonably be expected to have a material adverse impact on our financial position, results of operations or the ability to carry on any of our business activities.

Employment Agreements

We have entered into employment agreements with three of our key executives, including one of our founders. Under their respective employment agreements, the executives are employed on an “at-will” basis and are bound by typical confidentiality, non-solicitation and non-competition provisions. Deferred compensation for one founder remains outstanding as of September 30, 2021.

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Operating Leases

On January 1, 2010, we entered into an agreement to lease 6,000 rentable square feet of office space in Columbus, Ohio. The lease commenced on January 1, 2010 and, pursuant to a lease extension dated September 18, 2021, the lease expires on December 31, 2028. The monthly rental payment is \$4,638, with gradually higher annual increases each January up to \$5,850 for the final year.

Our subsidiary, Graphic Sciences, uses 36,000 square feet of leased space in Madison Heights, Michigan as its main facility. Graphic Sciences uses about 20,000 square feet for its records storage services, with the remainder of the space used for production, sales, and administration. The monthly rental payment is \$41,508, with gradually higher annual increases each September up to \$45,828 for the final year, and with a lease term continuing until August 31, 2026. Graphic Sciences also leases and uses a separate 37,000 square foot building in Sterling Heights, Michigan for document storage, except approximately 5,000 square feet for production, and a satellite office in Traverse City, Michigan for production. The monthly Sterling Heights rental payment is \$20,452, with gradually higher annual increases each May up to \$24,171 for the final year, and with a lease term continuing to April 30, 2028. The monthly Traverse City rental payment is \$4,500, with a lease term continuing until January 31, 2024. Graphic Sciences also leases and uses four leased vehicles for logistics. The monthly rental payments for these vehicles total \$2,618, with lease terms continuing until October 31, 2024.

Graphic Sciences also leases and uses an additional temporary storage space in Madison Heights, with a monthly rental payment of \$1,605 and a lease term on a month-to-month basis. We have made an accounting policy election to not record a right-of-use asset and lease liability for short-term leases, which are defined as leases with a lease term of 12 months or less. Instead, the lease payments are recognized as rent expense in the general and administrative expenses on the statement of operations.

The following table sets forth the future minimum lease payments under these operating leases:

For the period ending September 30,	Amount
2022	\$ 932,954
2023	932,995
2024	896,168
2025	876,675
2026	848,540
Thereafter	610,159
	<u>\$ 5,097,491</u>

Lease costs charged to operations for the three months ended September 30, 2021 and 2020 amounted to \$93,953 and \$216,561, respectively, and for the nine months ended September 30, 2021 and 2020 amounted to \$794,317 and \$505,072, respectively. Included in the lease costs for the three and nine months ended September 30, 2021 were short-term lease costs of \$29,430 and \$85,848, respectively. The following table sets forth additional information pertaining to our leases:

For the Nine Months Ending September 30, 2021:	
Operating cash flows from operating leases	\$ 577,244
Weighted average remaining lease term – operating leases	5.6 years
Weighted average discount rate – operating leases	6.95%

Because these leases do not provide an implicit rate, we use an incremental borrowing rate based on the information available at the lease commencement date in determining the present value of lease payments.

13. Stockholders' Equity

Common Stock

As of September 30, 2021, 2,823,072 shares of common stock were issued and outstanding, 135,902 shares of common stock were reserved for issuance upon the exercise of outstanding warrants, and 497,330 shares of common stock were reserved for issuance under our 2015 Equity Incentive Plan, as amended (the "2015 Plan").

On March 2, 2020, we sold 955,000 shares of our common stock and certain subordinated notes in a private placement to accredited investors as follows:

- 875,000 shares of our common stock at a purchase price of \$4.00 per share, for aggregate gross proceeds of \$3,500,000, and
- 2,000 units at a purchase price of \$1,000 per unit, with each unit consisting of \$1,000 in 12% Subordinated Notes and 40 shares of our common stock, for aggregate gross proceeds of \$2,000,000.

In connection with the private placement offering, we paid the placement agent \$40,000 in cash, equal to 8% of the gross proceeds of the offering, along with 95,500 warrants to purchase shares of our common stock and reimbursement for the placement agent's reasonable out of pocket expenses, FINRA filing fees and related legal fees. The warrants are exercisable at an exercise price at \$4.00 per share 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. Underwriting expense of \$236,761 and debt issuance costs of \$135,291 were recorded for the issuance of the March 2, 2020 warrants, utilizing the Black-Scholes valuation model. The fair value of warrants issued was determined to be \$3.90. Underwriting expense of \$307,867 and debt issuance costs of \$175,924 was recorded for the placement agent cash fee and other related legal fees. For the three and nine months ended September 30, 2021, interest expense of \$5,935 and \$77,804, respectively, was recorded as amortization of the debt issuance costs for this private placement offering. For the three and nine months ended September 30, 2020, interest expense of \$25,935 and \$60,514, respectively, was recorded as amortization of the debt issuance costs for this private placement offering.

Reverse Stock Split

In February 2020, upon recommendation and authorization by our Board of Directors, our stockholders holding a majority in interest of the issued and outstanding shares of our common stock, acting by written consent, adopted an amendment to our Articles of Incorporation to effectuate a reverse split of our issued and outstanding shares of common stock at a ratio of one-for-fifty (1-for-50) (the "Reverse Split"), and reduce the number of authorized shares of our common stock to 25,000,000 shares (the "25,000,000 Share Amendment"). The Reverse Split and the 25,000,000 Share Amendment became effective on March 20, 2020.

Effective March 2, 2020, before the Reverse Split and the 25,000,000 Share Amendment became effective, upon recommendation and authorization by the Board of Directors, stockholders holding a majority in interest of the issued and outstanding shares of our common stock, acting by written consent, adopted an amendment to our Articles of Incorporation to increase the authorized number of shares of our common stock to 160,000,000 shares (representing 3,200,000 shares on a post-split basis) from 75,000,000 shares (representing 1,500,000 shares on a post-split basis), in order to facilitate the acquisition of Graphic Sciences and certain private placement offerings and note conversions. Thereafter, on March 20, 2020, when the Reverse Split and the 25,000,000 Share Amendment became effective, our authorized capital stock became 25,000,000 shares of common stock.

The Reverse Split did not cause an adjustment to the par value of the common stock. Pursuant to the Reverse Split, we adjusted the amounts for shares reserved for issuance

upon the exercise of outstanding warrants, outstanding stock options, and shares reserved for the 2015 Plan.

All references to shares of common stock and per share data in the accompanying condensed consolidated financial statements and in these notes related thereto have been adjusted to reflect the Reverse Split for all periods presented.

Warrants

The following sets forth the warrants to purchase our common stock that were outstanding as of September 30, 2021:

- Warrants to purchase 3,077 shares of common stock at an exercise price of \$7.50 per share exercisable until between December 30, 2021 and January 31, 2022, issued to the placement agent in connection with private placements of our convertible promissory notes.
- Warrants to purchase 3,000 shares of common stock at an exercise price of \$5.00 per share exercisable until September 21, 2022, issued to certain 5% stockholders.
- Warrants to purchase 17,200 shares of common stock at an exercise price of \$2.50 per share exercisable until between November 17, 2022 and November 30, 2022, issued to the placement agent in connection with private placements of our convertible promissory notes.
- Warrants to purchase 15,999 shares of common stock at an exercise price of \$9.00 per share exercisable until between September 20, 2023 and September 26, 2023, issued to the placement agent in connection with private placements of our convertible promissory notes.
- Warrants to purchase 95,500 shares of common stock at an exercise price of \$4.00 per share exercisable until March 2, 2025, issued to the placement agent in connection with private placements of our convertible promissory notes.

No warrants were issued during the nine months ended September 30, 2021. Warrants to purchase 95,500 shares of common stock were issued during the nine months ended September 30, 2020 at a fair value determined to be \$3.90 per warrant utilizing the Black-Scholes valuation model. The estimated value of the warrants issued during the nine months ended September 30, 2020, as well as the assumptions that were used in calculating such values, were based on estimates at the issuance date as follows:

	Warrants Issued March 2, 2020
Risk-free interest rate	0.88%
Weighted average expected term	5 years
Expected volatility	130.12%
Expected dividend yield	0.00%

14. Stock-Based Compensation

From time to time, we issue stock options and restricted stock as compensation for services rendered by our directors and employees.

Restricted Stock

On February 15, 2021 and January 2, 2020, we issued 12,207 shares and 16,429 shares, respectively, of restricted common stock to our directors as part of their annual compensation plan. The grants of restricted common stock were made outside the 2015 Plan and were not subject to any vesting conditions. Stock compensation of \$57,500 was recorded on this issuance of restricted common stock for the nine months ended September 30, 2021. Stock compensation of \$57,500 on the issuance of the restricted common stock to directors was recorded for the twelve months ending December 31, 2020.

Stock Options

We did not make any stock option grants during the nine months ended September 30, 2021. The weighted-average grant date fair value of options granted during the nine months ended September 30, 2020 was \$3.30. Stock-based compensation for options was \$23,098 and \$13,969, during the three months ended September 30, 2021 and 2020, respectively, and \$69,293 and \$32,652, during the nine months ended September 30, 2021 and 2020, respectively.

A summary of stock option activity during the nine months ended September 30, 2021 and 2020 is as follows:

	Shares Under Option	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at January 1, 2021	145,360	\$ 5.61	9 years	\$ 19,200
Outstanding at September 30, 2021	145,360	\$ 5.61	8 years	\$ 19,200
Exercisable at September 30, 2021	81,685	\$ 6.71	8 years	\$ 19,200

	Shares Under Option	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at January 1, 2020	46,860	\$ 9.02	9 years	\$ 19,200
Granted	99,000	4.00		
Outstanding at September 30, 2020	145,860	\$ 5.61	9 years	\$ 19,200
Exercisable at September 30, 2020	38,785	\$ 9.54	8 years	\$ 19,200

As of September 30, 2021 and December 31, 2020, there was \$53,580 and \$ 322,874, 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 three years. The total fair value of stock options that vested during the nine months ended September 30, 2021 and 2020 was \$92,475 and \$14,963, respectively.

15. Concentrations

Revenues from a limited number of customers have accounted for a substantial percentage of our total revenues. During the three months ended September 30, 2021 and 2020, our largest customer, the State of Michigan, accounted for 38% and 47%, respectively, of our total revenues, and our second largest customer, Rocket Mortgage (formerly Quicken Loans), accounted for 7% and 8%, respectively, of our total revenues. During the nine months ended September 30, 2021 and 2020, our largest customer, the State of Michigan, accounted for 44% and 43%, respectively, of our total revenues, and our second largest customer, Rocket Mortgage, accounted for 9% and 8%, respectively, of our total revenues.

For the three months ended September 30, 2021 and 2020, government contracts represented approximately 52% and 65%, respectively, of our net revenues. For the nine months ended September 30, 2021 and 2020, government contracts represented approximately 60% and 61%, respectively, of our net revenues. A significant portion of our sales to resellers represent ultimate sales to government agencies.

As of September 30, 2021, accounts receivable concentrations from our two largest customers were 42% and 22% of our gross accounts receivable, respectively by customer. Accounts receivable balances from our two largest customers at September 30, 2021 have been partially collected. As of December 31, 2020, accounts receivable concentrations from our two largest customers were 54% and 12% of gross accounts receivable, respectively by customer.

16. Certain Relationships and Related Transactions

We did not participate in any related person transactions during the three and nine months ended September 30, 2021.

17. Provision For Income Taxes

We file federal and various state income tax returns in the U.S. For the three and nine months ended September 30, 2021 and 2020, we have recognized the minimum amount of state income tax as required by the states in which we are required to file taxes. We are not currently subject to any other federal or state taxes because we have incurred losses since our inception.

Income tax benefit consists of the following federal, deferred components for the nine months ended September 30, 2021 and 2020:

	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Benefit of net operating losses	\$ 81,186	\$ (85,536)
Other timing differences	61,809	(85,209)
Change in valuation allowance, including \$188,000 reduction in valuation allowance due to purchased deferred tax liability in 2020	(142,995)	17,555
Tax benefit	<u>\$ -</u>	<u>\$ (188,300)</u>

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A reconciliation is provided below of the U.S. Federal income tax expense at a statutory rate of 21% for the nine months ended September 30, 2021 and 2020:

	Nine months ended September 30, 2021	Nine months ended September 30, 2020
U.S. statutory rate	21%	21%
U.S. Federal income tax at statutory rate	\$ 275,448	\$ (201,810)
Increase (decrease) in income taxes due to:		
Non-taxable PPP loan and accrued interest recovery	(177,467)	-
Non-deductible earnout expense	14,690	-
Non-deductible goodwill amortization	29,968	22,890
Other differences	356	6,840
Benefit of acquisition-date purchased deferred tax liability	-	(188,300)
Other change in valuation allowance	(142,995)	171,780
Income tax benefit	<u>\$ -</u>	<u>\$ (188,300)</u>

The approximate tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are presented below:

	September 30, 2021	December 31, 2020
Deferred tax assets		
Reserves and accruals not currently deductible for tax purposes	\$ 48,000	\$ 51,000
Amortizable assets	67,000	72,000
Net operating loss carryforwards	3,939,000	4,020,000
	<u>4,054,000</u>	<u>4,143,000</u>
Deferred tax liabilities		
Property and equipment	(198,000)	(143,000)
Net Deferred tax assets	3,856,000	4,000,000
Valuation allowance	(3,856,000)	(4,000,000)
	<u>\$ -</u>	<u>\$ -</u>

As of September 30, 2021 and December 31, 2020, we had federal net operating loss carry forwards of approximately \$8,742,533 and \$19,196,000, respectively, which can be used to offset future federal income tax. The federal and state net operating loss carry forwards expire at various dates through 2039 for pre-2020 losses. The operating losses during and after 2020 do not expire. We recorded a valuation allowance against all of our deferred tax assets as of both September 30, 2021 and December 31, 2020. We intend to continue maintaining a full valuation allowance on our deferred tax assets until there is sufficient evidence to support the reversal of all or some portion of these allowances. Release of the valuation allowance would result in the recognition of certain deferred tax assets and a decrease to income tax expense for the period the release is recorded. However, the exact timing and amount of the valuation allowance release are subject to change on the basis of the level of profitability that we are able to actually achieve.

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

The following discussion and analysis of our financial conditions and results of operations should be read together with our condensed consolidated financial statements and notes thereto included in Part I, Item 1, "*Financial Statements*," of this Quarterly Report on Form 10-Q, and with the condensed consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020. Historical results and percentage relationships among any amounts in the financial statements are not necessarily indicative of trends in operating results for any future periods. Any forward-looking statements in this discussion and analysis should be read in conjunction with the information set forth in "Note Regarding Forward-Looking Statements" elsewhere herein. In this Quarterly Report, we sometimes refer to the three and nine month periods ended September 30, 2021 as the third quarter 2021 and the nine month period 2021 respectively, and to the three and nine month periods ended September 30, 2020 as the third quarter 2020 and the nine month period 2020.

Company Overview

We are a document services and solutions software company serving both the small-to-medium business and governmental sectors. During 2020, we made two significant business acquisitions that have significantly impacted our financial operations and grown our business operations:

- Graphic Sciences, on March 2, 2020, and
- CEO Image, on April 21, 2020.

For further information about these acquisitions, please see Note 5 to our condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report.

Our products and services are provided through two reporting segments: Document Management and Document Conversion. Our Document Management segment, which includes our CEO Image acquisition, consists primarily of solutions involving our software platform, allowing customers to capture and manage their documents across operations such as scanned hard-copy documents and digital documents including those from Microsoft Office 365, digital images, audio, video and emails. Our Document Conversion segment, which includes and primarily consists of our Graphic Sciences acquisition, provides assistance to customers as a part of their overall document strategy to convert documents from one medium to another, predominantly paper to digital, including migration to our software solutions, as well as long-term storage and retrieval services. Our solutions create value for customers by making it easy to connect business-critical documents to the people who need them by making those documents easy to find and access, while also being secure and compliant with the customers' audit requirements. Solutions are sold both directly to end-users and through resellers.

Our customers use our software by one of two methods: purchasing our software and installing it onto their own equipment, which we refer to as a "premise" model, or licensing and accessing our platform via the Internet, which we refer to as a "SaaS" or "software as a service" model and also as a "cloud-based" model. Licensing of our software through our SaaS model has become increasingly popular among our customers, especially in light of the increased deployment of remote workforce policies, and is a key ingredient in our revenue growth strategy. Our SaaS products are hosted with Amazon Web Services and Expedient, providing our customers with reliable hosting services that we believe maintain the best industry practices in data security.

We operate a U.S.-based business with concentrated sales to the State of Michigan for our Document Conversion segment with a diverse set of document management software solutions and services. 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 growth in sales of software as a service in recent years 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, innovative product offering, growing 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, demonstrating superior value to customers, increasing our sales force effectiveness through improved guidance and measurement, and continuing to optimize our lead generation and lead nurturing processes.

For further information about our consolidated revenue and earnings, please see our condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report.

How We Evaluate our Business Performance and Opportunities

There has been no material change during the nine month period 2021 to the major qualitative and quantitative factors we consider in the evaluation of our operating results as set forth in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — *How We Evaluate our Business Performance and Opportunities*" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

Financial Impact of COVID-19

The spread of the COVID-19 pandemic and developments surrounding this global pandemic have had, and we expect will continue to have, a significant impact on our business, operations, financial condition and results of operations.

For approximately three months beginning in late March 2020, our Graphic Services business operations, which constitute a majority of our professional services revenues, were substantially reduced while the State of Michigan's stay-at-home order was in effect, during which period we were only able to process work orders deemed "essential" by the State of Michigan. While there has not been a meaningful cancellation of future jobs or current contracts for our Graphic Services business operations, many of our customers have been adversely affected by the pandemic and related business restrictions and certain customers continue to be slow to resume operations to pre-pandemic levels, and certain customers may never fully return. In particular, the State of Michigan, our biggest customer, has not fully resumed normal operations, resulting in a decrease in the volume of work orders for our Document Conversion segment. In addition, we are seeing inconsistent demand in certain other areas of our operations, even though those operations are still currently open for business with mostly remote staff.

In addition, the majority of our Ohio employees are continuing to work remotely. Many of our clients operate in a variety of other states, which had differing time periods in which their operations have been, currently or may in the future be restricted due to COVID-19. Even though we have been able to fully resume our operations, we expect to see continued weakened demand in light of reduced or inconsistent governmental and small-business spending and general economic uncertainty.

Looking ahead, the ongoing impact of COVID-19 on our business continues to evolve and be unpredictable. For example, to the extent the pandemic continues to disrupt economic activity we, like other businesses, are not immune to continued adverse impacts to our business, operations and financial results from decreases in customer spending, the adverse impact on the liquidity of our customers, depressed economic activity, or volatility in capital markets. The extent of the impact will depend on a number of factors, including the duration and severity of the pandemic; the uneven impact to certain industries; vaccination rates; the effect that any governmental vaccine mandates might have on our ability to attract and retain talent; the macroeconomic impact of government measures to contain the spread of the virus and related government stimulus measures. To address the potential impact to our business, we have engaged, and continue to assess and engage, in aggressive efforts to reduce expenses and preserve cash flow in order to address the effects of COVID-19 on our business, operations and results. Additionally, we have instituted safe distancing practices and additional cleaning procedures for all our company offices, as well as established work-from-home policies wherever feasible, in order to prevent or mitigate future outbreaks and disruptions to our business. At the same time, we believe the current environment is accelerating digital transformation and we remain focused on innovating and investing in the services we offer to our customers. Accordingly, the ongoing impact of COVID-19 and the extent of these measures we may implement could have a material impact on our financial results.

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, in addition to COVID-19, that are discussed in Part I, Item IA, “Risk Factors” and in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Uncertainties, Trends, and Risks that can cause Fluctuations in our Operating Results” of our Annual Report on Form 10-K for the fiscal year ended December 31, 2020. Due to all these factors and the other risks discussed in this Item 2, our past 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

The biggest factors in the changes in our results of operations during the third quarter 2021 compared to the third quarter 2020, and the nine month period 2021 compared to the nine month period 2020 were our acquisitions of Graphic Sciences on March 2, 2020 and, to a much lesser extent, CEO Image on April 21, 2020, and the impact of the COVID-19 stay-at-home orders in Michigan and Ohio during most of the second quarter 2020 which did not fully resume in the third quarter 2020. Our results for the nine month period 2021 include the results of Graphic Sciences and CEO Image operations for the full period, while our nine month period 2020 results include only approximately seven month’s results of Graphic Sciences operations, and five month’s results of CEO Image.

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Below are our key financial results for the third quarter 2021 (consolidated unless otherwise noted):

- Revenues were \$3,171,362, representing revenue growth of 26% year over year.
- Cost of revenues was \$1,255,641.
- Operating expenses (excluding cost of revenues) were \$1,506,254.
- Income from operations was \$409,467.
- Net income was \$296,437 with basic and diluted net income per share of \$0.11 and \$0.10, respectively.
- Operating cash flow was \$821,129.
- Capital expenditures were \$132,513.

Below are our key financial results for the nine month period 2021 (consolidated unless otherwise noted):

- Revenues were \$8,716,227, representing revenue growth of 57% year over year.
- Cost of revenues was \$3,381,535.
- Operating expenses (excluding cost of revenues) were \$4,508,774.
- Income from operations was \$825,918.
- Net income was \$1,331,656 with basic and diluted net income per share of \$0.47 and \$0.43, respectively, including \$845,083 gain on PPP loan forgiveness.
- Operating cash flow was \$1,408,249.
- Capital expenditures were \$532,151.
- As of September 30, 2021, we had 135 employees, including 9 part-time employees.

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Reportable Segments

We have two reportable segments: Document Management and Document Conversion. These reportable segments are discussed above under “Company Overview.”

Results of Operations

Revenues

The following table sets forth our revenues by reportable segment for the periods indicated:

	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2020	2021	2020
Revenues				
Document Management	\$ 792,548	\$ 780,834	\$ 2,319,370	\$ 2,018,208
Document Conversion	2,378,814	1,730,448	6,396,857	3,539,378
Total revenues	<u>\$ 3,171,362</u>	<u>\$ 2,511,282</u>	<u>\$ 8,716,227</u>	<u>\$ 5,557,586</u>
Gross profit				
Document Management	\$ 673,237	\$ 605,451	\$ 1,898,799	\$ 1,526,283
Document Conversion	1,242,484	884,843	3,435,893	1,880,648
Total gross profit	<u>\$ 1,915,721</u>	<u>\$ 1,490,294</u>	<u>\$ 5,334,692</u>	<u>\$ 3,406,931</u>

The following table sets forth our revenues by revenue source for the periods indicated:

	For the Three Months Ended September 30,		For the Nine months ended September 30,	
	2021	2020	2021	2020
Revenues:				
Sale of software	\$ 58,799	\$ 53,767	\$ 73,971	\$ 153,999
Software as a service	352,192	281,810	1,052,072	756,497
Software maintenance services	336,732	340,129	1,012,251	915,483
Professional services	2,165,030	1,615,445	5,715,273	3,221,154
Storage and retrieval services	258,629	220,131	862,660	510,453
Total revenues	3,171,362	2,511,282	8,716,227	5,557,586

Our total revenues in the third quarter 2021 increased by 660,080, or 26%, over our third quarter 2020 revenues, primarily attributable to growth in professional services and software as a service, as further described below. The increase in total revenues for the nine months ended September 30, 2021 is driven primarily by two factors: 2020 COVID-19 impact and acquisitions. The COVID-19 stay-at-home orders in Michigan and Ohio, which were in place for the majority of the second quarter 2020, significantly affected our professional services revenues for that quarter. We estimate the impact of COVID-19 on our Document Conversion segment to be approximately \$655,000 reduced revenue for the second quarter 2020. The remaining increase in total revenues for the nine months ended September 30, 2021 is driven primarily by the acquisition of our Graphic Sciences subsidiary and the associated expansion of our revenues from professional services and the addition of storage and retrieval services. Graphic Sciences, which was acquired towards the end of the first quarter 2020, accounted for \$1,843,221 of our revenues in the first quarter 2021 compared to \$556,254 in the first quarter 2020, constituting 91% of the increase in revenues. In addition, the CEO Image business line that we acquired after the first quarter 2020 accounted for \$132,605 of our first quarter revenues, or 9% of the total increase.

Sale of Software Revenues

Revenues from the sale of software principally consist of sales of additional or upgraded software licenses and applications to existing customers and resellers. Revenues from the sale of software, which are reported as part of our Document Management segment, increased by \$5,012, or 9%, in the third quarter 2021 compared to the third quarter 2020, and decreased by \$80,028, or 52% during the nine month period 2021 compared to the nine month period 2020.

This decrease was due to timing of large direct sales projects, with unfavorable comparisons to the high project volume the same periods in 2020. We expect the volatility of this revenue line item to continue as the frequency of on-premise software solution sales decreases over time and project timing is unpredictable.

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Software as a Service Revenues

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. Revenues from the sale of software as a service, which are reported as part of our Document Management segment increased by \$70,382, or 25%, in the third quarter 2021 compared to the third quarter 2020 and increased by \$295,575, or 39% in the nine month period 2021 compared to the nine month period 2020. This increase was primarily the result of most new customers choosing a cloud-based solution, as well as expanded data storage, user seats, and hosting fees for existing customers.

Software Maintenance Services Revenues

Software maintenance services revenues consist of fees for post-contract customer support services provided to license (premise-based) holders through support and maintenance agreements. 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 renewals of maintenance agreements, which typically run on a year-to-year basis. Revenues from the sale of software maintenance services, which are reported as part of our Document Management segment, decreased by \$3,397, or 1%, in the third quarter 2021 compared to the third quarter 2020 and increased by \$96,768, or 11%, in the nine month period 2021 compared to the nine month period 2020. This increase was primarily the result of maintenance and support agreements acquired with CEO Image, augmented by expansion of services with existing customers and price increases more than offsetting normal attrition.

Professional Services Revenues

Professional services revenues consist of revenues from document scanning and conversion services, consulting, discovery, training, and advisory services to assist customers with document management needs, as well as repair and maintenance services for customer equipment. These revenues include arrangements that do not involve the sale of software. Revenues from our professional services offerings were enhanced with our acquisition of Graphic Sciences. Of our professional services revenues during the third quarter 2021 and nine month period 2021, \$2,120,185 and \$5,534,197, respectively, were derived from our Document Conversion operations and \$44,845 and \$181,076, respectively, were derived from our Document Management operations. Our overall professional services revenues increased by \$549,585, or 34%, in the third quarter 2021 compared to the third quarter 2020 and increased by \$2,494,119, or 77%, in the nine month period 2021 compared to the nine month period 2020. This increase is largely the net result of two key factors limiting professional service sales during the nine month period 2020: the acquisition of Graphic Sciences late in the first quarter 2021 and the COVID-19 stay-at-home orders. The increase is also due to a solid pipeline and favorable mix of project work during those periods in 2021.

Storage and Retrieval Services Revenues

Graphic Sciences provides document storage and retrieval services to customers, primarily in Michigan. Revenues from storage and retrieval services, which are reported as part of our Document Conversion segment, increased by \$38,498, or 17%, in the third quarter 2021 compared to the third quarter 2020 and increased by \$352,207, or 69%, during the nine month period 2021 compared to the nine month period 2020. This increase was the result of a contract extension, including improved pricing, with our largest storage and retrieval customer, as well as unusually high project work including shredding of documents approved for destruction, and also the timing of the acquisition of Graphic Sciences in March 2020.

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Costs of Revenues and Gross Profits

The following table sets forth our cost of revenues, by revenue source, for the periods indicated:

	For the Three Months Ended September 30,		For the Nine months ended September 30,	
	2021	2020	2021	2020

Cost of revenues:				
Sale of software	3,691	-	10,050	40,117
Software as a service	73,596	65,712	241,717	209,508
Software maintenance services	18,270	49,354	64,930	127,439
Professional services	1,042,249	841,016	2,765,241	1,637,308
Storage and retrieval services	117,835	64,906	299,597	136,283
Total cost of revenues	1,255,641	1,020,988	3,381,535	2,150,655

The following table sets forth our cost of revenues by reportable segment for the periods indicated:

Cost of revenues by segment	For the three months ended September 30,		For the nine months ended September 30,	
	2021	2020	2021	2020
Document Management	\$ 119,311	\$ 175,383	\$ 420,571	\$ 491,925
Document Conversion	1,136,330	845,605	2,960,964	1,658,730
Total revenues	\$ 1,255,641	\$ 1,020,988	\$ 3,381,535	\$ 2,150,655

Our total cost of revenues during the third quarter 2021 increased by \$234,653, or 23%, over third quarter 2020 and increased by \$1,230,880, or 57%, during the nine month period 2021 over the nine month period 2020 primarily due to the corresponding increase in revenues for professional services and storage and retrieval services, which were adversely impacted by the stay-at-home orders in effect during third quarter 2020. The increase was also due to the acquisition of Graphic Sciences at the end of the first quarter 2020 and, to a lesser degree, the acquisition of CEO Image in April 2020. Our cost of revenues for our Document Management segment decreased by \$56,072, or 32%, in the third quarter 2021 compared to the third quarter 2020 and decreased \$71,354, or 15%, in the nine month period 2021 compared to the nine month period 2020 primarily due to more efficient execution of the software maintenance services in that segment. Our cost of revenues for our Document Conversion segment increased by \$290,725, or 34%, in the third quarter 2021 compared to the third quarter 2020 and increased by \$1,302,234, or 79%, during the nine month period 2021 compared to the nine month period 2020 primarily due to the acquisition of Graphic Sciences at the end of the first quarter 2020.

Our overall gross profit decreased to 61% in the third quarter 2021 from 59% in the third quarter 2020, and was stable at 61% for the nine month period 2021 and 2020. The increase in the mix of professional services revenue drove a decrease in gross margin, but that decrease was offset by strong margin professional services projects as well as margin improvements software-related revenue sources.

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Cost of Software Revenues

Cost of software revenues consists primarily of labor costs of our software engineers and implementation consultants and third-party software licenses that are sold in connection with our core software applications. Cost of software revenues during the third quarter 2021 increased by \$3,691, or 100%, from the third quarter 2020, and decreased by \$30,067, or 75%, from the nine month period 2020, due to the decrease in revenues and implementations. Our gross margin for software revenues decreased to 94% from 100% in the third quarter 2020 and increased to 86% from 74% in the nine month period 2020. The strong third quarter 2021 and 2020 margins were driven by license expansions and similar favorable changes in the software solution mix with very little costs to deliver the solution, while changes in the software solution mix from the first quarter 2021 to the third quarter 2021 more than offset the opposite changes in the same quarters in 2020 resulting in improved margins year to date.

Cost of Software as a Service

Cost of software as a service, or SaaS, consists primarily of technical support personnel, hosting services, and related costs. Cost of software as a service during the third quarter 2021 increased by \$7,884, or 12%, over the third quarter 2020 and increased by \$32,209, or 15%, during the nine month period 2021 over the nine month period 2020. This increase in the cost of SaaS was less than the increase in associated SaaS revenues, so our gross margin in the third quarter 2021 increased to 79% compared to 77% in the third quarter 2020 and to 77% in the nine month period 2021 compared to 72% during the nine month period 2020, as a result of more standard projects and scaling of hosting infrastructure.

Cost of Software Maintenance Services

Cost of software maintenance services consists primarily of technical support personnel and related costs. Cost of software maintenance services during the third quarter 2021 decreased by \$31,084, or 63%, over the third quarter 2020 and decreased by \$62,509, or 49%, in the nine month period 2021 over the nine month period 2020, due primarily to reduced support activity, especially compared to the unusually high support volumes in first and third quarter 2020. As a result, our gross margin for software maintenance services increased to 95% and 94% in the third quarter 2021 and the nine month period 2021 compared to 85% and 86% in the third quarter 2020 and the nine month period 2020, respectively.

Cost of Professional Services

Cost of professional services consists primarily of compensation for employees performing the document conversion services, compensation of our software engineers and implementation consultants and related third-party costs. Cost of professional services during the third quarter 2021 increased by \$201,233, or 24%, over the third quarter 2020 and increased in the nine month period 2021 by \$1,127,933, or 69%, over the nine month period 2020, following the increased revenue volume primarily due to the acquisition of Graphic Sciences late in the first quarter 2020 and the 2020 COVID-19 stay-at-home orders. As a result, our gross margin for professional services increased to 52% in the third quarter 2021 compared to 48% in the third quarter 2020 and increased to 52% during the nine month period 2021 compared to 49% in the nine month period 2020. Gross margins related to professional services may vary widely, depending upon the nature of the projects completed in a period, driven by the amount of labor it takes to complete a project.

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Cost of Storage and Retrieval Services

Cost of storage and retrieval services consists primarily of compensation for employees performing the document storage and retrieval services, including logistics, provided by Graphic Sciences. Cost of storage and retrieval services increased by \$52,929, or 82%, in the third quarter 2021 compared to the third quarter 2020, and increased by \$163,314, or 120%, during the nine month period 2021 compared to the nine month period 2020, due to additional labor costs associated with our 2021 warehouse consolidation, which began in the third quarter, as well as costs for additional project work including shredding and the inclusion of storage and retrieval services during the entire period of the first quarter 2021 compared to approximately one full month during the first quarter 2020. Gross margins for our storage and retrieval services, which exclude the cost of facilities rental, maintenance, and related overheads, decreased to 54% in the third quarter 2021 compared to 71% in the third quarter 2020 and decreased to 65% during nine month period 2021 compared to 73% in the nine month period 2020 primarily as a result of increased use of subcontractors for certain projects, including shredding, labor associated with consolidating warehouses in 2021, and expanded services offered to customers.

Operating Expenses

The following table sets forth our operating expenses for the periods indicated:

	For the Three Months Ended September 30,		For the Nine months ended September 30,	
	2021	2020	2021	2020
Operating expenses:				
General and administrative	1,027,932	844,186	3,125,019	2,533,046
Change in fair value of earnout liabilities	-	-	77,211	-
Significant transaction costs	-	285,462	-	636,440
Sales and marketing	372,399	229,873	1,004,305	759,024
Depreciation and amortization	105,923	89,475	302,239	204,317
Total operating expenses	<u>1,506,254</u>	<u>1,219,123</u>	<u>4,508,774</u>	<u>4,132,827</u>

General and Administrative Expenses

General and administrative expenses during the third quarter 2021 increased by \$183,746, or 22%, over the third quarter 2020, and increased in the nine month period 2021 by \$591,973, or 23%, over the nine month period 2020, principally related to the addition of Graphic Sciences expenses and certain furloughed hourly workers and management salary reductions in 2020. This was primarily reflected in our Document Conversion segment, in which our general and administrative expenses increased to \$640,890 and \$1,881,246 in the third quarter 2021 and the nine month period 2021, respectively, from \$470,855 and \$1,154,770 in the third quarter 2020 and the nine month period 2020, respectively. In our Document Management segment, our general and administrative expenses increased slightly to \$387,042 in the third quarter 2021 compared to \$373,331 in the third quarter 2020, and decreased to \$1,243,773 in the nine month period 2021 compared to \$1,378,276 in the nine month period 2020, which changes were due to the impacts of reinstated full management salaries increasing those expenses while decreased legal and accounting professional fees and increased sharing of public company costs with the increased Document Conversion segment decreased those expenses in our Document Management segment.

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Change in Fair Value of Earnout Liabilities

Improved gross margin performance at Graphic Science during the first quarter 2021 resulted in an adjustment to fair value of earnout liabilities of \$69,950. Improved revenue performance at CEO during the second quarter resulted in an adjustment to fair value of earnout liabilities of \$7,261. There were no adjustments to fair value of earnout liabilities during the third quarter 2021 or the nine month period 2020.

Significant Transaction Expenses

There were no significant transaction expenses during the nine month period 2021. The significant transactions expenses during the nine month period 2020 were comprised of investment banker and placement agent success fees, as well as legal and consulting fees, in connection with our acquisition of Graphic Sciences and our financing and debt conversion.

Sales and Marketing Expenses

Sales and marketing expenses during the third quarter 2021 increased by \$86,937, or 30%, over the third quarter 2020 and increased by \$245,281, or 32%, during the nine month period 2021 over the nine month period 2020. This increase was primarily driven by the inclusion of the sales and marketing expenses Graphic Sciences during all of those periods in 2021 as well as the reinstatement of full sales and marketing salaries as a part of reducing expenses and preserving cash during the initial COVID-19 uncertainty in 2020, as well as adding a sales representative and a partial resumption of travel in 2021, plus adding a director of marketing in the third quarter 2021.

Depreciation and Amortization

Depreciation and amortization during the third quarter 2021 increased by \$16,448, or 18%, over the third quarter 2020 and increased by \$97,922, or 48%, during the nine month period 2021 over the nine month period 2020 as a result of depreciation on additional assets placed in service, primarily racking associated with the warehouse consolidation, and the addition of Graphic Sciences depreciation for a full year.

Other Items of Income and Expense

Gain on Extinguishment of Debt

The \$845,083 gain on extinguishment of debt during the nine month period 2021 reflects the full forgiveness of the principal and interest on our PPP Note by the SBA in January 2021. The \$287,426 gain on extinguishment of debt in the during the nine month period 2020 was due to the extinguishment of certain debt as part of conversion of notes payable accounted for using troubled debt restructuring.

Income Tax Benefit

Income tax benefit was \$0 during the nine month period 2021 compared to \$188,300 during the nine month period 2020. The income tax benefit in the during the nine month period 2020 was driven by the releases of a portion of the valuation allowance for deferred tax liabilities of Graphic Sciences that were no longer due.

Interest Expense, Net

Interest expense decreased by \$2,468, or 2%, in the third quarter 2021 as compared to the third quarter 2020, and decreased by \$183,379, or 35% during the nine month period 2021 as compared to the nine month period 2020. The decrease resulted primarily from lower interest expense on lower net debt following the March 2020 private placement of securities and note conversion, as well as one-time interest expense associated with accelerating the beneficial conversion option on the notes converted in 2020.

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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. Since 2012, we have raised a total of approximately \$18.6 million in cash through issuances of debt and equity securities. As of September 30, 2021, we had \$1,829,247 in cash and cash equivalents, net working capital deficit of \$7,473, and an accumulated deficit of approximately \$22 million. In June 2021, we paid \$954,733 in annual earnout liabilities.

In 2020, we engaged in several actions that significantly improved our liquidity and cash flows, including:

- acquiring the positive cash flow generated by Graphic Sciences and CEO Image,
- receiving aggregate gross proceeds of \$3.5 million from the private placement of our common stock,
- converting all of the outstanding principal and accrued interest payable on our then-existing convertible debt in the approximate amount of \$6 million into shares of common stock at a conversion price of \$4.00 per share, and
- receiving \$2.0 million in proceeds from the issuance of 12% subordinated promissory notes due February 29, 2023, which we refer to as the 2020 notes, and
- obtaining the PPP loan in the principal amount of \$838,700, the principal and interest on which was forgiven in its entirety by the SBA in January 2021.

Overall, we reduced our outstanding debt by approximately \$3 million during 2020 and have not incurred any new debt in 2021.

Our ability to meet our capital needs in the future will depend on many factors, including maintaining and enhancing our operating cash flow, successfully managing the transition of our recent acquisitions of Graphic Sciences and CEO Image, successfully retaining and growing our client base in the midst of general economic uncertainty, and managing the continuing effects of the COVID-19 pandemic on our business.

Based on our current plans and assumptions, we believe our capital resources, including our cash and cash equivalents, along with funds expected to be generated from our operations, will be sufficient to meet our anticipated cash needs arising in the ordinary course of business for at least the next 12 months, including to satisfy our expected working capital needs, earnout obligations and capital and debt service commitments.

Indebtedness

As of September 30, 2021, our only outstanding long-term indebtedness consisted of the 2020 notes issued to accredited investors on March 2, 2020, with an aggregate outstanding principal balance of \$2,000,000 and accrued interest of \$0. See Note 9 to our condensed consolidated financial statements included in Part 1, Item 1 of this Quarterly Report for further information on the 2020 notes.

Capital Expenditures

There were no material commitments for capital expenditures at September 30, 2021 or December 31, 2020.

Cash Provided by and Used in Operating Activities

Net cash provided by operating activities during the nine month period 2021 was \$1,408,249, primarily attributable to net income adjusted for non-cash expenses of \$290,063, an increase in operating assets of \$344,900 and an increase in operating liabilities of \$131,430. Net cash used in operating activities during the nine month period 2020 was \$392,155, primarily attributable to the net loss adjusted for non-cash expenses of \$1,074,074, a decrease in operating assets of \$108,188 and a decrease in operating liabilities of \$801,523.

Cash Used by Investing Activities

Net cash used in investing activities in the nine month period 2021 was \$532,151, primarily related to purchases of racking property and equipment for the new Sterling Heights, MI warehouse. Net cash used in investing activities in the nine month period 2020 was \$4,074,701, primarily related to cash paid to acquire Graphic Sciences and CEO Image.

Cash Used and Provided by Financing Activities

Net cash used by financing activities during the nine month period 2021 amounted to \$954,733, due to payment of earnout liabilities. Net cash provided by financing activities for the nine month period 2020 amounted to \$5,574,681. The net cash provided by financing activities resulted from new borrowings of \$3,008,700, partially offset by \$175,924 in financing costs, and the sale of common stock resulting in \$2,859,633 in net cash. Notes payable payments amounted to \$70,000, which comprised of seller notes which are installment payments for net assets acquired. Notes payable payments to related parties amounted to \$47,728.

Critical Accounting Policies and Estimates

The preparation of our condensed consolidated financial statements in accordance GAAP requires us 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 revenue and expenses in the reporting period. We monitor and analyze these items for changes in facts and circumstances, and material changes in these estimates could occur in the future. We base our estimates and assumptions on current facts, historical experience and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. Changes in estimates are reflected in reported results for the period in which they become known. The actual results experienced by us may differ materially from our estimates. To the extent there are material differences between our estimates and the actual results, our future results of operations will be affected.

Our critical accounting policies and estimates are set forth in Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020. There were no material changes to our critical accounting policies and estimates during the third quarter 2021.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not applicable to smaller reporting companies.

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) at the end of the period covered by this this Quarterly Report.

Based on this evaluation, we concluded that, as of September 30, 2021, our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls system, no matter how well designed and operated, can provide only reasonable assurance of achieving its desired objectives. In addition, the design of disclosure controls and procedures must reflect resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the period covered by this Quarterly Report that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act).

We regularly review our internal control over financial reporting and, from time to time, we have made changes as we deemed appropriate to maintain and enhance the effectiveness of our internal controls over financial reporting, although these changes do not have a material effect on our overall internal control.

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. Except as supplemented in Part II, Item 1A, "Risk Factors," of our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2021, there have been no material changes to the risk factors set forth in Part I, Item 1A, "Risk Factors," of our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

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

None.

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*	Inline XBRL Instance Document (The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.).
101.SCH*	XBRL Taxonomy Schema.
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase.
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase.
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase.
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith.

SIGNATURES

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

INTELLINETICS, INC.

Dated: November 15, 2021

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

Dated: November 15, 2021

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

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

I, James F. DeSocio, certify that:

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

Date: November 15, 2021

By: /s/ James F. DeSocio

President and Chief Executive Officer

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

I, Joseph D. Spain, certify that:

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

Date: November 15, 2021

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

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

In connection with the Quarterly Report of Intellinetics, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James F. DeSocio, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

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

Dated: November 15, 2021

/s/ James F. DeSocio

President and Chief Executive Officer

This Certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed "filed" by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and shall not be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Report, irrespective of any general incorporation language contained in such filing.

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

In connection with the Quarterly Report of Intellinetics, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2021, as filed with the Securities and Exchange Commission (the "Report"), I, Joseph D. Spain, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

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

Dated: November 15, 2021

/s/ Joseph D. Spain

Chief Financial Officer

This Certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed "filed" by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and shall not be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Report, irrespective of any general incorporation language contained in such filing.
